GE Vernova

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Julian Mitchell: Great. Well, thanks, everyone, for being here. It's my pleasure to have up next GE Vernova, Scott Strazik, so I think it's your first time at this conference since the spin. So thanks very much for being here. I think you have a couple of sort of introductory comments.

Scott Strazik: Julian, thank you for having me. Everybody, thanks for being here in person and virtually. We're just excited going into 2025 in GE Vernova. 2024 was a year of really laying a foundation to play offense after we spun on April 2. We built up a strong balance sheet, over $8 billion of cash at the end of the year that supported our first capital allocation program with both a dividend that we paid for the first time in January and a $6 billion stock buyback program.

We also worked hard last year to continue to strengthen the long-term profitability durability of the company and showed in our January earnings call that we increased the margin in our equipment backlog by $6 billion over the previous two years. So a good start, but just that, a start for us to build upon.

Just a few quick headlines for our key businesses. If you think about Gas, we talked for a period of time about the fact that we see at least 20 gigawatts of new unit orders per year going forward for a while. I would say the first quarter continues to strengthen that conviction. We'll do at least 5 gigawatts of new unit orders in the first quarter. But this story isn't just about capacity additions. The reality is we see a really healthy demand cycle for services. If I parachuted you into our operating review in Gas a few weeks ago, when you look at the transactional fleet, which is thousands of gas turbines, the average scope per outage, 2021 to 2024, has grown 60%. And now if you double-click on that and look at the outages in North America and Middle East, which right now have the largest load growth demand cycle, it's double. And that's representative of customers just reinvesting into their gas installed base in a way that they really haven't for the better part of a decade that is an incredible opportunity for us to serve that market.

Now if I talk briefly about the other businesses, I'd say in the other end of the spectrum, in Wind, we continue to see a very soft end market. We expect soft new unit orders over the first half of this year in Onshore Wind. But what we do continue to see opportunity with is repowering. So I'm pleased with the repowering pipeline, and there are some international markets that can modestly offset what I'd call, the weakness in North America. But we're going to stay humble with Wind here in the near term, I think, on the market.

What I would say for the first time and probably the three years I've had responsibility for the Wind business is I see us turning the corner on how we're servicing the installed base at Wind. We have more than twice as many crews and cranes out servicing the installed base right now than what we had at this time last year. And as I look at the availability rate of our installed base improving, with that, we see a profitability turn coming with Wind services here in the near term. At the same time, we're also making improvement with things like blade quality. Every single blade that comes out of our factory now has a crawler inspection technology that basically uses visual inspections and AI to ensure the quality of the blade is what it should be for an industry that, frankly, needs quality to lead forward from an energy transition perspective.

And very briefly in Electrification, our fastest-growing segment, I would just say that those of you that have been following the company have seen us go from a $6 billion backlog to a $20 billion equipment backlog over the last two years. We expect to see a similar annualized growth rate in our equipment backlog in '25 as we've seen on average in '23 and '24. So continued strength in Electrification with growth that we can really lean into in a very capital-efficient way.

And if I could just give one example. I was at our switchgear factory in Pennsylvania last week for multiple days in a Kaizen event. That's a factory that did about $400 million of revenue last year. In 2026- '24 to '26, doing the compare point, it will do close to $1 billion of revenue and only needing about $20 million of CapEx to fund that growth, which is just a really important illustration for how much power and opportunity we have with Lean and just running our factories better in a very capital-efficient way. So those are a couple of quick themes in our larger businesses, where we are as a company. Six weeks into a new year, we're certainly sustaining the guidance that we shared in December at our December outlook, but coming into a new year with a lot of confidence and a lot of optimism that both for '25 and where we go from here, we've got an incredible opportunity to serve this market. So those are a couple of quick thoughts, Julian, and please take us wherever it makes sense.

Julian Mitchell: Thanks very much, Scott. So yes, you gave a good update on the sort of near-term top line trends. I suppose the other element year-to-date that gets a lot of investor attention is around sort of tariffs and so forth on the cost base. So maybe any thoughts around that? And also competitively, a lot of your competition tends to be at least headquartered overseas. How do you think about tariffs affecting that?

Scott Strazik: I do think this is another illustration where it helps to be an American company. I mean, it does not mean that we're fully immune to the concept of where these tariffs could go. But just to contextualize the dollars and cents, less than 5% of our material buy at least from China, Mexico and Canada, if you pick those three hotspots at the moment in the discussion of tariffs, is material that's imported into the U.S. So that 5% is not nothing and we have to navigate our way through that. But it's manageable, I would say, in the context of where we are. That said, we're building up muscle every day to think through how we're going to manage our supply chain through a period of volatility that we're likely going to have. But that kind of contextualizes, in totality, the way to think about the size of the volatility factor, at least as it relates to those three countries.

Julian Mitchell: That's helpful. And maybe start with the Gas business. There's a lot of discussion around load growth moving up medium term, at least in the U.S. from data centers. So we'll have to see how that plays out. How would you assess the importance of that to the utility's CapEx plans and spending plans? And the reason I ask is because it seems like in the U.S. there's already been a big reinvestment in the transactional business that predated, if you like, this latest bout of AI hype. So any sort of broad thoughts around that?

Scott Strazik: I think a way to contextualize what's happening in the market is if you take our '24 orders book, we had 25 HA, which are large baseload, high-efficient gas turbines that were ordered last year.

But what we also had were 20 F-class gas turbines that were ordered and that is the part of our fleet that really is very competitive for peaker applications. It was the, call it, gas turbine of choice 25 years ago. And we had approximately 45 aeroderivative units put on order.

The reason I give those numbers is because the F-class and the aeroderivative applications are really just supporting a system that's becoming much more vulnerable as more electrons are needed and more dependency of those electrons are coming from intermittent sources of power. So this isn't just about baseload growth for things like data centers. If you look at the U.S., there isn't an ISO or a region in the U.S. that doesn't have reserve margins coming down because of the electrification of things beyond data centers, whether it be cars, whether it be home heating, whether it be new fabrication factories that are being built. So the macro dynamics are much, much broader than just data centers. And although the early stages of investing into the installed base or the transactional fleet has happened, I'd emphasize we still see it as the early stages. There's a lot more growth that's going to come from the customer base because every 100 megawatts in many different spots, they're going to take right now. And that gives us an incredible opportunity to serve that market.

Julian Mitchell: And on that point on the demand for slots and so forth, you know, when you think about kind of pricing and how you've approached that, say, the last 12 months, how that could evolve the next 12 months in sort of gas power pricing. And I thought it would be on equipment, but also in the service book, how to think about both sides of it?

Scott Strazik: You bet. I would say -- I think to contextualize pricing, you have to take a step back and say, how many slots do you have available, right, supply and demand? And what we announced last fall was capacitizing our Gas business to be able to fulfill at about 20 gigawatts of new unit build per year.

That decision we made last summer, we continue to believe that's about the right number. So we don't foresee taking on more supply than the 20 gigawatts that we're investing into right now. And as we do that at a 20-gigawatt capability for us to fulfill, there's less and less slots that are available.

For context, in the month of November last year, we secured -- or our customers secured 9 gigawatts of slots in the month of November alone. In December, we took up prices again, with the heavy-duty gas turbine slots we still had available in the later years of this decade, call it, '27, '28, '29 after that November surge.

We've continued to secure multiple gigawatts of incremental slots -- or our customers have, since that price move in December and we're implementing another price action today because the reality are directionally in the month of February because of the fact that there's less and less slots that are available, and we need to kind of vet this thing out.

So, we do see on the heavy-duty gas turbine side that we continue to be in a price up environment right now. And probably -- certainly in orders price, we will have more price benefit in '25 than we had in '24. If I do that comparison to other parts of Vernova to just do the compare and contrast, we continue to see price in our Grid business, but not- it's decelerating at pace relative to Gas that's accelerating. And I would say in Wind, it's not at all a price up environment right now. It's an overcapacitized market that we're navigating through as thoughtfully as we can.

Julian Mitchell: And on that point on sort of thoughtful capacity management, you seem quite firm that you don't want to add even more gas line capacity at least for some time. You only have a couple of large rivals in that market. Do you feel comfortable that everyone is kind of holding the same line? I think everyone took down capacity in the last 10 years, pretty much in sync. Is everyone kind of still on the same page?

Scott Strazik: I think it's- the benefit we have in Gas is we also have the largest installed base by a factor of two. And that allows us, with the capacity we've added, that when we underwrote that incremental capacity build, in the near term, it was for new units, but also to support our services installed base. And the reality is if you don't have that size installed base, you're taking on even more risk adding capacity because you don't have the backstop we have with the size of the existing installed base.

So I can't speak for the other players in the market, but I can look at the market in totality and say we're generally half the market. And as approximately half the market, this is going to be our position for the foreseeable future. And I think what is moving our way is the market is evolving from a very intense focus on just '27 and '28, to an acknowledgment that there is going to be a need for more power over a longer period of time, and whereas even 4 months ago, we struggled to get our customers' attention span on, let's call it, a 2031-2032 COD, which would require a 2029 shipment, let’s say, that acknowledgment of longer-duration programs is becoming more productive. So I give that context to just say I think what we're going to be capable of doing is filling out our backlog over a longer duration of years while protecting for this 20 gigawatts.

The only other point I want to make, though, because I had an investor yesterday who was trying to triangulate a little bit with our casting houses and the demand we have into them. And the feedback I got is, well, they're saying you're growing in casting needs beyond this. And the answer to that is yes, but that's because we have a huge services business that we project is going to continue to grow beyond the 20 gigawatts that we're going to need to levelize to for new units. And we're securing that capacity. I mean, we have an $11 billion Gas services business that is incredibly healthy right now and we have customers that are saying they want to upgrade that installed base. And that's not going to stop as we see it in the next two years. And that's where we're also securing more capacity to serve that growing part of the Gas business.

Julian Mitchell: And on that point, on Gas services, I think you're running at about half of its transactional sort of LTSA contractual. I guess, a couple of things. One is sort of how are you seeing pricing in those two pieces? And also when we're thinking about the new contracts that you're writing for the new, say, HAs, how do those terms differ from the last 10 years, if at all, of the sort of pricing and terms in contracts?

Scott Strazik: So exactly as Julian said, I mean, our services book in Gas is directionally half long-term contract, half transactional today. On the transactional side of our services business, when I cited earlier the fact that the '24 to '21 spend is up 60%, that's inclusive of both scope increases, but also price. So I mean that is a part of the portfolio where if you don’t have the long-term service contract and you're paying by the drink, and now a period of time where demand far outstrips supply, price is higher. I mean, you're by default going to pay higher if you're going to wait and then execute on that transactional and then only when you need it, okay? So the transactional fleet certainly is gaining price right now and has been for the better part of 1.5 years. And similar to new units, we continue to see that being a price up environment right now to serve that market.

On the H-class contracts we're signing today, and I do think this is an important point to kind of take a step back on our H-class franchise in totality, we have over 170 H-class gas turbines that have been ordered, over 140 that have been shipped, and we have 116 that are running today, okay? We're now at a point that when we talk about our services business, we're doing over $1 billion of services billings on that H-class fleet, which, as I said earlier, last year, we had 25 new orders. So it is growing quickly.

These gas turbines run, generally speaking, baseload. And that's not a small thing because when you look at our overall fleet, even the F-class gas turbines that is the largest portion of our fleet, those run on average, let's just say, 4,500 to 5,500 hours. More seasonal peaking in many cases. They run all summer. They run all winter. But there are months in the fall or months in the spring when the demand for electricity is not there, they're running very little.

That is not the business case that our customers are underwriting with the H-class. They are buying these turbines assuming 7,000-plus hours a year of running. Why that's so important is that the operating parameters of the H-class is leading to an even healthier annuity stream for us because we get paid the more they're utilized and the more they're running. And the H-class gas turbines are really the most analogous product we have to an aircraft engine. I spent a number of years of my career as the CFO of the aircraft engines business in GE, and our airline customers don't make -- don't survive if those planes aren't in the air 20 hours a day, certainly, the narrow-body. Same business case with an H-class. So the operating parameters are better for us.

The pricing dynamics for us over the last 12 to 18 months, Julian, have become very, at a margin level, I would say, equivalent to F. But in today's business case if they're equivalent to F, while we haven't yet really come down the learning curve, I would tell you, over the next five-plus years, we're going to accrete margin even more in the H-class because as we do more and more outages, we're going to get more and more productive realizing when we don't need to replace a part with another new part, and instead, can replace it with a repaired part that we will have brought into our factories. So the H-class portfolio of our services book is going to be an incredibly valuable asset for our investors for a long time.

Julian Mitchell: Great. And I guess the attachment rate on the LTSA is very high for H. That's kind of a captive market for now?

Scott Strazik: That's right. It's really, unless you're a government utility that doesn't allow for long-term contracts, and which in that case, you buy a lot of parts and put them on the shelf, which isn't a bad economic answer for us, you're going to take a long-term contract on an H because the reality is, we are the only ones that can service that gas turbine and it wouldn't make a lot of sense to spend billions of dollars in a power plant and then not have the services contract.

Julian Mitchell: If we think about the Electrification segment for a second, Grid, I think, gets a lot of attention rightly. It's a slightly different geographic mix from the Power and Wind divisions. So maybe talk a little bit about what you're seeing regionally in the Grid piece. There are some capacity additions underway there. Is that a similar dynamic where what you've announced is what it will be for the next X years?

Scott Strazik: We do have more opportunity with Grid to grow than Gas. I think Gas is a little bit more contained because there's parts of the supply chain, forgings and castings, that are the long-lead items in which I know how much supply we're going to have for the better part of this decade. And to even get that capacity, we have gotten, we have had to make material investments in things like furnaces at our supply base to ensure that we've gotten to the levels that we've talked about publicly.

Grid does not have that inhibiting item in the same way. It gives me a little bit more of a kick in my step that as we continue to gain productivity in that business, the growth potential both earlier, but over a longer period of time is steeper, okay? And the practical reality with our Grid business, to a large extent, is these are assets that we acquired over a decade ago now with the Alstom acquisition. Not proud to say this, but the practical reality is a number of those factories, a number of those assets, weren't nurtured to the extent I would want with the benefit of retrospect, but the market wasn't then what it is now. And I say that to just outline that when I spend time in these factories, which is a lot right now, we have a lot of low-hanging fruit that is allowing us to add capacity in a very capital-efficient way, and we are in the early stages of figuring out what the art of the possible is in totality for the Grid business. And candidly, the production of a transformer or a switchgear is a little bit more assembly of parts. It's very manual, but it's not as much hard-core machining as a gas turbine, which gives me a little bit more bravado that if we keep gaining traction here, which I'm highly confident we will, our ability to continue to raise the bar of growth expectations there is higher than what I see with gas.

Julian Mitchell: Got it. And demand-wise, you know, historically sort of 50-something percent of sales from Europe in Grid. How are you seeing regional demand, regional price may be playing out in Grid equipment?

Scott Strazik: Europe remains our biggest market. But if you let me a brief story, when we announced the spin in November of '21, in the first half of '22, I went out and visited a dozen customers of mine that I had pretty close relationships with because, prior to that, I was running Power but did not have responsibility for Grid or Wind until we announced the spin. When I went out and met with a lot of these customers, I asked for their advice on what to do with Wind and what to do with Grid. On Wind, the general feedback I got was very consistent with what my plans were and it just reinforced my conviction on next steps. With Grid, often the feedback was, “I can't give you feedback because I don't even really know what you have,” especially in the U.S.

Now in one vein, that's depressing at the time. But after you get over that and you're like, holy smokes, this is going to be the biggest beneficiary of Vernova because if we lean into this and lean into the customer relationships and help our customers in North America understand the truth, which is we're committed to this business, I am personally committed to this Grid business in that as they need support in Gas and other parts of the equation, I need support on creating a big, large valuable Grid business in North America, we're getting real traction there. And that is why in 2024, although in nominal dollars Europe remained our biggest orders market and it will, for a period of time, North America is growing the fastest. That was the case last year. I expect that to be the case this year. But at the end of the day, this is our home field. These are very intimate relationships we have with the customer base. And I'm very bullish on our growth prospects in North America.

Julian Mitchell: And then if we sort of put a point on it, on the margins and the EBITDA margins, you laid out in December the Power and Electrification segment sort of mid-teens-ish margin goals for 2028. I suppose, look, on Power, if one wanted to, one could look back at prior good cycles and margins were way above that GE. In Electrification, one could look at some maybe more medium-voltage equipment peers and say they're doing in the 20s margin-wise. Are those incorrect comparisons to make? How do you see your sort of longer-term margin?

Scott Strazik: I don't think those are unfair comparisons to make it all. In the case of Power, when people go back to previous cycles to today, the reality is we have a bigger Gas installed base today than we had in those prior cycles and our services book is very profitable. We need to go execute on our equipment ramp in a period of time we haven't had this much growth in Gas in a long period of time, but I'm very confident we can do this. And as we do, our investors should expect us to continue to accrete margin over time.

In Electrification, we don't have the same historical precedent to toggle back towards, but it's some of what investors say to me is exactly what we talk about internally, okay, with the game we're playing here. But at the same time, we're not even a year into being a public company yet. And the way that we talk about how we're providing financial guidance is very much in creating a foundational floor that we outline, trying to provide the levers that can lead to that being better than that floor, whether that be variable cost productivity across the businesses, whether it be continued price improvement, whether it be in cases like Grid like we earlier discussed if we can accelerate the growth faster than we outlined in our Investor Day in December, those are all examples that if you add them all up, we outlined things that can make it better off of that floor that isn't that inconsistent with what investors come to us and say. But I don't ever want to really define entitlement. I want to always every year define a foundation to jump off of and let our investor base decide where the entitlement should go.

Julian Mitchell: That's very clear. And then lastly and quickly, sort of $8 billion cash sitting there. Should we expect most of the excess to go on buybacks? What's the M&A kind of appetite?

Scott Strazik: We're early in this journey. I mean, again, we announced a modest dividend in December that will play through this year. We announced a $6 billion buyback that we'll execute on over multiple years. That's by no means a one-year program as we see it right now. We are going to be very thoughtful on how we use this capital when it comes to M&A. The reality is, our business teams have more organic growth right now than they've experienced in a long time. And my job in periods of growth like this can be to slow the game down for the team to allow them to execute in the highest quality way, in the safest way possible. Adding a material M&A ball into the air right now with businesses that are experiencing more organic backlog growth that they've experienced for most of my teams in their career would have to be a very thoughtfully played out exercise. It doesn't mean that we're not looking for smart plays that, using my terms, drive increased durability and resilience in our supply chain. If we can find plays in Gas, in Grid, that'll give us that much more confidence we can meet this growth, we're interested in doing it. But creating new incremental balls in the air, it's really not our priority in the near term.

Julian Mitchell: Perfect.

Scott Strazik: Julian, thank you. Everyone, appreciate it.

Julian Mitchell: Thank you. Thanks.