Ken Parks ***GE Vernova - CFO***
So you have to believe with me that this is an incredible company, an incredible journey and an incredible opportunity for all of our stakeholders. I think back over some of the things that we've all heard this morning, some simple but very powerful statements. Maví said, power keeps the lights on. It's key. Vic, we need wind. The world needs wind, very simple statement, but it's a part of this future. Scott Reese talked about software that leads the energy transition and then how can we forget Philippe. Our future is electric. So I mean, this is all really coming together nicely.

I think as I get started this morning, let's just kind of stop and think back at what have we heard today? What have we heard? We've heard incredibly solid and growing markets. But at the same time, you're hearing about a company that's consistently talking about a lean operating model. This is how we execute. It's not about just moving with the markets. It's about operating in a market very well, but then executing everything we do at a level that we think is pretty unique.

So with that, let's start to talk through our financial strategy. It all begins with disciplined revenue growth, and that's been a theme throughout the morning. What do I mean by that practically? It's solid underwriting and solid pricing on equipment sales. On top of that, it is continuing to grow our services portfolio, which, by the way, is almost half of our revenues today in total Vernova.

This, combined with our cost-out actions as well as our ongoing productivity initiatives will drive EBITDA margin expansion and additional free cash flow generation. That's important because it will also help us to enable maintaining a strong investment-grade balance sheet, allowing us to fund innovation and to strategically allocate capital to grow the business going forward. This strategy is solidly in place, and it drives our decisions every single day. It's happening because we're transforming the business, and the business is transforming, as you can see, based upon the results that you see on the chart.

In 2023, we actually achieved profitability for the group of businesses that are coming together as Vernova. We also generated positive free cash flow. Both of those numbers were better than the guide that we gave a year ago at Investor Day. But it doesn't stop there because achieving profitability and generating cash isn't the end of the road map. We expect that momentum to continue into 2024, looking at $34 billion to $35 billion of revenue, again, with a disciplined revenue approach, the high end of mid-single-digit EBITDA margins and free cash flow that takes a measurable step up to $700 million to $1.1 billion.

Now you can see on the chart, there's another set of bars. This continues again, and we're expecting again in 2025 another step-up in this business. We'll see mid-single-digit revenue growth. We'll see EBITDA margin step up again to the low-end of high single-digits, and we'll see another step-up in free cash flow to between $1.2 billion and $1.8 billion.

We feel confident around this outlook, especially on the EBITDA margin expansion and the EBITDA growth because the levers that drive that are levers that are in our control, and we'll talk about that.

Let's talk about that for just a minute. As we move from margins of around 2% in 2023 to the high end of mid-single-digits in 2024. Look at the variables on the page. The price cost ratio is positive, a lot of that led by our Onshore Wind business, that's in our control. That is an outcome of the transformation that Vic and team have been driving.

Power and Electrification volume growth provides accretive profitability. Why do we feel good about that? As you've heard through the morning, our most of that revenue in 2024 is going to come from orders that we already have in backlog. We know what the pricing is on that -- on those orders, on that backlog.

In addition, we can't overstate the work that we're doing on lean. So between productivity, restructuring initiatives, those are going to continue to deliver benefits to the bottom line and grow our EBITDA margins and EBITDA dollars for Vernova. And then finally, and we'll talk about this a little bit more in a few slides, our cost-out initiatives will start to provide bottom line savings, not just in later years, but that will start in 2024. So because of all this, we feel confident in our road map that we have set ahead not only for 2024, but as we move into 2025 and later years.

The good news is, it's not just coming from one place. It's coming from all 3 segments. Power's margin expansion is led by Gas Power with strong services and productivity. In Wind, you heard us say that we're expecting Wind as a business to approach profitability in 2024, and then to achieve profitability in 2025. How is that kind of going to come? You see Onshore Wind benefiting from cost reductions, improved quality and then pricing benefits, delivering margin expansion in 2024.

And then on the Offshore Wind business, we talked a little bit about that backlog that we're continuing to manage out. And as we manage that Offshore Wind backlog out and deliver to customers, we're applying those same principles and we're delivering it with better product costs. So the combination of those two things will move us closer to profitability in Wind in 2024, and move us into profitability in 2025.

Then in the Electrification business, our fastest-growing business, we'll expand margins from price, productivity and then the drop-through on that low double-digit volume growth. It's coming from across the portfolio.

I'll take a minute to talk about services because services are a significant part of our business, at about 2/3 of our total backlog. And if you look at the numbers, about 5x our 2023 service revenue. That business -- that portion of our business generates reliable and growing cash flow. As Maví discussed, Gas Power makes up most of our services backlog, and that will continue to grow as we deliver more HAs and get them installed in the field.

The Onshore and Electrification business, while smaller in services today, that smaller portion of their business is profitable and growing, and that provides a good opportunity for future profitability growth and incremental free cash flow generation for Vernova.

Our objective simply in the services side of the portfolio is to continue to grow that every single year, delivering incremental EBITDA, expanding our margins, and growing our cash flow. And at the same time, we grow closer to our customers, and we become much more connected with every service contract.

Now improving our cost structure is also a key to the road map. You remember there was a block on that EBITDA walk that had cost out. And a bunch of that cost out is going to come from our G&A cost reduction initiatives.

And how are we doing it? We're doing it with the same tools that we're driving productivity through the factories. We're driving it with lean initiatives. We can apply lean in the businesses. Cliff and I have known each other for a long time. And when I was at a previous company, he used to push us on seeing Lean not only in the production base, but also in our enabling functions and that's exactly what we're doing here.

So we're looking at how do we do the work that we do to support the business even better, even more efficiently, and being more effective. And we're applying the same tools, value stream mapping, kaizen events, and taking work out.

We've already started to do some things, and this may sound very simple, but I'll tell you, it's a big deal. We're already starting to take out legal entities. When you think about creating a company like Vernova, $33 billion of revenue spread across the world and pulling that out of a bigger business called GE, that comes along with a lot of legal structure that was there to support cash movement and tax optimization.

We're bringing those entities over because we have to have them on day 1. But I can tell you, we don't have to have all of those going forward. We can figure out how to reduce those. Why is that important? Every single legal entity we have, we have to staff, we have to audit, we have to report on. We have to keep in place, and we have to do that every single year. So you can call it few hundred thousand dollars for every single entity that we manage on an annual basis. As we reduce those, it takes out structure. It allows us to do things faster, and it also opens up the opportunity for us to take more initiative in other places to increase efficiency and reduce our cost in areas such as tax and treasury as we're moving things around the world.

So that's an important thing that's happening. It will bring, it is bringing value to the bottom line today. It's not only in that area. We have many things to look at. One of the big areas is in our IT network and our IT structure. We're already looking at how do we take all these systems that haven't been connected, they have spoken to each other, but they haven't been as connected as we want them to be, bring them together and bring out cost but improve efficiency, allowing us to go to less points to get data. So we spend less time trying to get data and more time analyzing data so we can support the businesses even better and getting -- looking around corners and getting to conclusions.

Through all of this work, and there will be a long list of things that we can do, we're anticipating to reduce about $500 million of G&A costs by 2028. I say by 2028 because we have a really good road map, and we have a lot of people working on it, and I can tell you that we are all working very hard to move that needle to the left and deliver that cost savings even sooner.

So all of this operational execution has driven our free cash flow inflection, which you've heard us talk about. We said that last year. We said this was where we're going to inflect free cash flows. You can see that that's happened in 2023. Again, it hasn't stopped. It's going to continue. This work and the productivity work and the increase in profitability of the businesses will continue to increase free cash flow.

Where is it going to come from? It's pretty simple. It's pretty straightforward. It's higher EBITDA. Now on that higher EBITDA, we will pay a bit more taxes. As we earn more money, we have the obligation to pay taxes. But there's also another big lever that we'll talk about for a minute, and that's working capital management.

Even in a growing business, which naturally requires more working capital, we have tools and ability to turn that working capital from being on the balance sheet to becoming cash even quicker. And so we're going to talk about that in a minute, but that is a big opportunity for continued free cash flow growth.

Now it's important to say, as we're generating cash flow on the left, those cash flow numbers include a couple of very important things that are built into them. One is we have CapEx to support the business. You heard a backlog that's growing. Specifically, you heard some backlog growth in the Electrification side of our business, in that segment. That's going to require a little bit of capacity expansion. We have the money in there to do that. That's there. And it's going to run probably for the next few years at an amount equivalent to depreciation and amortization, call that somewhere between $700 million and $900 million a year. That is a part of our outlook.

Secondly, we're investing about $1 billion in R&D. Scott said that in the early part of the meeting. We anticipate we will continue to invest that. When we find things like carbon capture and direct air carbon reductions, we will invest in that to make sure that we are staying ahead on the sustainability curve. So that money is in there, plus the R&D investment that it takes to support the business going forward and create that innovation for future years. So all of that is within our outlook.

Now let's talk about working capital for just a minute. It is an opportunity. It is an opportunity in almost every business to continue to look at working capital. On the lefthand side of the page, we have -- there's a really good example of how we've used some lean tools to truly turn working capital balances into cash. What you see is on the lefthand side of the page, an example from the Gas Power services business where the team came together and looked at how do all -- does all this information come together once technicians are in a service environment to bring that together to turn it into a billing to get it out to the customer to collect cash.

All that work that took to kind of pull all that information to turn it into a billing, the team standardized much of that work. Some of it, as Maví said, is now digital. Turn that in, reduced an overall 20,000 hours out of that process on an annual basis and in reducing that time, turned it to do billing more quickly, and we pulled in $250 million of cash faster than we would have under the old process. That's one example. That example can be replicated in other places. And the team's working kaizen events, that Dan was talking about, can find many of these opportunities.

It is a culture. Lean is a culture. And that culture isn't just in the factories. It's in the teams that we and the enabling functions drive as well. So there's opportunity there.

The work that we've done on what we call the order-to-cash collection cycle, in 2023, reduced our days sales outstanding, call that the speed that we collect receivables, by 7 days between 2022 and 2023. That's about $90 million for every day that we reduce. And you can do the math, these are big numbers, right. And there's more opportunity, we're not done.

So while we're still doing good work and not done there, we do have a bucket of opportunity on the righthand side of this page in the inventory work. You can see our inventory balance is growing, you would say, okay, well, your business is growing, so your inventory balance is growing a little bit. What I'd show you is I broke this into 2 pieces because what you can see, the lighter blue bar, which is finished goods, that bar is shrinking a bit as we move through this growth period. We're getting things out of the door faster once they get to the end of the production process.

The blue bar is a bar that's highlighted because we talk about finding the red things. Scott answered the question in the Q&A session about we're looking for the things that provide more value that we can focus on better, that we have the opportunity and the more we can break the data down, we can find those things. We have an opportunity in the raw material and components area. Let's not bring those things in too fast. Let's not pay for them too early. Let's do them much more lean, so that way, we're bringing our inventory balance down and we're managing our cash and generating more cash flow. We have people working on this around the world as well. So working capital continues to be an opportunity.

Free cash flow will be driven by higher earnings. It will also be driven by working capital management. And every day of inventory that we reduce will bring us about $60 million and I try to throw those numbers out and talk to the teams about them because it becomes much more tangible as to what we can do.

Now with that, when we spin out of Vernova -- when we spin out of GE and become Vernova, we will be an investment-grade company with over $4 billion in net cash, significant liquidity and positive and growing free cash flow. Maintaining that investment-grade balance sheet is going to be a fundamental priority for us. It's important to us. It's important to our customers as they contract big jobs with us. But from there, we're also going to focus in the near term on organic investments.

So there's multiple pillars in capital allocation. You can think about organic investments, you can think about returning cash to shareholders through dividends and/or share repurchases, and you can also think about M&A. What I would tell you, as we spin out and as we're continuing to grow our cash flow to the levels where we think it should be, in the near term, we'll probably be more heavily focused on the organic investments. Not saying we're not going to do any other things, but what I will tell you, when the right time comes, I won't even say if, but when the right time comes, we'll take the opportunity to look at how and what we do to return a portion of that cash to shareholders. So the stronger we make that cash, the more we have the ability to take that lever out of our portfolio and execute on that.

And we will, as we've talked about, continue to execute on M&A type initiatives. There are going to be things where we benefit and bring in technology, we apply technology. We help somebody to grow something, we may help to scale up. I would tell you, I don't anticipate big, big M&A activity in the near term, but M&A is a part of the path and it is a part of what helps us to innovate and we support the innovation of others.

Now as I wrap up, I would say, as we look further out, we expect the results to continue to strengthen not just in '24 and '25 and that's because we expect these healthy sector fundamentals to continue. And also because this lean operating model is something that really is never done. So the constant application of both of those things provides a good solid growth for us to continue to expand.

So what do we see? On the revenue growth side by 2028, we see mid-single-digit kind of annual CAGR, compound annual growth rate, and that's going to come from disciplined equipment growth on this rising demand as well as continued service growth.

We expect by 2028 to be at about 10% EBITDA margins, at 10% EBITDA margins, on positive price/volume, continuing benefits from productivity and lean, and the execution of that G&A cost-out road map that we spent a few minutes on.

And then finally, on free cash flow conversion, every year may be a little bit different. But over time, we're expecting to generate free cash flow conversion between 90% and 110% of net income. The smallest word on this page is the most important word, "by" 2028. So we're not saying 2028. We're staying by 2028. When you hear all the good things that are happening by this team and in this business, we are going to commit to 2028, but I can guarantee you, we are going to be working very hard to move that left.

I'll wrap up where Scott started. We're operating in attractive markets and solid execution. And the combination of those things put Vernova in a position to deliver significant profit and free cash flow growth for the years ahead.

We, as a team, are excited about the opportunity to electrify and decarbonize the world and at the same time, deliver significant value creation for shareholders.

I appreciate your time this morning. I'm going to call Michael up, and we're going to have another Q&A session here with you.