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GE Vernova

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Mark: Good morning, everybody. Thank you very much for joining. There's not very many, but there are some seats still available. Next session is with GE Vernova, Scott Strazik, CEO. Scott, thank you so much for joining. Appreciate your time.

Scott Strazik: Mark, thanks for having me.

Mark: I imagine this is one of the most requested sessions of this conference. I want to touch on the big picture in each of the segments. I want to leave plenty of time for Q&A, though. With that, can we just start?

Obviously, a lot of focus on US power demand, load growth, data centers, onshore, you name it. Can you just talk very high-level how Vernova fits into that picture?

Scott: Really across the spectrum. When you think about the US electric power system that's had reasonably flat demand over the last 20 years and going into a demand growth cycle, the reality is this is going to ultimately require an all-the-above technology dynamic.

Vernova, fortunately, plays a role across that spectrum with a large gas business that can help power that demand growth substantially this decade that we have the technologies to decarbonize in future decades, whether that be with carbon capture or hydrogen.

Nuclear, think about small modular reactor. We'll commission our first 300-megawatt block of small modular reactor 2029 in Canada with Ontario Power Generation. That'll become a bigger piece of the spectrum as we go into the next decade.

Then when you think about our other businesses with wind, we've got the largest onshore wind business in the US. Globally, we have 57,000 wind turbines. That's going to play an important role in this equation.

While all that's taking place, our fastest-growing business segment is our electrification business,

that over the course of just last year, for illustrative purposes, went from \$6 billion backlog to a \$13 billion equipment backlog while accreting margin five points.

That's on a number of factors, both real investment into the grid in Europe, but also continued demand cycle in the US. All three of our businesses have a real opportunity to serve this dynamic with increased load growth in the US.

Mark: Can we talk about -- let's start with the power business, mostly the gas power -- talk about the timing. First of all, talk about the conversations that you might be having now that might be different than what you were having a year or two, five years ago.

When do you think that shows up in order activity, the gestation period for all of that to flow into actual revenues? From an equipment side, from a service side, can you talk about what you're thinking as far as magnitude and timing here?

Scott: Happy to. Just for everybody's perspective, the power business segment is our largest of the three segments that we have. It's about \$17 billion of revenue, with the largest business within that gas power, which is \$14 billion of the \$17.

Even within that \$14, just for context, \$10 of the \$14 is services, supporting the install base, and \$4 is new equipment capacity additions. With this load dynamic, it's really going to start, to a large extent, with the services growth, that \$10 billion piece of the business.

When we look at what we see with the macro environment today in gas, for the first time in a decade, our customers are investing into the existing install base to a larger extent. That'll manifest itself in more upgrades, as an example, and investing in more output or more operating parameters for the fleet.

It's also manifesting itself in our HA gas turbine profile, where we've just eclipsed 2.5 million operating hours where a lot of outages are starting to take place.

I hit on those two points because those elements of the growth are going to come first. You'll see that in services orders and services revenue reasonably quickly. Think orders '24, '25, another 12 to 24-month cycle time that it converts to revenue.

On the capacity additions and adding a lot more capacity, whether it be in the US or in other parts of the world. With gas, by no means is the only place new gas is being evaluated or built today,

it's not just the US. There's a lot of other growing markets in the Middle East and Asia.

This is a cycle where we would expect to see continued orders growth in '25, but at least as it relates to the data center dynamic, orders in '25 that then start to materially convert to revenue in '28. It's a three-year cycle on equipment from orders to revenue.

Mark: Got it. A lot of focus on data centers and load growth lately, but I think one of the things that we've been most excited about over the last several couple of quarters, or couple of years, I'm sorry, that we've been following you is the execution and margin turnaround.

It's not just talking about what you're going to do. It's what you've already done on the power business since 2018, 2019 timeframe.

Sticking with the power business, can you talk about margins, talk about business improvement, just basic blocking and tackling, how much more room outside of pricing you have to improve the margins here?

Scott: There's a lot to be proud of in how these teams have performed over the last five or six years. It did start with organizational simplification in gas, as an example. We had to resize the business and take about a billion dollars of structural cost out of gas power while simplifying the other smaller businesses simultaneously.

When we look at these businesses today, they're low double-digit EBITDA margin business segment for us. We've talked about the fact that we'll accrete margin at least 100 basis points in 2024, and off of some of the dynamics that I just talked about previously, primarily services strength.

Where those orders and revenues will come through because of the dynamics I mentioned earlier with investing into the existing install base and the HE outage cycle. We see no reason that throughout this cycle -- and we've put together a framework that goes out to 2028 -- the power margins don't continue to accrete margin every year for the next half decade.

That's on the transparency we have into the demand cycle to services, continuing to get more productive with these businesses generally because we're focused on that.

That gives us a high degree of confidence that this is a business that can continue to accrete margins and substantially grow cash flow from here. Last year, as an example, it's a business

segment that generated a little bit north of \$2 billion of positive free cash flow.

Mark: Can you talk about manufacturing capacity? You mentioned on the last call that you're looking at ways of working with your supply chain to increase your throughput at your existing facilities. Talk about some of the obstacles in doing that, forgings and castings, for example. Talk about the timing of brownfield expansion versus potentially new buildings.

Scott: In our case, if we keep focused on gas, as an example, we've cut in what we call lean line, single piece flow, and somewhere between 40 and 50 percent of our global factory capacity in gas. I reference that to just reinforce because of those investments we've made, the factories themselves have real capacity to lean into this growth.

It's not a challenge where to lean into this growth in gas, there's any need to contemplate green or even for that matter, brownfield investments. Our factory capacities in gas can ramp up.

The challenge we have comes back to the supply base at large. As this growth comes to what Mark just referenced, our access to castings and forgings, while gas goes into more of an upcycle at the exact same time, as an example, aeroderivatives, the aerospace industry continues to be in a real ramp-up, is putting pressure on the same broad base supply chain.

Our challenge here in the near term, and it's what we're talking through with our customers, is we need to secure that incremental casting and forging capacity, less about the Greenville, South Carolina gas turbine factory.

To do that, you need to lean in with us on supporting those slots and advancing those orders so we can go capture more casting and forging supply than we've been talking to them about in the last 10 years.

In looking at the past, and I've been involved in the gas business for the better part of the last 11 years, we went through a cycle with those suppliers where we had to resize their capacity. That was called 13 to 18.

We then had to convince them to stick with stable output through the last five years, and now we're going back and saying we need more. Different conversation than we've had with that supply base in at least a decade.

Mark: Can we pivot to electrification?

Scott: Yes.

Mark: Can you talk about the history of that business dating back to the Alstom acquisition? Plans to expand that more into your core US customer base? I think this is an area where we're seeing the most excitement, I would say, around pricing.

Scott: Yes.

Mark: Can you talk about what you're seeing in pricing today?

Scott: You bet. It is as exciting a part of GE Vernova as any that we have today. As I mentioned earlier, \$6 to \$7 billion of revenue in the electrification business last year relative to the \$17 billion in power. A much smaller business today, but a business that we more than doubled our equipment backlog while accreting margin by five points.

This is coming from a lot of macro factors. One is energy security, frankly, in Europe. The focused, determined need for the European system to get off of Russian gas requires a whole another level of investment in their grid. That's driving real demand.

There's also just the modernization of the existing electric power system here, where transformers, switchgears are getting to a point that they're reaching their 40 to 50-year useful life and are needing to be replaced. That's creating a real demand cycle.

For us, that's primarily high-voltage, medium-voltage transformers, where we play to a large extent, but it is a business segment that we continue to see having demand outstripping supply.

Because of that, it continues to be a market segment that we are in a price-up environment that allows us to have confidence that we're going to continue to grow this backlog, accrete margin and backlog, but it's longer-cycle business, too.

What we talked about earlier this year at our Capital Markets Day is of our \$13 billion backlog coming into this year, more than 50 percent of it doesn't convert until '26. Same theme with a lot of what we're booking right now in the first half of the year. Very healthy price-up environment, but conversion out, often with orders today, into '27 conversion to revenue.

Mark: You're going to say how much of that price increase drops to the bottom line? Are your

costs increasing at the same time? I think, Michael, the starting point last year was around four percent EBITDA margins?

Scott: Yes.

Mark: Once this backlog converts into revenue three, four, or five years down the road, should we be assuming mid-teens EBITDA?

Scott: It's the business that we talked about at our April earnings call most needing to redefine what good looks like.

The reality is from Mark's mid-single-digit EBITDA reference on where the business is today, because of the price dynamic, because of the volume ramp-up that we see, and candidly, because the team's starting to demonstrate an ability to execute onto that growth without seeing as much inflation as maybe what we were seeing in the prior years...

We're seeing a much greater propensity or possibility for us to expand the value gap with price continue to go up, but product cost or the cost of goods sold associated with that starting to flatten out or even, in some cases, start to come down a little bit.

That clearly gives us a high degree of conviction that this business has a substantial amount of margin growth ahead of it over the next number of years.

Over the subsequent months, more than any other business segment inside GE Vernova, we're going to have to put a new baseline out there for what good does look like for us over the next five years, but we see no reason with our fastest-growing business that also has the best supply-demand dynamic working for us that it won't also have the steepest margin accretion curve from here.

Mark: A similar question on the capacity expansion within electrification. Are there similar constraints with forging and castings there? What's the plan?

Scott: Different dynamic. In electrification, we do need to make a greater degree of investments in our factories themselves. It's the one business segment of the three that we've talked about in the past of having a reinvestment ratio greater than one.

Because of that backlog more than doubling last year, and we expect the backlog to grow quite a

bit more, our factories themselves, we do need to invest into. Still no greenfield operations. This is adding a lot of machinery into existing factories.

What we're looking at right now is frankly using some of the industrial footprint that we have in other parts of Vernova that have been under-capacitized to invest in the electrification growth, with the most stark example of that being the investments we need to make in North America for electrification.

A lot of this business goes back to what we acquired from Alstom in 2015, and it's very European-centric with its footprint.

In the nearest term, we've been benefiting from that because the European market's been growing even faster than the US, but we have a high degree of conviction that the growth is going to come in the US also, and we do see ourselves investing into that growth market.

It will be including the one of our three business segments that's going to need the most P&E to support that backlog that's more than doubled.

Mark: Pivot to wind now. Can we start with onshore? Onshore, I think your comments recently have been a bit more cautious on onshore around the timing of revenue ramp and everything. Can we talk about what's driving the revenue outlook, but then also talk about initiatives that you have and how you're thinking about margins, even in a not-so-great revenue cycle?

Scott: Just for everybody's benefit, when you think about onshore wind as a business segment, we're talking about eight billion dollars or thereabouts of revenue business today.

We've talked about our onshore wind business being high single-digit EBITDA margins this year, but that's with a profile where the first half of the year are weaker margins, the second half of the year are substantially better that in total average out to high single-digit EBITDA margins.

This is a team that's doing great work today. We've had to really restructure this business. We've taken 40 percent of our people out of the business in the last approximately two years, about half a billion dollars of cost structure.

A real streamlining of our product strategy to a workhorse mentality, where onshore, we have two products we're selling today, and the team's doing a lot of good work.

That gives us conviction that in a generally flat market, we will yield a high single-digit EBITDA margin business. In that regard, I have a lot of confidence and appreciation for what the team's doing.

On the other end of the spectrum, to what Mark's referencing, we have been cautious in some of our dialogue on when it evolves from a flat-ish business to seeing the next inflection point of growth. With what we see in the market today, we think that could take a little bit of time.

There's a growing pipeline of activity, but whether it be the challenges our customers have with the interconnect queue, whether it be when they started the greenfield investments to now getting close to closing, the interest cost still being higher than they hoped.

Whether it be the cost of the electrical connections required to make this whole thing possible, it's not easy to close onshore wind projects right now.

We're continuing to be very focused on running this business better every day, serving our customers, but we are a bit cautious on when we're going to see that growth inflection point.

It will come because the reality is when you think about the world and only getting about seven percent of its electricity today from wind, most projections think that needs to be two to three times that number. The growth's going to come, including in the US. It may come a little slower than everyone may want.

Mark: Quickly on offshore. You've got a loss-making backlog you're delivering on the next couple of years. Talk about the conversations you're having with customers for new projects. Are you in active dialogue with those customers?

You're not adding anything to your backlog today. How close are we, though, as far as what you need to see in price increasing or cost declines in order to start adding some of those projects? To the extent that that doesn't occur, how big of a drag is the offshore business on your overall business today?

Scott: Thank you, Mark. Again, for everyone's benefit, offshore wind today, think about both in '24 and '25, it's \$1.5 to \$2 billion of revenue a year. We came into this year with about a \$4 billion backlog to still fulfill on. That's all in the red.

It was business that was underwritten prior to Ukraine without, in some cases, the best escalation

protections. We've struggled economically yielding good results with that backlog.

With wind generally, the real theme is we have a high single-digit onshore wind business, '24 should get better into '25. A lot of that EBITDA is consumed with those losses with offshore, but then the offshore backlog is basically we're through it by the end of next year. There will likely be a little bit of carryover into '26, but materially, we're done.

Then you can see a real margin step-up happen with wind as a segment in total in '26, somewhat by the dynamic of just addition by subtraction, as that money-losing offshore backlog has been purged.

Specific to where we are with offshore, as a business, at the start, I would just emphasize we do think there's a role to play for offshore wind and the energy transition. We think there's a role to play in the Northeast and the US, and we're working hard to play our part in enabling that to happen in very high iterative interactions with our customers.

All that said, to Mark, as you just framed, we aren't close to adding to our backlog right now. We are making substantial progress on resetting expectations with our customers on the strike zone that we will accept to take on new business, which is at materially different economics than the backlog we're fulfilling on right now.

They then need to take that repriced equipment on our end, and that has a domino effect ultimately to the PPA prices they bid into auctions, as an example, in the US.

It's hard to call right now how that market receptivity is going to play out in the US, and how quickly our end customers with our technology bids with them and materially different economics then materialize into firm-fixed projects that are going to go forward.

We do think there's likely a period of time here where once we fulfill on the existing \$4 billion backlog that we have, we go a period of time with very little revenue in offshore.

If you think to yourself it's a three to four-year cycle time from order to revenue in offshore, we're not close to booking new orders right now. That could take us a year, two years. It's going to be a little while. We probably go through a period of time where wind is basically an onshore wind revenue business.

To manage that dynamic, one of the things we are doing is we're running this now as one

business for wind with three product lines, two onshore, one offshore.

What that's allowing us to do is run the play at a wind level that we had run at onshore, which is streamlining the organization considerably. Engineering, product management, supply chain being streamlined between onshore and offshore that allows us to get down to a cost structure for offshore that is manageable even with a period of time without revenue.

What we've talked about and what we're working on with the team is by the time we're through our backlog, going into '26, first half of '26, something like that, our offshore wind cost structure, explicitly for offshore, is somewhere more in the neighborhood of \$100 million a year.

That's what we would sustain to then have the potential to grow into an offshore wind industry when the market's ready to pay the prices that we believe it's necessary for us to build an offshore wind industry in the US or in the world generally.

Just to finish that thought, we do have conviction that offshore wind economically should work in places like the US and through the world, but we need to be thinking about offshore wind and the prices for it more analogous to building in a nuclear plant, more analogous to putting carbon capture on a gas plant.

In our case, we play in all these technologies. We can do the compare and contrast and see with the new reset offshore wind pricing we're giving our end customers, ultimately, this should clear in the market. There remains storming, is the way that I would say it, and that could take a little while for it to normalize in the market for offshore.

Mark: Very helpful. Any questions?

[pause]

Mark: I get a lot of questions on your cash balance. It's a point of differentiation versus some of your comps that are out there. How are you thinking about uses of cash over the next several years?

Scott: For everyone's background, when we spun from General Electric on April 2nd, we started with a \$4.2 billion cash balance. No interest-bearing debt, so strong net cash position, but we haven't been the most linear with our cash performance historically.

What we're very focused on right now is just delivering multiple consecutive quarters of positive free cash flow that allows us to build a drumbeat of momentum that gives us the ability to start to play offense with that cash balance.

As we get to that point -- and we have a high degree of confidence we're going to, in the fairly near term, deliver those multiple positive quarters of free cash flow -- priority number one is going to be, beyond, of course, protecting for investment grade and everything that goes with that, returning capital to shareholders.

We'll evaluate both a dividend and other forms of return to shareholders, whether it be stock buyback or otherwise, and then smart, strategic, probably fairly humble inorganic investments.

The reality is we're in an exciting cycle right now where a lot of what we've talked about with gas, with electrification and grid, we're in a growth cycle. We can lean into that growth without needing to do a lot of inorganic-like things, but if there's smart adjacent things, we'll look at it.

One example where we are focused in that regard as with our electrification software business. Grid software, for everyone's context, is a small part of Vernova today. It's only about \$1 billion of our \$35 billion of revenue.

We're in the middle of driving what we call GridOS, Grid Orchestration System, that gives us an ability to provide a holistic platform for our customers to manage the complexity of everything they have with variability, with power generation, to distributed energy resource management on the other side with electrons coming back at them in a bi-directional way.

That's a business that as we can acquire more technologies than businesses that are features that get added to GridOS, we're going to look to do more of that.

We've done two acquisitions, both under \$100 million in the last two years, and I could see us doing other similar-sized deals to continue to enhance what I think is going to be a critical and very valuable part of GE Vernova going forward in electrification software.

Mark: Got it. Last chance. Anybody? Big crowd? Maybe on the other side of that coin, are there examples of businesses -- you just sold part of your steam business to EDF -- other parts of your portfolio that you're looking to potentially coal?

Scott: Yes. We were really excited to get the transaction closed with EDF. It's a good example of

what we are going to try to do across the business, the company, would just continue to simplify our portfolio.

What we sold to EDF, for everyone's context, is the projects business in nuclear with the steam...In essence, the balance of plant, the steam turbines, the generators. Projects business is less what we want to be involved in. New build, complex projects with nuclear.

Then on the other side of that now, primarily what we have with our steam business is a services business that we can gain a lot of leverage attaching and running adjacent to our gas business with a similar customer base. We will look to do other things like that from here.

The reality is we have two businesses today, when you look at our two, take gas and take grid, that have real opportunities to accrete margin, to be very attractive businesses. We're going to continue to scrutinize our portfolio in totality on what businesses are going to be accretive to our largest businesses and what the art of the possible is there.

If we can't underwrite a business case that parts of our portfolio can be accretive relative to the portfolio and our largest businesses in total, we'll look hard at looking at other alternatives for those businesses.

It's early for us inside Vernova. We have a lot of businesses where as we're applying self-help, applying a lot of what we call the power playbook to a lot of the other portfolio, we're redefining what good looks like.

Before we drive more of that portfolio simplification, we want to make sure we've created as much value as we can with these businesses, and then we'll keep scrutinizing them from here.

Mark: Excellent. With that, we'll wrap. Scott, thank you very much.

Scott: Mark, thank you.



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