**GE Vernova**
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David Arcaro: All right. Everyone, good morning. Thank you so much for being here day two of our Laguna Conference. I'm Dave Arcaro. For those that don't know me, I cover the power, utilities, and clean tech stocks for Morgan Stanley.

I'm very excited to be joined by Scott Strazik here from GE Vernova. He's the CEO and President. So, thank you, Scott, for joining us.

Scott Strazik: David, thank you for having me.

David Arcaro: We'll kick things off just with a brief disclaimer here before we get started. For important disclosures, please see the Morgan Stanley disclosures website, at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

So, great. With that, why don't we jump in, Scott? The floor is yours. I know you'd like to give some opening remarks as we get started.

Scott Strazik: Sounds good, David. Thanks, and thanks again for having me, everyone.

Just a few observations on the company and the opportunity we have ahead at the start. If we begin with the end markets, I would tell you we continue to see very strong and durable demand with our end products. We had a $176 billion backlog at the end of the second quarter, and we've talked about getting to a $200 billion backlog in 2027. I would say on the strength of the orders we expect to see in the third quarter, that $200 billion milestone we should hit very early in 2027.

And I would just emphasize that that $200 billion is a very humble milestone on the trajectory we see towards growing to a much larger and more profitable business with a secular dynamic in which the world needs a lot more energy and it's going to get a lot more of that energy from electric power in which GE Vernova is very well positioned to serve.

I'd also say in our internal operations we continued to have a lot of confidence and momentum with how we're running the business. I see real progress in our factories with automation and robotics to fulfill on that growing backlog. We also see an incredible opportunity in our install base with the data that we have and artificial intelligence to serve our customers in new and different ways that's going to be a real growth opportunity for us over the long term.

And you couple those things together – the durable demand for our product, the exponential technologies with things like automation, robotics, AI – and couple it with the culture of the company we're building, which is really focused on us meeting our potential – meeting our potential for our customers, for our shareholders, and for our team – and it's a real privilege to lead this company.

So, a few thoughts on the businesses. I referenced before the backlog, $176 billion growing to north of $200 billion. And we spend a lot of time in that backlog talking about our Gas Power capacity additions, and for good reason. We're going to grow our gas capacity additions by 50% over the course of this year.

But what I think we can do a better job is helping you understand the services economics associated with those gigawatts on contract. And if we just take a small part of the business, take our HA services revenue. Today, our HA services revenue is about $1 billion of the power business' $24 billion of revenue. We also only have 130 machines running today. We have 195 more machines on contract. And by the end of next year, we'll cumulatively have at least 400 machines either running or on contract. That's 200 gigawatts or thereabout of incremental power in which every HA – every gigawatt of HAs will generate $0.5 billion of high-margin services revenue over the first 20 years of its lifetime.

So, you think about that. And today it's a billion-dollar product line. By the end of next year, we'll have contracted $100 billion of future services revenue. And it's just one example on why we see so much growth in this business over the course of the next decade.

I talk about Electrification. This is a business that when we launched GE Vernova in the end of '21 had a $6 billion backlog. Today, it's $45 billion. But what I'm most excited about is not the $45 billion in isolation, it's the fact that it's a part of our business where we see real innovation in new product development.

We've talked about our energy management system. This is really the brains of a data center to help it integrate with the grid or the power generation source. Multiple orders in the first half of the year for our EMS solutions.

We've talked about our MV-UPS solution, which is really a stability block outside of the data center to drive resilience between the data center and the power gen. We expect our launch order for the MV-UPS in the second half of the year.

And we talked in the past about our solid-state transformers, in which our five-megawatt indoor application is built and our six-megawatt outdoor application is in engineering right now.

So, those are three products that aren't really even embedded in that $45 billion backlog, but a very important part of our future growth.

On Wind, that is the part of the business with certainly less growth. But at the same time, what I would say is we're reaching a profitability pivot point in Wind. We're doing a very nice job closing out on the existing Offshore Wind projects. In the Onshore Wind, services profitability continues to improve in a very material way. So, the profitability of that business will be much better in the second half of the year than the first, and '27 will be much better than '26.

And you couple those business dynamics with the macro opportunity, a business that at the end of the second quarter had $13 billion of cash and is very well positioned to serve this growing market and create value for our shareholders every day.

So, a few thoughts at the beginning. And then, David, we can take it where you'd like.

David Arcaro: Perfect. Thank you, Scott. Some very good topics that I do want to drill into out of those comments. So, appreciate that.

David Arcaro: Maybe starting though at a high level here. What many of us are grappling with is you've got the health of your business versus what we're hearing in the headlines in political disruption, in community pushback on data centers, a lot of noise. Could you give us a perspective of what you're seeing on the ground from your customers? Any disruption to call out? What's the health of the overall demand side of things?

Scott Strazik: I mean, if we start with our largest business in Power, Gas, and talk about the last couple of months relative to our earnings call in late July, we've secured multiple slots or sold multiple slots for 2032 deliveries since our 2Q earnings call. We added over the course of the summer 12 incremental gigawatts of supply in 2030 and 2031. And when we did that, we've had a very strong market response to that at premium pricing, in which all 12 gigawatts is in some form of contracting right now. Although I think most of that 12 gigawatts will get contracted in the fourth quarter versus the third quarter based on the pace of the deals.

We also see our customers continue to really accelerate their slot reservation agreements into orders, which drove my earlier comment on us continuing to expect a very strong third quarter orders performance.

So, those are all elements of continued strength.

At the same time, what I would tell you is, if you take a step back, we did 40 gigawatts of new contract commitments in the first half of the year. We guided in July in the second half of the year to do directionally 20 gigawatts in the full second half. Now, 20 gigawatts is likely to prove to be conservative for the second half of the year, but we also aren't going to be at a 40-gigawatt run rate every six months. So, that second half dynamic will likely be less contractual commitments than the first half of 40 gigawatts, while still growing the contractual backlog; likely with the fourth quarter a larger contractual commitment add than the third quarter, based on what we see right now.

David Arcaro: Very helpful. Appreciate that. When you talk about – and much of our focus has been on the cycle. Is there a peak looking out to 2030 and beyond? So, it sounds like – and you've described it as "stronger for longer" in the past, and you just suggested 2032 is even a point where today you're having customer conversations and reservations out that far.

Scott Strazik: With cash committed.

David Arcaro: Absolutely. Could you put that into context as well? So, you're expanding capacity pretty significantly on the gas turbine side of things. Run us through the timeline. Is there the potential – I'm curious, is there potential for the 30 gigawatts, can you pull that forward? Or where do you stand right now in terms of your comfort level in execution getting to that output?

Scott Strazik: Comfort level's very high. Start there.

In the context of can we pull it in, I think we have to take a step back and say that we've installed over 350 new machines into our gas factories over the course of generally the last 18 months. It's going very well. We will hit the five-gigawatt run rate for the third quarter and the fourth quarter of this year. The beginning of next year will feel generally very similar.

But as we continue to gain traction with these new machines we've installed and the incremental machines that'll come next year, we're highly confident that we'll go from five gigawatts that we'll be at in the third and the fourth quarter sometime in the second half of next year to the next ladder step, to six gigawatts a quarter. And then when you project out into 2028, we may be at six gigawatts for a period of time, and then we'll have the next ladder step up to seven gigawatts a quarter.

And I frame it up that way just to say this isn't – there's not some home run swing here in front of us on how we're operating this business. It's lean operations. It's automation and robotics; these are these machines being added to the factory. And you're just going to see sequential step-change improvements in our output within the same factory footprint. So, it's not like we're building a green field with construction risk or with a new team that doesn't know how to do this. We know how to do this, and we will do this.

So, I think you will see multiple ladder steps forward. And in running the company, I always have an expectation that we do better internally relative to what we commit to you externally. So, yes, I think if we perform at our best, we can pull those numbers left.

David Arcaro: Absolutely. Taking a little bit of a detour, one of the discussions we have a lot too is front of the meter versus behind the meter, what power demand is going to connect into the grid versus what's going to be constrained and need their own on-site power. Can you talk about your perspective on that now? How is GEV positioned with solutions for those?

Scott Strazik: I mean, as a company, we're, in many ways, agnostic. I mean, we serve both front- and behind-the-meter solutions. You take the second quarter, we had 61 aeroderivatives put on contract in the second quarter alone. Aeroderivatives on the smaller side of the variant are 30-, 35-megawatt applications that are very well suited for behind-the-meter applications.

What I would tell you though is, over time, there are a lot of benefits to the grid, both in the affordability and the resilience that the grid provides. And although today's debate may be in front of the meter, behind the meter, over time, we believe a large majority of these data centers will be grid connected. But there's very authentic, real discussions on how long that takes. And in many cases, many customers on projects we're working on hope it's only five to seven years from now when that interconnect comes, but they don't have a guaranteed commitment in that regard.

So, there are going to be many of these projects for a period of time that most definitely operate behind the meter. But having an interconnected meshed grid also creates a lot of benefit that, over time, a large majority of these will become grid connected.

David Arcaro: Do you feel you need to get more aggressive on the behind-the-meter solution set on the aeroderivative capacity? Is that something strategically that makes sense to expand?

Scott Strazik: I don't think there's anything we're doing that I would use the "aggressive" description. I mean, the market continues to come our way. We continue to have to earn it every day. And the aeroderivative application is a very good product.

We also are seeing a lot of traction with our 7E heavy-duty gas turbine, which is a 90-megawatt heavy-duty gas turbine that has real market demand right now.

So, we're going to continue to invest in the durability of this product line. But really, we don't determine the aggressiveness with which we play; our customers do, based on the cash that they provide to us. And that market signal ultimately gives us the signal we need for the capital we put to work to continue to grow this business. Because it isn't as simple as just customers wanting incremental electrons; it's also when that power plant or that site is ready for the gas turbine. And our objective is to continue to invest in our business at the pace with which there are gas turbine platforms ready for our gas turbines with the gas connection and everything else that goes with it.

David Arcaro: Absolutely. We've been very focused on the pricing backdrop, trying to look for signals in terms of competitive dynamics and supply and demand trends in gas turbines. Could you talk about what you're seeing as you frame up those 2032 discussions? 2030? 2031? What is the price trend that you're seeing? What's that conversation like on the margin for incremental demand?

Scott Strazik: Certainly, the incremental capacity that we added to the market over the course of the summer for '30 and '31, we've seen a very strong appetite of demand. And then with it, by default, price is nothing more than a transfer function of value, right? And the market sees incremental value and incremental heavy-duty gas turbine output that can be committed in '30 and '31, and we're very pleased with the economics that we're seeing for that '30, '31 period of time.

'32, truth be told, we now have contracts, but it's still in small proportion of our total '32 deliveries. So, I don't want to over-represent our '32 economics, because we're in single-digit gigawatts of commitments right now.

But certainly in Power, when I look at the change in margin in backlog that we're going to see – and we will show you in our January earnings call – we expect the change in margin in backlog in '26 to be larger than the change in margin in backlog in '25, and the change in margin in backlog in '25 was low double digits.

So, we continue to see real pricing power in this business, and we'll keep serving the market in that vein.

Now, in our other businesses, in Electrification, we also continue to see pricing power. And where we see it most pronounced is where we're providing integrated solutions with both power gen and electrification. But the change in margin in backlog that we would expect in Electrification will be more humble than power at the end of the year. Last year, it was three points. It'll probably be something similar to that, maybe a little bit larger.

And we also expect to see a healthy positive change in margin in backlog in Wind.

So, all three of our businesses, at the end of the year you're going to be able to take a step back and say, okay, with a material step-change in the equipment, change in margin in backlog in '26, that's what tells you in '29 and '30 – because that's most of when that equipment delivers – that the margin expansion in our business is simply going to continue in the out years.

David Arcaro: Excellent. That's helpful. You had made a couple of points on the services side of things as well. Wanted to maybe double-click on that a little bit. Could you quantify maybe for us – well, you gave us some quantification of the gas services opportunity. And I'm thinking about into the 2030s. Describe how this kind of inflects. How does this change the overall kind of Power business complexion for GEV?

Scott Strazik: You bet. I mean, we talked in December of '25 about the Power services revenue growing from $12 billion in '25 to $22 billion in '35. And like most of the financial measurements we put out on the Street, I would certainly view that $10 billion growth in services over ten years to be a conservative marker for 2035. And by the time we get to a future Capital Markets Day and we're talking about a 2030 financial case, we'll outline how much of that's equipment and services. And that 2030 revenue number will certainly make the 2035 marker of $22 billion look low.

The reality is we continue to grow the install base at a very healthy ramp, and as we ship equipment late this decade and then four years later directionally, when it has its first outage event, these catalysts are going to drive a business that continues to grow services through the next decade.

I mean, on our end, I completely respect and understand the debate on, okay, how many years can Vernova ship 30 gigawatts of new gas in the next decade? '30? '31? We're already into '32 selling right now. But it's a healthy debate.

All that said, what we've got to do a better job for you is to show you from '30 to '40, while we're debating how many years we're at thirty gigawatts, how much the services revenue growth is annually. And it's not going to be an inflection point, being there's not a hockey stick with services revenue. It's just every year you're adding 50, 100, 125 heavy-duty gas turbines that are going to run base load, and the strength of that services annuity should grow throughout the next decade.

David Arcaro: Absolutely. And appreciate the color you gave on how you think about the HA side of things in terms of revenue contribution and what that could accumulate to over time. So, very interesting.

Maybe could we shift to the Electrification side of things? On the data center end market and customer. You've seen orders already double what you'd experienced in 2025 at this point. How do we think about that going forward? What's driving maybe the end market and also your strategy there? You mentioned some new products. So, maybe would be curious about that. But is it new products? New scope? Gaining share of your traditional offerings there?

Scott Strazik: I mean, for context for everyone in the room, we did about $2 billion of data center orders in '25. We have done north of $5 billion through the first half of '26. So, we're seeing real traction there.

All that said, we won't likely go at that same run rate in the third and the fourth quarter that we were at in the first half of the year. The reality is some of these data center orders can be a little bit lumpy. So, the $2.5 billion run rate – which ultimately in the first half of the year, data center orders in Electrification are almost 40% of Electrification's total orders – it's probably more like 20% of our Electrification orders in 3Q and 4Q; while growing the backlog, both the Electrification backlog and the data center backlog, in 3Q, 4Q, but maybe not at the same run rate as the first half of the year, to be clear.

Now, the new products that I mentioned in the prepared remarks will start to cut into the order book in the second half of the year. Certainly, the MV-UPS we're expecting, more EMS solutions. Solid-state transformer is more of a '27 opportunity than '26 for orders.

Those new products aren't the only things we're working on. We see more opportunities, and we'll share more of those new products in the future.

We also just are having a more and more intimate relationship with our customers between power gen and electrification in a world where those teams have very difficult jobs. We are one of the few companies in the world that can serve them largely with power gen and electrification in a way that we can make their jobs easier, not just commercially in our interactions, but also in the technical solution.

So, one of the things that gives me so much confidence in where we're going is how much time the hyperscalers are spending at our advanced research center in Niskayuna, New York, with us, showing us how they want to run their data centers. And collectively, we are co-creating what those future products need to look like. We have hyperscaler racks at our research center in Niskayuna, New York, connected to our equipment, in which we're simulating where their performance can go from here. And when you get to a point that you're co-creating with your customers on their end performance, you've got a disproportionate opportunity to grow that business.

And that's why you see in Vernova the R&D of Electrification growing faster than the other two businesses. We don't need to create as many new products in power generation, as much as I love the business. Electrification is a great opportunity for us.

But we're also investing in the CapEx of the factories to meet the ramp. Our Prolec acquisition. We've already talked about the fact that we've taken up our revenue guidance in Prolec. And we acquired the business in February because we're seeing an ability to get more output out of the existing factories. We see more of that coming. And those are opportunities that we have after acquiring Prolec that gives us even more commercial and technical flexibility with the end customers and gives us a lot of humble confidence that this is a part of our business that we're going to grow significantly from here.

David Arcaro: And when you suggest that some of the order flow is going to be lumpy in the second half, that's data center-specific within Electrification.

Scott Strazik: That's right.

David Arcaro: And I was curious if you could give the – outside of the data center end market, what should we be focused on in terms of what you're seeing in terms of end customer demand?

Scott Strazik: I mean, we continue to see outside the U.S. strong HVDC orders growth. We were, in the public domain, a winner of a large HVDC project in India that won't cut in as an order until the fourth quarter, but that's almost a $1.5 billion transaction in isolation. We continue to see real need in the end markets for both resilience and reliability and opportunities to support there.

So, I expect us to continue to grow our backlog in a very healthy way in both 3Q and 4Q in Electrification. But by default, Electrification can be a little bit more lumpy, both with data centers and, frankly, the non-data center business, with examples like the India HVDC project, where that's one that'll go to order in the fourth quarter, although we were awarded publicly in the final results a few weeks ago, the results.

So, real progress in the business will be a little bit lumpy, and we'll keep driving it from here.

David Arcaro: Understood. You had mentioned Prolec. Could you give us an update on how that integration is going as you've brought it into the company? Any surprises that you would call out for investors?

Scott Strazik: Even more opportunity to fulfill within the existing footprint than I anticipated prior to close.

Spending a lot of time inside the factories in Shreveport, Louisiana; in Goldsboro, North Carolina; in Waukesha, Wisconsin. We're seeing real opportunity with modest amounts of CapEx to drive very capital efficient growth in those factories to an even larger extent than we anticipated.

So, relative to the financial framing of the business when we announced the deal, I certainly would expect our 2028 financials to be materially better than the incremental revenue and margin that we projected in October.

So, we're pleased.

We also are getting very positive feedback from the customers on the streamlined nature and incremental flexibility we have on how we serve them. Now that we don't have a partially owned JV that had its own captive market for North America transformers, that also gives us more flexibility to serve our North America customers from outside North America. And we've talked about that in the past, that year to date through 2Q, we've had $800 million of orders selling into North America from our international factories, that prior to closing the deal we were unable to do because the JV was the exclusive provider in North America.

So, we're pleased. We're bullish on the art of the possible from here and working it hard every day.

David Arcaro: Excellent. Maybe following on to the M&A side of things. On your free cash flow, you've now increased free cash flow guidance multiple times this year. Was curious on capital allocation. How do you prioritize, whether it's M&A – we're curious to get your perspective on that; versus internal organic CapEx; R&D, as you mentioned; and then, of course, share buyback or return of capital to investors here.

Scott Strazik: I mean, I would start – I mean, we've had a very strong cash performance. Sometimes we'll get the question on how does that project, going forward. What I would just continue to reinforce for everybody is the strong cash performance, although there is a lot of increased progress payments or deposits, the change in our progress balance is still less than the change in our margin in backlog i.e., the cash is less than the incremental profit that we're booking.

And I make that point to just say that cash balance that we have at $13 billion and the cash performance we expect going forward gives us complete optionality to play offense, creating value for this company. And that's exactly what we're going to do.

Now, we have demonstrated to date – and we'll continue to demonstrate – that we will be very opportunistic with the stock buyback program when there's market volatility. I mean, through the second quarter of this year since we launched the program, over 18 months, we've acquired 12.4 million shares at an average price of $560. That wasn't necessarily buying the same amount of stock every day. That's taking advantage of moments of disruption. The third quarter has given us another good opportunity to continue to do that, and we will continue to do that, because we have an immense amount of conviction in the value we're going to create for this company, going forward.

But it's not going to be where we put all of our capital. We would like to do more M&A, but you need to be patient on M&A. And at the end of the day, there's a number of hurdles we need to get through.

We have very high expectations internally for our organic growth with our businesses, both the top line growth and the margin expectations. If we're going to do incremental M&A, it needs to be accretive to our internal financial case. Maybe not on both growth and margins, but certainly one or the other.

It needs to be M&A in which we really see target companies in which the technology is differentiated. A lot of stuff that we see today may be good profitability in '27 and '28 because of, let's say, supply-demand imbalances. But if you're going to buy a company, you need to have a lot of conviction in the next 10 to 20 years of financial performance. And for us, that means there needs to be real technology differentiation that, integrated within Vernova, creates real returns for us.

And on top of that, candidly, you need a seller that wants to sell. Although that is evolving quite quickly this autumn relative to what I would say the mood and the sellers' demeanor was in the spring, you need two that want to get to a smart economic outcome.

So, we're thrilled with Prolec. I would like to do more M&A. It almost certainly would be M&A within our core, because our management teams have more than enough that they're juggling right now that they don't need new balls in the air. But it needs to be acquisitions that are accretive to our financial case, with technology differentiation, and where the economics make sense. And we're going to be patient in that regard. So, we may very well sit on a cash balance for a period of time while those right opportunities present themselves. But when they do, we will act.

And while that takes time to play out, we will continue to return real capital to our shareholders. And with conviction in every case where we see organic opportunities to grow our business, yes, we're going to invest in those businesses and those opportunities. And that continues to be a great filter for us, frankly, in relation to M&A. Because the reality and a lot of things that we look at with an M&A lens, when you really look in the mirror as to whether we should be able to do it ourselves, the answer is, yes. And that's exactly what we'll do first before we put that inorganic capital to work.

David Arcaro: Excellent. Appreciate that color. I did want to – let's see, up front you had also mentioned Onshore Wind. Wanted to sneak in just a little bit of a question. You had mentioned pivoting profitable, maybe directionally '27 looking better than '26. What are you seeing in that end market? We've had soft order intake for some time now.

Scott Strazik: I mean, unlike our other two businesses, it remains soft order intake, and I wouldn't expect a different orders dynamic in the third quarter, per se. I mean, the second half orders, yes, will be materially larger than the first half orders in Onshore Wind, but relative to a historical precedent we continue to have elements of uncertainty with tariffs, 232 classifications, with permitting with end customers.

We have a very high pipeline of activity. We have a lot of what we call technology selections, where customers are permitting with our technology. But it's different than a gas slot reservation agreement that has, like, 25% down. It's more of an MOU, I would say, than a lot of firm cash.

And there are opportunities for an inflection point with Onshore Wind. The country certainly needs more wind. But unlike the other two businesses, I wouldn't say that we're close to that inflection point right now.

The one part of the business we see the most opportunity is with repowerings. Because the reality is we have a huge install base in the U.S. There's over 30 gigawatts of our install base that have repowering potential. And as it stands today, the PTC tax credits expire at the end of '30. So, there's an urgency to take advantage of that dynamic.

But I would say it's still early to compliment that market opportunity, with the uncertainties with things like tariffs and permits that have the market softer, and I would expect it to remain softer certainly through the second half of this year.

But even with that softer market, because of the fact that we've really governed our Offshore Wind economics and our Onshore Wind services profitability is getting much better, the profitability of our Wind segment will be drastically better, going forward.

David Arcaro: Excellent. With the last minute here, I thought maybe I'd ask in terms of the next Capital Markets Day. Could you give us an indication of what we might hear at your next update in terms of business updates, forecast elements that you think need to be communicated to the market?

Scott Strazik: I mean, before we get to the next Capital Markets Day, I think we're going to put a lot of proof points on the board in the near term to demonstrate how much value we're going to create in the company from here. I mean, I look forward to our third quarter earnings call. It will continue to affirm both the growth and margin expansion of the company. That's important in October.

You get to a January earnings call, and a number of things will be clear. We will have delivered a complete '26. We'll provide our change in equipment margin in backlog in '26, which is a very important page, because that really tells you the equipment margins for '29 and '30, largely. That will be in our January earnings call.

We'll also provide you a '27 financial outlook in our January earnings call and, likely at that earnings call, set the date of our next Capital Markets Day. The next Capital Markets Day, I would expect certainly in the spring, no later than – certainly, before the summer, most definitely.

And the reason that we're waiting for that window of time for that meeting is because we wanted to get '26 actuals on the books first, we wanted you to see that change in margin in backlog in the equipment book, and then we'll set both our 2030 financial outlook at that Capital Markets Day. But frankly, we'll spend a lot of that meeting on why we have so much conviction that 2030 to 2040 is an even better decade for us than 2020 to 2030.

And I look forward to all those proof points on the value we're creating in the company and appreciate all of you both today and in those future sessions joining us to see the future of the company we're creating.

David Arcaro: Excellent. Perfect. Thank you so much, Scott.

Scott Strazik: David, thank you.

David Arcaro: Thanks, everybody.