GE Vernova
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Sunaina Ocalan:

Good morning, everyone. My name is Sunaina Ocalan, and I'm going to be covering power and energy transition at Bernstein. It is my pleasure here today to kick off this conference with Scott Strazik, CEO of GE Vernova. Scott, thank you for being here. I think you want to make some comments before we get into Q&A.

Scott Strazik:

You bet, Sunaina. Thank you and everyone thank you for being here, both in the room and virtually. To start, I would just reinforce that inside GE Vernova, we're working really hard right now to meet our potential and this incredible opportunity we have to electrify the world. And for us, this really starts with our install base. We're generating 25% of the world's electricity every day. It's about 50% of this country, the U.S.'s electricity every day. Over 7,000 gas turbines, over 59,000 wind turbines, over 60 nuclear plants, and the associated electrical equipment attached to that. We've got an $87 billion services backlog that'll generate by 2027, about $20 billion of services revenue across our services businesses.

And then when you compare that to what's happening in our equipment businesses today, we've got a $76 billion equipment backlog. That's grown 80% since we spun from General Electric in April of 2024. As we execute on that $76 billion of equipment backlog, that drives that much larger install base, that's driving that much larger and more profitable services business for us into the next decade. So if I give a little bit of context on the equipment growth that we're seeing, I think it really starts with Gas. We've got 100 gigawatts on contract to execute on, primarily through the end of the decade into 2030 and starting to trickle into 2031 right now. And if I just contextualize that 100 gigawatts, our entire install base is 720 gigawatts today. And of that 720 gigawatts, only about 200 gigawatts of it is full, firm baseload power, i.e., running pretty much every day, 365 days a year.

Most of the 100 gigawatts that we have on contract is baseload. And we project that 200 gigawatts of baseload power to double to at least 400 gigawatts by the middle of the next decade. So just reinforcing the strength of the services business that we see coming over time. Now, we're also really excited about our Nuclear business. Today, that's a small, less than a $1 billion revenue business today supporting the install base, but we're making great progress commissioning and – or installing at this point, the first SMR project in Ontario outside of Toronto, making good progress on contracts in the U.S., in Sweden, doing an engineering study right now in Poland, and see the Nuclear business at many multiples of the approximately $1 billion, a little less than $1 billion of revenue that we'll have this year in 2026.

And then if we spend a minute or two on our Electrification business before we go into the Q&A, this is our fastest-growing business. This is a business that in the end of 2022 had a $9 billion backlog. At the end of the first quarter, that backlog had grown to $42 billion. And it's the business I think our investors are learning the most about right now. So just to give a little bit of context on the four businesses we have inside Electrification. The largest is our Power Transmission business. This is the business that we think transformers, switch gears that we spent almost $3 billion to acquire the 50% of Prolec that we didn't already own, great early returns with Prolec if I just give a few nuggets there.

We closed the deal in February of this year. Since then, we've already secured year-to-date $500 million of incremental orders serving the North America market from our factories outside the U.S. This is something we could not have done before closing the acquisition because the JV had exclusivity to sell into North America from just our North America factories. So that's using our India, our Turkey factory capacity to serve our customers even more efficiently than we could have done prior to the acquisition.

Second largest big business, Grid Systems Integration, GSI. This is a business that's gone through multiple elements of real growth spurts. It started with HVDC growth in Europe, really connecting renewables to the grid. It's now providing integrated solutions, technical solutions to the data centers in the U.S. We had more orders in Electrification in the first quarter of 2026 than we had in all of 2025. And we're going to have a very strong second quarter in this business.

Third business in Electrification, Power Conversion. This is a business that is launching a lot of new and exciting products right now. Last year alone, we took $2.5 billion of synchronous condenser orders in Saudi Arabia. This is technology, rotating equipment that really provides a lot of stability for the grid as renewables penetration rates grow. It's also the part of the company that's investing in MV UPS solutions, medium voltage uninterruptible power supply for the data centers, what we call a stability block that's enabling the data centers to operate in different ways that we're really excited about.

And then we have our smallest business, really, Grid Software and Grid Automation. This is really what's driving towards a more autonomous grid in different ways. And all four businesses represent real opportunities for us to continue to grow. And when you put all that together, as we wrap, I would just reinforce that inside Vernova, we're leading from a position of strength. That $116 billion backlog when we spun has grown to $163 billion.

We have $10 billion of cash on hand. That's allowing us to invest $11 billion in R&D and CapEx over a four-year period of time to grow these businesses organically, while simultaneously returning a lot of capital to our shareholders. We're about five quarters into a stock buyback program in which we've repurchased about 10 million shares, $4.6 billion in the last five to six quarters. And we see real value from here and real opportunity with a strong balance sheet to keep returning substantial capital to our shareholders.

So those are just a few table-setting thoughts I wanted to begin the discussion with, and then, happy to do the Q&A.

Sunaina Ocalan:

Thanks, Scott. I have a lot of questions of my own, but just a quick reminder to the audience, you can submit questions through the link pigeonhole.at, and the passcode is SDC – no 2026 SDC, all caps. You can also vote for the questions right there so I can see them on the iPad.

Okay, great. Scott, I'll start with macro. This is a great time to be in power. You've talked about your backlog. Your backlog proves this. With what – how do you think this power cycle is different from previous power cycles? Are we in sort of a three to five year data center CapEx wave, or are we in more of an electrification super cycle?

Scott Strazik:

Well, I mean, when you think about our backlog, it's really 20%, 25% data center in nature today. So there is a lot of other variables driving the growth. We really analogize this period of time being most similar to 1945 after World War II. It really comes back to the economic growth and the national security dynamics

that are being driven by the need for incremental electrons, only coupled further by the fact that decarbonization matters, too.

Only coupled further by the fact that this isn't just about the U.S. or Western Europe, we're seeing substantial growth in parts of Asia and parts of the Middle East, whether it be Taiwan, whether it be Saudi. So you have these dynamics where the incremental electron is key for economics that don't get built from an economic perspective, national security, decarbonization, and it's very global. So the opportunity is significant and is going to go for a very long time.

Sunaina Ocalan:

That's awesome. I'll alternate between my questions and the audience questions. And I think just to follow up on that, can you discuss consumer pushback on prospective legislation? How real are – how real a threat to new data centers are the current protests?

Scott Strazik:

Well, I mean, you're seeing more and more states that are certainly pushing back, and we do have customers that are struggling to get projects across the line. But what I would tell you is this is fairly typical in the power industry generally. There is an immense amount of development that happens. Understanding there is going to be a realization rate on that, because development is hard. So what I would just articulate to you is this – sometimes I'll read headlines on leases being canceled, projects getting pushed back because of community disputes, and that is really quite normal in the context of our customers having the ability to meet their needs.

So when they sit down with us and project the next number of years of growth, they'll often show us many, many more projects than they're securing equipment for because they know there is a number of projects that for one reason or another, either they'll choose not to develop or externalities beyond their own control will make it difficult to make happen. So I do think it's real. It's very clear, the community dynamic, but at the same time, with pretty much every customer we're working with, we look at the scatter plot of all the potential projects versus the realization rate they're planning and the equipment they're planning to or have already secured from us. And we don't see any risk in the fulfillment of our backlog from those dynamics.

Sunaina Ocalan:

Makes sense. Thanks, Scott. If you think of strategy as intentional allocation of capital, how does your macro view that you articulated change your capital allocation across your businesses over probably the next three to five years as well as the next decade?

Scott Strazik:

Well, in the next three to five years, I think it does go back to our ability to invest organically in this business. It's the $11 billion of CapEx and R&D to start. I mean we're growing our CapEx and R&D by 30% or thereabouts this year because the customers are pulling us in that direction. So it really starts with the organic opportunity, while simultaneously seeing real opportunities to continue to create yield for our investors, primarily through the buyback program that we have. Now we have more capital, and we'll generate substantially more free cash flow than the $11 billion in R&D and CapEx we'll consume or a continual buyback program we'll utilize. So simultaneously, we want to continue to look for opportunities to invest in things like M&A.

What I would tell you is with the amount of growth that our management teams are experiencing right now, what I'm asking myself when it comes to M&A is if we put that capital to work, does it make it easier for my teams to be able to fulfill on that backlog? Or as the CEO, am I creating an incremental ball for them to juggle? And if we have M&A opportunities that we have conviction makes it easier for us to meet this moment, we're in. But we're really not in a phase right now where we're trying to add adjacencies or new or incremental or different products that are more balls for our teams to juggle because first and foremost, we're focused on meeting this moment.

But if we can identify, call it vertical supply chain integration opportunities in our big businesses, whether that be Gas Power for the long-term growth and the servicing of that book to better fulfill on our SMR product, to continue to strengthen our ability to serve in the Electrification space, we would like to make those investments when the economics make sense, but it's got to make it easier for our management teams to meet the moment and not one more thing for them to do when few in our industry have experienced as much core growth as we're experiencing right now.

Sunaina Ocalan:

Yeah, that makes sense. We'll talk more about M&A as well as Prolec, but I want to talk about Electrification. You mentioned it is your fastest-growing segment. Let's stick with macro for just a second. What is your vision overall for Electrification going forward? How big do you essentially think it can grow? What are the current barriers to getting there?

Scott Strazik:

Well, our financial outlook that we've shared really guides this business to be about $20 billion of revenue at 22% EBITDA margins by 2028. And we would say, as we have with most of our financial outlooks, that that represents a floor. We've also said that our backlog from the end of last year into 2027 will double from $30 billion to $60 billion, and that path to $60 billion, we're already at $42 billion at the end of the first quarter. And I say that to just say if the backlog is growing to $60 billion by next year, and we're at $20 billion of revenue in 2028, the growth is going to continue way beyond 2028.

Now, just with what we sell today, before new product introductions, we see our serviceable addressable market today in this business of about $300 billion. So that is a much more extreme case of opportunity for us in this business, $20 billion of revenue in 2028, $300 billion addressable market. I can't give that same proportional market share in Gas Power, in Wind Power in North America primary markets, where our share of the global market is just substantially larger.

So by default, this is a business that we see an incredible amount of opportunity for us to serve and meet this moment. What I would also tell you is a dynamic is really changing in the world, which is as the power applications are becoming more sophisticated, more complicated, more intense, there is more of a need for integration between the power generation side of the equation and the electrical solutions to bring it together. It's a more common analogy for people to talk about power to the rack for a data center. That's one example, but there is many other industrial applications that also need integrated solutions.

Where we benefit is we're one of the few companies that can provide the power generation equipment, the electrical equipment, and the software to allow the end application to work the way it's supposed to. And we're very much leaning into that opportunity right now, and frankly, co-creating with our customers right now on what that can look like in Electrification. So the Electrification business is by far the biggest beneficiary of how we're running Vernova today as more of one integrated business working backwards from the customers, and the opportunities are substantial. So the financial numbers over the next two to three years are a good start, but they're just that, a start.

Sunaina Ocalan:

I'll follow up with two questions – two quick questions on that. Are you allowed to talk about new products in electrification…

Scott Strazik:

Sure.

Sunaina Ocalan:

…which has probably more closer revenue contribution versus which needs more deployment on capital?

Scott Strazik:

Yeah. Well, I think I mentioned in my prepared remarks, our medium voltage uninterruptible power source, stability block, we're calling it with the end customers. This is a good example of the power to rack solutions. At the end of the day, we've historically provided the power generation. We've done a lot of the electrical equipment, the substations outside of the data center. We talked about in our first quarter earnings call, our Energy Management System solution, really the primarily software solutions to integrate these things together.

But as the hyperscalers are working with us on how they want to run the data center, they need more of a buffer that allows them to drive very extreme frequency volatility, and this stability block we're developing is a great enabler of that. So that's another example of what I would call a string of pearls that we're developing here for an integrated solution that gives us real opportunity to continue to grow this business and is one of many things we're investing in right now in our Electrification business.

Sunaina Ocalan:

And this may be more for Power as well as Electrification, but are you seeing any EPC and labor bottlenecks? Obviously, we're hearing a lot about labor shortages. Is this still the longest pole in the tent?

Scott Strazik:

Yeah. The EPC construction build-out, specific to the U.S., is definitely the gating item for a lot of projects to get done. So when you think about our ability to invest in more gas turbine supply, as an example, the biggest driver is not really whether conceptually we could build more capacity. But what you don't want to do is build more capacity if there aren't going to be pedestals ready for your gas turbines. That's a fairly inefficient use of capital, simply to invest in factory output that then can't be put to use because construction companies won't commit to our end customers to have the pedestal ready for our gas turbine.

So over time, that will continue to moderate. But it's been an interesting dynamic for us in the sense that coming into this year, we were talking a lot about our 2029 capacity that we had remaining. Well, we came out of the first quarter with still some 2029 slots, yet we sold a lot of our 2030 slots. Why was that? It was primarily because the customers couldn't get a construction commitment that made sense for them to have a heavy-duty gas turbine in 2029, because there isn't an EPC ready to make that schedule commitment.

Now that'll solve itself over time, but without question, the EPC dynamic is frankly one of the largest variables for us to continue to manage our investment plans so that we can continue to meet this moment.

And what I say all the time to our customers, to the government, is there won't be a pedestal in this country that's ready for a gas turbine that won't have a gas turbine on it. But there's also not a need to build them ahead of when that moment is there in trying to be as capital efficient as we can be.

Sunaina Ocalan:

There's a couple of questions on supply constraints as well as orbital data centers, so I'll just stick with those for right now. So how do you think about orbital data centers and their impact on the length of the cycle? As well as your – how does this affect your capacity expansion plans?

Scott Strazik:

I wouldn't say it's affecting today our capacity plans, thinking about data centers in space. But I would tell you that in the near term, that's certainly yet another opportunity for us to sell our equipment. The reality is the fuel that's needed for rockets to go into space requires a lot of electrical infrastructure. The launch pads require a lot of electrical infrastructure. This is another element of demand driver for us right now that we're working really hard to serve, both on the electrical side and on the smaller power generation side in different ways.

And we'll keep doing that, but I wouldn't say that the data center in space dynamic for whatever date you want to call is really driving capacity investment decisions. What is driving our continual scrutiny of our capacity is where our customers take us, and where our customers take us is not just our gas turbine equipment, but the system of systems I was just referencing that are all variables to have the gas turbines built when they're really needed.

Sunaina Ocalan:

Yeah. I want to pivot to nuclear, Scott.

Scott Strazik:

Great.

Sunaina Ocalan:

How do you think about the role of the BWRX-300 SMR relative to other reliable low carbon base load sources?

Scott Strazik:

It's clearly starting to move. We're in construction, as I said a few minutes ago, on our first project in Canada. We could see up to 10 units that we have on contract in the U.S. before the year is over. We're talking about up to five units in Sweden as an example. And when you start to add these things together, in addition to incremental units at Darlington, the first site, because it's really being built for four units even though we're constructing the first one, you can pretty quickly get closer to 20 units on contract versus the one we're building.

And when you've got 6 gigawatts of SMR on contract, that gives us a whole other level of empowerment to go back to the supply chain and invest in that supply chain for the growth into the next decade, which is a big reason why the U.S. government is using part of the U.S. government Japan trade deal to fund, in our case, up to $40 billion of SMRs, which would be about 10 SMRs, because the industry needs to be re-

industrialized. And I think this is an example of great government policy to reinvest in an industry that hasn't been invested in, in at least 15 years.

As we execute on those things, and with that size backlog, you then have an opportunity to start to come down the cost curve. Because ultimately what I say every day is style points don't build infrastructure, economics do. And these first set of projects are expensive, but they're expensive because the supply chain doesn't exist. If we can build a book like I just referenced, we can partner with the long lead suppliers in a way that part costs, even though these are really big parts, come down substantially. In the next decade, nuclear can start to become a material part of the equation.

Will it become – will it take until then? Definitely. Will it really replace gas? No. But over time, will more customers' carbon dollar cost average in some zero carbon base load power that probably will still be at a pricing premium relative to unabated gas? Yeah, in a healthy mix, and there certainly are a set of customers that are willing to pay that premium for zero carbon base load power. So we're excited about nuclear. We're working hard on it every day.

We see it becoming an important part of the income statement, let's say, in the next decade. But what you're really looking for this decade is that we build a contracted book that gives us the best chance to then drive economics with our supply chain, so that it's a competitive economic solution for the world in the next decade. And that's really the game we're playing, and one that we have a lot of confidence that we can serve and meet this moment.

Sunaina Ocalan:

That's awesome. If we can just talk about wind for a second, how do we think about Wind profitability over the next few years? I think the offshore exposure's coming to an end next year.

Scott Strazik:

It is.

Sunaina Ocalan:

If you can talk about sort of key variables we should be monitoring.

Scott Strazik:

We've been talking for a while on Wind on needing to control what we can control. And that starts with our Onshore Wind services business. The industry in wind, I would tell you, has underperformed on quality, including ourselves. Okay? And we've put substantial economics over the last few years in infusing medicine into the existing install base to improve the availability and performance of our existing install base.

We've now had two quarters in a row in which our contribution margin with our services book has expanded more than, let's say, double digits. And I would expect our services profitability in Onshore in 2026 to improve year-over-year by about $400 million, real money. The challenge in Onshore this year is that we have an even smaller new unit equipment shipment book, primarily because the U.S. market is so small.

Now, the pipeline is very significant, but it's very hard to convert the Wind pipeline to orders while there's a lot of economic uncertainty on things like tariffs. So there's currently a 232 evaluation by the U.S.

government that will apply to the wind and solar industry, and until there's clarity in that regard, it's hard to project a orders inflection point in Wind.

So what we're focused on doing is controlling what we can control. Our Onshore Wind services business will be much more profitable in 2026. We will execute through wrapping up our Offshore Wind in the red backlog in 2027. We still have another five or six quarters to go there.

And then on the other side, as we're doing that, you look for an orders inflection point in Onshore that could drive towards a much more profitable business. Even with today's really small baseline volume that we've projected through 2028 that continues to shrink this business the next few years, it's a mid-single-digit EBITDA margin business, so very dilutive to Vernova's margins. But at the same time, what I would tell you is in 2022, we shipped 4,000 wind turbines out of our factories. That number is going to be 1,500 this year. We have a lot of volume leverage with limited capital that has to be put into the business if the orders come. But I don't think you can project or expect those orders until there's clarity on tariffs in the U.S.

Sunaina Ocalan:

Yeah. Clarity on policy is what drives stable capital allocation, right? That makes sense. Thanks. We're getting a couple of questions in on sort of more, maybe longer term. So I'll go there.

Scott Strazik:

Great.

Sunaina Ocalan:

What inputs in the supply chain – has the company – is the company most worried about, raw materials, rare earths, specialized chips like wide-bandgap semis? How do you manage the risk? How do you manage the inventory? How are you managing the supply contracts?

Scott Strazik:

So I would say, if I go back to the summer of last year, summer of 2025, there was a very urgent focus on rare earths generally, with the biggest dynamic being associated with our gas turbines. The team continues to make reasonable progress in this regard, securing supply wherever they can find it. It's one of those dynamics where you're inefficient with your inventory because it's a very small part of the total cost of goods sold. So whenever you can buy it, you do, even at a premium, to basically not let it get in the way of your gas turbine output. We now project ahead the next few years and really have the inventory that we need for that rare earth dynamic, while simultaneously we're investing in supply alternatives.

So I feel better today on things like the rare earths than I would have said in August of 2025. Okay?

On things that are critical, like castings and forgings, our suppliers continue to perform very well. This is a case where in the summer of 2024, we went to our suppliers early in this cycle and said, we're going to need a lot more output. We don't have a lot of time to debate it. What does it take to get going? In many cases, what that took was us providing a CapEx for them to build new furnaces, and then for us to yield that CapEx return over time with volume.

And to date, I would tell you that the suppliers are performing ahead of our expectations. And what I mean by that is they're basically on contract schedule, even though our build schedule had what you would expect, a bit of a schedule contingency between when we would be ready for the output versus when it showed up.

And you can see a little bit of that candidly already in our inventory, where we've been receiving a lot of the large castings and forgings on contract, but ahead of our schedule. So this is another example that I continue to feel better on where we are.

Now, a big one is we're continuing to work with our suppliers of machines to continue to equip our factories with the automation and the machining they need to meet this moment. In Gas Power, as an example, we've installed 305 machines over the last little bit more than five quarters to meet this moment within our existing factories. We've got another 100 to install by the end of the year. And automation is a really big piece of the equation and doing it in more efficient ways. So that's a constraint, I would say, that is real.

So if I spend a minute, it's a little bit of a side comment, but I think it's an important one on the constraints. I mean, we announced last week a very small acquisition of a robotics company in Montreal, Robotech. 35 engineers, single million dollar acquisition. But why do we do that? Well, today, it's a supplier that's been working with us in our factories on our automation and machining at another level, but also a lot of other of their customers. They'll now wind down their final contracts with others and focus 100% on Vernova's factory automation.

We like Montreal. We like McGill University. We think it's a platform that we can invest in a lot of young talent to have Automation CoE that can allow us to continue to transform how we operate in our factories. That's a critical component and gating item towards us making this moment. So in some ways, not to make light of some of the supply chain dynamics, but very authentically, a big part of this is about talent, and you're going to acquire talent to meet this moment in different ways. That's a very small, humble way that we're doing it in robotics in Montreal. It's also a huge reason why we chose Cambridge for our corporate headquarters, because the reality is if we're going to create ourselves – recreate ourselves, for this moment, we're going to need a whole other level of talent to do it with things other than more CapEx.

So I just give the data point. We've got 79 kids from MIT that are starting on payroll at GE Vernova between June and July. Those are the resources that, frankly, I think, are going to be the most important for us to continue to build a business and a company that meets its potential more than one supply chain element. So it's a little bit more adjacent to your question, but what really is on my mind for what we have to continue to invest into if we're going to serve the world with its expectations.

Sunaina Ocalan:

And if I can just follow-up on that maybe. Amongst AI, robotics, and automation, how are you thinking of these three impacting sort of the near term as well as the longer term?

Scott Strazik:

Through '26, AI has a net to modest negative financial impact based on the investments we're making relative to the return it's yielding. In AI, that will flip in 2027. We're at a point where two years ago, we had very little of internal capabilities. Today, we have over 50 people in what we call an AI Foundry that we're growing to 80 by summer to fall that are working on real process transformations that will drive real growth leverage for us, i.e., they're engineering applications where we would not be able to meet this growth without AI with a reasonably stable engineering workforce. We're also seeing incredible opportunities matching our install base needs with parts and resource enablement in a much more productive way than we ever have with decades of data with our install base that we're optimizing in a much better way than we historically have.

So AI, I would say, is a break-even to modest negative in our financials this year. That starts to turn in '27. The investments we're making in automation probably are on a one-year further lag. And what I mean by

that is we have what we call eight lighthouse areas of focus in our factories that we're investing deeply in right now, which is a combination of R&D and CapEx to execute on one function in one line. But the reason we've chosen these eight applications is because as we get conviction that it works, we have many other factories that we can apply that equivalent automation to.

So what's really happening in 2026 through at least the first half of 2027 is proof-of-concept. And then as we get that validation, we have in our financial plans the CapEx over the next 18 months to cut that into all of the other use cases in our global factories that starts to drive real financial productivity in '28. These are not things that are long-term pie in the sky. I mean, whether it be what we started the year at, which was 13 AI process transformations, we're now focused on 26. And this is not about giving our employees access to AI. These are company-wide priorities where we spend a lot of time convincing ourselves that if at a corporate level we invest the money, we will yield a return in the businesses in short order. Same idea with automation. And in both cases, it's early.

So I'm just as excited when I think about Vernova into the next decade with the incremental margin expansion we're going to drive from investments in these things, but it's not going to take until the next decade. We'll start to see it in AI next year, in automation in '28, as I am in the growth.

And I think that's what's probably still not fully appreciated with the cycle that we're in, because we don't just have a more accelerated growth opportunity. We also have technology today that's going to allow us to serve that growth in ways that the profitability of this company should be very high, or the expectations of the profitability should be very high because it certainly is with me every day on how I'm running GE Vernova.

Sunaina Ocalan:

So automation helps you with margin expansion now while still growing your capacity and expanding capacity.

Scott Strazik:

Yes.

Sunaina Ocalan:

That makes sense. If we can just talk about equipment versus services for just a little bit, you've grown your equipment backlog by 80%?

Scott Strazik:

Yeah.

Sunaina Ocalan:

Since spin.

Scott Strazik:

Yes.

Sunaina Ocalan:

What does this mean for services?

Scott Strazik:

In the next decade, it represents substantial growth for us. And I would just say not every dollar of equipment growth is created equal in services aftermarket. And that's why we talk a lot about base load power. If I just give an honest analogy, for me, I spent three years going back to 2008 to 2011 in what at the time was GE Corporate, spending a lot of time analogizing how an aircraft engine and a gas turbine were similar on the razor blade model, let's say, of the two businesses. But then in 2011, I spent the next few years at Aviation as the aerospace engine CFO.

When I came to Power in '13, it immediately became apparent to me that it was not so analogous because an aircraft engine needs to be in the air, certainly an narrow body engine, 20 hours every day for an airline to make money. Yeah. Remember the stat I said earlier, only 200 gigawatts of our 720 gigawatts are running base load. The other 500 gigawatts are very often running seasonally base load, in the summer, in the south, in the northeast, in the winter. But then in the spring and the fall when electricity demand is lower because of weather patterns, would not be running. So your annuity stream is less if you're not running all the time.

The reality is so much of our growth right now is coming with applications where the business case from the customers are 20 years of base load power, that the services annuity stream that we're creating is substantially greater. At the same time, going back to the integrated solutions with Electrification, what that's driving is another level of ecosystem of value creation that creates that much more of a long-term, retentive nature, because as you're providing integrated solutions with power gen and electrical equipment, it's that much more of a moat that you're creating versus others for them ever to touch our equipment in the aftermarket.

So we're going to have a great services business in the next decade. It's already a very good, profitable business, but it's going to be a lot larger, a lot more profitable, and we're very excited about it.

Sunaina Ocalan:

And if we can maybe move to regional differences, how are you evaluating the current order environment across regions, especially with interest rates, policy support, or power market economics?

Scott Strazik:

The U.S. is a growing part of our backlog very clearly based on everything we're seeing in the U.S., but it's not the only market that we see real opportunities. I mean, we have had a very good first almost five months of the year in many other markets, whether it be if I take Vietnam as an example. We commissioned the first LNG-to-power project in Vietnam in January of this year, 1.6 gigawatts. Over the first five months of the year, we've signed contracts for four more LNG to power projects at 1.6 gigawatts a piece. Now, those are projects that have equipment that ship late this decade, that gets commissioned early next decade. If you think about Vietnam, the entire grid's 90 gigawatts today, and we're talking about adding 7.2 gigawatts of base load gas power, so a substantial amount of growth.

When you really think about the policy environment, and it's a good example, I was recently with one of our largest Japanese customers. They're talking about substantial growth in the business for shipments in '30 and '31, those are plants that get commissioned in '33. Current LNG prices aren't changing their business case for 2033 when the plant is going to be commissioned. So we continue to see very strong

demand in places like Asia, we see strong demand in places like Middle East, and we're working hard to meet this moment in all of these markets.

Sunaina Ocalan:

You talked a little bit about Prolec, as well as M&A, as well as cash flow priorities. If I can just follow-up on that. You completed the acquisition of Prolec in February. What are the learnings so far over the last three months? What's on your radar for more economic and organic growth, including Robotech from last week?

Scott Strazik:

I would just say the learnings with Prolec, both operationally and commercially, the opportunity to drive real value for our customers is even more than we thought the day we closed the deal. So I've personally spent time in every factory that we've acquired with Prolec, and we already have raised our own internal expectations for how much output we're going to be able to yield from the existing factories that we've acquired.

Now in some cases, there's a little bit more modest CapEx required to invest into what the real log jams are, but we see real opportunity to continue to gain more output from the existing factories. Now, we also are driving a lot of customer synergy. The reality is there were many cases where customers were buying their switchgears from us, but then their transformers not from Prolec. But if it's a new build, you need both, the transformers and the switchgears. And we're homogenizing that sales motion in a way that we see real growth opportunities.

What I would tell you as that then relates to other M&A is Prolec was right in the middle of our strike zone. It was complicated for our customers. They didn't fully understand the JV. I've been talking a lot about more integrated deals. Well, with a fifty-fifty JV, that was clunky with the customers when we couldn't fully integrate those transformers to solutions they wanted without interacting with another partner. We want to put M&A into areas that continue to drive a more seamless customer experience, but within our core products. Prolec was right in the middle of our core with transformers.

We don't really have the attention span right now for things very far afield from our core, but I don't think we need it because the reality is our core markets are excellent right now, and we want to meet those moments. So where we can find those opportunities, and it can be in Electrification, it can be in the supply chain of Gas for the long-term growth there, it can be in the long lead items of SMR that give us that much more control over our supply chain. We'll do it where the economics make sense, but we also have so much organic opportunity in front of us, even with a very strong balance sheet today, that I don't sit here feeling a need to rush in that regard.

So we're going to continue to take our time, focus, and where we have the right opportunities within our core, we'll execute on it.

Sunaina Ocalan:

That's awesome. We're coming up on time, so I like this question. What is the biggest misconception about the business? What do people get wrong most often? What do you want to adjust with current market consensus about the business?

Scott Strazik:

Well, I think it comes back a little bit to your question at the beginning, is this three to five-year data center cycle or is it a longer opportunity? Now, clearly, we are working very hard to serve the hyperscalers today and have come a long way to get under the tent with them on what their needs are. I mean, you think about it really started with them on educating them on gas and how we decarbonize gas over time. Now it's really how their data centers work or their AI factories really, and how we can help them technically with that. But it's still a sliver of a much bigger, broader opportunity that we have in front of us that we're investing into.

So I intentionally started with that $87 billion services backlog that will generate $20 billion of revenue next year or thereabouts, because I think, we index very heavily on, admittedly, the sexy 80% equipment backlog growth in a little bit over two years. But these two are very linked for what I think is a financial floor on this company with so much larger an install base that's that much more profitable, that the financial optionality we have into the next decade because of the strength of that services business in that next decade gives us a very unique opportunity to do special things.

So we are zeroed in on the hyperscaler market opportunity, and we will meet the moment, but we're also going to meet broader moments of opportunity, whether it be with defense and military. We haven't spent a lot of time talking about that, but the reality is as drones become a bigger and bigger factor in military operations, drones need docking stations to be recharged. That's an interesting opportunity for us as we think about Golden Domes and opportunities in that regard. That needs a substantial amount of electrical equipment and power generation to make work.

So there is a multifaceted set of markets we will serve, and we will serve with humility but with determined commitment that create a very unique opportunity for us to create value, and that's exactly what we're going to do for a very long time.

Sunaina Ocalan:

Scott, thank you very much. We could have kept this going for a while.

Scott Strazik:

Thank you.

Sunaina Ocalan:

Thank you again. Thanks to the audience as well.

Scott Strazik:

Thanks.