

GE Vernova

**May 30, 2024
03:30 PM EDT**

Chad Dillard: Okay. Good afternoon, everyone. My name is Chad Dillard. I'm the Lead Analyst here at Bernstein covering the machinery and the engineering and construction sector. And I'd say I'm really excited to have GE Vernova with us. And joining us is Scott Strazik, who is the CEO of the company. And so we'll begin with him doing a quick just introduction of GE Vernova, and then we'll dive into just general Q&A. For those of you out in the audience that want to ask any questions, please go onto Pigeonhole, log your questions, and I'll be happy to ask on your behalf. Without further ado, let me pass it over to Scott.

Scott Strazik: Chad, thank you, and thanks everybody for giving us a few minutes this morning. This is an exciting day for us. This is our first time at this conference as a public company. We spun out from General Electric on April 2nd, and it's been a busy couple months for us really with customers, with investors. We had our first earnings call in April. We just had our first meeting where we had our top 180 leaders together since we announced the spin in '21, and there's a lot of energy and enthusiasm for what Vernova can become.

But for those in the room that don't know a lot about GE Vernova, we're unique in the sense that we really are a 133-year old startup. We come from the history of GE and electrifying the world, while at the same time the world was changing and we need to change with it. And that's also where the branding of Vernova comes from, kind of verde green, nova new. New green innovation. We're very proud of the role we've been in electrifying the world. We're going to continue to do that while we simultaneously decarbonize it.

Our installed base today powers somewhere between 25% and 30% of the electric power system today. Big Power businesses with Gas and Nuclear, Wind, Onshore and Offshore, and Electrification business that really focuses on both the modernization of the grid, expansion of the grid and the brains of the grid, with things like grid software.

Now on the market, and just a few thoughts on what we're seeing today. I've been in these businesses for over 10 years, and from a load demand cycle perspective, we're going into one of the more exciting markets that we've seen. And that's really been driven from a number of factors. It starts with industries that historically have been powered with fossil fuels to going forward are electrifying, EVs, home heating, heavy industrial. It's also just in places in the U.S. from stuff like U.S. manufacturing growth. It's chip factories. It's data centers and AI. And all of that's driving an increased demand cycle at the exact same time we need to simultaneously decarbonize the electric power system. So both create real opportunities for us.

Very quickly on how we run the business. We talk a lot about the lean operating system, and for us, that really means how do we prioritize the critical few KPIs that matter most to our customers everyday while simultaneously protecting for the long-term breakthroughs. And that's very much what we're doing every day as we cut in lean lines to our gas factories while simultaneously protecting for long-term breakthroughs like our 300-megawatt small modular reactor. Like our running direct air capture prototype. Like our grid orchestration system software that we think has a real possibility to become for utilities very equivalent to what Microsoft Office is for office applications. So the blend: focus on the short term while investing in the long term.

As I said before on our business segments, Power is primarily a services business. Big installed base. \$17 billion of revenue last year. Generating a lot of cash with real growth potential, especially in today's market as you see customers investing in the installed base more, both Gas and Nuclear. About a \$10 billion Wind business. That's \$8 billion Onshore, \$2 billion Offshore. Our Onshore business has a clear path to high-single digit EBITDA margins in 2024 with the second half of the year being a lot better than the first half of the year. And then our much smaller Offshore wind business is a book that's in the red right now. We're not profitable with the backlog that we have, but we also see our ability to purge 100% of that backlog, or materially all of it, by the end of 2025. And when you get to the other side of that, we see a very profitable wind business going forward.

And then our third segment is Electrification. Again, Electrification is our fastest growing segment, both expanding and modernizing the grid, but also grid software. And we do follow these things together. We're really excited about the opportunity that GE Vernova has to serve the market and create real value over the long term.

So with that, Chad, I think I'll hand it back to you. We'll go to Q&A.

Chad Dillard: Let's do it. Okay. So there are a number of long-term trends out there. So can you talk about how GE Vernova's business is aligned with that and what your right to win is on that? And what your right to win is on that?

Scott Strazik: Chad, I think by default, when you today are generating 25% to 30% of the existing electrical power load and you look at, take the U.S., which has really had limited load growth for 20 years, limited demand growth for 20 years. We have the infrastructure to serve what's very quickly becoming a changing market that can grow, whether that be with Gas, whether that be with Onshore Wind, whether it be with ultimately connecting those things together with the Grid business.

So that is there, but at the same time, some of the most efficient ways to decarbonize the existing system is to go back to what's already been built with the installed base. So we're spending a lot of capital today on how do we decarbonize gas. And that's with hydrogen. That's with carbon capture. When you think about wind turbines and all of the interconnect challenges wind turbines have, one of the most efficient ways to add zero carbon power into the system is to repower the wind turbines that have already been built but were built 20 years ago with much smaller blades, with much less power capacity.

So with our positioning with the installed base we have, especially in a market like the U.S., we're just incredibly well positioned to serve both that load growth, demand growth, but also making that existing installed base much more decarbonized and efficient every day.

Chad Dillard: Got it. Okay. So okay. So for the last 20 years, load growth has been effectively zero, and

now we're at this inflection point right now. So how do you think about the role of GE Vernova as we're kind of hitting that inflection point? How do you think about the growth algorithm today versus let's even say three to five years ago before we actually had that load growth?

Scott Strazik: Unrecognizable, honestly, having been in these businesses during that period of time. We've spent many years kind of driving to having a more efficient footprint at a period of time now that you can look at gas or look at grid and our challenge is very different. It's really how do we meet the growing demand that's coming in these business segments.

Specifically for Gas and Grid, it's just a materially different market environment than we've experienced in at least the last 10 years. And the good news for us in that is it doesn't require us to lean into greenfield operations. We have a lot of industrial footprint that we can leverage. We've got the factories. They're next to the railroads. We've got the cranes. But I don't have operating teams in those businesses that have lived through growth cycle, not like we're starting to lean into. So it's helping to customize that team's readiness to serve that market to do it in the most profitable way that we can, but it's unrecognizable to any period of time we've had in the last decade. So that's exciting in those segments.

And then in a business like Wind, which is a big, important business for us, that one's still a little bit more -- requires a little bit more caution. We're not seeing the same growth inflection yet in Wind. And we're working to serve that market, but it's going to take a little bit longer to materialize than our other two segments.

Chad Dillard: Got it. Okay. So I guess we have to talk about data centers. That's an area where it sounds like you're seeing just an inflection in activity over the last several months.

Scott Strazik: Yes.

Chad Dillard: So maybe you can share with us when you talk to the hyperscalers, can you talk about what their challenges are, how you can help support them.

Scott Strazik: There's clearly a race to gain access to more power, and it's power that's needed at scale. The reality is, I think data centers, once we were talking about 100 megawatt data center, load need for data centers, big data centers. And now you sit down with customers that are talking about power parks to support data center parks that are in gigawatt level size. That's not an easy thing to do today. And it's not something easy to do in '26, '27, '28 really with any technology other than gas, because there aren't a lot of load sources at that scale that can meet the reliability needs of those data center parks in that timeframe.

So admittedly, that isn't a customer set -- if you go back five years ago, we were spending a lot of time talking about gas power. We've been spending a lot of time with the hyperscalers, helping them understand not just the fulfillment needs for gas, but then also how we decarbonize gas the 10 years afterwards with hydrogen and carbon capture. Because clearly, not only does it have power needs this decade, but they have sustainability commitments they plan on hitting. So where we are in the cycle of conversations with them is much more focused on how do we meet the demand load this decade while giving them a roadmap to decarbonize that over a 10-year period of time. And that's a lot of discussions that are happening today.

Chad Dillard: Got it. So can you actually go a little bit further on that roadmap? Like what does that look like? Is there some carbon capture? I'm assuming SMR might be an opportunity as well. Can you talk a little bit more about that?

Scott Strazik: Mid to late this decade, you're most apt to start with more unabated gas. Then as you get into the next decade, you're going to add zero carbon wind that by then can catch up because you'll have added the transmission, and the transmission, to a large extent, grid connections you need that you may just not be able to build for phase 1. You're going to add SMR. We will commission our first 300-megawatt small modular reactor in Canada with Ontario Power Generation in 2029. Our launch customer in the U.S. is TVA, Tennessee Valley Authority. But into the 2030s, this is a very good application to add to those data center power parks and 300-megawatt blocks of power. So I think you're going to go gas, then wind, then SMR. And then you're going to come back full circle and start blending into those gas turbines more hydrogen and ultimately more carbon capture.

And I think those factors are likely going to also play a role on where the data centers get built, because the ease of being able to build the wind and decarbonize gas is somewhat dependent on the environment. Where are the carbon sinks? Where is the land that can take on the wind capability? Where is the land that can add the green hydrogen production capability? That is all strategically where the discussions are sitting right now in I think this next chapter of data center growth.

Chad Dillard: Got it. Okay. So speaking of growth, when you talk about capacity as well, can you lay out your plans for capacity addition? And how are you thinking about -- I guess you have the long-term plans I'm sure the hyperscalers are giving you, but you need to balance just the tightness of the market to make sure that you're generating appropriate pricing and all of that. So walk us through how you're thinking about that over the next '26, '25, I guess through the end of the decade.

Scott Strazik: You bet. An element that has been a legacy financial challenge for what was GE, now GE Vernova, is we have had factory capacity for a long time. Because in many of our businesses, we've had peak volume that has been much higher than where we've been sitting over the last five years. So if you visited our Gas factory in Greenville, South Carolina, we'd walk the factory and you would believe appropriately, we could ramp up considerably for Gas growth. If you think about Wind, this year we're shipping just north of 2,000 wind turbines. But in 2021, we did 4,000. So the capacity exists.

With gas, the challenge is less our ability to ramp and it more comes down to the forgings. It comes down to the castings. Some of the same challenges that my brother sister company in aircraft engines is kind of battling through to meet the aircraft engine load growth that we're partnering with the similar or the exact same suppliers to solve that supply constraint.

So it's less about us needing to add a factory. Certainly, there's no greenfield investments planned inside Vernova, even with this growth. But it is requiring us in an entrepreneurial way to go back to our supply chain and have adult conversations on how we get the supply we need to meet this demand. That's most pressing in Gas. It's very doable in Wind, but the Wind orders outlook remains a bit cautious for the moment.

And then with things like transformers and switchgears, it's not a sub-supplier challenge. But that is the one business of the three that we probably will have a reinvestment ratio greater than 1. Because the market dynamics are very strong. The markets will end up paying for it. It continues to be a healthy price environment for us. But we haven't invested in capacity growth and are in the process of doing that. And that is factory expansion, although not really greenfields, per se.

Chad Dillard: Got it. Okay. So I guess on the Electrification side and also on the Gas side, how far out

are you taking orders? And then also I guess on the capacity side, how far out are you actually setting plans to actually build?

Scott Strazik: In Gas, you're very quickly into '27 today before you have access to new gas turbines. So we're to a large extent booked until '27 today. And it's not a very different answer with things like transformers and switchgears. So we're in a 36 to 48 month cycle at the moment that we're working to improve, but it's not going to materially improve. What will happen is we hope to add more ability to grow into this cycle by '27, but it's not going to change '25 or '26 very much.

Wind we can still -- the cycle time's less. If in Grid and in Gas it's 36 to 48 months, in Wind it can be 12 to 18 months. Shorter cycle, but the end markets are more complicated there right now. So as there's an orders tipping point forward for Wind, the good news is we're going to be able to convert that to revenue at a much faster cycle than with Grid or Gas.

Chad Dillard: Got it. Okay. So let's talk about SMR. You touched upon it really quickly. Can you just frame for us just how big of an opportunity that could potentially be and what do you think is GE Vernova's right to win in this space?

Scott Strazik: You bet. We've got 60 operating nuclear plants today in the U.S., and globally, a modestly larger number than that. I sat in a room at Dubai at COP28 in which 22 heads of state talked about tripling nuclear capacity between now and 2050. And if you had asked me whether that room would have existed two years prior, I would have told you no way. So the sentiment shift acknowledging the role that nuclear can play in the energy transition is very real.

That said, not every country is at the same place on the journey towards allowing the ramp to happen quickly. Canada's further along. That's why we'll commission the first plant there. We're working very hard with an amazing customer in TVA to have our launch in the U.S. be in Tennessee at a site called Clinch River. We're making real progress in Poland with our third partner with Synthos Green Energy. And there's other markets like the UK that have active conversations.

But for us, this really becomes a 2030 and beyond investment. In the 2030s, I have a high degree of confidence we should be adding 3 gigawatts of new nuclear SMRs very credibly for a better part of the next decade. And if you start doing an extra 3 gigawatts of new capacity, you're adding \$2 billion to \$4 billion of incremental revenue to the business that starts to become material. But it really is a next decade thing than this decade. But that's the counterbalance of how you become a great company. You serve the near-term installed base while protecting for the growth cycles that need to follow.

Chad Dillard: Got it. Okay. And just sticking with the power business. Can you talk a little bit more about your growth strategy on the services side?

Scott Strazik: Yeah. The good news in that is we have a customer sentiment dynamic where they're investing in the fleet. They need every ounce of performance they can get from our traditional power installed base today, and that's leading to a real uptick in upgrade demand, as an example. It's looking at retrofitting existing nuclear to get as much output as we possibly can. And I think we're going to see that play through on our financials over the next half decade.

So ultimately, that comes back to being a very lean company that services the fleet very, very well. If I take Gas as an example, we invested heavily in what we call live outage.

And the live outage is then applying a number of lean principles to eliminate waste in how we service the gas turbine outage event. It's a lot of simple examples. It's things like we brought the craft labor from our outage team to our Greenville factory and had them explain to the factory why it takes so long to work through an outage. And some simple examples would be the packaging the parts would lead to a very expansive laydown area at the outage site. What did we do? We repackaged all the parts so now there is no laydown area. They can take the parts right from the truck and put them on the gas turbine pedestal.

We see real potential to take 50% of the cycle time out of our gas turbine outages. That matters. It matters in a world where our customers don't like having the gas turbines off because they're so critical to the infrastructure. So we're making a lot of investments like that to really serve our customers effectively to ensure that existing installed base runs, it runs well in a cycle where our customers are much more leaning into investment in that fleet that's giving us a real opportunity to serve.

Chad Dillard: Got it. Okay. So you're taking 50% of the cycle time out. That's probably a savings on a lot of downtime.

Scott Strazik: Yes.

Chad Dillard: So how are you thinking about your ability to price for that value? And then maybe we can go into that conversation about what that ultimately means for margins for the business.

Scott Strazik: You bet. It's price. It's also the fact that peak outage season is fairly narrow. And if you can do twice as many outages conceptually in that same peak outage cycle, then you can make a lot more money in the spring and the fall when our customers are okay with their gas turbines being in an outage event.

But we are in a healthy price environment in Gas, both on the new unit side and on upgrades into the fleet, because the reality is, from the macro dynamics we talked about earlier, the supply-demand dynamics are shifting in Gas right now. And because of the capacity constrained nature of forgings and castings, we need to maximize every slot we have. And to some extent, those slots are the same for servicing an existing gas turbine as it is building a new one. And that is a different cycle than my Gas team has been in before when we've gone through cycles over the last 10 years of being at over capacity, which gives us a real shot to drive towards a much more profitable business.

So if you look at this business today, it's a low-double digit EBITDA margin business. We see very little reason that we're not materially accreting margin every year for the next five years that take a low-double digit EBITDA margin business and certainly takes it to mid-teens or better. And we're running the business to that expectation, primarily on the strength of our Gas services book, but with all the businesses contributing, including Nuclear.

Chad Dillard: Got you. Okay. So actually, can we please walk through that margin bridge? How much comes from just backlog, up-pricing backlog versus some of the efficiencies you're talking about on service and like if there's anything else that you'd want to lay out to be there?

Scott Strazik: To get to the low-double digits, we've done a lot of, call it, the structural cost work already. We've normalized for a more boring equipment book, let's say, that is more steady. And a lot of the growth that takes us from low to mid-teens is really high services

margin growth.

Now later in the decade, the reality is if the gas new capacity additions really come from things like the data centers, that doesn't even really start to convert into revenue in the business until late in the decade because the cycle time we talked about before. But that would be another catalyst of opportunity for this business to be even more profitable if we can gain even more volume leverage through a larger equipment business than where we've been. Because the reality is, whether it be gas work or equipment work, that volume's going to the same factories. And that arbitrage or leverage that gets created in our supply chain is very, very real.

Now, I think that takes us a few years. I think the more near-term catalyst to margin accretion growth is going to be high margin services growth. And then if you then skip ahead three to four years, as the load growth is clearly coming into focus, if the orders materialize to the extent they could this year and in '25, you then could have another margin uplift with a much more profitable book of equipment revenue that can get us to a point that our Power business can be a really exciting business for all of our stakeholders.

Chad Dillard: Got it. Okay. So it sounds like a lot of the growth comes from services. Is that already in the backlog right now, or is that something you need to actually go out and capture?

Scott Strazik: We have very healthy visibility over the next three years of services events. Whether it's in backlog explicitly or we see it coming and it will be ours, we have a very high degree of conviction on this Gas services growth that's going to come throughout the next three to five years.

Chad Dillard: Got it. Okay. Should we switch over to Wind?

Scott Strazik: Sounds good. Love to.

Chad Dillard: All right. Yeah, maybe you can talk about your strategy for the Wind business. I think that's an area where you can improve your margins. Maybe you can kind of walk through your plans there.

Scott Strazik: You bet. Our Power businesses I've been involved in since 2013. I took on our wind businesses after we announced the spin in the beginning of '22. And at the start, I'll say I'm really proud of the work that the teams have been doing over the last couple years to get to where we are today. And it hasn't been easy work. We've had to really reorganize our businesses. In our Onshore Wind business, we took out about 40% of our headcount. We took out over \$0.5 billion of structural cost to change the profitability hurdle that we had to get over every year in this business. We prioritized a different set of countries that we were going to do business in. When I took on Wind in early '22, we were bidding into 30 some odd countries. Today that number is more like mid-teens. Focus on where we can get scale.

We've been working really hard on driving towards a more homogenous workhorse product to get scale because the wind industry in total went through way too many serial number introductions of modest changes that led to a very difficult fulfilment challenge for the industry, both in quality in the field and product cost. And through that hard work of the Onshore Wind business, we've got a business this year that'll be high-single digit EBITDA margins.

For Wind in total in 2024, unfortunately, that high-single digit EBITDA margin business gets consumed, to a large extent, with an unprofitable Offshore Wind backlog. And we

have about a \$4 billion backlog we're still executing on that is all in the red. This is backlog that was booked a number of years ago that ultimately got upside down post-Ukraine with the inflation pressures without the best commercial terms. And it's fairly new for us, and we've been less effective coming down the product cost curve than we maybe originally anticipated.

So for '24, we have a business in total that's approaching profitability. Onshore Wind high-single digit EBITDA margins. Offshore Wind consuming most of that. Even within Onshore Wind, the second half of the year is much more profitable than the first half of the year. And the second half of the year is a better representation of what '25 will look like.

So we've done a lot of the hard work. We project into '25 a business that gets back into profitability on even better margins in Onshore Wind, but still a fairly flat top line business and a fairly flat Offshore business, but that will be better in '25 than '24 but still losing money.

Then you get to '26, and in the Wind bridge, at that point I think we've got a more credible chance to believe that the Onshore Wind growth will come. We'll start to see the orders materialize in '25 for '26 revenue with an even better margin profile than what we're talking about the second half of this year, but materially, the Offshore Wind backlog will be gone. So the margin uplift that we expect to see in Wind in total will be better '23 to '24 and '24 to '25, but the exciting year is really '25 to '26.

And especially if the volume materializes Onshore, there's going to be a lot to like in our Onshore Wind business. And I was with our team last week. They're doing the right work. I'm proud of what they're doing. And over the next 18 months, I think we're going to really transform this business to be a really attractive part of GE Vernova. But it is the part of Vernova of our three segments that has the most work ahead of it to be accretive to our overall margins versus being a little bit of a laggard here.

Chad Dillard: Okay. So you're pretty optimistic about '25, '26.

Scott Strazik: There's a clear margin expansion story here that is very much in our control. The growth trajectory, we've got to see it materialize. We're a little bit more cautious on exactly when the growth comes, but the margin expansion track, it's right there, it's in our control, and we're going to deliver it.

Chad Dillard: Okay. So I guess on the, I guess, as-bid margins versus as, I guess, recognized margins.

Scott Strazik: Yeah.

Chad Dillard: Can you share with us, what does that look like today versus -- maybe like what does that look like for what's in backlog today versus what you're recognizing in revenue versus maybe even like two years ago?

Scott Strazik: Prior to two years ago in our Onshore Wind business, or Offshore for that matter, we were bidding activity on a forward cost curve, assuming cost productivity. And the team struggled to reach the cost productivity estimates and often saw as-sold to as-executed margin dilution.

In Gas, going back to '19 when I started running that business, we underwrite every new deal at actual cost today. That doesn't mean we're not assuming accountability for our product management, supply chain, engineering team to drive cost productivity, but the

bidding is on actual cost today. That's where Wind is now. The orders that we've been booking in '22 and '23 are on today's costs with an expectation from our fulfillment teams that we make them better over time. And there's nothing I've seen over the last 18 months that says we won't accrete margin on a go-forward basis in Onshore Wind relative to what we sold them at.

Now that's part of why the second half of '24 margin profile is much better than the first half of '24 because we're starting to see that. We're starting to see that margin accretion from when we did the original order. While in the first half of this year, we're still purging some of the backlog from yesterday where we were bidding things with a forward cost curve that simply isn't as profitable as what you should expect and we will deliver the second half of this year into '25 and beyond.

- Chad Dillard: Got it. Okay. So it sounds like on the backlog, that layers into revenue. Margins are higher. Second half of the year, you're in like upper single digit margins, right?
- Scott Strazik: Well, we are going to deliver a year of high-single digit margins with the second half better than the first half, which really has the second half margins even better than that.
- Chad Dillard: Okay. And so as we kind of think forward, how do you think about the margin algorithm beyond '25?
- Scott Strazik: I think by default, you have a little bit of addition by subtraction because you lose the negative Offshore Wind revenue. So that's going to lead to the Wind segment in total looking like the Onshore Wind margins, which we're kind of walking ourselves low double digit EBITDA margins based on what we're saying. And then the real question comes with how much volume leverage do you get from there. And for it to be a business segment that's more than that, we need a bigger business than what we have today.
- And at this moment, we're cautious on exactly when that inflection point comes. We still see soft orders in Onshore Wind today. We expect that to continue in the near term. I do think in '25, I'm hopeful that we'll have an orders inflection point that then translates to revenue growth in '26. But relative to the compare contrast with Gas and Grid, there's the most open field running to get there right now with Wind.
- Chad Dillard: Got it.
- Scott Strazik: So I like our chances of getting to what we just said. And just for illustrative purposes, when we did our Capital Markets Day in March, we explained that in 2023, our backlog accreted margin 10 points in Onshore Wind. And that was with our backlog growing from about \$6 billion to \$9 billion. So when you grow your backlog 50% and accrete 10 points of margin, that's indicative of what's going to be a more profitable business. And that's what you're starting to see flow through to revenue second half of this year into '25.
- Similar dynamic in Grid, except there we doubled the backlog from \$6 billion to north of \$12 billion and we accreted margin 5 points. So these are businesses that we don't need to hope to see the margin get better. The margin is better. In our backlog, we're running the company with a passionate view that every 90 days within the rounds, we're going to scrutinize our future. And our future is the profitability of our backlog and accreting margin every 90 days.
- Chad Dillard: So from an order perspective, you mentioned that you're hopeful for orders. Can you talk a little bit more about like what's giving you that hope? Maybe you can actually even weave in is there anything from the Inflation Reduction Act that should drive a step

change?

Scott Strazik: You bet. The Inflation Reduction Act is important. It certainly is a material economic contributor to my customer's business case. It's also a material contributor towards incentives to buy from us. Because the reality is, there's real domestic content incentives for our customers to buy U.S. content in which we have the largest U.S. content for wind of any of the large OEMs.

So the IRA is important, and that's why we do see a very healthy, what we call tech-select backlog of deals that we've won in technology selection. But now the projects need to work through the interconnect queue. They need to know their greenfield has a slot to sign up to the grid. They need the transmission and distribution equipment to bring it all together. They need to work their capital structure and get these deals financed in what has been a higher rate environment for a longer period of time than they probably underwrote their original greenfield investment when they started working on the project two or three years ago.

So all of those things are slowing down things getting to close. None of those things reduce our confidence that the deals will ultimately close. But they're things that are somewhat out of our control, because it's not as if we're at a point where we're negotiating the last point of price with them. It's these are complicated projects to get from development to financial close. There's a very healthy queue of pipeline, but it's not an easy environment right now to get them across the line. And we're very supportive and very connected with our customer base, but it's tough to call that inflection point today.

Chad Dillard: Got it. Okay. So you're just talking about domestic manufacturing content. You have domestic manufacturing capacity.

Scott Strazik: Yes.

Chad Dillard: Can you get price for that?

Scott Strazik: Yes. And I think you see that in the backlog. And I think you see that in what we talked about in Capital Markets and that trend of Onshore Wind getting 10 points of price, Grid getting 5 points of -- not price, margin and backlog. Gas is a real opportunity to accrete margin, partly by price. Across all three of our segments right now, I have real confidence that we can play this chess game effectively and serve our customers while using the precious capacity we have in the smartest way possible. And part of that comes down to the price.

Chad Dillard: Got it. Okay. So let's talk a little bit about the Offshore Wind business.

Scott Strazik: Sounds good.

Chad Dillard: So how are you thinking about the cost structure of that business? Where does that need to be versus where it is today?

Scott Strazik: Yeah. So there's a lot of dynamics we're working through with Offshore. The reality is, the strike zone for what we will do in new business going forward is just materially different than the backlog we're executing on today. And that's a combination of price, terms and conditions, scope of supply, scope of what we'll execute on relative to our customers. And there's still a distance to travel between our strike zone for adding to the backlog and where we are with the customers.

We do believe offshore wind can play an important role in the energy transition. And you take places like the northeast, and if we're going to reach our decarbonization goals, offshore wind is going to play a part. But because there's still a distance to travel between what we will do to add to our backlog relative to where the end markets are, we're cautious on the timing of when new orders are going to get added. And because of that, we are streamlining our cost structure with Offshore, similar to what we've already done with Onshore.

And really driving towards a business that is one Wind business with three product lines. Two Onshore Wind products, one Offshore Wind product that allows us to take out a substantially larger amount of cost, that buys us time until the orders materialize. And that's for the market to determine on when the market's ready to pay the appropriate price for offshore wind. The dynamic there is I have a lot of bullishness that offshore wind's going to play a role in the energy transition. But I have that bullishness because I also have a nuclear business. I also am developing carbon capture to attach to gas. And I know that we can build offshore wind in the northeast more cost competitively than a new nuclear plant or carbon capture. But that is materially higher in price than onshore wind or solar.

And today, the comparison point too much with offshore is offshore wind prices relative to onshore and solar, and that's the wrong comparison point. It needs to be relative to new nuclear and carbon capture. The world will get there in that regard, but there's still storming happening. And while there's storming happening, we're going to work incredibly hard to fulfill on our backlog that we have, to keep supporting our prospective customers then grow, but it's going to take us a little while for that to materialize.

Chad Dillard: Got it. So I guess what needs to happen in the offshore market for it to actually really take off? And I guess first of all, win.

Scott Strazik: Well, it's different answers in different parts of the world. There's clearly more of an industrial footprint for wind today in Europe. There's a higher level of conviction to grow the offshore wind industry in Europe with the determined focus to get off of Russian gas. So the price equation for what the end customers are willing to pay is higher in an industry that's more industrialized on the other side of the ocean.

In the U.S., we really don't have an offshore wind industry today. Anything that's getting built is really getting built using European or international footprint. That has to fix itself if we're really going to have an offshore wind industry.

But we also need to get to the point that we need to acknowledge that offshore wind is an important part of our pathway to zero, but it's an important part of our pathway to zero as our renewables penetration rate with other forms of power really get saturated. And then that's where you're going to have to pay higher pricing for the last 20% of our pathway to zero carbon than what we pay on our pathway for 0.10 to 0.30 of our zero carbon journey.

And that's what we're working our way through with the states right now, and I think we'll get there. But it's going to take a little while, and I think -- but I'm hopeful the second half of the decade will have various affirmative signals in the U.S. on a restarting industry. But even as that happens, it's a long cycle business. So it takes a while to go from orders to commissioning offshore wind plants.

Chad Dillard: Got it. Okay. So let's move to Electrification. So last 20 years, it's really been a dearth. Now we're actually in the load growth era.

Scott Strazik: Yes.

Chad Dillard: How are you managing that growth?

Scott Strazik: It's the most exciting business we have today. When you go five straight quarters or thereabouts where your orders are approximately double your revenue and you're growing your backlog like that in a strong pricing environment, it's a business that's got an incredible opportunity. And it's from different macro themes. In Europe, yes, it's connecting offshore wind farms to the land. In the U.S., a lot of it's just the modernization of the existing footprint. You look at how many transformers and switchgears are reaching their 40 to 50 year useful life, and it's time to replace them. And that's creating a real opportunity for us to sell and serve into this market.

But we also want to be thoughtful. We're two months into being a public company here and want to lean into the growth responsibly. So we're staging this thing in a very disciplined way. To be candid, the Electrification business is probably the business that had the largest CapEx ask for 2024 where there is a delta between what we gave them in their budget versus what they asked for. Not because we didn't believe the market, but because a business that hasn't experienced growth in a decade can only manage responsibly so much growth.

That said, I was in France last week with the team, and they're doing a hell of a job working through this growth and gaining my confidence with every operating review that they have an ability to manage these investments and serve this market to a larger extent. So we're going to keep leaning into this business.

When you look at the substantial cash that our Gas Power business generate today, last year north of \$2 billion, you look at wind getting back in the black here in the near term as we've talked about. And I foresee a lot of the capital from those first two businesses being reallocated into electrification, because the markets are ready to support, and our teams are continuing to demonstrate every day more of an ability to yield very attractive returns that deal with that capital.

So we're very focused on this business. It is the smallest of our three businesses today when you think about Power at \$17 billion of revenue, Wind at \$10 billion, Electrification between \$6 billion and \$7 billion. But I like our chances of getting that Electrification business segment to look and feel and size somewhere in between the other two sooner than later.

Chad Dillard: Got it. So right now, how much of that business is modernization versus outright capacity expansion?

Scott Strazik: In orders, it's still more heavily tilted towards expansion because we've done a lot of HVDC orders in the last 18 months. That is in Europe to connect Offshore Wind to the land. But as an example, our transmission and distribution transformer business with switchgears, it's about a little bit more than \$2 billion of revenue a year. We'll do more than \$4 billion of orders this year. It was a similar profile last year. That's primarily modernization at very attractive margins. And I don't think that's a 2-year thing. That is a 5 to 10-year dynamic that's very, very real.

Chad Dillard: Okay. So the margin accretion is towards the transformers and switchgears you said?

Scott Strazik: Transformers, switchgears, but also the HVDC projects. We also have a Grid Automation

business that does a lot of sensing and inspection and controls. That's a very profitable business that's growing. And what we haven't spent much time talking about is our grid software. Our grid software business, if you take a step back to the GE chapter, we invested a lot of money in GE Digital. We invested a lot of money in GE Digital across many industries. When we announced the spin, we took that digital business and brought it into Vernova and focused it entirely on our customers in GE Vernova. And the electrification and decarb specifically attached primarily to grid software. And we're seeing real commercial momentum here.

Now this is a smaller business for us. It's only \$1 billion of revenue of the \$6 billion to \$7 billion in electrification. But it's one that we think is going to become a very meaningful part of GE Vernova, both from a growth perspective and a margin perspective, because by default, there's absolutely no reason when we look at this business that it doesn't yield a typical software margin profile. But that's going to take us a few years to get there.

Chad Dillard: Got it. Can you maybe give any examples of your customer adoption? What sort of productivity gains they get? And just how you think about pricing that product?

Scott Strazik: You bet. You think about, again, having come back through a period of time in our Gas businesses where we would spend a lot of money to drive modest efficiency improvements in our gas turbines. And then two years ago, I take on this broader scope, including the Grid businesses. Frankly, I had a lot to learn on what our OpEx spend of our customers were on just supporting their infrastructure. And the amount of money our customers spend on things like vegetation management and sending crews out to kind of manage their lines and doing that on a more systematic calendar basis and not leveraging satellite images and real data to strategically send out the crews, depending on weather patterns and tree overhangs and other data to more efficiently service their distribution lines. We very easily can help with that and save a lot of OpEx dollars from our utility customer.

Same with things like distributed energy resource management. At the end of the day, our customers are struggling right now with the bidirectional flows of electrons. The system was not built for F-150s sending electrons back into the system. We're spending real money serving their customers, helping them plan around that multidirectional flow of electrons.

Chad Dillard: Got it. Okay. We hit the time.

Scott Strazik: I saw the clock and was working it the best I could to hit it. So Chad, I really appreciate you giving us the time and everyone.

Chad Dillard: Thank you for being here.