

22-Oct-2025

Westinghouse Air Brake Technologies Corp. (WAB)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

Kyra Yates

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

Rafael O. Santana

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

John A. Olin

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

OTHER PARTICIPANTS

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Ken Hoexter

Analyst, BofA Securities, Inc.

Bascome Majors

Analyst, Susquehanna International Group

Rob Wertheimer

Analyst, Melius Research LLC

Scott H. Group

Analyst, Wolfe Research LLC

Jae Hyun Ko

Analyst, Jefferies LLC

Brady Lierz

Analyst, Stephens, Inc.

Ben Mohr

Analyst, Citigroup Global Markets, Inc.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Wabtec Third Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note today event is being recorded.

I would now like to turn the conference over to Ms. Kyra Yates, Vice President of Investor Relations. Please go ahead.

Kyra Yates

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

Thank you, Operator. Good morning, everyone, and welcome to Wabtec's third quarter 2025 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 the Investor Relations tab.

Some statements we are 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, Kyra, 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 very strong quarter evidenced by continued growth in our backlog, sales, margin, and earnings. Sales in the third quarter were \$2.9 billion, which was up 8% versus prior year. Revenue growth was driven by both the Freight and Transit segments, including the acquisition of Inspection Technologies, which we closed at the beginning of the third quarter. And adjusted EPS was up 16%, driven by increased sales and margin expansion.

Total cash flow from operations for the quarter was \$367 million. The 12-month backlog was \$8.3 billion, representing an increase of 8.4%, while the multiyear backlog achieved an all-time high. These results demonstrate sustained revenue and earnings momentum and provide enhanced visibility for the fourth quarter and into the future.

Shifting our focus to slide 5, let's talk about our 2025 end market expectations in more detail. While key metrics across our Freight business remained mixed, we are encouraged by the underlying momentum of our business and the continued strength of our pipeline of opportunities across the globe. Despite the strong momentum that we're experiencing, we're continuing to exercise caution to navigate a volatile and uncertain economic landscape as we move into the final quarter of the year.

North America traffic was up 1.4% in the quarter. Despite this traffic growth, Wabtec's active locomotive fleets were down slightly when compared to last year's third quarter; however, up sequentially. During the quarter, Wabtec outperformed the industry in terms of share of active locomotives running. Looking at the North American railcar built, last quarter, we discussed the industry outlook for 2025, which was for approximately 29,000 cars to be delivered and which has again been reduced by the industry sources to approximately 28,000 cars. This forecast represents a 34% reduction from last year's car built.

Internationally, activity is strong across core markets such as Asia, India, Brazil, and CIS. Significant investments to expand and upgrade infrastructure are supporting a robust international locomotive backlog and orders pipeline. In mining, an aging fleet continues to support activity to refresh and to upgrade the truck fleet.

Finally, moving to the Transit sector, we continue to see underlying indicators for growth. Ridership levels are increasing in key geographies along with fleet expansion and renewals.

Next, let's turn to slide 6 to discuss a few business highlights. International demand for our products and services remained strong, highlighted in the quarter by the \$4.2 billion order secured with Kazakhstan's national railway, the largest single rail order in history. This historic agreement embodies KTZ's visionary approach for the country's rail network as the primary link between Europe and Asia, which is supporting the growth momentum that we're continuing to see in the region. By delivering advanced locomotives and long-term service solutions, Wabtec is a proud partner in Kazakhstan's progress, helping to unlock the region's enormous potential and developing the engineering competencies in the country's rail industry.

Moving to mining, we secured \$125 million multiyear agreement for ultra class drive systems. In Transit, we secured \$140 million brake orders driven by increased activity in India. Also in the quarter, the first four Simandou locomotives arrived in Guinea. This event marked the first order of heavy haul locomotives assembled and exported at our best-cost facility, the Marhowra, India locomotive plant. This milestone is a tribute to a global team that designed and built these locomotives specifically tailored to meet the customer demand of the largest untapped iron ore reserve in the world. All of this demonstrates the underlying strength across our businesses and the strong pipeline of opportunities which we continue to execute on.

Moving to slide 7. Before turning it over to John, I want to take a few minutes here to highlight the Transit segment's attractive value creation framework. Transit's sustained orders growth is supported by unprecedented backlogs at car builders, rising passenger growth in key markets like Europe and India, and ongoing public investment in rail infrastructure around the world. Similar to the car builders, our Transit backlog has been growing, and along with the consistent growth, we are experiencing increased quality in margin expansion with our backlog reflecting our commitment to deliver value and innovation.

The team also remains focused on enhancing competitiveness and driving innovation. Through our integration initiatives, we are streamlining operations and achieving significant cost efficiencies, all while maintaining excellence and execution of our orders. We target leadership positions in segments where we offer clear differentiation which positions us for long-term success.

This is not only an organic story. Our ongoing efforts in portfolio optimization alongside accretive bolt-on acquisitions are further strengthening our business and expanding our capabilities. This disciplined strategy is delivering tangible financial results. We are executing on our commitments with our value creation framework driving both top line growth and margin expansion. Year-to-date, our revenue is up 7.5%, and our operating margins have grown to the mid-teens. Given this momentum, we're confident that we will continue to expand our margins into the high-teens of our planning horizon.

And 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

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

Thanks, Rafael; and hello, everyone. Turning to slide 8, I will review our third quarter results in more detail. Our third quarter played out largely as we planned with revenue and with slightly-better-than-expected operating margins. As we discussed in our last quarter call, we expected second half new locomotive deliveries to provide robust growth while being partially offset by lower MOD production in the second half. This is exactly how the third quarter played out, and we expect the fourth quarter's revenue cadence to be similar to the third quarter but at a higher growth rate in the fourth quarter.

Sales for the third quarter were \$2.89 billion, which reflects an 8.4% increase versus the prior year. Sales growth in the quarter was driven by both the Freight segment, including Inspection Technologies, and Transit segment. Our operating margin expansion came in slightly better than expected. For the quarter, GAAP operating income was \$491 million. The increase versus prior year was driven by higher sales, improved gross margin, and proactive cost management.

Adjusted operating margin in Q3 was 21.0%, up 1.3 percentage points versus the prior year. This increase was driven by improved gross margins of 2.3 percentage points, which were partially offset by operating expenses, which grew at a higher rate than revenue. GAAP earnings per diluted share was \$1.81, which was up an 11.0% versus the year-ago quarter.

During the quarter, we had net pre-tax charges of \$6 million for restructuring, which were primarily related to our integration and portfolio optimization initiatives, as well as \$33 million of charges to M&A activity. In the quarter, adjusted earnings per diluted share was \$2.32, up 16.0% versus the prior year. Overall, Wabtec delivered a very strong quarter, demonstrating the underlying strength of the business.

Now, turning to slide 9, let's review our product lines in more detail. Third quarter consolidated sales were up 8.4%. Our quarter results were driven by growth in our Equipment, Digital, and Transit businesses, partially offset by our Services business. Services revenue was down 11.6% from last year's third quarter. This decline was planned and driven by the timing of modernization deliveries, which we expected to be down in the second half. As mentioned earlier, we expect Services revenue to be down again in Q4 as a result of lower MOD deliveries on a year-over-year basis. Services lower MOD deliveries is expected to be offset by significant growth in new locomotive deliveries.

Equipment sales were up 32% from last year's third quarter. This robust sales growth was driven by higher year-over-year new locomotive deliveries as well as the partial catch-up of delivering the new locomotives that were delayed from last quarter. We also expect this double-digit growth rate to continue in the fourth quarter as well.

Components sales were up 1.1% versus last year due to growth seen in industrial products offsetting the impact from significantly lower North American railcar build and lower revenue associated with our portfolio optimization initiative.

Digital Intelligence sales were up 45.6% from last year. This was driven by the Inspection Technologies acquisition. When excluding Inspection Technologies, Digital continues to see growth internationally with continued softness in the North America market.

In our Transit segment, sales were up 8.2% in the quarter, driven by our products and services businesses. Foreign currency exchange had a favorable impact on sales of 3.0 percentage points. As a key to our value creation strategy, we have been focused on optimizing our portfolio by divesting and exiting low-margin non-strategic businesses. We believe portfolio transformation will lead to improved growth resiliency. When we adjust the third quarter's revenue for these divestitures and exits that we have executed, our revenues are up roughly an additional 0.5 percentage point of growth to 8.9%.

Moving to slide 10. GAAP gross margin was 34.7%, which was up 1.7 percentage points from third quarter last year. Adjusted gross margin was also up 2.3 percentage points during the quarter. In addition to higher sales, gross margin benefited from cost recovery through contract escalation and the addition of Inspection Technologies, while mix was a headwind in the Freight segment as expected. Raw materials were unfavorable due to higher material costs, largely due to increased tariffs. Foreign currency exchange was a benefit to revenue in the quarter as well as gross profit and a marginal impact on operating margin. During the quarter, we also benefited from favorable manufacturing costs.

Turning to slide 11. For the third quarter, GAAP operating margin was 17.0%, which was up 0.7 percentage points versus last year. Adjusted operating margin improved 1.3 percentage points to 21.0%. GAAP and adjusted SG&A expenses were higher versus prior year. Both GAAP and adjusted SG&A expenses were impacted by the addition of Inspection Technologies, while GAAP SG&A also experienced increased transaction costs related to the acquisition. Engineering expense was \$59 million, which was up \$9 million versus last year as a result of the addition of Inspection Technologies.

We are committed to allocating engineering resources toward existing business opportunities with high returns, and we prioritize strategic investments that position us as an industry leader in fuel efficiency and digital technologies. These advancements are designed to enhance our customers' productivity, capacity utilization, and safety.

Now, let's take a look at segment results on slide 12, starting with the Freight segment. As I already discussed, Freight segment sales were up 8.4% during the quarter. GAAP segment operating income was \$414 million, driving an operating margin of 19.8%, down 0.4 percentage points versus last year. GAAP earnings were adversely impacted by purchase accounting charges resulting from our acquisition of Inspection Technologies.

Adjusted operating income for the Freight segment was \$513 million, up 9.9% versus the prior year. Adjusted operating margin in the Freight segment was 24.5%, up 0.4 percentage points from prior year. The increase was driven by improved gross margin behind contract escalation and the addition of Inspection Technologies, partially offset by unfavorable mix between Services and Equipment businesses. Finally, segment 12-month backlog was \$6.09 billion. Our 12-month backlog was up 9.5% on a constant currency basis, while the multiyear backlog reached a record level of \$20.91 billion, was up 18.4% on a constant currency basis.

Turning to slide 13. Transit segment sales were up 8.2% at \$793 million. When adjusting for foreign currency, Transit sales were up 5.2%. GAAP operating income was \$115 million. Restructuring costs related to integration and portfolio optimization were \$3 million in Q3. Adjusted segment operating income was \$123 million. Adjusted operating income as a percent of revenue was 15.5%, up 2.7 percentage points. The increase was driven by higher adjusted gross margin behind integration and portfolio optimization efforts, as well as strong operational execution.

Over the past couple of quarters, the Transit team has focused on more appropriately balancing production across the year. And as such, we do not expect the typical lift that we have seen in the fourth quarter. We expect fourth quarter adjusted margins to be relatively flat versus prior year. Additionally, we expect adjusted margins to expand to the mid-teens on a full year basis. Finally, Transit segment 12-month backlog for the quarter was \$2.18 billion, which was up 3.9% on a constant currency basis. The multiyear backlog was up 1.0% on a constant currency basis.

Now, let's turn to our financial position on slide 14. Third quarter operating cash flow generation was \$367 million, which was lower on a year-over-year basis, resulting from higher tariffs and increased working capital. We continue to expect greater than 90% cash conversion for the full year.

Our balance sheet and financial position continued to be strong as evidenced by, first, our liquidity position, which ended the quarter at \$2.75 billion, and our net debt leverage ratio, which ended the third quarter at 2.0 times after the funding of the purchase of Inspection Technologies for approximately \$1.8 billion. We expect our leverage ratio to remain in our stated range of 2 to 2.5 times upon closing of both the Dellner and Frauscher Sensor Technology acquisitions, which we believe will close within the next couple of quarters. We continue to allocate capital in a disciplined and balanced way to maximize return for our shareholders.

With that, I'd like to turn the call back over to Rafael to talk about our 2025 financial guidance.

Rafael O. Santana

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

Thanks, John. Now, let's turn to slide 15 to discuss our 2025 outlook and guidance. As you heard today, our team delivered a very strong quarter, while continuing to navigate through a challenging environment. Our global pipeline remains strong, and our 12-month and multiyear backlogs provide visibility for profitable growth ahead. We remain encouraged by the pipeline of opportunities that remains ahead of us. Our team's commitment to product innovation, disciplined cost management, and partnership with our customers has been instrumental in driving our ongoing success.

As we move to the fourth quarter, in light of our strong third quarter results and our ongoing underlying momentum, we are raising our full year adjusted EPS guidance. We now expect adjusted EPS to be between \$8.85 to \$9.05, up 18% at the midpoint. Looking ahead, I'm confident that Wabtec is well-positioned to drive profitable growth to close out 2025 and beyond.

Now, let's wrap up on slide 16. As you heard today, our team continues to deliver on our value creation framework, thanks in large parts to our resilient installed base, world-class team, innovative technologies, and our continued focus on our customers. As we move into the final quarter of the year, we remain focused on our commitment to creating value for our stakeholders and maintaining the momentum we have generated. Our team's dedication positions us to continue driving Wabtec's success even in a dynamic and uncertain economic environment.

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

Kyra Yates

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 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: Thank you. We will now begin the question-and-answer session [Operator Instructions] First question is from Angel Castillo of Morgan Stanley.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning, and congrats on another strong quarter here. Just wanted to touch on one of the primary concerns that we sometimes hear from investors, I think. So, this year, your organic growth has been in the low single digits versus your algorithm of kind of mid-single digits here.

So, Rafael, could you just talk about maybe why you don't share this concern by unpacking kind of two key things that I think are important here? So, just, first, maybe can you give us more color on the strong pipeline of opportunities that you talked about and just kind of what that tells you about the magnitude or the pace of kind of ultimately orders that you anticipate, particularly in North America Freight?

And then two, your backlog itself already seems to imply a reacceleration in organic growth, I think, next year toward high single-digit range. So, is that correct? And any preliminary thoughts you can share on just kind of organic growth expectations for 2026 and just kind of the shape across your businesses?

Rafael O. Santana

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

A

As you speak here, I mean, you've got to look into the pipeline dynamics, and it continues to be strong. I think one of the elements is the 12-month backlog. The growth in the 12-month backlog has outpaced the growth we saw last year. And with that, we have a stronger coverage right now this year than we had a year ago. So, that's a positive right there and stronger coverage as we look into 2026. I think the other element is the total backlog, which even though it reached an all-time high in the third quarter, our pipeline of opportunities remain strong, and we actually expect further growth moving to the fourth quarter.

And the reason for that is really tied to – I'll start first – I mean, we're bullish across some key international markets. Kazakhstan continues to see strong demand, and that's driven not just by volume growth. I mean, you've got new rail lines. You've got fleet renewal. And we're seeing similar momentum whether if you look across CIS countries and East Asia. You take, for instance, Brazil. We're saying the same things on fleet renewal in iron ore. We are seeing volume growth in agriculture, which remains strong. In Africa, we continue to see opportunities to expand the revenues in the continent. In mining, demand for ultra class is another bright spot, and it's right where we play. On Transit, you see we continue grow profitably, and we're continuing to enhance the competitiveness of the business.

So, all in all, I think there's the elements of the pipeline, which continues to be strong. Our total active fleet is running harder, and we're continuing to expand our fleets around the world. We now expect combined volumes

for both new locomotives and MODS to keep growing as we head into 2026 and backlog numbers support it. I think you continue to see international outpace North America, and I think, with that, they're both positive.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

That's very helpful. Thank you. And maybe just a quick follow-up on the Services side. Can you just run back what core Services versus maybe the MODS are in kind of second half 2025? And as you look at – I think you just mentioned, for 2026, you expect margins and equipment to grow – or locomotives to grow next year. Do you expect MODS to grow within that as well next year?

Rafael O. Santana

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

A

So, the variation you see there on the results of the quarter for Services is exactly tied to MODS. And we expect that to continue to vary, and it's going to be really a function here of where CapEx is allocated. It's more towards new or some elements of modernizations.

You asked about the core Services. We continue to see that growth in the 5% to 7% range as we look forward. And I think we continue to have the fundamentals that drive that, which is ultimately connected to the age of the fleet, the innovation that allow customers to have a return on those investments, and we're continuing to win share of wallet with customers. Even when fleets are down, we see us less down to overall market. So, I think the dynamics and the fleet dynamics don't change. International continues to expand, and the North America market, the fleets continue to run hard.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Very helpful. Thank you.

Operator: Next question is from Ken Hoexter, Bank of America.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Hey, great. Good morning, and great job on the quarter and the 8.5% growth in sales and backlog. So, I guess similar questions. I just want to focus on that backlog and thoughts what we have in this upcoming I guess 12-month process. So, how should we think about the two upcoming acquisitions and then organic growth after that is? Maybe talk about your near-term backlog a little bit or kind of your view on organic growth there.

Rafael O. Santana

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

A

I'll start, then I'll let John comment on the specifics here. But as I said, as we stand here today, we've got stronger coverage for 2026 than we did a year ago coming into 2025. So, that's a positive. I think we're seeing stronger momentum. You asked about the acquisitions in that regard, Evident's really more of a flow business. So, minimum really impact in terms of the total backlog. But with that, let me pass on to John.

John A. Olin

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

A

Ken, with regards to the acquisitions, when we look at Evident, obviously, we built in the first quarter as – the first quarter of our ownership, the third quarter has progressed on track. Volumes are right where we expected them to be. And we're seeing, in the first quarter of ownership, both accretive margin to the overall company as well as slightly accretive EPS. So, things are checking there really well through one quarter of ownership.

We've got two more to go, as you know, Ken, with regards to Frauscher, we'd expect by the end of the year; and Dellner, sometime prior to the – or within the first half of 2026. Neither of those are in our guidance today. And we will include those when we close on them, and that will provide, obviously, inorganic growth as we move into 2026. And we also expect those two to be accretive from a margin standpoint as well as slightly accretive from EPS. But everything is tracking well on the three acquisitions.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

And then for my follow-up, you talked about the shift to build versus MODS, you telegraphed that well. Obviously, we're not seeing maybe as much of the margin impact, John. You kind of mentioned that in your prepared remarks. Was that more a cost offset in the cost programs? Was it something else in terms of better margin on pricing that you can walk us through? I think you noted more muted margin expectation for fourth quarter. I don't know if that was just for Freight or overall. So, I don't know if you want to dig into the margin view though.

John A. Olin

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

A

A couple of things, Ken. Number one is we certainly felt the impact of unfavorable mix in the third quarter. We had a lot of other things going well, which we had anticipated overall. From our expectations, we came in slightly favorable in terms of margin in the third quarter, but largely on track. And again, that was running by – driven by running the business very well. Operational excellence was very strong in the quarter. We had some favorable timing with regard to price escalation, and then the integration programs are dropping a fair amount of favorability. So, that was offset by that unfavorable mix.

As we look to the fourth quarter, very similar as we talked about last quarter, Ken, is we expect margins to expand, the margin growth to expand in the fourth quarter from what we've seen in the third quarter. Now, on an absolute basis, as you know, margins will be down absolute basis and our fourth quarter is seasonally lower, largely because of fewer production days and the absorption that goes along with that. So, again, we're tracking to where we expected for the fourth quarter. We've raised guidance a little bit this period and that was part of the fact that we're coming in a little bit favorable on margins in the third quarter. We'd expect that to carry forward.

Ken Hoexter

Analyst, BofA Securities, Inc.

Q

Great. Thanks, John. Thanks, Rafael.

Rafael O. Santana

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

A

Thank you.

Operator: Next question is from Bascome Majors with Susquehanna.

Bascome Majors

Analyst, Susquehanna International Group

Q

Thanks for taking my questions. Rafael and John, the release and the deck talk a bit about tariff pressure on cash flow as it seems to be flowing into inventory. Can you talk about where we are on your net offset? And just as that flows into the P&L over the coming quarters, how should we think about the impact on both the top line, gross profit, and ultimately, the bottom line of the business? Thank you.

John A. Olin

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

A

Sure, Bascome. So, let's kind of talk about the cadence of the tariffs coming in. When a product comes across the border, the tariff is owed, right? So, that hits cash first, and we're certainly seeing pressure on overall cash as that increased expense comes through. Now, what that does is that gets inventoried and flows through our regular inventory. And having been a long cycle product as we are, or a fair amount of our products are, it typically is going to take two to four quarters for that to come through the P&L. So, in the third quarter, we are seeing the financial impact of tariffs and certainly have seen the cash impact.

Now, that's the kind of the gross impact, right? And then the net impact is couched with what we're doing to offset those tariffs or to mitigate them. And we've talked, Bascome, in the past and worth repeating, I think, today is there's a four-pronged approach that we're spending a lot of time on and working very hard at all facets.

The first one is to get all the exemptions that we're entitled to. I think the best example of that, Bascome, is the USMCA, and this for Canada and Mexico tariffs, and qualifying our products. I think our team has done an extraordinary job of getting off and getting that done, and we got a very high percentage that qualify there.

The second area is on the supply chain, right? We can move products around, not always easy, not always cheap. But we're looking at those opportunities in, given the shifting landscape of tariffs, should we be sourcing in other jurisdictions? And that's going and that will continue to go on as we move through the next several quarters.

The third area is sharing costs with our customers. And so, we've been doing a fair amount of that as well. And the fourth area, Bascome, I'd call it kind of a wraparound is we are taking the entire enterprise and making sure that we make our commitments and we're being incredibly prudent on the spending that we do and very cost focused on everything across the company to, again, assure that we can do our best to cover the tariffs that are coming at us.

Bascome Majors

Analyst, Susquehanna International Group

Q

Thank you for that comprehensive answer, John. And just to clarify something from earlier. Rafael, you said new locos and MODS, you expect units to be up again next year. Was that a North America comment or a global comment? And as you roll out the new MOD product I think later next year in North America, do you think that mix kind of shifts more balanced back into MODS as that grows? Thank you.

Rafael O. Santana

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

A

It was a comment with regards to total, so if you look at the combination of MODS and new units. And with that, I mean, the stronger variation we see between those dynamics, between new and MODS, is in North America in that regard. But the dynamics are positive as we look at the total, and the backlog certainly supports it from both a 12-month backlog and special as some of those products have longer lead times.

Operator: Next question is from Rob Wertheimer, Melius Research.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Hi. Thanks. Good morning. So, there's a lot that went well in the quarter. To me, I guess the gross margin was maybe the most impressive, and I know you touched on it. John just mentioned some of the contract issues in your prepared remarks. But it seemed like you had some headwinds on mix and material. I wonder if you could just expand on what went right in gross margin. And then is that – I don't know – escalation contract, escalation a steady thing that continues over the years? Was there a lumpiness to it? Maybe just comment on that. Thank you.

John A. Olin

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

A

Yeah. In terms of the escalation, it is exactly what it means is it's recovering our costs. So, there's no net benefit. But the timing of it does have an impact, Rob, right? These are typically annual escalators. And so, there's differences sometimes when the costs hit and when we recover that money, there's typically a lag. But we saw a little bit of positive there.

The other thing that you're seeing in gross margin is a favorable mix as we bring Inspection Technologies in. Inspection Technologies comes at a significantly higher gross margin than the rest. So, we're seeing a little bit of mix favorability with Inspection Technologies. But, again, the biggest piece of all of this, Rob, is just the company is running well. Everyone in the company is focused on cost and the momentum that we've got is we continue to see, and it's coming out of the first and second quarter, seeing it in the third quarter, and we'd expect that to continue into the fourth quarter and into 2026.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Okay. Thank you.

John A. Olin

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

A

Thanks.

Operator: Next question is from Scott Group, Wolfe Research.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Hey, thanks. Good morning. So, John, I thought that that last answer on tariff was really helpful. I just – I had a follow-up. When you think about the gross impact of tariffs and the timing issues, what quarter would you say is like the peak gross impact of tariff? And then given all the mitigation efforts, is the quarter of like the biggest like net impact any different? Meaning is the net impact sooner or later, if you understand what I'm trying to figure out.

John A. Olin

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

A

Yeah, I do, Scott. I don't think we're that precise to start with. But I think the highest gross and the highest net would be the very similar. And certainly, the gross part of the tariffs is a driver of the movement, right? And it's hard to tell exactly what quarter that's going to be because it's how everything is flowing through inventories. But we're focused on doing everything we can to mitigate them. And the entire company is working hard at doing that.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Maybe just to ask like a little differently. Like do you think we've seen the biggest impact yet? Or I know like last quarter, you said like you think the net impact of tariff after mitigation is sort of immaterial. Do you still feel that way?

John A. Olin

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

A

No, I don't think we've seen the largest gross or net impact on tariffs. I think that's still in front of us over the next couple of quarters.

Rafael O. Santana

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

A

And that's why we're continuing to work a lot of our cost-out plans, a lot of the elements in terms of supplier mitigation, as John described. And make no mistake, pricing is a key element of that, too.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Makes sense. If I could just ask one last one. You've done like such a good job getting these Transit margins better. Like, where do you think those can go over the next couple of years? I know you've got long-term margin guidance for the consolidated business. Should we think about similar sort of upside in terms of a couple of hundred basis points more to go in Transit? Is that the right way think about it?

Rafael O. Santana

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

A

We see it as continuous improvement. You go back four, five years ago, we had given really a direction of heading to mid-teens. We're now heading to high-teens, and I think it's really not just a function of running the business better, which we'll continue to do it. The other piece is also how you continue to rethink the portfolio. And as John has highlighted, we've exited also some businesses. We're still in the process of acquiring better businesses into that portfolio. So, we look at this as continuous improvement. We look at this as an evolution of the portfolio.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Good stuff. Thank you guys. Appreciate it.

Rafael O. Santana

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

A

Thank you.

John A. Olin

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

Thanks, Scott.

A

Operator: Next question is from Saree Boroditsky, Jefferies.

Jae Hyun Ko

Analyst, Jefferies LLC

Good morning. This is James on for Saree. Thanks for taking the questions. So, you gave a great color on international pipeline, but you also kind of talked about strong pipeline in North America. So, can you kind of talk about what you're seeing in terms of like customer activity, order trends, or any key drivers in the North America pipeline?

Q

Rafael O. Santana

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

Yeah. So, I think – well, I'm not going to make any comments with regards to specific customers. But what I'll tell you is the view that the fundamentals of the fleet, they remain the same. I mean, customers are running aged fleet. If you look at the fleet running in North America right now, over 25% of that fleet is over 20 years old and that's excluding the 2,000 modernizations we've done since 2015. So, that's a significant element.

A

The other one is, if you think about the fleet that's running, also a similar amount of over 25% are still DC locomotives. And you know you can replace here – for every three locomotives, you could have two AC running. So, the sense of modernizing units to AC, upgrading control systems, that actually allows the Class 1s to cut fleet sizes. It not just addresses things like obsolescence, it improves asset productivity, it improves reliability, and if you think about services, it lowers maintenance costs.

So, the way we look at it, I mean, I don't see fleet renewal, it's not discretionary. I think it's actually a key lever for how they improve their operating ratio, how they improve quality in terms of the service and the overall competitiveness. So, I think we see this very much aligned and those dynamics have not changed.

Jae Hyun Ko

Analyst, Jefferies LLC

Great. That's a great color. And I guess kind of on the international side, it's great to see like \$4.2 billion like Kazakhstan contract win. Like, can you kind of talk a little bit about what exactly is included in that contract? And when do you expect it to kind of begin to convert into revenue?

Q

Rafael O. Santana

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

So, I will let John go into the specifics of each contract. But the way we look at it, very much, this is providing us coverage for a region that continues to grow, and it's not just an element of volume that's growing. There's new projects and new lines that will accelerate that growth order. There are elements of just fleet renewal, fleet that continues to age in that context. So, I think those are all positive. And then most importantly, we also have the service agreements where we ultimately support those fleets from an availability and reliability perspective.

A

John A. Olin

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

A

Yes. And, [indiscernible] (00:43:43), the deal with Kazakhstan is made up of several contracts. One is for locomotives, for 300 locomotives over a 10-year period of time. The other contracts are for the service, as Rafael had just mentioned. So, what we've done is re-up the service for all the existing – re-up it, extended it for all the existing locomotives that we're currently servicing there. We've also added a new service contract for all those 300 that will be coming in, and those will average over a 15-year period of time.

Jae Hyun Ko

Analyst, Jefferies LLC

Q

Great. Thanks for taking questions.

Rafael O. Santana

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

A

Thank you.

Operator: Next question is from Brady Lierz, Stephens.

Brady Lierz

Analyst, Stephens, Inc.

Q

Thanks. Good morning, everyone. Rafael, recently, we've seen a change in FRA leadership, and I wondered if you could give us an update on the regulatory environment. Are you seeing any increased momentum or desire from your customers to implement kind of some of these advanced technologies Wabtec has worked to develop? I think of [ph] 0 to 0 (00:44:48) as a great example. Is that something we could see implemented here in 2025 or 2026 or is there more kind of wood to chop on the regulatory front?

Rafael O. Santana

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

A

I think, yes, we are. It's good to see that momentum, and you point it absolutely right. I think [ph] 0 to 0 (00:45:02) is the first one, but we've got other digital tools that we've been working with customers, and it's great to see the new leadership with the new incoming administrator, and I think the support is there to focus on really advancing what I'll call both rail safety and supporting innovation there. So, dynamics are positive, and that certainly will contribute to the digital business here as how we gained momentum in North America.

Brady Lierz

Analyst, Stephens, Inc.

Q

Thanks. Maybe just as a quick follow-up. You've had a full quarter with Inspection Technologies now. Can you just talk about how integration has gone so far and maybe any customer feedback? Are you seeing kind of signs of cross-selling momentum or is it a little too early for that?

Rafael O. Santana

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

A

I think it's been a positive. I mean, it's early days still, but it's a positive. I think we've described how, well, we knew some of the leadership team and the leadership team knew some of us. So, I think it's been a good process and fluid in a lot of ways. There's a lot what the teams are working on right now. But it's good to see the first quarter, the first results, which are really, I'll call, very much aligned, a bit ahead, but aligned to what we thought. And I think it's a testament to the quality of really the acquisitions we've looked into it and the quality of the leadership teams that are involved in this.

Brady Lierz

Analyst, Stephens, Inc.

Great. Thanks so much. Leave it there.

Q

Rafael O. Santana

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

Thank you.

A

Operator: Next question is from Ben Mohr, Citigroup.

Ben Mohr

Analyst, Citigroup Global Markets, Inc.

Hi. Yes. Good morning. Thanks for taking our questions and congrats on a great quarter. Going back to the gross margin discussion, very strong beat there above consensus and year-over-year. Appreciate your color on the contract escalation and adding Inspection Technologies and mix was a headwind along with the unfavorable materials on the higher tariffs. But can we maybe hone in on how pricing is trending as part of that gross margin growth you're working together with your customers on kind of sharing the tariffs. Would love to hear any color you could share on how pricing is trending?

Q

John A. Olin

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

Yes. Ben, we are working all of those four levers. Certainly, pricing is one of them. And with that, in the third quarter, we are seeing a marginal amount of pricing that's included in the revenue side. And, again, it's still work to be done ahead of us. But I would not say that's a core driver of what we're seeing in the third quarter, but pricing is certainly included in the results.

A

Ben Mohr

Analyst, Citigroup Global Markets, Inc.

Really appreciate that. Maybe as a next one. You've raised your EPS guide with a hold on your revenue guide, implying more opportunity on the cost side. The guide slide in your presentation mentioned adjusted operating margin up, but the implied 4Q EPS would be at \$2.08, below consensus at \$2.12. Is that due to below-the-line items?

Q

John A. Olin

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

Number one, Ben, and we typically don't comment on consensus. What we've talked about is what we've said. And versus what we've said, we feel better about the fourth quarter and have raised our consensus by \$0.10. And with that, we would expect, when you look at the kind of implied fourth quarter, we expect a very strong fourth quarter. Matter of fact, when you look at what's implied is a midpoint of 11.25% in terms of revenue growth, and we'll see very strong organic growth during that period of time. And on the bottom line, we're looking at about at least about 24% on EPS growth.

A

Ben Mohr

Analyst, Citigroup Global Markets, Inc.

Q

Okay. I really appreciate that. Maybe if I could squeeze in just one last one. With the UP-NS proposed merger progressing, can you comment on your experience with CPKC as they merged in 2023 and increase their locomotives and active service in their first year combined winning volume from truck? And how might your experience with the potential UP-NS or BN-CSX be similar as they potentially increase their locomotives and active service as they grow volume from truck in their first year combined?

Rafael O. Santana

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

A

Well, a couple of comments. First, I'm not going to comment on any specific mergers here, but we continue to see this as a significant opportunity for what I'll call increased carloads and rail volumes over time, which would be a positive for us. So, I'll start there first.

I think what's most important is, as you look into any consolidation, I think the sense that, temporarily, you could see fleet reductions and pacing of near-term investments, I think that misses that bigger picture view, which is the one I gave you on the fleet dynamics, which is both associated with the age of the fleet, it's associated with the fact that you still have a lot of DC locomotives, and customers can actually gain from those investments. And as I said before, I don't see fleet renewal as discretionary. It's actually a core lever. Ultimately, I mean, you're bringing those units that are 25 years of age older and they're running hard, I mean, it becomes highly costly to maintain those units. And that's what really triggers the elements of modernizing and sometimes really having to shift more towards the acquisition of new.

Ben Mohr

Analyst, Citigroup Global Markets, Inc.

Q

Really appreciate your time and insights.

Rafael O. Santana

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

A

Thank you.

John A. Olin

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

A

Thanks, Ben.

Operator: Next question is from Tami Zakaria, JP Morgan.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thank you so much. I wanted to touch on the Components segment. It's great to see it inflected to growth in the third quarter. Should we expect this growth to accelerate in the fourth quarter and maybe build momentum in 2026? Or asked another way, how should we think about Components growth on a normalized basis, if you could comment?

Rafael O. Santana

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

A

I think, Tami, a couple of things. I mean, as you look into the year, I'd say our businesses are largely really tracking to plan in terms of growth. I think the notable exception has been the railcar build, which is really roughly,

what, \$100 million impact for us versus last year, which, I mean, was kind of expected, but it gotten worse since the beginning of the year. So, I think that's one of the elements to keep in mind.

In the overall business, we continue to be pleased with the progress. I think the team has continued to take action here to adjust operations to new volume realities. We're doing very well internationally on that business, and the team is finding opportunities here to continue to grow in that. And I think the other element of the Components business is the dynamics you see on industrial. They are positive, and that's really a function of demand that comes from especially the heat exchanger business. And that's both for mining. If you look at the L&M acquisition we did, but it's also from power generation with more demand for heat exchangers in that context, and that's, to a large extent, AI driven.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Understood. Thank you. If I may ask one more. The Kazakhstan deal, very impressive, definitely boosted the backlog, total backlog. I'm just curious. The 300 locomotives under that contract, is that also over the next 15 years or could the delivery of those could be more front-end loaded?

Rafael O. Santana

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

A

I think the way we look at the contracts and the way it has played out, even with previous agreement, it provides us more coverage to support. So, the previous agreement, we ended up exhausting it a lot sooner, and it's really a function of the continued growth you see in Kazakhstan, which is threefold. One is the volume growth on the existing lines. You've got new lines and new projects that are being built. And you've got some locomotives that are quite old. I mean, some of the first locomotives we work in Kazakhstan, they're like early 2000. Those were modernizations and they've really exhausted their life. So, it's really threefold what we've seen the dynamics, and it's a market we continue to expect acceleration into it.

John A. Olin

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

A

And, Tami, the 300 are for 10 years. So, now, again, as Rafael had mentioned, the last contract ended prior to its natural end because they exhausted those. But right now, this is kind of – think of it as a base load over the next 10 years.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Appreciate the time. Thank you.

Rafael O. Santana

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

A

Thank you.

Operator: Next question is from Steve Barger, KeyBanc Capital Markets.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, thanks. Good morning.

Rafael O. Santana

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

Good morning.

A

John A. Olin

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

Hey, Steve.

A

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Just a follow-up on Kazakhstan. Did that deal for the new locomotives include the full suite of digital products upfront and with subscriptions in the service part? And then can you just give us an update on digital penetration for international more broadly?

Q

Rafael O. Santana

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

Yeah. So, it does not include the digital products. So, that's actually an opportunity we have to capitalize on it. And it goes from I'll call some very much proven products such as TO and, well, [ph] 0 to 0 (00:55:04) and so forth. But, I mean, we also continue to have opportunities with PTC, and those are some of the things that are being discussed. I think what's most exciting here is the fact that growth remains there besides Kazakhstan. We're seeing that in the CIS countries. We've got a lot of support from what I call governments here to make sure that we land those fleets in other countries around the region. So, that's a positive.

A

And on the digital electronics, as per your question, I think we'll continue to see opportunity here to expand penetration on that. And that touches both onboard electronics, which speaks for TL, Smart HPT, [ph] 0 to 0 (00:55:53), but PTC also continues to be a bright spot in terms of how railroads look at improving safety of their operations around the world in a cost-effective way.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Yeah. That's good detail. Thanks. And just I know it's early to talk about Frauscher and Dellner, but just high level, does the technology side of those deals integrate to your existing software and service stack easily do you think? Or just trying to get a sense of how fast you can get that going for cross-selling?

Q

Rafael O. Santana

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

It does. It integrates very well. And I think we've got really I think the element of scale to help those businesses get further momentum, which would really spell growth into various markets that we're present. So, we see the opportunity here not just to deliver on the cost synergies, which is really what we based the acquisition on. I think there is really momentum to be gaining here in terms of growth and share gain, share of wallet gain with customers in the overall market.

A

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Great. Thank you. Appreciate the detail.

Q

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 Ms. Yates for any closing remarks.

Kyra Yates

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

Thank you, Alicia, and 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. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.