

GE Vernova

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Andrew Percoco: For those that don't know me, I'm Andrew Percoco. I'm our clean tech analyst here at Morgan Stanley.

This morning, I've got the pleasure of being joined by GE Vernova's CEO, Scott Strazik. So, thanks for being here.

Before we get started, just a quick disclosure here. For important disclosures, please see the Morgan Stanley Research disclosure website, at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley representative.

So, with that, thanks for joining us.

Just maybe just to set the stage, it's been a busy year for GE Vernova. You have an interesting press release out this morning with some new announcements. So, maybe just set the stage for us, some opening remarks, and then we can dive into questions from there.

Scott Strazik: That sounds great, Andrew. I really appreciate the opportunity to be here today at an event with so many great industrial companies.

And as Andrew said at the start, it's a pretty exciting time for us at GE Vernova. I mean, we're not too far from Dodger Stadium here in Laguna. Making a baseball analogy, it just feels like we're in the first inning of a nine-inning game, with an accelerating investment in the super cycle of what's needed for the energy transition, in which GE Vernova is very well positioned to serve here.

And if I just give a few highlights by business segment – and then we go into the Q&A – let's start with Power. And the reality in Power is we've had a very productive summer. We come into the fall here now having secured capacity to deliver somewhere between 70 to 80 heavy-duty gas turbines a year, starting in 2026. That's off of a baseline that we've been at of about 55 heavy-duty gas turbines per year for the last number of years. And when we look at the orders profile and pipeline relative to the slots available, certainly for '26 and '27, those slots are very scarce. So, there's a lot to look forward to in Power.

In Electrification, this is our fastest growing business. I mean, we started 2023 with a \$6 billion equipment backlog. We project that backlog to be three times that, approximately \$18 billion, by the end of the year.

What we're almost more excited about it is the profitability we're seeing in that business. Last year, 4% EBITDA margins. This year, we'll be on the high end of high-single digit, probably approaching 9%, EBITDA margins in '24. And that's before we start to convert to revenue the orders we've been booking the last 18 months at substantially higher margins that really don't just start to convert to revenue until 2026.

So, there's a lot to look forward to in Electrification.

And then in our Wind segment, there's a lot going on right now. This has been our most challenged segment. But if you break it into the pieces, in Onshore Wind we'll deliver our fifth straight quarter of profitability. It will be our most profitable quarter in Onshore Wind in a number of years, and we'll deliver high-single-digit EBITDA margins for the year.

But in the context of the third quarter, that profitability will be more than consumed with Offshore Wind. Because the reality in Offshore is we have had a tough couple of months here. We have two projects. It's about a \$3 billion backlog that we've got left to complete. In both projects, at different points during the summer, have been on delay or suspension from installation and commissioning. Now, today, in Dogger Bank in the North Sea, outside of the U.K., we're back to full installation and commissioning. On the Vineyard project in the Atlantic, we're back to installing both towers and nacelles and approaching the installation of blades.

But having lost two months during the summer when, frankly, because of weather dynamics those were important months for us to get a lot done on behalf of our customers. We've had to take a step back and look at the costs that are needed to complete the \$3 billion of backlog we have, and that accrual is in essence going to lead to an approximately \$300 million loss in the Wind segment in the third quarter.

Now, for the year, our financial framework is still consistent with what we talked about in July, and that's because the strength of both Power and Electrification in the year will fund, in essence, the Offshore Wind accrual we're booking in the third quarter. And although we had hoped Wind would be profitable as a business segment in the third quarter, that now is delayed into the fourth quarter, in which we do expect to see modest profitability in the Wind segment in 4Q'24.

So, those are real themes, but this is less when it comes to Vernova about 3Q or 4Q. It's really where I started, which is we think we're in the first inning of a really exciting nine-inning game.

And that's why this morning we also announced we'll do our next investor update on December 10, with really three key objectives at that meeting. One is we need to redefine what "good" looks like for both Power and Electrification for the long term in light of some of the dynamics that I just talked about. We also need to give an update on Offshore Wind, because in reality we need the next 90 days to start to reaccelerate installation and commissioning to give transparency to the burn-down rate on the \$3 billion of backlog that is still remaining and, with it, that profitability impact for 2025.

And then for the fun part, we've got a \$5.8 billion cash balance that'll grow in both the third and the fourth quarter, and by December 10 we'll be ready to share our capital allocation strategy on a go-forward basis with the investors.

So, a lot going on, but I just thought it'd be great to give that table-setting context at the start and then, Andrew, hand it to you.

Andrew Percoco: That's great. And maybe just to start out at a high level, kind of underpinning all of this, I think, is something that probably most people in this room are familiar with, and that's growing power demand in the U.S., electrification, decarbonization. Maybe just talk about where you're seeing most of the benefit from a power demand perspective – Gas, Electrification, Wind – and where you've gotten most incrementally excited over the last six months since the last Investor Day.

Scott Strazik: Incrementally, it certainly is in Gas, practically speaking. And I mentioned the new unit growth that we'll start to see in '26. It really doesn't affect '25. The equipment revenue new units will be pretty flat '24 to '25, but we'll see the growth in '26.

What I didn't mention in the opening remarks is we're also seeing services demand in that install base grow substantially. So, to give context, we do about \$2 billion of upgrades today annually in our Gas business. Later in the decade, based on what we see with outage planning and customer demand, that could grow by 50%. That's 50% growth because the customers want every ounce of incremental output they can get out of the existing install base. It gives us even more selling opportunity on new unit growth, but also with services.

Now, it's also helping Electrification. I mean, we'll do about \$0.5 billion this year of direct sales to the hyperscalers in Electrification electrical equipment. That number can grow over time, but that's not necessarily new or different over the last six months.

And ultimately, Wind is going to benefit. But because there's so much pressure in the near term to add scaled power quickly, Gas and Electrification are a bigger beneficiary than Onshore Wind, as an example, but that'll come over time.

Andrew Percoco: That makes sense. And maybe sticking to Power for a second, and Gas Power in particular, it sounds like you're planning on expanding capacity by 2026. Can you maybe just discuss, is that mostly going to the U.S.? Maybe a regional breakdown and maybe also some of the pricing trends you've seen in the U.S. I'm assuming the reason you're going ahead is because you've seen pricing react to the demand signals. So, just discuss kind of what you're seeing by region and also by price.

Scott Strazik: You bet. From a demand profile perspective, it is global. I mean, Saudi, as an example, is a big market for us this year. We're doing material orders in Japan and Korea. Taiwan remains a very big gas market, in addition to the U.S.

Now, the capacity additions that are supporting that growth is primarily in the U.S., and it's really entirely being funded by the customer down payments to secure those slots and the progress on those future orders that supports that growth over the next few years.

We are seeing substantially higher price. As I mentioned at the start, slots are scarce for '26 and '27, and it won't take long beyond that, but even for '26 and '27, with that increased capacity. But to be clear, those are really orders we're booking now in the second half of this year. So, they don't really start to cut into revenue for us until really the second half of '26 and, more materially, in '27.

But the pricing environment for Gas, most definitely, is more favorable than it's been in the 11 years I've been involved in the business.

Andrew Percoco: And then on the service side, you mentioned, obviously, asset owners want to run their existing plants as much as they can. Just discuss, are you seeing any change in customer behavior in terms of outages, in terms of when they want to upgrade their assets, and when they want to service them to make sure they're getting the most out of their fleet?

Scott Strazik: I wouldn't say that the outage or the utilization trends are changing drastically. So, that's not really the macro driver of growth. But at the outage event, the customers are clearly willing to invest even more into that outage to get the most out of the asset for the long term.

So, for the better part of probably at least the last eight years, if not more, our customer base was focused on sustain with their gas fleet. Now it's really, how do I optimize with a view that it is going to be running longer? So, don't think that the number of outages are going to go up drastically. It's more the amount of selling – dollars per outage, is going to grow. And that's when I was citing that we could see our upgrades revenue grow by 50% later in the decade, because they're buying much more at every outage event.

Andrew Percoco: Makes sense, makes sense. And maybe switching gears to Electrification. Obviously, your fastest growing segment, a segment you're very excited about. Utilities, we used to talk about how transformers are hard to get. Renewables developers can't get their hands on transformers. It's becoming a big issue for the build-out of renewables in the U.S. Maybe just talk about regionally where you're seeing the most demand. Obviously, in the U.S., we're seeing a lot of power demand. Is that where you're seeing the most growth? I think historically it's been mostly outside of the U.S. business for you guys.

Scott Strazik: That's right.

Andrew Percoco: Talk about where you're seeing that mix shift come from.

Scott Strazik: And in the way you asked the question, it feeds a lot of our reality right now. I mean, from a size of business for us in Electrification, Europe is our biggest market. Our fastest growing market right now in this year will be North America. And that does come back a little bit, Andrew, to what was in your question, which is this has been historically a very European-centric part of what was GE.

I would also tell you that the Electrification segment is benefiting the most from being part of GE Vernova and running this as one company. Because the reality is, if I just give a quick anecdotal story, when we announced the spin in late '21, in early '22 I visited many of our customers that I had relationships with from Power and asked them, "What would you do to fix Wind? And what would you do for me to support you in Grid?"

The good news on those visits, in the case of Wind, customer feedback was very consistent with our plan. In the case of Grid, many of the customers did not understand our scope, did not understand our offerings. And the part of Vernova that's benefiting the most as we lean in as one company to that customer set, specifically in North America, without question, is Electrification, because there's a huge opportunity for us to serve.

We primarily have been European-centric, and our factory capacity has been European-centric. We're now focusing on this to a large extent on the front end in North America, and we will invest into capacity in North America, but we're doing it without greenfields.

Because the reality is we have an industrial footprint that, frankly has been a financial anchor, but with capacity that we have in existing factories, we can build up some Electrification scope in those existing factories and serve this North America market better.

So, we're incredibly excited about what Electrification can be. Europe will probably remain our biggest market for a period of time, but I would expect North America to be the fastest growing for this next chapter of the business.

Andrew Percoco: You mentioned taking price in Power and Gas. I'm assuming you're taking price in Electrification, transformers. As you maybe lean into the North America market a little bit more, can you still do that? Is there still the ability to take price as you're scaling in a new market – or not new market, but trying to scale out that market? Or is it more Europe-centric where you can take the price?

Scott Strazik: To date, yes. We continue to be in a price-up environment, including in North America. We talked about at the Capital Markets Day that we accreted margin in backlog by five points last year, while doubling the size of the backlog. We will accrete margin again this year on higher price, including on price in North America.

Our plan is to kind of every year, probably at our 4Q earnings call on January, give an update on not just the backlog, but the margin accretion in backlog. And we certainly expect that to be another positive year for us in Electrification and then we'll keep going. But today, we'll continue to get price in Electrification.

Andrew Percoco: Great. And then maybe switching to the last segment, Wind. Maybe starting with Offshore Wind. There's been some challenges in that market for you guys over the last few months. Just given that – it sounds like Vineyard wind, making progress; Dogger Bank, making progress. You gave us the latest update in terms of 3Q, maybe EBITDA being a little bit lower because of Wind. Just discuss what's going on there. Is it just remediation work that you're taking a charge in the third quarter? Does that completely go away in the fourth quarter? Just give us some sense for timing on the trajectory there.

Scott Strazik: You bet. And again, just to table-set for everyone, if I go back in time, I mean, this was at the announcement of the spin a \$7 billion backlog, that now is about \$3 billion left to go. It's two projects. That is the extent of the backlog.

Dogger Bank, as Andrew says, and Vineyard wind. Through three very distinctly separate blade events we had this summer, our installation was stalled substantially. So, we didn't get anywhere near as much work done over the course of the summer as we anticipated.

We are back fully installing and commissioning in Dogger Bank. We're doing towers and nacelles in Vineyard, and we're approaching restarting with the blades in Vineyard in the near term, too.

But we've got to rebuild momentum on that process, because time is an enemy for us here, although we're going to do everything with safety and quality first. Because the longer it takes to execute on the project, the longer you're funding a marshalling harbor, the longer you're paying for vessels. And we really need the next 90 days here to start to reaccelerate our installation and commissioning in the fall and give you transparency to that \$3 billion backlog, how quickly we burn off those two projects and bring this chapter of offshore wind to a close.

So, Andrew, we need more time to kind of have that clarity, but what I would say is we're very intentionally taking a step back right now and saying with that \$3 billion backlog, Onshore Wind being profitable in the quarter, we're accruing for what we believe to be, based on everything we know today, the incremental cost it takes to complete both projects.

We're going to accelerate our work the next 90 days, and we'll be back to you both in the third quarter earnings if there's something, but even more focused on December 10. Because by December 10, we want to have a very clear runway to how quickly we walk down that \$3 billion.

Andrew Percoco: And then in Onshore, obviously, data centers, corporations, they're obviously interested in decarbonization, which should lend itself for Wind growth at some point in the future. You guys have been somewhat cautious in terms of the inflection point in terms of when we see growth there. Any updated thoughts in terms of what you're seeing from customers in Onshore Wind in the U.S. specifically?

Scott Strazik: You bet. In the U.S., specifically, this year in the U.S., onshore wind installations in the industry will be mid-single digit gigawatts. So, a pretty small number. Next year, as we see it, we're still single digits, but maybe high-single digits. And that's why we've been saying we see Onshore Wind to be a reasonably flat business for us in both '24 and '25.

Nothing has changed in that regard. I think that is our reality sitting here in September, that we'll do about \$8 billion of revenue this year. We'll do about \$8 billion of revenue next year, but it'll be a more profitable \$8 billion because the mix continues to get better.

Now, our customer pipeline of activity for '26 and '27 is substantially higher than high-single digit gigawatt installations. So, the pipeline is there, but it isn't going to close in the third quarter. I don't think those deals are going to close in the fourth quarter. I do believe we'll start to see those orders close in 2025. That gives me confidence that '26, from a revenue perspective, is a very credible moment to start to see onshore Wind have an inflection. But I'd like to see the orders start to come first, and it's not going to happen in 3Q. Now, the orders in 3Q and 4Q will be better than they were in the first half of the year for us, but not yet at a level that supports that inflection point I've been referencing.

So, for the revenue and the income statement, it's going to take until '26. I hope we get to a point that I'm at an event like this in '25 talking about orders that support that '26 growth. The pipeline's there, but we've got to close. And it's a dynamic time right now for renewable energy, at large, specifically in the U.S., and I do think it's going to take into '25 before we have those proof points.

Andrew Percoco: And so far this year, you guys have done a great job at hitting your margin targets, accelerating your margin targets. I think a lot of that has come from also doing a good job on costs and taking costs out of the business. Can you just talk about, give us an update in terms of how you've been able to do that, how much is left to come this year? And then, as a second part of that question, you've talked a lot about taking price across Electrification, across Gas Power. Putting all this together, what does the margin profile of this business look like in '26, '27, and '28?

Scott Strazik: That's very much, working backwards, why we set up the meeting for December 10. Because with everything we see today, it's very clear that we need to redefine what "good" does look like in the context of the medium to long term in this business, thinking about '28 and beyond. And that's exactly what we're going to get to on December 10.

There's a clear pathway for '25 to be substantially better than '24, and '26 doing the same, but we do want to redefine "good."

At the same time, on the cost profile and the opportunity, I will tell you it's very early. I mean, our profitability improvement in '24 into '25 is going to be very limited from cost-out opportunities. The reality is we spun on April 2. This was a big, complicated transaction with what was really 12 independent businesses that we're bringing together. We're in a two-year process of unwinding ourselves, post spin, from legacy GE processes, legacy GE contracts that we caught that are going to take a little while before they kind of cut in.

Ken, our CFO, talked at our Capital Markets Day about getting \$500 million of G&A cost out over the next many years, and there's nothing that we've seen in the last six months that says that that isn't what we will do, or higher. And I think that's another example of something we'll share on December 10, with the benefit of incremental time, what does "good" look like.

But we have just as much conviction today as we had at our Capital Markets Day that there's substantial opportunity for us to run this business in a more productive way, and that's exactly what we're going to do.

Andrew Percoco: And on the pricing side, I think the one piece is, obviously, you're seeing good pricing today, but that doesn't convert for two, three, four years for a lot of these markets.

Scott Strazik: That's right.

Andrew Percoco: So, this is a long-term margin improvement.

Scott Strazik: That is very clear. I mean, other than the services activity that is helping '24 and will help '25, really the pricing benefit we've been getting over the last 18 months does not start to cut into revenue until '26 and beyond. In Gas, it's candidly more the second half of '26, into '27. In Electrification, it'll be a full-year impact in 2026 of substantially higher price. '25 will be a much better year than '24, but it's likely the margin inflection point is even steeper in '26 than '25 because of these dynamics.

Andrew Percoco: And then maybe just to close it out, on capital allocation, how you're thinking about – obviously, talked about having a very strong balance sheet, strong cash creation, going to be building cash in the back half of the year and presumably into 2025. Use of the cash, how does the board, how does the management team think about uses of cash and how they prioritize that?

Scott Strazik: You bet. Not a lot has changed for us in this regard. I mean, we want to play this game in growing markets that are really coming to us from a position of financial strength. So, having a strong balance sheet, period, end of sentence is where this starts.

Now, the reality is one of the many things we're benefiting right now is because of the markets growing so much, a lot of the investment we need to make into these businesses, primarily Gas and Electrification, the customers are funding through their orders with progress and slot reservation fees. So, the organic growth of this business is very much going to be customer funded.

The good news of that is it does put us in a position to ultimately play offense, and that includes offense in returning capital to our shareholders in a smart and thoughtful way in the near term.

And over the medium term, we'll look at other ways to grow, both small, humble M&A. It would be nothing that probably makes the front page of the *Wall Street Journal*, because we really don't need that kind of activity right now. We're in natural growth markets. But it doesn't mean we're going to be on our heels. We want to be in the market and be thoughtful about smart, bolt-on adjacencies that continue to allow us to serve our customers even better than where we are today. And we'll look at those activities, and we'll share more about how we think about that on December 10.

But that's really how we're thinking about utilizing that cash. And exactly as you said, that cash balance is going to grow in the third and the fourth quarter and substantially more into '25. So, this is a fun part of this business and an opportunity for us to be very thoughtful on how we return capital to shareholders, but also invest into that growth.

Andrew Percoco: Makes sense. With the few minutes left here, I want to pause, see if there's any questions in the audience.

Right up front.

Audience Member: It's Max, from Morgan Stanley. I think there's a lot of questions around kind of where the profitability of these sort of gas businesses have been in the past, sort of 20% margins. But the service is going to be still a massive part of that revenue and profitability.

Scott Strazik: You bet.

Audience Member: I guess, from your experience in looking at these businesses, it sounds like the OE pricing is very good. But when you look at the profitability of the aftermarket, how has that sort of structurally changed? And can it ever get back to the kind of environment where we were back in kind of 2011-12?

Scott Strazik: The pricing environment in services also continues to improve. The most distinct example of that is with the upgrades, that, call it, \$2 billion of revenue that we see turning into \$3 billion later in the decade. It's really more of a '27-'28 dynamic there, where we're very much in a price-up environment.

You're right that, in Gas, it's about a \$14 billion revenue business today, in which \$10 billion of it is services and \$4 billion of it is equipment this year. The equipment is clearly going to grow – that's the 55 to 70 to 80 at higher prices. And services will grow, too.

But for context on that \$10 billion, about \$5 billion of it is long-term contracted, very high margin. We like those contracts because they create a lot of cash flow consistency for us, and they're very profitable and sticky for the customer relationships. And not necessarily new pricing opportunities every day, because they're, on average, 12-year contracts.

The other \$5 billion that's more transactional is where that price-up opportunity is. Because those are the cases where the customers pay by the drink when they're ready for the next outage, whether that be that upgrade or whether that be the standard servicing of an outage. If it's just the standard servicing of the outage, it's not that sexy right now for increased price.

But if someone wants more performance, whether it be more output, whether it be better efficiency with the gas turbine, whether it be an ability to turn down the gas turbine while

keeping it on to support the intermittency of their system, we're best equipped to serve those customers, and that's where we're seeing services price opportunity.

The only other thing I'd say about gas services is we're really after a decade of work finally getting to the point that our HA gas turbines, the high base load gas turbines, are going into major outages. And those are very high dollar outages because they're big gas turbines. And that's going to contribute to the services revenue growth here throughout the next five years that I still think is a little bit underappreciated. But over time, the investor community will take into account as another real tailwind for why this Gas business is going into a great decade.

Audience Member: Thank you.

Andrew Percoco: Any other questions?

Scott Strazik: We were efficient, Andrew.

Andrew Percoco: We were.

Scott Strazik: We covered a lot of ground.

Andrew Percoco: I know. Let's see, maybe with two minutes left, I'm going to ask a very long-term question. SMR has gotten a lot of attention in the news recently, especially around data centers. The CEOs of data center companies talking about SMR. You guys have an SMR technology.

Scott Strazik: We do.

Andrew Percoco: Has there been a noticeable change in customer conversation? I know it's maybe next-decade technology, but just discuss kind of what you're seeing there and maybe is there an opportunity to get capital from some of these tech companies to accelerate the development of that technology.

Scott Strazik: We've been having those conversations. I've been on the West Coast a lot more than I ever would have imagined this year. And SMRs is a high-frequency conversation.

There is capital available. There's orders there for the taking here in the medium term to support that. But it is not going to accelerate the timing of the SMR. The reality is we will commission our first small modular reactor in Canada, with Ontario Power Generation, in 2029. There isn't anything we can do to make that happen faster. That will be the first plant. We will be in construction on that plant next year, and we very clearly see small modular reactor being a real growth engine for us the next decade.

Many customers would pay us a lot of money if we could commission these SMRs in 2028, and it's not going to happen. So, we need to be systematic. And especially with nuclear, it's going to take some time. But I like our chances into the next decade.

The challenge in a lot of these conversations is a lot of these end customers are very focused on power in '28, '29, and 2030. They want to decarbonize over the subsequent decade. SMR can be tranche-2 of the power that we very clearly show them the carbon intensity of the power park in total comes down.

But SMR is going to be a 2032, 2034, 2036 scaled solution in the U.S. The capital is there, but it won't make it move faster.

Andrew Percoco: That makes sense. Well, we're up on time. Thanks, everyone, for joining. Scott, thank you for joining us. It's been a great discussion.

Scott Strazik: Andrew, thank you. Appreciate it.