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Westinghouse Air Brake Technologies Corp. (WAB)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Wabtec's First Quarter 2023 Earnings Conference Call. All participants will be in a listen-only mode. [Operator instructions] After today's presentation, there will an opportunity to ask questions. [Operator instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Kristine Kubacki, Vice President of Investor Relations. Please go ahead.

Kristine Kubacki

Vice President-Investor Relations, Westinghouse Air Brake Technologies Corp.

Thank you, operator. Good morning, everyone, and welcome to Wabtec's first quarter 2023 earnings call. With us today are President and CEO, Rafael Santana; CFO, John Olin; and Senior Vice President of Finance, John Mastalerz.

Today's slide presentation, along with our earnings release and financial disclosures, were posted to our website earlier today and can be accessed on our Investor Relations tab on wabteccorp.com. Some statements we're making are forward-looking and based on our best view of the world and our business today.

For more detailed risks, uncertainties and assumptions relating to our forward-looking statements please see the disclosures in our earnings release and presentation. We will also discuss non-GAAP financial metrics and encourage you to read our disclosures and reconciliation tables carefully as you consider these metrics.

I will now turn the call over to Rafael.

Rafael O. Santana

President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

Thanks, Kristine, and good morning, everyone. Let's move to slide 4. I'll start with an update on our business, my perspectives on the quarter, and progress against our long-term value creation framework, and then John will cover the financials.

We delivered a strong start to the year, which is evidenced by robust sales and earnings per share growth. We achieved this despite a volatile and uncertain macro environment. Sales were roughly $2.2 billion, which was up 14% versus prior year.

Revenue was driven by strong performance across the Freight and Transit segments, but partially offset by unfavorable FX. Total cash flow used for operations was $25 million. Overall, our financial position remained strong.

We continue to allocate capital to maximize shareholder returns by investing for future growth, executing on strategic M&A and returning cash to shareholders. Total multiyear backlog was $22.3 billion, down 2% year-over-year. And excluding the headwinds from FX, backlog was down 0.4% from last year. The 12-month backlog again grew to a new high of $6.9 billion.

Overall, we have a strong start to the year. The underlying strength and momentum of the business is evident, and we're well positioned to continue to drive profitable growth even with uncertainty and volatility in the global economy.

We remain confident in our ability to execute on our rigorous operating principles as we continue to deliver for our customers and make progress against our long-term growth strategies.

Shifting our focus to slide 5, let's talk about our 2023 end market expectations in more details. As we look at key metrics across our Freight businesses, we remain encouraged by the underlying business momentum and our robust pipeline of opportunities.

North America carloads were down in the quarter, but locomotive parkings are slightly lower than the same time last year despite lower freight traffic. We continue to see significant opportunities in demand for modernizations and new locomotives as our customers invest in solutions that continue to drive reliability, productivity and fuel efficiency.

Looking at the North America railcar build, demand for railcars continued to show strength. As a result, the industry outlook for 2023 is for 40,000 to 45,000 cars to be delivered. Overall, we believe we have an opportunity to continue building significant long-term momentum with growth in modernizations, in locomotive sales, in railcar builds and in digital solutions.

Internationally, activity also continues to show positive signs, and we continue to grow our installed base of locomotives around the world. Finally, transitioning through the transit sector, the secular drivers remain in place as the need for clean, safe and efficient transportation solutions continue to increase across the world.

Next, let's turn to slide 6 to discuss a few recent business highlights. We recently signed a strategic order for new locomotives in Brazil with VLI, which results from the growing investments in Brazil's infrastructure to support growing rail volumes. We also secured a key order for our new ultra-class mining drive system, specifically targeted for high altitude applications.

Reflecting on the resilience of the business, the strength of our balance sheet and our ability to generate strong cash flow, Moody's recently upgraded Wabtec's credit rating. And finally, our team in India achieved a significant milestone by delivering 500 locomotives in a 1,000-unit order to Indian Railways. As one of the region's largest rail equipment suppliers, the team has positioned Wabtec and our customers for growth for years to come.

All of this demonstrates the underlying momentum in the business, the team's relentless focus on execution and the strong pipeline of opportunities we continue to deliver on. Wabtec is well positioned to continue to capture profitable growth, with innovative and scalable technologies that address our customers' most pressing needs.

With that, I'll turn the call over to John to review the quarter, segment results and our overall financial performance. John?

John A. Olin

Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

Thanks, Rafael, and good morning. Turning to slide 7, I'll review our first quarter results in more detail. We started the year with another good quarter of operational and financial performance, despite continued challenges in foreign currency exchange and still elevated input costs. Sales for the first quarter were $2.19 billion, which reflects a 13. 9% increase versus the prior year. Sales were driven by very strong Freight segment sales, which were up 18.5% from last year.

Q1 sales were once again negatively impacted by unfavorable foreign currency exchange, which reduced our revenue growth in the quarter by 2.9 percentage points. For the quarter, GAAP operating income was up $37 million, driven by higher sales. Adjusted operating margin in Q1 was 16.4%, down 0.1 percentage points versus the prior year as we had expected. The benefits of higher sales were offset by a less rich mix of sales between business groups and higher next-generation product development costs.

GAAP earnings per diluted share were $0.93, which was up 16.3% versus the first quarter a year ago. During the quarter, we had pre-tax charges of $9 million for restructuring, which was related to our Integration 2.0 initiative to further integrate Wabtec's operations and to drive $75 million to $90 million of run rate savings by 2025.

In the quarter, adjusted earnings per diluted share were $1.28, up 13.3% versus the prior year. Overall, Wabtec delivered another solid quarter of results, demonstrating the underlying strength and momentum of the business and our ability to navigate through volatile macroeconomic conditions.

Turning to slide 8. Let's review our product lines in more detail. First quarter consolidated sales were very strong, up 13.9%. Excluding foreign currency exchange, sales were up 16.8%. Equipment sales were up 43.4% from last year due to higher locomotive sales this quarter versus last year.

Component sales were up 21.8% versus last year, largely driven by higher OE railcar build and an increase in our market share due to product availability, along with increased demand for industrial products.

Digital Intelligence sales were up 22.2%, which was driven by robust demand for on-board locomotive products and international PTC, along with revenue contribution from the strategic bolt-on acquisitions of Beena Vision and ARINC last year.

Our services sales grew 6.2% versus last year. The increase was driven by higher sales from a larger active fleet, partially offset by the timing of MODs deliveries in the year. The superior performance, reliability and availability of our fleet continues to drive increased customer demand for our services and solutions.

Across our Transit segment, sales increased 3.8% versus prior year to $628 million. Absent the impacts of foreign currency exchange, Transit sales would have been up 9.6%. The momentum in this segment remains positive as secular drivers such as urbanization and decarbonization accelerate the need for investments in green infrastructure.

Now moving to slide 9. As forecasted, gross profit margin was slightly lower, driven by a less rich mix, unfavorable foreign currency exchange and higher manufacturing costs. Mix was unfavorable, driven by strong sales of locomotives in our equipment business. Raw material costs, while still elevated, are largely flat on a year-over-year basis. Foreign currency exchange adversely impacted revenues by 2.9 percentage points and adversely impacted first quarter gross profits by $14 million.

Finally, manufacturing costs were positively impacted by productivity gains and higher absorption, offset by higher digital development costs. Our team continues to execute well to mitigate the impact of these cost pressures by driving operational productivity and lean initiatives.

Turning to slide 10. For the first quarter, GAAP operating margin improved 0.2 percentage points to 12.6%, while adjusted operating margin declined slightly to 16.4%. GAAP SG&A was $263 million and adjusted SG&A was $258 million, both of which were up versus prior year, but down as a percentage of sales.

Engineering expense increased from last year according to plan and was flat as a percentage of sales at 2.3%. We continued to invest engineering resources and current business opportunities. But more importantly, we are investing in our future as an industry leader in decarbonization and digital technologies that improve our customers' productivity, capacity utilization and safety.

Now let's take a look at the segment results on slide 11, starting with the Freight segment. As I already discussed, Freight segment sales were strong for the quarter, up 18.5%. GAAP segment operating income was $227 million for an operating margin of 14.5%, up 0.2 percentage points versus last year.

Segment adjusted operating income was $297 million, up 14.7% versus the prior year. Adjusted operating margin in the Freight segment was 19.0%. Adjusted operating margin was down 0.6-percentage point on a year-over-year basis. The benefits of increased sales, including fixed absorption and lower SG&A as a percentage of revenue, were more than offset by unfavorable mix and higher next-generation product development costs in our digital group.

Finally, segment backlog was $18.4 billion, down 3.5% from the end of Q1 last year. On a constant currency basis, segment backlog was down 2.3%. The year-over-year reduction in backlog was driven by lapping last year's multiyear order for modernizations.

Now, turning to slide 12. Transit segment sales were up 3.8%, driven by higher aftermarket sales, partially offset by negative effects of foreign currency exchange. Unfavorable foreign currency exchange adversely impacted segment sales by 5.8 percentage points. GAAP operating income was $69 million, up 6.2%. GAAP operating income increased as a result of higher sales, improved mix from aftermarket sales and benefits from our Integration 2.0 activities, partially offset by higher restructuring costs.

Adjusted segment operating income was $83 million, which was up 12.2%. This resulted in an adjusted operating margin of 13.1%, up 0.8 percentage points from last year. Finally, Transit segment backlog for the quarter was $4.0 billion, up 6.3% versus a year ago. On a constant currency basis, backlog would have been up 9.3%.

Now, let's turn to our financial position on slide 13. Q1 cash used for operations was $25 million. While cash flow benefited from higher earnings, we are continuing to invest in the business' growth, which is driving working capital higher, in particular receivables and inventory. Despite that, we continue to expect greater than 90% cash conversion for the full year.

Our debt leverage ratio at the end of the first quarter declined to 2.3 times versus the prior year, and our liquidity was robust at $2 billion. As Rafael mentioned, during the quarter Moody's upgraded our credit rating, which reflects the strength of the balance sheet and the outlook for continued strong cash flow. With the Moody's upgrade, Wabtec is rated investment grade across all three rating agencies.

And finally, we returned a significant amount of capital to our shareholders in the quarter, with $209 million returned through share repurchases and dividends. As you can see in these results, our financial position is strong, and we continue to allocate capital in a balanced strategy to maximize shareholder returns.

With that, I'd like to turn the call back over to Rafael.

Rafael O. Santana

President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

Thanks, John. Let's flip to slide 14 to discuss our 2023 financial guidance. We believe that the underlying customer demand for our products and solutions remains strong across our product lines, and our backlog continues to provide good visibility into 2023 and beyond. The team is committed to driving strong top line growth, while managing costs. We're also committed to driving adjusted margin expansion in 2023, despite FX volatility, a still challenging cost environment and continued supply chain disruptions.

With these factors in mind, we are reiterating our previous guidance. We continue to expect 2023 sales of $8.7 billion to $9 billion and adjusted EPS to be between $5.15 and $5.55 per share. We also expect cash flow conversion to be greater than 90%.

Now, let's wrap up on slide 15. As you heard today, our team delivered a strong start to the year despite a challenging and volatile environment, thanks in large part to our resilient installed base, world-class team, innovative solutions and our relentless focus on our customers.

Our results remain on track for us to deliver on our five-year outlook that we provided at our Investor Day last year. With strong momentum across the portfolio, increased visibility through our multiyear backlog and rigorous focus on execution, Wabtec is well positioned to drive profitable long-term growth and maximize shareholder returns.

With that, I want to thank you for your time this morning. I'll turn the call over to Kristine to begin the Q&A portion of our discussion. Kristine?

Kristine Kubacki

Vice President-Investor Relations, Westinghouse Air Brake Technologies Corp.

Thank you, Rafael. We will now move on to questions. But before we do and out of consideration for others on the call, I ask you that you limit yourself to one question and one follow-up question. If you have additional questions, please rejoin the queue.

Operator, we are now ready for our first question.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question will come from Justin Long of Stephens. Please go ahead.

Justin Long
Analyst, Stephens, Inc.

Q

Thanks and good morning.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Good morning, Justin.

Justin Long
Analyst, Stephens, Inc.

Q

I was wondering if you could help us think through the assumption in your guidance for North American locomotive utilization over the rest of the year. What percentage of the locomotive fleet are you assuming gets parked by the end of 2023? And as we think about your sensitivity to that, is there any way you could speak to the percentage of your Freight services revenue that's transaction-based that would be impacted by that trend?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

So Justin, I'll start with strong quarter. We finished with a strong pipeline of opportunities. And I think we continue to add on some really important options here for multiyear orders. As you look into the quarter specifically, I would say, revenues were a bit higher. Piece of that was the alleviation of the supply chain. But the other one was really a piece of, I'll call, locomotive parkings being actually a positive. So there were lower parkings than we had for last year. That's not what we have planned for the year; the plan for the year was to – locomotive parkings to be up.

So with that, we do expect that to be more amplified in the second half of the year. For the first half, I think we will continue to be a positive. I think ultimately, a lot of that's going to depend on the improvement of both velocity and dwell times. And that's, I think, ultimately going to be determinant. So I wouldn't speculate. I think we feel very strong about the dynamics of the year based on the backlog that we have. The convertibility really is high for the year. At this point, we moved into a new high from the 12-month backlog. So we feel confident about our ability to deliver on the guidance that we provided at this point.

Justin Long
Analyst, Stephens, Inc.

Q

Okay. Great. And on the percentage of your Freight services business that's tied – it's more transaction-based. John, is there any color on that you could provide?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Well, out of the $2.5 billion, a good $2 billion of it is tied to the service contracts, right? And if the locomotives are running, we're earning and if they're parked, we don't. So we don't provide, Justin, the amount in our forecast. But as Rafael had mentioned, on a full year basis, we expected the parkings to grow, be up, which would be a headwind to revenue. What we saw in the first quarter was a slight reduction. So again, a little bit of a benefit. And that drove a little bit more revenue than what we expected in the quarter.

But on a full year basis, Justin, we would expect to get to that target or even a little bit higher. And the reason I say a little bit higher is that, if you remember last quarter, we talked about our assumption on carloads, and that was for flat. And coming out of the first quarter, flat doesn't feel is likely now given the fact that carloads were down to 3.6%. So, that could amplify a little bit of the parkings. But Justin, to answer your question specifically, we don't provide that number. But we've got 16,000 of them running in North America and the fewer that run, a little bit less that we get in revenue.

Justin Long
Analyst, Stephens, Inc.

Q

Understood. And as a follow-up, John, you were helpful last quarter in helping us think through the quarterly cadence that's baked into the guidance in terms of both revenue and operating margins. Just curious if you have any updated thoughts as we look out the rest of the year based on what's coming in the backlog, mix, et cetera?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Yes. Great question, Justin. So we talked about last time, it was around margin as well as revenue. And starting with margin, we had said that we expect the margin to grow on a full year basis in line with our long-term plans. And that that growth would all come in the back half. So we expected the first half on margin to be flat, and that's really where we're at. On a year-over-year basis, actually, we're down about 0.1%. So kind of check on that one. We feel good about where we're at versus our plan, and that leads us to revenue.

And last time we talked about revenue, growing faster in the first half than the second half. And again, we had strong revenue growth in the first quarter. As Rafael had mentioned, that revenue growth, it did exceed our expectations. And when we looked at putting the plan together, Justin, we looked from launching from the fourth quarter, right? And when you take out currency, the fourth quarter was up 15.7%. And we expected a little bit of a tempering from the fourth quarter. And what we got is a little bit of an acceleration, and we ended up ex currency at 16.8%.

And so that difference of revenue, some of that's being pulled from the back half. So that was driven by three things. One is our assumption on supply disruption. It was a little bit more front-loaded than we had planned. So that drove a little bit more. The second area we talked about, parkings. We had forecasted it to be up. It was down and that added a little bit to that revenue over our expectations. And then the third one is in our Components group. Components was able to take market share. We still feel very good about our carload build of 40,000 to 45,000. But because of the availability and the investment that we've made in working capital and inventory, in particular, we were able to take a little bit of share due to availability.

So, most of those will reverse themselves out in the back half. And so largely from a revenue standpoint, we're on track with where we expected to be. Again, a little bit more in the first quarter, and that will come out – most of that will come out a little bit in the next three quarters.

Justin Long
Analyst, Stephens, Inc.

Q

Okay. Got it. Thanks for the time. Congrats on the quarter.

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Thank you.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Thank you.

Operator: The next question comes from Allison Poliniak of Wells Fargo. Please go ahead.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities, LLC

Q

Hi, good morning.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Good morning.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities, LLC

Q

Just wanted to go back to the services piece. John, I think you made a comment that there was some impact timing of MOD deliveries this quarter. Could you give a little color there on how we should think about through the balance of the year?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Yes. So when we look at the full year, and we talked about the last couple of quarters as we expect our MODs to be up double-digit on the year. But when we look at the quarter, Allison, actually MODs were down a fair amount in the first quarter. And that's nothing to get excited about. That's the way it was planned. And we'll have still that double-digit growth by the end of the year. So that's the cadence that we're referring to. And I think where it comes in to be important, Allison, is when you look at the fourth quarter, mix was a big driver of that unfavorability.

And at that time, we had talked about both locomotives and MODs being up quite significantly driving that. In the first quarter, mix is unfavorable, but not to the same extent that we saw in the fourth quarter, because we had a little bit of offset and the MODs being down in the quarter. And we also saw a very strong growth, as you saw in our equipment group, with regards to the locomotives.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities, LLC

Q

Perfect. And then just on the digital side, really strong growth there. Is there – and I know it's what, 10% on an organic basis. Is part of that growth sort of the catch-up now that some of the supply chain is starting to ease, I think, on the electronic components side? Or is this sort of kind of on trend to where you thought? And this should be the number that we should be thinking through the balance of the year for digital?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.
A

There was a little bit of catch-up in the computer chips. I wouldn't say a lot. And again, the first time we started to see the computer chip market ease was in the fourth quarter. And so we saw a little bit more easing, but not a huge portion of it, Allison, but a bit of it.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

Allison, I'd just add that – I mean the growth you saw in the last few years, I think, has positioned the business well from a backlog perspective. Some of these were multiyear agreements. So the backlog coverage is actually better than it was a year ago. So the team with that continues to be really very much focused on making sure that we drive convertibility into 2023, still got to work through that.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities, LLC
Q

Great. Thanks for the color.

Operator: The next question comes from Scott Group of Wolfe Research. Please go ahead.

Ivan Yi
Analyst, Wolfe Research LLC
Q

Yes, good morning. This is Ivan Yi on for Scott Group.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

Good morning.

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.
A

Hi Ivan.

Ivan Yi
Analyst, Wolfe Research LLC
Q

Good morning. First, following the Norfolk derailment in East Palestine, what potential regulatory initiatives could Wab benefit from? And I know Wab does not manufacture the hot bearing detectors. But are you seeing any uptick in orders for other detection systems? Can you get into the hot box market? Thank you.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

A couple of comments there. First, I mean, we're not going to comment on the accident per se. But if you think about rail safety, I think this is a top priority for both us and for our customers. I think similarly to what we do in efficiency or carbon emissions, I mean we continue to partner with customer share to further improve rail safety, rail productivity, emissions. We are working with a number of customers on technologies that help really further detect and anticipate any failures of systems or subsystems, and that's continued to be a part of opportunities we have to continue to always drive continuous improvement in the space.

Ivan Yi
Analyst, Wolfe Research LLC

Q

Thank you. And just – and a follow-up, can you discuss the M&A market? In what areas or regions are you most actively looking right now for any potential acquisitions? Thank you.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Well, when we think of inorganic, I mean, we're continuing to explore bolt-on acquisitions. To some extent, we will continue to be opportunistic here. This needs to really ultimately drive higher ROIC and faster profitable growth for the business. With that being said, I think our focus continues to be very much on driving organic growth for a lot of the investments that we're doing on technology. We believe that will continue to drive momentum in terms of the opportunities we have here in the combination of modernizations and new locomotive sales. And with that, we continue to see opportunities to return value to shareholders. Our board recently renewed the authorization for $750 million buybacks. And with that, we will continue to be committed to pay down debt.

Ivan Yi
Analyst, Wolfe Research LLC

Q

Thank you.

Operator: The next question comes from Rob Wertheimer of Melius Research. Please go ahead.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thank you. Good morning, everybody. I had two questions on international freight. And one was just on locomotives. Is there any shift in trend there? Or is strength just normal variability in production and delivery? And then second, I wonder, kind of a bigger picture question, if you could just give us a state of the market PTC and digital, in general, across international freight? And what the runway looks like there?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Yeah. So first, we continue to see a strong pipeline of deals here. We see good momentum, both internationally and in North America. Our team continues to be really focused on order conversion. If you think about internationally, whether if it's Brazil, Kazakhstan, Africa, Australia, we've had really a number of projects that are being discussed at this point. And in North America as well, I think there continues to be an opportunity here to really drive productivity and efficiency, really renewing a fleet that's quite aged. And there's significant opportunities there.

So with that in mind, I think this is probably the best visibility we've had over the last years – into the next three years. And we see the opportunity here to continue to drive really momentum towards delivering the five-year guidance we provided last year. You asked specifically some elements of PTC and internationally. We're continuing to expand, and we will be deploying PTC in another market internationally. So I think that's a big part of the opportunity, and we're having the opportunity here to upgrade those systems.

So the momentum there continues on driving innovation, driving really the next-gen of products that will drive both efficiency and productivity for customers. So a positive from that perspective. And on Transit, I mean, I think the trends continue to be positive there as well. And we see the fundamentals of the business is quite good.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thank you, Rafael. And one follow-up, if I may. I mean that's a fairly bullish statement. The North American locomotive kind of pipeline of potential orders, et cetera, do you have any characterization of what's driving that? You mentioned the old fleet, we all definitely know that's there. You guys have done a ton with efficiency, and I think your tier 4 is more efficient. So maybe that makes the economics easier. Just any color commentary from the conversations you're having, and I'll stop there. Thank you.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

I think a lot of that is, again, back to driving efficiency. I mean if you think about it, trains that are being pulled down by three locomotives or four locomotives, how do you replace those with less locomotives? So instead of three, you have two or four, you have three locomotives pulling a train. And with that, I mean these locomotives – the locomotives we're delivering now today are burning less fuel. So there's the benefits that come from that.

They're more reliable in that context. So that helps drive efficiency to the next level. And with that, that's where I think momentum comes in, in terms of the opportunities to continue to drive, adapt efficiency across their operations. And we're continuing to invest in technologies that will help further accelerate that, and that's something that we continue to see opportunities on.

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Rob, we typically see – or our customers typically see a mid double-digit return, or IRR, on their purchase of either a new or a modernized unit. Typically a little bit higher on a new, but both in the mid double-digit returns. So they've got a very good strong economic incentive.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Perfect. Thank you, guys.

Operator: The next question comes from Saree Boroditsky of Jefferies. Please go ahead.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Thanks for taking my question. Just first, a follow-up on the derailment question. There's been some talk about shorter train lanes in response to this. Have you heard anything from a legislative perspective? And how do you think about that impacting your business?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

We're continuing to work with our customers and other stakeholders share in the industry to continue to, I'll call, support improvement. And there's always a sense of continuous improvement, despite rail being the most sustainable way of moving things over land.

I mentioned here some other technologies that we've been working with customers that could anticipate, once again, a failure at various equipments, including not just thermal, but also vibration and other technologies here that allow us to be more predictive on rail. So we see an opportunity here to continue to drive, I'll call, innovation in the space. And with that, I think we have a set of solutions that can continue to help customers drive efficiency, productivity, emissions and rail safety.

Saree Boroditsky
Analyst, Jefferies LLC

Q

And then maybe just to follow-up. Maybe could you provide an update on how Integration 2.0 is progressing? And maybe any segment level benefits for this year?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Sure, Saree. Integration 2.0, as we exited 2022, the spending was a little bit higher than what we had anticipated. So, that is very good. It means we'll get to the savings quicker. But looking at that launching spot, Saree, after one year we spent $46 million. A lot of that non-cash, but took a $46 million charge. And with that, we returned $5 million of savings. And as we move into the next couple of years, we would expect that $5 million of savings to grow to $75 million to $90 million on a run rate basis in 2025.

So, we expect a fair ramp as we go forward with that. And we saw some of that certainly in the first quarter. When we look about the segments, most of the spending and – I should say, a majority of the spending as well as the savings are going to accrue to the Transit group. There is a fair amount in the Freight side, but a little bit over shared in terms of our investment and opportunity for consolidation in Transit.

And again, when you look at the margins in the first quarter, we were up 0.8 year-over-year. Some of that was certainly driven by those savings and the investments that we made in 2021 beginning to turn and pay off.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Appreciate the color. Would it be possible to provide any numbers around what you would expect for savings for this year and maybe for 2024?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

No. In terms of the spending, we would expect it to be a little bit north of what we spent last year of the $46 million. In terms of savings, again, Saree, we've got three years to ramp up from $5 million to, call it, $80 million to $85 million at the midpoint. So it's pretty significant, and it will continue to build over that period of time. So a little bit more in 2024 than 2023.

Saree Boroditsky
Analyst, Jefferies LLC

Q

Okay. Appreciate the color. Thanks for taking my questions.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Thank you.

Operator: The next question comes from Jerry Revich of Goldman Sachs. Please go ahead.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Hi. Good morning, everyone.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Good morning, Jerry.

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Good morning, Jerry.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

I'm wondering if we could just talk about the Wabtec products that could potentially improve the safety around and not only the incident that we spoke about on this call, but a range of other less severe accidents. What could the addressable market look like, Rafael, if we were to say, let's leverage Wabtec's products to improve safety and outcomes across the industry? Obviously, different paths to get there, but what is that addressable market if we were to move in that direction that's favorable to Wabtec's product portfolio?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Jerry, I think, number one, it's a significant opportunity that we have. A lot of it resides into a lot of the elements that we described as automation, which comes down to really driving what I call a more seamless operation that will improve both the elements of efficiency, but that will also drive opportunities here to continue to capitalize on safety and other elements of this. And some of it comes down to potential introduction of new projects and new products and technologies, such as products that allow the detection in anticipation of failure, whether that's at the locomotive level, whether that's at the train level, that's a piece of it.

The other one is the integration of some of these systems. You're well aware of our Trip Optimizer, which is a product that we have largely deployed not just in North America, but internationally as well. The combination of that with PTC and some other elements really allow you to fundamentally operate a train largely with what we would call an autopilot. So those are some of the things that we have an opportunity here to continue to drive with customers.

And we're at different stages on that, depending on the complexity of networks around various parts of the world. And we're seeing really an opportunity here to drive larger adoption. I mentioned here, PTC internationally. I mean we've gone with PTC now not just into Brazil, but we did it in Africa. We're expanding into Asia, and that's another area where we expect that to go into. We've got opportunities to share with wayside monitoring as well. And those are some of the things that we're currently either in the process of installing or discussing it with customers in North America. It's a significant opportunity.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

And Rafael, really interesting comment around the combination of locomotive and broader system technologies. Maybe just to put a finer point on that. The 16,000 locomotive installed base, what proportion would you estimate of that installed base that you folks have? Has that combination of Trip Optimizer plus is on network with PTC to drive that level of automation? How significant of a chunk is that out of the existing installed base?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

Jerry, it's very high, right? I mean, if you think about PTC, it's really deployed across the entire installed base, whether it's Wabtec locomotives or any other compatible locomotive that's running out there. When it comes to Trip Optimizer, that's more, I'll call, really it's been largely deployed at the Wabtec locomotives.

So that's an area of an opportunity that we would have here to continue to expand on that. And with that, I mean, there is the evolution of some of the products that we've talked to you guys before, such as Zero-To-Zero, which really amplifies a lot of the element of automating the entire trip. And with that, the continued automation of some of these systems.

There are some other systems, that really operate at a network level. So helping the railroads both dispatch trains, but really ultimately manage the network, things like Movement Planner, which allow you to really, in a very fast mode, be able to redefine the operations and dispatches you're going to be doing along the day.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC
Q

Super. And John, can I just ask a really interesting material cost performance for you folks? In the quarter, can you expand on what drove your ability to drive flat material cost? And essentially as we think about the comps over the balance of the year, considering costs moved up over the course of 2022 for most industrial companies, is it fair to say that we could actually be looking at year-over-year cost tailwinds for you folks in coming quarters?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.
A

Yes. Sure, Jerry. So yes, this is the first quarter after six very rapidly rising quarters of our cost of goods sold that we saw, even with year ago. So costs were flat on a year-ago basis. I don't want anyone to walk away that think that costs are fine. They are very elevated. They are very high, but this is the first quarter in six that we didn't see them rise, right? And so with regards to that, Jerry, it's tough to say what next quarter will be. We've certainly got our forecasts, but there's four elements of the costs that are all moving, some in different directions.

And you got metal costs and they're falling, right? They skyrocketed from the second quarter of 2021 through the invasion, into the second quarter of 2022. Since then, they've been coming down. And so we feel very good about that. And then also the transportation costs, very similar, both from a fuel standpoint and a container cost. Those are on the positive side. And remember, that takes time for that to flow through our inventory.

The other pieces of it are not so good, right? Labor is more of a latent cost that certainly continues to rise. And then we can't forget about general inflation, right? Everything else is inflating. Certainly, CPI was up 5% in March. So all of those things are acting within our cost structure. And then, Jerry, as you know, we got about 60% of our revenue under long-term contracts. And a lot of those have cost escalators in them. And if things start to go down, it will be a cost de-escalator.

So, we monitor it all very closely. I think the important piece or the most important piece is, it has been our aim since it all started seven quarters ago, is to make sure that we're driving a price/cost equilibrium, which we started or hit in the second quarter of last year and have maintained for the last four quarters. And we expect to continue to maintain that throughout 2023.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Super. I appreciate it. Thank you

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Thank you, Jerry.

Operator: The next question comes from Ken Hoexter of Bank of America. Please go ahead.

Nathan Ho
Analyst, BofA Securities, Inc.

Q

Thanks, operator. This is Nathan dialing in for Ken. Congratulations on the solid quarter. Just want to quickly follow up first on Justin's first question on the quarterly cadence. I see that there is a pretty positive impact from international orders in the first quarter. And per your guidance from last – from 4Q, I think that was supposed to be a little bit more first half weighted. Would you mind just giving the split between 1Q and 2Q on the magnitude of impact to equipment?

And just secondly, on the backlog, I noticed that despite the 12-month backlog being up, this is roughly the third quarter of sequential decreases in the total backlog. Is that just a function of the commodity escalators being assumed? What's – maybe talk a little bit about your outlook on demand and selling into the pipeline? Thank you so much.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Let me start with the second half of the question, then I'll pass it on to John to address the first one. On the second one, if you look at it, in the first half of last year, we had some very significant multiyear orders. So orders that really supported not just 2023, 2024 and 2025, and those were modernizations that we signed with Class 1s in the US. You don't have the repeat of that this year. But this is, as I said before, the best visibility we've had when I look at the last several years in terms of really our ability to drive here momentum towards 2023, 2024 and 2025. And I think the 12-month backlog is just a realization of the solid backlog here we have to drive 2023 and now stepping into 2024 as well as part of that. With regards to the first part, John?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Yeah, in terms of quarterly cadence, Nathan, obviously, all of our equipment is under longer-term contracts. And we had a contract that came through that was going to be heavy in the back half of 2022 and heavy in the first half of this year. And with that is tied to the mix. We saw unfavorable mix in the back half of last year, and we're seeing unfavorable mix in the first quarter. And we would expect the mix in that level of elevated growth out of the equipment group to move into the second quarter.

We don't specifically provide what that growth would be from equipment. But suffice to say that, that level of delivery was for four quarters, and we would start to see from a revenue standpoint it to step down in the back half just as we saw it step up in the second half of last year. And again, the mix will also mitigate and drive some of that improved margin in the back half of next year – I'm sorry, back half of this year.

Nathan Ho
Analyst, BofA Securities, Inc.

Q

Got it. Great. That's very clear. Thank you so much.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Thank you.

Operator: The next question comes from Matt Elkott of TD Cowen. Please go ahead.

Matt Elkott
Analyst, TD Cowen

Q

Good morning. The increase in the 12-month backlog, how much of it is due to delivery dates for some existing orders maybe being moved up, maybe because manufacturing disruptions are easing? If that's a factor at all versus actual new order additions?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Matt, when we look at it, there can be orders that move this quarter to that quarter just like our overall volumes. Over time, it's nothing significant in the numbers. We saw a 4.4% increase in the 12 months, and ex currency was 5.5% up. But any driver of the supply disruptions, a lot of that would have been baked in over the last seven quarters, right? And we're seeing a little bit of release of that, but nothing of great significance on a number of that magnitude.

Matt Elkott
Analyst, TD Cowen

Q

Okay. Good. That's good to know. And then, John, you talked quite a bit about the margin dynamics for Freight. If – it's nice to see that Freight margin held up very well against huge equipment growth basically. If we assume the mix comparable to last year, the first quarter of last year, and we didn't have the technology cost that you mentioned, what would the margin have been instead of 19%?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Well, let me start here because I think the first thing is we will have significant variation, as John mentioned here, in terms of quarter-to-quarter. And some of it, it's mix. I mean, John, just told you here how we saw very significant growth on delivering of new locomotives, but MODs was significantly down in the quarter. We've got project specifics. We've got investments when it comes down to specialty R&D, which we continue to drive. And those will have variation quarter-to-quarter.

And we've got still some of the elements of cost dynamics playing in. So I'd just be careful with some of those assumptions on how they play quarter-to-quarter as it will be bumpy from that perspective, but we feel very well about making sure that we deliver on the guidance we've provided here.

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.
A

And all that I would add Matt, is that that's why we're providing it by half. Things move around a little bit between quarters. And, it's in line with what we guided. It's in line with what we expected. And so there's always puts and takes in any given quarter, but it's right in line with where we thought. And we feel kind of – again, going back to my first comment, kind of check in terms of margin out of the gate here in the first quarter.

Matt Elkott
Analyst, TD Cowen
Q

Got it. And John, you mentioned you haven't taken market share in components. Is there any way you can update us on your average content now in railcars, both Freight and Transit and locomotives? And I guess, have you guys been realizing the revenue synergies one would expect now that you've worked through the locomotive backlog you inherited from GE, and are now taking orders as both the equipment manufacturer and component supplier?

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.
A

Yeah. We don't provide that number. Actually, Matt, I don't know the number. But we don't provide it as well. So the other one is, yes, we are seeing the opportunities. And as time goes on, in terms of the group's working better and as equipment is selling products, we're pulling as many things that we make across the board on to these things. So yes, we're seeing strong revenue synergies in terms of, again, all of our products working in unison with one another to deliver the best locomotive we can to our customers.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

Matt, if you go back to some of the comments we made earlier on, those were around, I'll call it, that will translate to today, about $7,000 of content in a freight car that we would see on average. We have had the opportunity here to, as John described, win share. And that was largely due to some of the investments we did in inventory and the ability to ultimately be able to serve customers in that context.

We do see an opportunity here, and we'll continue to drive, I'll call, really entitlement and share into the products that we sell, especially as we go here into this battery electric locomotives, the opportunity to have a lot more content as we drive the integration of the system.

And that speaks not just to the brakes, that speaks to various other parts, including heat exchangers and things like that into the system. So I think you're going to continue to see us driving share up. It's a slow play game as you got to really work with customers that have fleets with auto systems deployed. And we got to make sure that we're putting up also the services to be able to support them through that process. But it's another opportunity for growth for us and we've been executing on it.

Matt Elkott
Analyst, TD Cowen
Q

That's a helpful number, Rafael, the $7,000 average. The maximum opportunity, my understanding is its closer to like $25,000 or $30,000. Is that true?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

It will depend again by freight car type. And so that's why we give that average number. But – and again, that's related to freight car. That's a different number if you think about locomotives.

Matt Elkott
Analyst, TD Cowen
Q

Right. And Transit is way, way higher, right?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

It is higher. Again, it speaks to the various, I'll call, critical systems that we have, that [ph] spell out (00:53:46) to doors, HVAC systems, couplers, brake systems and so forth.

Matt Elkott
Analyst, TD Cowen
Q

Okay. And just one final thing, Rafael. I think that – I think maybe I'm reading too much into this, but you said underlying business fundamentals strengthened in the quarter. That was just in reference to the strong results you had in the Q or something else?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

When I talk about I talked in the context of Transit and specifically, when I made those comments. But overall, we see that across the business. I think in Transit, if you think about the underlying fundamentals, the book-to-bill over 1, the 12-month backlog being really up over 5% and even the multiyear backlog on a constant current basis, up over 9%.

And we're continuing to see, I mean, really a lot of strength in the pipeline of opportunities there. But we, as I said, on the Freight segment, see it very much the same. So the order question that we got before, it was largely an element of, I'll call, multi-billion dollar orders that we signed in the first half of the year. The combination of the modernization with both Union Pacific and NS.

Matt Elkott
Analyst, TD Cowen
Q

Perfect. Thank you very much.

Operator: The next question comes from Steve Barger of KeyBanc Capital Markets. Please go ahead.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Thanks. Rafael, I'm going to follow up on that order comment you just made. I know they can be lumpy. You got very tough comps from last year. But with Freight orders having been down three quarters in a row, is this kind of low $1 billion range for orders what we should expect in periods when you're not booking new equipment, or MODs, or multiyear service contracts?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

Here is how I look at it. It comes down to the pipeline of opportunities that we're driving. And the convertibility is going to be lumpy. I mean, as I signed a three-year agreement, that's over $1 billion, that's not going to repeat again every year.

So, that's a little bit of that lumpiness that we're talking about. We are working with our customers and making sure that we're driving to really have those multiyear orders. I think it's in the best interest in terms of both the quality of the product, but the cost of the product that we get.

And the visibility is good in terms of those pipeline of opportunities. And the opportunity to continue to drive, I'll call, both revenue growth here on the combination of both modernizations and new equipment. So good visibility out there and good visibility with the 12-month backlog, which provides us really the confidence on the convertibility into 2023 and now starting to look into the first part of 2024 as well.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Yeah. And backlog has been pretty stable at $22 billion over the past four years. Do you have periods coming up beyond 12 months where you have significantly higher or lower deliveries scheduled from backlog? And just given macro concerns, have you given more thought to expanding backlog visibility for investors so they can better think about the stability that provides beyond four quarters?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
A

That's a key area of focus for us. It's really looking at the convertibility of the backlog. And that's why I've highlighted the elements of this – about our visibility that we have right now, and then [indiscernible] (00:57:18) really had in the business, which comes down to visibility on 2023, 2024 and 2025. And that's what those multiyear orders ultimately provide us.

We have had discussions. It's something that we'll continue to evaluate here in terms of making sure that there is that visibility in terms of how the business will behave. But I go back to very much the guidance we provided last year in terms of the five-year outlook which provides both, I'll call, revenue expansion and margin expansion for the business. We're committed to deliver on that.

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.
A

And Steve, backlog has grown in the last three years ever since the merger. Each and every year, the multiyear backlog has grown.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Understood. Well, I mean when I go back to look at 1Q 2019, it was $23 billion. It's $22 billion right now. I look at it as fairly stable over that period, which is a great outcome. But I would say just anything you can do to improve the visibility of that in terms of deliverability beyond four quarters would be really helpful for investors, just given the increasing macro concerns that are out there and people's concerns about order growth rates and things like that.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

We'll consider that.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks very much.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Thank you.

Operator: The next question comes from Chris Wetherbee of Citi. Please go ahead.

Q

Hey, good morning, guys. It's [ph] Rob (00:58:52) on for Chris. I guess following on the backlog, could you give us a sense – or are you seeing any of the orders being pushed out a little bit within the multiyear period? Obviously, the 12-month kind of stepped up here. But curious what, if any, impact kind of the weak carloads that we're seeing in North America as well as just softer macro, if that's having any sort of impact in terms of the timing and cadence of the backlog?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Well, we're not seeing pushouts, number one. And so again, back to the comments I made earlier on. A lot of what's driving the demand is associated with really gains in productivity and efficiency tied to a fleet that's aged quite a bit. That's some of the elements of North America, but we see also some positive signs here in terms of the pipeline of opportunities internationally. Some of that is tied to new projects, like in countries like Brazil, as we described.

In some other ones, you've got an element of combination of both replacement of older units, driving efficiency and productivity with also growth in terms of volume in that context. And so, in that framework, no, we have not seen any delays or pushouts in terms of orders.

Q

Helpful color. And then just in terms of the 2023 outlook. It sounds like the material cost absorption, that benefit just given comps should increase as the year progresses. How are you thinking about the productivity impact to the business over the next couple quarters? Should that be also kind of improving or will we see that kind of work as a little bit of an offset to the absorption.

John A. Olin
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

A

Well, that was all part of the initial guidance that we put in there [ph] Rob (01:00:44) is, we are looking for the year overall to be up in terms of margin and that driven by productivity absorption partially offset by unfavorable mix on a full year basis, and then we would also expect SG&A to be positive as a percent of revenue throughout the year and our R&D spending to be in line with that.

So again, when we look at the first quarter, we're right on track in terms of margin, and we don't see any change in the margin as the guidance that we gave that the margin will grow largely in the back half of the year.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

[ph] Rob (01:00:44) costs remain high. And I think as an organization, we really remain very diligent on both cost management and pricing through that process, despite the fact you see cost coming down in the spot market like transportation orders, still very volatile whether if you think about copper or energy. So, the team continues to be very diligent on those.

Q

Got it. That's helpful. Yeah. I was just trying to get a sense if the benefits should step up as the year progresses which kind of feels like what's baked in the guidance. But I just wanted a little bit of additional clarification there.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Thank you.

Q

Thanks.

Operator: The next question comes from Dillon Cumming of Morgan Stanley. Please go ahead.

Dillon G. Cumming
Analyst, Morgan Stanley & Co. LLC

Q

Great. Good morning. Thanks for the question. Rafael, I want to go back to your kind of comments on the Transit segment. You mentioned kind of feeling better incrementally exiting the quarter. It's always been a bit of a market that's been more opaque in the near-term, but just kind of wanted to get a sense of what actually is driving the more positive backdrop near-term. Is it governments just investing more? Is it better utilization of the actual Metro cars? I'm just being curious what's driving some of the more near-term optimism there?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Well, so a little bit of what will come with just the first quarter results, which organic growth over 9% I think to some extent was benefited from catch up in the quarter due to supply chain disruption. So I think that's a piece. I did mention about the fundamentals of the business being strong, whether if you look to the book-to-bill above 1 to 12 months and multi-year backlog. I think we're pleased to see the progress, but we still have significant work ahead here to simplify the footprint for the improved and sustained margins.

I think you are going to continue to see some variation quarter-to-quarter but we're working to drive margin expansion in the year both for Transit and for our Freight business as well. I think the fundamentals on Transit, we continue to see really authorities committed to continue to invest, so infrastructure expanding continues to be a positive there with government on spending in rail. And our customer OEMs also have very strong backlogs in that context which continue to drive opportunities for us.

Dillon G. Cumming
Analyst, Morgan Stanley & Co. LLC

Q

Okay. That's clear. Thank you. And then if I could just go back to the Brazil order for a second. Obviously nice to see that materialize, but you also made a comment talking about how there might be a bit more of a structural opportunity there with regards to the infrastructure build out, right, higher rail lines over time. I think GE used to kind of quantify that market is about a 50 to 100 unit market per year, any changes to that thinking longer-term in terms of what you've been seeing recently that could actually drive a higher market opportunity longer-term?

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

We see a growing opportunity there, and you are right, we see this as a very strategic order. This customer that ultimately, I'll call, adopted Wabtec largely in terms of the solutions and we see that as a very significant step in that direction. There's a number of new concessions taking place.

I think we have really built up very solid [ph] starting (01:04:40) on partnering with customers over time to drive efficiency, to drive productivity and we've been, I think, really benefiting from that [ph] starting (01:04:51) with customers. And we've got growth opportunity here ahead of us. In terms of the numbers for the market, I'd say you can probably think about 50 plus unit market for us in that context.

Dillon G. Cumming
Analyst, Morgan Stanley & Co. LLC

Q

Great. Very clear. Thanks, Rafael.

Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

A

Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Kristine Kubacki for any remarks.

Kristine Kubacki
Vice President-Investor Relations, Westinghouse Air Brake Technologies Corp.

Thank you, Andrea. Thank you everyone for your participation today. We look forward to speaking with you again next quarter.

Operator: The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.