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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to GE Vernova's second quarter 2024 earnings conference call. (Operator Instructions) My name is Liz, and I will be your conference coordinator today. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the program over to your host for today's conference, Michael Lapides, Vice President of Investor Relations. Please proceed.

Michael Lapides *GE Vernova Inc. - Vice President of IR*

Thank you, operator. Welcome to GE Vernova's second quarter 2024 earnings call. I'm joined today by our CEO, Scott Strazik and CFO, Ken Parks. Our conference call remarks will include both GAAP and non-GAAP financial results. Reconciliations between GAAP and non-GAAP measures can be found in today's Form 10-Q, the press release and in the presentation slides, all of which are available on our website.

Please note that year-over-year commentary or variances on orders, revenue, adjusted EBITDA and margin discussed during our prepared remarks are on an organic basis. We will make forward-looking statements about our performance. These statements are based on how we see things today. While we may elect to update these forward-looking statements at some point in the future, we do not undertake any obligation to do so. As described in our SEC filings, actual results may differ materially due to risks and

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uncertainties.

With that, I'll hand the call over to Scott.

Scott Strazik *GE Vernova Inc. - CEO & Director*

Thanks, Michael. Good morning, everyone, and welcome to our second-quarter earnings call. We delivered strong results in the quarter, with adjusted EBITDA margin expansion across all three segments and substantial improvement in free cash flow. Macro trends are continuing to create meaningful opportunities for us to lead in the energy transition. First, we're seeing increasing demand for power generation, driven by manufacturing growth, industrial electrification, EVs and emerging data center needs.

Second, there is a significant need for grid infrastructure investments to support both energy security and reliability goals. And third, our customers are investing to decarbonize their power systems, which drives demand for low and zero-carbon generation as well as new grid connections. We're serving this robust market demand while simultaneously running our businesses better, driving disciplined growth, margin expansion and higher free cash flow.

Turning to slide 4. I'll spend a few minutes on each of our segments. Our Power segment, led by Gas Power, delivered growth in both equipment and high-margin services orders and revenue, while also achieving 180 basis points of margin expansion. Power orders increased 30% this quarter led by strength in equipment orders, which more than doubled year-over-year. Notably, we recently commissioned our 100th HA gas turbine in South Korea.

The H-class fleet is an important source of growing services revenue and billings for our Power segment. In the second half of this year, we expect continued strength in orders with heavy-duty gas turbines, including HA units, to be higher versus first half 2024.

Electrification is our fastest-growing segment. Profitable growth continues as customers modernize and invest in new products, such as transformers and switch gears, that are key to ensuring a reliable electricity system and connecting new generation sources. For example, orders more than doubled this quarter in North America, which continues to be a key growth opportunity for this segment.

Overall, the Electrification segment has grown its backlog by over 25% since the start of the year. I'm pleased with the team's progress on margins, which expanded 360 basis points this quarter, and I have conviction we can drive significant margin expansion given the electrification segment's strong demand and strong industry pricing dynamics. We are thoughtfully investing to increase our output levels for this rising demand. For example, we are almost doubling capacity at our Stafford facility in the UK to deliver HVDC transformers.

Right now, Wind remains the most challenging segment. While we grew Onshore backlog in the quarter, we remain cautious on the timing of an inflection in Onshore orders as customers navigate the challenges that come with permitting new projects and higher interest rates. We are nearly two years into our Onshore Wind quality improvement program, and we are making progress with no new significant issues identified.

We continue to look for ways to implement the improvements into our existing fleet at a faster pace. In order to deliver for customers, we are adding crews to the field and gaining access to more cranes to accelerate our work. For our new units, we are leveraging technologies, including our blade inspection robot to enhance our manufacturing process.

At Offshore, we have converted almost $800 million of our backlog to revenue in the first half of the year. Last week, we had a turbine blade event at our Vineyard Wind project. The turbine was shut down safely and no one was injured. With safety always as a top priority, we are working with our customer and the appropriate agencies to determine the root cause and then implement corrective actions and a restart plan. While we continue to work to finalize our root cause analysis, our investigation to date indicates that the affected blade experienced a manufacturing deviation. We have not identified information indicating an engineering design flaw in the blade or information of a connection with the blade event we experienced in an Offshore Wind project in the UK, which was caused by an installation error out at sea. We are working with urgency to scrutinize our operations across Offshore Wind. Pace matters here, but we are going to be thorough instead of rushed.

Going forward, we remain highly selective on potential Offshore Wind new orders, focused on achieving substantially higher pricing and disciplined commercial terms. In the Wind segment overall this quarter, we expanded margins by 400 basis points and see opportunities for further expansion. We still expect the Wind segment to approach profitability this year and become profitable in 2025. Longer term, Wind should play a critical role in the energy transition.

Now over to the right side of the page. We are driving continuous improvement in safety, quality, delivery and cost. On safety, after 10 consecutive months of fatality-free operations, June was a tough month for us. An employee of ours in Malaysia lost his life,

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driving to a work site in his personal car in a one car accident on a public road, and a contractor working at our direction in Turkey, lost his life with an arc flash event at a wind farm. Safety will always be the top priority at GE Vernova and both events reinforce our need to continue to get better to ensure our employees and contractors return home at the end of work.

Turning to quality, where we are always working to improve our outcomes for our customers. For example, in a year where Gas outages increased double digits, our team has reduced quality deviations by 15% from live outage - our lean enabled digital outage platform that reduces cycle times and improve the field execution experience for our customers. We are also using lean to improve delivery.

In Electrification, the team in France recently executed a series of Kaizens tackling material flow, scheduling, and increasing capacity. As a result of the new processes we implemented, one of the production cells increased its output of certain switchgear components by 135% from 17 per week to more than 40 per week, helping to drive the growth we are seeing in our Electrification segment and ultimately improving outcomes for our customers.

Finally, we are using lean to simplify our operations and reduce G&A costs. We are focusing on reducing our G&A and driving productivity at our corporate center and in our segments. We began executing cost-out initiatives in the second quarter that give me increased confidence in our ability to realize G&A reductions in 2025.

Turning to the next slide for a look into our strong second quarter financial performance. Orders were robust with 2Q'24 marking the second largest order quarter we've delivered over the last three years, and we saw healthy equipment backlog growth across multiple businesses, especially in Gas Power and Grid. We delivered disciplined top line growth led by the strength in price and services volume. We expanded adjusted EBITDA margins by over 300 basis points, with expansion across all segments. Notably, we generated positive free cash flow with an over $1 billion improvement year over year, as well as sequentially, and ended the second quarter with a $5.8 billion cash balance.

We are raising our 2024 guidance and now expect revenue to trend towards the higher end of our $34 billion to $35 billion range, largely on Electrification. We now expect our adjusted EBITDA margin to be 5% to 7%, up from previous expectations of the higher end of mid-single digits. The improvement is driven by Power, which we now expect will deliver 150 to 200 basis points of organic margin expansion and Electrification, where we expect high single-digit margins.

We are also raising our 2024 free cash flow guidance. We expect to deliver between $1.3 billion and $1.7 billion, up from the prior $700 million to $1.1 billion range. Overall, with continued demand growth, further margin expansion and strong free cash flow, we feel confident about the momentum in our business for years to come.

I will now turn the call over to Ken for more details on our second quarter performance and our latest guidance.

Ken Parks *GE Vernova Inc. - CFO*

Thanks, Scott. Let's turn to slide 6. As already stated, we delivered strong results in the second quarter with EBITDA margin expansion across all three segments and positive free cash flow generation.

Demand remains robust as orders reached nearly $12 billion, which Scott mentioned was our second largest orders quarter in the last three years and approximately 1.4 times second quarter revenue. Power equipment orders more than doubled and total services orders grew double digits with strength in Power and Electrification. Due to large Offshore Wind and HVDC equipment orders booked in the second quarter of last year, orders were 7% lower year over year. Our backlog remains sizable at $115 billion, including the impact of the recently completed divestiture of a portion of steam power to EDF. Importantly, equipment margin and backlog remains healthy, in line with our disciplined profitable growth priority.

Revenue grew 2% with continued strength in Electrification and Power partially offset by Wind. Services revenue remained solid, increasing 9% with growth across all segments. In addition, all three segments benefited from positive price again this quarter.

Adjusted EBITDA grew 85%, driving 320 basis points of margin expansion. All segments delivered more than 150 basis points of expansion in the quarter. Margin expansion was driven by productivity, price and services volume, which more than offset inflationary impacts.

In addition, we continue to benefit from our previously announced restructuring actions largely at Wind and Power. We delivered over $800 million of positive free cash flow, improving more than $1 billion both sequentially and year over year from working capital and higher adjusted EBITDA partially offset by higher cash taxes. Working capital was an approximately $760 million benefit in the quarter, improving over $700 million year over year due primarily to strong collections.

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In the quarter, we received an approximately $300 million refund resulting from a positive arbitration decision in an open multiemployer pension plan dispute, which is included in free cash flow. The P&L benefit of approximately $250 million was recorded in SG&A and was excluded from adjusted SG&A and adjusted EBITDA.

Finally, as a result of completing the sale of a portion of Steam Power, we received approximately $600 million of net proceeds, which are classified outside of free cash flow and recognized an almost $900 million pre-tax gain in the quarter, which was excluded from adjusted EBITDA. The combination of free cash flow generation and proceeds from divestitures increased our already solid cash balance to $5.8 billion.

Overall, we're encouraged by our financial performance in the first half of 2024, with organic revenue growth, adjusted EBITDA margin expansion of nearly 400 basis points, and positive free cash flow generation.

Now turning to Power on slide 7. The segment delivered another strong quarter with double-digit orders growth, solid revenue growth and further EBITDA margin expansion. Orders grew 30%, led by higher equipment at Gas Power and Hydro power. During the second quarter, Gas Power equipment orders increased over 60% as we booked 14 heavy-duty gas turbines, which included 4 HA units compared to no HA unit bookings in 2023 second quarter. Power Services orders grew 12%, driven by Gas Power.

Revenue grew 10% on higher Gas service volumes. Equipment revenue also increased from Gas Power strength. EBITDA increased 24%, resulting in 180 basis points of margin expansion as higher services volume, productivity and price more than offset the impact of inflation.

Looking ahead, we see increased demand for gas as a reliable source of baseload generation, which is resulting in incremental growth opportunities for both Gas equipment and Gas services over the medium to long term. We anticipate additional 2024 CapEx at power to fulfill demand on Gas orders that are already booked, and we continue to evaluate strategies to meet potential additional demand acceleration.

Turning to Wind. We continued making progress in driving improved EBITDA despite lower revenue levels. Orders declined 44% given the tough comparison to the second quarter of last year, when a large Offshore equipment order was booked. As a reminder, that Offshore order was later canceled by the customer in the fourth quarter of 2023. Onshore equipment orders declined 11%, but increased more than 2.5 times sequentially from the first quarter. As Scott indicated earlier, we remain cautious on the timing of an Onshore order inflection in North America as customers navigate growing interconnection queues and higher interest rates.

Revenue decreased 20% from lower Onshore equipment deliveries, partially offset by higher Offshore revenue as we continue to execute on our Offshore equipment backlog. EBITDA margins improved 400 basis points versus the prior year from positive price and continued cost reductions. At Offshore, EBITDA losses decreased, and Onshore margins improved despite lower volume, remaining profitable again in the second quarter.

Wind is demonstrating signs of financial progress. We continue our work at both Onshore and Offshore to drive incremental cost leverage. In the second half of 2024, we expect to further improve EBITDA on meaningfully higher Onshore equipment volume at better margins, which are currently in our existing backlog.

Now at Electrification, we had another strong quarter of revenue growth and EBITDA margin expansion. Orders were $4.8 billion, roughly 2.7 times second quarter revenue and over 30% higher sequentially. While remaining strong, second quarter orders declined year-over-year due to significantly higher HVDC orders recorded in the prior year. Within Grid Solutions, we saw strong orders growth in the US, particularly for high-voltage switchgears and circuit breakers. Revenue grew 19% with strength in equipment led by Grid Solutions and Power Conversion.

EBITDA margin expanded 360 basis points on volume, price and productivity. All of our Electrification businesses were profitable in the second quarter, and expanded margins both year over year and sequentially. We continue to see strong demand and price resulting in Electrification revenue growth and meaningful EBITDA margin expansion. Equipment backlog in this segment increased to approximately $17 billion, up $5 billion compared to the second quarter of 2023, with healthy margins.

Turning to slide 10. Largely based upon our strong first half performance, we're raising our full year 2024 guidance. For revenue, we're now trending towards the high end of our original $34 billion to $35 billion guidance range, mostly due to additional Electrification strength. We're also increasing our adjusted EBITDA margin guidance, which we now expect to be in the range of 5% to 7%.

By segment, we maintain our Power revenue guidance, but now anticipate approximately 150 to 200 basis points of EBITDA margin expansion compared to our previous guide of approximately 100 basis points, driven mainly by gas power strength.

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At Wind, we still expect revenue to be essentially flat year over year and to approach profitability this year from positive price, productivity and cost savings. In the second half, the timing of turbine shipments as well as cost, could drive some variability in Wind results.

In Electrification, we're increasing our revenue growth guidance from low double digits to mid- to high teens based on continued strong demand and favorable price. Given our higher revenue growth expectations, we now expect Electrification to achieve high single-digit EBITDA margins in 2024 compared to our previous expectation of mid-single digits.

As a result of the higher EBITDA outlook, along with the strong cash performance and the non-recurring arbitration refund in the first half of 2024, we're also increasing our full-year free cash flow guidance to be in the range of $1.3 billion to $1.7 billion. This includes slightly higher expected CapEx investments primarily to fulfill significant Gas Power orders booked so far this year.

Looking specifically at the third quarter, we expect solid year-over-year revenue growth and continued EBITDA margin expansion across the segments. Relative to last year's third quarter, we anticipate Power top line growth from higher Gas equipment and services revenue and EBITDA margin expansion versus last year from volume, productivity and pricing.

Wind revenue is expected to grow meaningfully year-over-year as we deliver higher-margin Onshore volume out of backlog. In addition, EBITDA should improve from the higher onshore volume, along with positive price and lower cost structure. At Electrification, we expect solid top line growth, along with margin expansion from higher volume, productivity and favorable pricing. In the third quarter, note that like in most years, the seasonality of outages and services revenue at gas power means lower adjusted EBITDA on a sequential basis for GE Vernova.

We expect free cash flow to improve year over year driven by the stronger adjusted EBITDA. Sequentially, we anticipate free cash flow to decrease largely from the lower adjusted EBITDA, slightly higher CapEx and cash taxes, as well as the nonrecurring arbitration refund received in the second quarter.

We're very encouraged by the momentum we built in the first half of the year. We're also confident in the strength of our balance sheet and remain committed to maintaining our investment-grade rating as we evaluate opportunities for growth and return of capital to shareholders.

With that, I'll turn it back to Scott.

Scott Strazik *GE Vernova Inc. - CEO & Director*

Thanks, Ken. All in, we are pleased with our performance in the first half of this year, and we are excited about our future as we help our customers electrify and decarbonize the world. Market dynamics continue to drive strong demand that will lead to multi-decade growth for GE Vernova. Our Power segment generates 70% of its revenues from services. We expect Power to drive expanded margins with growing free cash flow for a number of years. We expect to continue expanding margins in Wind and to benefit when demand for new Wind units, especially in North America, ramps further.

In Electrification, we are seeing customers significantly increase grid-related investments to improve reliability and connect more zero carbon power sources. We expect this segment to also continue to deliver higher margins in the years to come. Our lean operating system, sustainability, and innovation remain at the core of our company. We are running our businesses better and are well positioned as electricity markets evolve. We expect to deliver growing adjusted EBITDA and free cash flow over the coming years. And when we put all this together, we see a clear opportunity to deliver substantial value for our stakeholders going forward.

With that, I'll hand it back to Michael for the Q&A portion of the call.

Michael Lapides *GE Vernova Inc. - Vice President of IR*

Before we open the line, I'd ask everyone in the queue to consider your fellow analysts and ask one question so we can get to as many people as possible. Please return to the queue if you have follow-ups. With that, operator, please open the line.

QUESTIONS AND ANSWERS

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Operator

(Operator Instructions)

Mark Strouse, JPMorgan.

Mark Wesley Strouse *JPMorgan Chase & Co - Analyst*

Yes, good morning. Thank you very much for taking our questions. So I wanted to start with the Wind segment and just kind of the Vineyard Wind project that's been in the news. I appreciate that you're taking your time, being thorough with the review here.

Just for those on the line that haven't been through one of these before, can you just kind of talk about what that timeline might be though? I mean, should we be expecting this to be more kind of weeks or months or maybe even quarters? And then kind of the second question on that is, is there any impact to your deliveries on the Dogger Bank project in Europe? Thank you.

Scott Strazik *GE Vernova Inc. - CEO & Director*

Mark, thanks for the question. It's been 11 days since the event. And just to reinforce at the start, we have no indications of an engineering design flaw - that's important at the beginning. As we said in the prepared remarks, we have identified a material deviation, or a manufacturing deviation, in one of our factories that through the inspection or quality assurance process, we should have identified.

Because of that, we're going to use our existing data and reinspect all of the blades that we have made for Offshore wind and for context in this factory in Gaspé, Canada where the material deviation existed, we've made about 150 blades, so that gives you an indication and context of the work ahead.

But to be clear, this is work we know how to do. I mean the industry uses non-destructive testing, think ultrasound, think a radiologist, but for a blade to identify deviations. We are going to go and do this on every blade, prudent, thorough process. We're not going to talk about the timeline today. We have work to do, but I have a high degree of confidence that we can do this, and we'll do it in support of both the customer and the agency and move forward from there.

On your question on deliveries and timing, I would just frame up a few things. I mean, clearly while we're on pause right now, there's risk to some collections moving from '24 into '25. And that is embedded into our financial guidance here for what we framed up, and we're really taking the path forward. Now on Dogger Bank, we continue to install and commission wind turbines right now, and we intend to continue to do that. We're in close contact with SSE, and we continue to progress on that project today.

Operator

Andy Kaplowitz, Citi.

Andy Kaplowitz *Citibank Inc - Analyst*

Good morning, guys. Scott, so if I look at sort of the order environment in Wind just out of curiosity, I know you reiterated the flat revenue guidance. But at what point does Wind have to pick up before you get into '25 and it becomes a more difficult year. And are you still planning on sort of the high single-digit margin in Onshore in the second half of '24?

Scott Strazik *GE Vernova Inc. - CEO & Director*

We are. I mean we're still consistent with our financial framing of approaching profitability in '24 in the segment, with high single-digit onshore wind margins in '24 and the segment turning profitable in '25, Andy. What I would just emphasize is we -- '24 and '25 as we've been framing up for a period of time are two more difficult years for us in Wind relative to the dynamics we have in the other segments. But we remain confident in that framework for '24 and '25.

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And then when you look at the orders pipeline that we see, it's just tough for us to call when it starts to convert into orders, we still see the possibility that we could see those orders come through in '25 that leads to a revenue inflection point in '26 on Onshore at the exact same time that we'll still be materially through our Offshore Wind backlog. So '24 and '25 is going to be very consistent with what we've talked about. And then you're really playing through to '26, where we see the real possibility for margins to accrete substantially as we have the potential for some Onshore Wind growth and Offshore Wind becomes a smaller proportion of the total revenue guide.

Ken Parks *GE Vernova Inc. - CFO*

Yeah. And the one thing I would add, I think it's the right question around thinking about '25. But also remember that as we're moving through the second half of '24, we called out on Onshore Wind in the backlog as of the end of 2023 that we had expanded our margin within that backlog by about 10 full points.

Some of that will begin to deliver in 2024 in the second half, which gives us confidence in the statements that we made, and that Scott just reiterated about our outlook and approaching profitability for the year for Wind overall. But some of that accretion and backlog will deliver in 2025. So part of the step-up in 2025, as you asked about, will be incremental Wind orders coming in the second half. But a piece of that is already in our backlog, and we will deliver on it as we move into the year.

Operator

Chris Dendrinos, RBC Capital Markets.

Christopher J. Dendrinos *RBC Capital Markets - Analyst*

Yeah. Good morning. I guess maybe just following up on part of that question there. Can you talk about some of the margins that are embedded in your order demand today and sort of where the, I guess, things are going forward specific maybe to Electrification and Power? Thanks.

Scott Strazik *GE Vernova Inc. - CEO & Director*

Can you please repeat the question team, we're having an audio challenge here in the room?

Christopher J. Dendrinos *RBC Capital Markets - Analyst*

Yeah. I guess I was just following up on the last question. You made some comments around the margins embedded in that Wind backlog and I'm curious what the margin profile looks like for the backlog in Power and Electrification. I think you'd previously mentioned some strong pricing dynamics in both those segments. I'm kind of curious where things are at today.

Ken Parks *GE Vernova Inc. - CFO*

Yeah. So we would tell you that in the -- let's start with Wind because I think it's important as we're also -- I gave you the 2023 number, what's happening as we move into 2024. We had seen Wind's margin backlogs accrete and grow as, call it, the last 12 to 18 months as we move towards the end of 2023. What we're seeing in orders that we're taking in now is that better pricing is actually staying at kind of those levels as we move through the first half of the year. So it's moved up and it's kind of staying at those levels.

Now the difference is to where you asked about on Power and Electrification is, as those demand patterns have continued to grow, what we've seen is the pricing environment has continued to get stronger versus where we ended 2023, both in Power and Electrification. And a point of reference is on Electrification, we had talked about for overall Electrification equipment at the end of 2023, our margins in backlog had expanded 5 full points. And so we're seeing that continue to grow as we move over time, and any quarter point can have a little bit of volatility to it, but the pricing dynamic within Electrification continuing to get better, booking better, stronger profitable orders and backlog. And obviously, the same thing on the Power dynamics as you see the really strong orders

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coming on to the books.

Operator

Joe Ritchie, Goldman Sachs.

Joseph Alfred Ritchie *Goldman Sachs Group, Inc - Analyst*

Thanks, and good morning, guys. I want to focus my question on Gas Power equipment orders. And so year-to-date, you guys have booked 9 gigawatts of orders, which is pretty incredible given where we were last year. Scott, how much of this do you think is the market expanding versus market share gains? And then also your commentary around the HAs being -- having better order rates in the second half of the year. I'm just curious if you can maybe just talk about your visibility and the conversations that you're having with data centers as well.

Scott Strazik *GE Vernova Inc. - CEO & Director*

Thanks, Joe. I mean, clearly, the first half of the year has been encouraging with the demand cycle for Gas, both first and second quarter equipment orders grew north of 50%. We're also seeing the investments though, in the installed base with our services orders both growing double digits in both the first and the second quarter. So you're seeing the investment on both sides.

I mean, we were intentional in our prepared remarks in the sense that as strong as those orders are on a year-over-year basis, with the pipeline we see, and it's a combination of U.S. orders and global orders, we do expect the second half of the year to have more orders in the first half of the year. So first half of the year, we had 30 heavy-duty gas turbines with 12 HAs. Second half will be stronger based on what we see. But we're not in a place today that this is one transaction, one market. This is a general trend of just the realization of the need for more reliable power that's leading to increased demand (added by company after the call) into gas that's supporting us also having to invest into more gas to support that growth.

Operator

Moses Sutton, BNP.

Moses Nathaniel Sutton *BNP Paribas Exane - Analyst*

Hi. Thanks for taking my questions. Just continuing on the Gas topic. How should we think of the eventual capacity constraints at Greenville and perhaps expanding the factory especially, as we know many utilities are signaling a further rise in CCGTs and peakers and so on. And then just to add to that, how do you think about pricing of the gas turbines going forward and impact on margin, relative to maybe a historical razor blade model. Could you see something like 20% contribution margin on new gas turbines? Any thoughts there would be helpful. Thanks.

Scott Strazik *GE Vernova Inc. - CEO & Director*

Thanks, Moses. I'll start. I mean if we had the benefit of having you visit Greenville with us, you'd see that we have clear capacity to grow into this market in Greenville. But the challenge isn't going to be the Greenville factory. We're investing into single piece flow and lean lines that have given us a lot of physical capacity.

We do have challenges and needs to work across our supply base and supply chain to gain access to more parts, think castings and forgings. And we're going through that process right now. And that very well may lead to some investments we need to make to support this growth on a go-forward basis. But that's investments we'll make as the market tested results tell us to make those investments. But today, we're not in a position that, that's really our concern.

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I mean we look at our slots, we're pricing for the scarce slots that we have. We do continue to see a healthier pricing environment for Gas on orders that we'll book in '24 into '25 and that we'll convert into revenue approximately three years later. So we do see that over the medium to long term as margin accretive to where the Power business segment goes. But again, these are equipment orders we're booking today at better margins that will convert three years from now.

Ken Parks *GE Vernova Inc. - CFO*

Yeah. And just so you think about how we're managing through the required investments to support that, we indicated in the prepared remarks that you should expect to see a little bit more CapEx coming through our numbers this year than maybe we had guided to, not significantly different, but a bit more. That's because these orders are on the books and we're trying to go ahead and get in place to get our capacity expanded as much as we can to support that. We're also working with our supply base to make sure our supply base is right there with us, so they can provide what we need to support those orders.

I called that out because correlating that to what we said about cash flow guidance, we took our cash flow guidance up nicely, not only just based upon the refund from the arbitration item on the legal dispute, we have about $300 million, but took it up by another $300 million on both ends of the range. And that is with that incremental capacity and CapEx that we're looking to invest, again primarily in Power, as well as trying to do things to help and keep our supply base where it needs to be.

So it's a really good place to be in. But as Scott said, this is all for orders that we have on the books today, and we will continue to watch these order patterns as we move forward and try to make really good, thoughtful decisions so we manage through the capital investments, as well as the pricing environment.

Operator

Andrew Percoco, Morgan Stanley.

Andrew Percoco *Morgan Stanley - Analyst*

Hi. Thanks so much for taking the question. I just want to come back to the Electrification segment. You're obviously increasing the margin guidance this quarter for the full year. At the Investor Day, you kind of laid out 500 basis points of margin upside based on what was already captured in the backlog as of the end of 2023. It seems like you're capturing half of that in 2024.

So I'm just curious like what's driving that? Is that an accelerated conversion of the backlog? Is it better OpEx discipline or maybe just conservatism out of the gate at the Investor Day. And then maybe as a follow-up question to that. Can you just update us on what you're seeing come to the backlog today in terms of pricing relative to what you're recognizing in 2024? Thank you.

Scott Strazik *GE Vernova Inc. - CEO & Director*

You bet. Andrew, thank you. At the start, I think exactly as you said, we, in March, had a view of mid-single-digit margins for the year in Electrification. Now, the first half of the year has delivered mid-single-digit margins, so by default, as we shift towards the full year now delivering high single-digit margins, that gives you an indication for how much stronger we expect the margin profile to be in the second half of this year, which will then be indicative of the margin profile and growth that we expect into 2025 and beyond.

There was some level of caution on our part earlier in the year on how quickly we would fulfill and be able to ramp up into this growth. This is not a business that has experienced this substantial growth trajectory. And the team is doing a very good job. And frankly, as they do a very good job, that's also giving us a little bit more confidence to invest into more growth with them and more capacity for them to manage this incredibly strong market that we have right now.

Now at the same time, when you step back to our discussions in March, exactly as you said, we did accrete margin 500 basis points in the backlog last year, but we also said that over 50% of that backlog doesn't start to convert to revenue until 2026. So we're pleased to see the financial performance improve in '24 and to get to this high single-digit number we're just getting started here. I mean there's a lot of opportunity to improve and a lot to be excited about in Electrification, but also a lot of work to do. So we sit here today in July with a lot of optimism, and a lot of confidence as we move forward.

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Ken Parks *GE Vernova Inc. - CFO*

And to put a couple of finer points on it, as you think about how this business is going to move. You heard us talk a lot in March, not only in the Electrification business, but all about doing an even stronger approach at underwriting these contracts, right? So as we even accreted the margin in backlog about 500 basis points, it wasn't a matter of conservatism, as Scott said, it was a matter of this business kind of managing their execution to deliver even better margins than what we booked in backlog. So while some of that will flow out into later years, what we're seeing is the execution on some of the contracts that are already in backlog we're actually landing at a better margin than what we thought that we contracted at.

I give you that point because it's not a market point, it is an execution point. And I think you -- we want you to make sure and think about that business in the way that we are continuing to execute very well, not just on the market side, but as well as how we're executing on these complicated projects.

The second thing I would say is there are parts of the Electrification business that are not longer cycle, right? So some of the smaller components, actually, we take orders and we may book within a few months. And because of the strength of that market, the pricing that's coming through on those in the early parts of this year are going to flow out into better margins in the second half of the year. So it just supports everything that Scott said, but you've got a couple of finer points to think about how our execution sits.

Operator

Rob Wertheimer, Melius Research.

Robert Cameron Wertheimer *Melius Research LLC - Analyst*

Thank you. Good morning, everybody. So my question is also on the heavy-duty gas turbine side. Orders were obviously great. And I guess I know all the work you've been doing to lean stuff out. That's probably not the easiest task in a kind of low volume -- low unit volume, in a little bit of variable industry. So I'm a little bit curious if there's a certain level that you can get to a real sort of process flow and really just how things consistent and predictable flowing? And what that level is, if there's a margin impact when you really get to a steady state? And how large that could be for the segment if you're willing to talk about it? Thank you.

Scott Strazik *GE Vernova Inc. - CEO & Director*

Thanks, Rob. I mean, I'll start. There's clear opportunity. Although, yes, this is big pieces of infrastructure that we're building in our factories in Greenville. You can walk through that factory today. And if you had seen it five years ago to what it is today, it doesn't resemble what it was. I mean, we are -- I'm really proud of where we've gotten to with very high-tech single-piece flow that has eliminated an immense amount of rework in factories.

We've got parts that move substantially less to the factory today because they just go on one single piece line from beginning to end as we build these gas turbines that have frankly freed up a lot of capacity in the factory to add a lot of services capacity into Greenville. But frankly, it also has created the capacity for us to grow into this better gas market without a need for anything other than leveraging our existing factories. So that's one of our real elements of arbitrage here because we have the industrial footprint. We have the cranes. The factories are attached to the railroads.

We do have some P&E we're going to have to spend for some machinery. We're going to have to spend some money in partnership with some of our suppliers to support faster long lead items to meet this market, but this is work we know how to do. So Ken effectively laid out the fact that our free cash flow guide for this year is already incorporating some of those investments on orders that have already booked in the first half of the year. And as the order strength continues, where it makes sense, we'll continue to make more of those investments.

Ken Parks *GE Vernova Inc. - CFO*

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Yeah. And you asked a great question around the impact on ultimate margins. But as Scott just kind of leaned into, the point is not only is it a margin impact, but as we continue to kind of move down this lean journey and the Gas power business is further along than most in our portfolio. It's also an optimizing of our working capital impact. So that flows straight to free cash flow. So even though we're going to invest a little bit more in CapEx early, we know that, that will bring us benefits on cash flow side, and all of this runs down to better margins as well as better cash generation.

Operator

James West, Evercore.

James Carlyle West *Evercore ISI Institutional Equities - Analyst*

Hey. Good morning, Scott. Good morning, Ken. I am curious, Scott, if you could maybe elaborate on your grid and grid infrastructure and transistor businesses because I think that's going to be a big area of growth. I know that you guys have historically been strong in Europe and the US, but I believe this is a much more global business than any of us actually realize. And so I love some commentary on the outlook and maybe some education on that business.

Scott Strazik *GE Vernova Inc. - CEO & Director*

James, I appreciate it. I mean the reality is you're right. I mean, historically, this has been a more European-centric business. That is true. But as we framed up in the prepared remarks, this is a business segment that saw our North America orders double over the course of the second quarter. So I think the reality is our Electrification segment, in Grid, is the part of GE Vernova that's benefiting the most from Vernova.

And what I mean by that is we're really able to lean in, in a much more coordinated way on the front end of this business with our relationships on the Power and Wind side and are finding an ability to pull through even more Grid growth with very strong customer relationships in places like the US. And as one company, and organized as one company, where especially with things like key accounts, we're driving another level of coordinated activity, we're starting to really bear fruit from that.

When we think about the strategic sessions we're having with our customers, it is true that in Electrification, especially in the US, we're doing an education even with our customers on what the art of the possible is. And it gives me that much more optimism that beyond the fact that this is a good market and a good global market, especially in the US, I have a lot of optimism with where this business is going.

So you really have a conviction case in Europe where since the crisis in Ukraine, our European customers are spending at incredibly high levels to give themselves real -- another level of resiliency and energy independence that's driving grid growth.

The US isn't growing as fast, but candidly, we have more arbitrage to lean into with the Vernova benefits that are helping us right now. And over the longer term, Asia is going to be an important market, too. But this is very much a lot about Western Europe and North America. But those markets alone with customers we know very well and have very strong relationships, converging at a time where Philippe and the team are simply running this business a lot better are two converging factors that give us real possibility to create a business that we're very excited about here.

Ken Parks *GE Vernova Inc. - CFO*

And maybe just -- again, just to kind of give you a little bit of perspective on how to kind of think about where the numbers are. If you take HVDC, and I'm going to talk about orders in the second quarter and it kind of holds for the first half as well. If you take HVDC orders kind of out of the order totals for Electrification, the remainder of the orders within the Electrification business are fairly evenly spread across North America, Europe and rest of world. So we like that because while HVDC is coming in strong in Europe, as Scott mentioned, the carry-on impact is really affecting all of the regions around the world. So this business is feeling much more balanced globally when you look at it in that perspective.

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Michael Lapides *GE Vernova Inc. - Vice President of IR*

Operator, we have time for one last question, please.

Operator

Maheep Mandloi, Mizuho.

Maheep Mandloi *Mizuho Securities USA LLC - Analyst*

Hey. Can you guys hear me?

Scott Strazik *GE Vernova Inc. - CEO & Director*

We can. Good morning.

Maheep Mandloi *Mizuho Securities USA LLC - Analyst*

Thanks for the questions here. Just looking at the 10-Q, the product warranty liabilities reduced from $1.4 billion, down $1.2 billion in the quarter. Just trying to understand what's driving that. And then in light of the AEP lawsuit and potential environmental liabilities in Massachusetts, just how to think about where that number goes here. Thanks

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Ken Parks *GE Vernova Inc. - CFO*

Yeah. So it's a good question. I would just think about it this way, really no fundamental change in warranties, the way we're accruing warranties. The real difference right there, Maheep, is just the fact that as we take the portion of the Steam business that we sold to EDF and take their balances off the books, that made essentially that change in that warranty accrual. So there's really no other dynamics going on there. We're still accruing the same way. We're seeing the same kind of patterns of trends. So nothing of significance there outside of the disposition of that piece of that business.

Michael Lapides *GE Vernova Inc. - Vice President of IR*

Before we wrap up, let me turn it back to Scott. Scott, closing comments?

Scott Strazik *GE Vernova Inc. - CEO & Director*

Thanks, Michael. Everyone, we're excited about the trajectory of our company going forward. I do want to take a minute as we conclude the call and just thank our employees, our partners for their dedication and hard work and our customers for their continued trust in us. And thank you for your interest in GE Vernova.

Michael Lapides *GE Vernova Inc. - Vice President of IR*

Thank you. We'll turn it back over to the operator.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.

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