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# Westinghouse Air Brake Technologies Corp. (WAB)

Q1 2018 Earnings Call



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#### MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Wabtec First Quarter 2018 Earnings Release Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

#### Timothy R. Wesley

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

Thanks, Steven. Hello, everybody and welcome to our first quarter 2018 earnings call. Let me introduce the others who are here with me in beautiful Downtown Wilmerding: Ray Betler, our President and CEO; Pat Dugan, our CFO; Stéphane Rambaud-Measson, our COO; and our Corporate Controller, John Mastalerz. And we say a welcome to Stéphane who is joining us on the call for the first time.

As usual, we'll make our prepared remarks, and then we will take the questions. We will make forward-looking statements during the call, so we just ask that you review today's press release for the appropriate disclaimers.

And just before I hand it off to Ray, a quick reminder, our Investor Conference – Investor Day is coming up on May 7 in New York. If you'd like to attend the RSVP deadline is this Friday. So if you need more details, please get in touch with me.

Ray, go ahead.

#### Raymond T. Betler

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

Thank you, Tim. Good morning, everyone. It's good to talk to you today. After a year of transition in 2017, we are off to a solid start here for the first quarter of 2018 and as expected, we're seeing improvements in some of our core markets. We slightly exceeded our expectations for the quarter and affirmed out guidance for the year, which we hope will prove to be conservative. We saw year-on-year revenue growth in both of our segments for the second quarter in a row. Our backlog grew again and remains at a record high. A couple of months ago on our fourth quarter call, we told you that our company was stronger and better positioned than it was a year ago. And we're pleased to start demonstrating that with our performance in Q1. We expect to build on these first quarter accomplishments throughout 2018 based on our record and growing backlog, the improvements we're seeing in our freight aftermarket, our Wabtec Excellence Program, which gives us the ability to generate cash and continue to increase margins over time.

So with that I'm going to turn it over to Pat to go through the first quarter numbers.

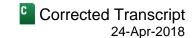
#### Patrick D. Dugan

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

Okay. Thanks, Ray, and good morning to everybody. The sales for our first quarter were about \$1 billion – \$1.06 billion for the quarter. When you look at our segments, our transit segment sales increased 19% to \$677 million.



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That increase was due to a favorable FX impact of about \$64 million, organic growth of about \$32 million, and from acquisitions, full quarter acquisitions of about \$12 million.

This is the second quarter in a row where we've seen organic sales growth, which demonstrates that our backlog – our record backlog is starting to kick in.

Our freight sales increased 9% to \$380 million and that's the second year-on-year increase in a row. This increase was due to sales from our acquisitions about \$24 million, some impact from FX of about \$6 million, and organic growth about \$2 million. The sales were the highest level for freight in almost two years and the backlog for freight increased 15%, and is now at the highest level in two years. Freight aftermarket sales showed a year-on-year growth for the third quarter in a row, all of these are positive indicators.

Looking at the income statement for the quarter, our operating income was \$131 million or about 12.4% of sales. As we mentioned in our press release this morning, this included restructuring and integration expenses of about \$1 million, for ongoing cost cutting actions. Going forward, our 2018 operating margin target is about 13.5% with improvement expected throughout the year as we work our way through some of the lower margin – some of our lower margin contracts we talked about last year.

Our SG&A for the quarter was about \$147 million. The increase was mainly due to changes in foreign currency exchange rates and a full quarter impact of our acquisitions and we expect it to be about \$140 to \$145 million per quarter going forward. Our amortization expense was up mainly due to those acquisitions and we expect the similar quarterly run rate for amortization expense, the rest of this year.

Taking a look at our segment operating income for transit, our operating income increased 39% to \$68 million for an operating margin of 10.1%. Just to remind you, in the year-ago quarter, we did have restructuring and integration expenses in the segment of about \$7 million, for an adjusted operating margin of about 9.7%. So even after adjusting for those expenses, we did – we generated some margin improvement compared to the year ago quarter.

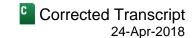
In freight, our operating income was about \$70 million, down 2% or 200 basis points from an operating margin of 18.3% this included some planned investment and cost in strategic growth initiatives in our electronics business and other areas and the prior year with – in comparison is also impacted by some sales mix.

For the full year of 2018, we expect our operating margin improvement for both segments during the year compared to last year. These improvements will come through better project performance, a better mix as we complete our lower margin contracts and the benefits of our restructuring and cost reduction programs.

Just as a quick update on our integration and our synergy plans, in 2017 we generated about \$30 million of synergies compared to our target of about \$15 million to \$20 million. In 2018 we expect to achieve an additional \$15 million, and we are on track to achieve that in the first quarter. Our total target for the first three years is at least \$50 million. So we're ahead of that pace and expect that to continue.

Talk a little bit more about the income statement. I want to talk about interest expense and the other income and expense. And I just wanted to remind everybody that companies have changed the way we account for our pension expense and how that impacts interest in other income and expense. Previously pension expense was captured entirely in our cost of sales, but the new method is to split these into three categories of service cost, interest cost, and our return on investment into different line items on the income statement. Now only service

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costs are captured in the cost of sales, interest costs are recorded in the interest expense line, and the return on investment is recorded in other income and expense.

That does not change the bottom line at all, it doesn't change our historical EBIT margins materially, but we do have to revise the interest expense and other income line items for the last year, which is why those 2017 Q1 numbers on our press release today are different from the ones we reported a year ago. The effect of this is that we reclass about \$2.5 million of pension expense, which increased both interest expense and other income.

Interest expense was \$20 million for Q1 2018 and, going forward, we expect interest expense to be roughly the same, although we are focused on generating cash to reduce debt and then, of course, the interest expense on that debt.

Other income and expense, other income was \$2.6 million compared to \$4.8 million in the prior-year quarter and the decrease was due to a smaller FX gain that we had last year.

Income tax and our effective rate for the quarter was about 23%, in line with our guidance, and our 2018 full-year assumption remains at about 23.5%. I'll just remind everybody that that's an annual estimate and any individual quarter can vary due to the timing of any discrete items.

Our GAAP earnings per diluted share were \$0.92 compared to \$0.77 in the year-ago quarter. The 2017 first quarter included restructuring and transaction expenses, tax adjustments, a non-controlling interest adjustment from the Faiveley Transport acquisition and the combination of which reduced earnings per diluted share by a net of \$0.07. So, our adjusted comparable number for the 2017 Q1 was \$0.84 compared to our \$0.92 in Q1 of 2018.

If you take a look at our balance sheet, it remains strong, providing the financial capacity and flexibility that we need to invest in our growth opportunities. We have an investment grade rating, credit rating and our goal is to maintain it.

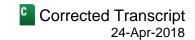
Our cash from operations, we generated \$24 million compared to a use of cash of \$26 million in the year-ago quarter. So, we improved about \$50 million quarter-over-quarter. This is the third quarter in a row that we have improved our cash generation compared to the prior-year quarter and we expect our cash generation to improve during the rest of this year and to finish 2018 with more cash from operations than net income.

We're talking about working capital. At March 31, our receivables were \$886 million, inventories were \$829 million and payables were \$608 million. In addition, we had unbilled receivables of \$383 million, which were offset by customer deposits of about \$378 million. Cash on hand at March 31 was \$250 million, mostly held outside the U.S., and our debt at March 31, we had a total debt of about \$1.92 billion and net debt of about \$1.67 billion, which gives us a net debt to EBITDA of about 3 times.

Just a couple miscellaneous items for everybody. Our depreciation expense for the quarter was \$18 million compared to \$16 million in last year's quarter, and for the full year of 2018, we expect it to be about \$75 million. Amortization expense for the quarter was \$10.4 million compared to \$9 million in last year's quarter. For the full year of 2018, we expect it to be about \$41 million. And our CapEx for the quarter was \$18 million compared to \$19 million a year ago and we expect or forecast to spend about \$100 million in 2018 in capital expenditures.

Turning to backlog, we had another good quarter, generating new orders as you can see that the numbers we reported in the press release. At March 31, our multiyear backlog was a record \$4.9 billion, a 7% increase from year-end, and our book-to-bill in the first quarter was 1.28. Of the increase, about 40% was due to changes in FX

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rate. Our rolling 12-month backlog, which is a subset of the multiyear backlog, was at a record \$2.5 billion, a 7% increase compared to the end of the year, which again is another positive sign for this year.

So, with that, I'll turn it back over to Ray.

#### Raymond T. Betler

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

Thanks, Pat. As I mentioned previously, we affirmed our guidance for the year based on our first quarter performance and our outlook for the rest of the year. We expect full-year revenues of about \$4.1 billion with adjusted earnings per diluted share of about \$3.80, excluding restructuring and integration charges, compared to 2017. This would represent revenue growth of about 6% and adjusted EPS growth of about 11%. Given that we've slightly exceeded our first-quarter expectations, we hope the guidance proves to be conservative.

We expect to generate cash from operations in excess of net income for the year. Our key assumptions include the following. Revenue growth in both segments. Our consolidated operating margin target for the year is about 13.5%. As Pat mentioned, we should see improvements during the year through better project performance, the completion of lower-margin contracts and get the benefit of restructuring and cost reduction programs.

Our tax rate is expected to be about 23.5% for the year and we're assuming diluted shares outstanding of about 96 million for EPS calculation purposes. Our goals in 2018 are straightforward, to meet our financial plan; to generate cash; to invest in growth opportunities while strengthening our balance sheet; and to capture the additional synergies in growth we expect through the Faiveley acquisition.

We continue to focus on cash generation to fund growth. Our priorities for allocating free cash remain the same, although we expect to reduce debt throughout the year. Those priorities are to fund internal growth programs, including product development and innovation in CapEx, to fund acquisitions where we have ample opportunities to deploy capital, to return money to the shareholders through a combination of dividends and stock buybacks. We remain focused on increasing free cash flow by managing cost, driving down working capital and controlling capital expenditures.

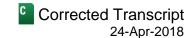
Our corporate strategic growth strategies also remain the same. We expect to achieve growth through new product development innovation and new technologies, to invest in aligned market expansion and global expansion, to invest in aftermarket and service expansion and to invest in acquisitions.

Before I ask Stéphane to discuss the transit and freight markets, I'd like to talk briefly about PTC. Obviously, this will continue to be a topic of great interest as we get closer to the deadline at the end of 2018. In Q1, our revenues in this area were \$91 million and we're comfortable with our estimate of about [ph] 5% (00:16:02) growth, which would be about \$350 million.

During Q1, we booked about \$75 million of new train control contracts to provide equipment, project management and aftermarket services for various customers. Also this year, our aftermarket revenues are starting to kick in from master service agreements with our freight and transit customers. As you know, we've said that this would generate annual revenues between \$50 million and \$100 million. We're already in this range, which represents a strong foundation for our ongoing revenue.

In addition, as we are focused on helping customers meet their deadlines in the near term, we are also investing to ensure that we capture the long-term growth opportunities from this installed base. For example, our largest single investment in new product development is designed to help us maintain our leadership position in North

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American market PTC and to leverage our PTC installed base for future follow-on opportunities in enhancements and added functionality.

Stéphane, can you now discuss the transit and freight segments, please?

#### Stéphane Rambaud-Measson

Chief Operating Officer & Director, Westinghouse Air Brake Technologies Corp.

Thanks, Ray. I'm happy to discuss our operating groups and their performance. Our transit business is now a true global player. Over time, there should be more visibility and stability, better growth opportunities both organic and through acquisitions, and improved margins as we benefit from increased scale and market share, and our aftermarket revenues increase.

Currently, the state of the transit market worldwide is strong with investment in public transportation growing. We are seeing growth opportunities, for example, in India and Europe, especially Germany and France. India is a market where we expect to benefit with our plan from good volume, from repeat orders on standard products. And in U.S., we are participating in all the major new vehicle projects.

Our position within the market is also strengthening. During 2017, our backlog increased about 20% as we booked orders in all major markets, in all our major product categories and with all of our major customers. During the first quarter, our backlog increased again, this time by 5%.

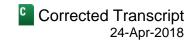
The project includes supplying components and systems for new cars in the Middle East, in Southeast Asia, and Europe. And during the first quarter, we also had organic sales growth of about 6%, and some of the backlog is starting to kick in. You have to remember that these OEM orders typically lead to long-term aftermarket contracts, which then provide revenues and good profitability for about 30 to 40 years.

Let me give you a quick update on new product development in transit. We have a number of green and environmentally friendly products in the pipelines. It includes low energy consumption HVAC systems, the compact and lower weight doors mechanism, compact brake control electronics, and lightweight brake discs for commuter and high-speed trains.

Let's move now to our freight rail business, which is also showing improvement. In NAFTA, freight rail traffic is up about 2.5% year-to-date, and while we still see a lot of rolling stock in storage, these numbers continue to come down. For example, the [indiscernible] (00:20:11) are down about 10% since the end of last year. Around the world, freight market conditions are mixed with growth in some areas offset by sluggish demands in others. We can mention India as a bright spot with a significant increase in new freight car production this year.

Throughout 2017, we saw modest pickup in our freight aftermarket revenues, but that outlook is improving. We continue to see more inquiries for component servicing and repair and even for locomotive overall projects. Our freight backlog is now at its highest level in two years, and as Pat mentioned, our first quarter revenues showed a year-on-year increase for the first time in two years, which are positive indicators. We are also seeing some improvements in our non-rail businesses, particularly [indiscernible] (00:21:09) products, which is being driven by higher oil and gas prices.

As a reminder, our 2018 freight assumptions include the following. Railroad CapEx which declined about 10% in 2017 is expected to be flat or slightly up in 2018. New locomotives will see a slight increase worldwide, down in NAFTA but it's looking like 2018 will be the floor. For new freight cars, NAFTA should be flat to slightly up. As in our transit business, we also invested in new product in freight. Whether it is data analytics through electronic



[indiscernible] (00:21:59) or freight control automation using on-board computers, we have an extensive pipeline of innovation.

Finally, let's review the two acquisitions we made in the first quarter. We acquired Annax, a market-leading supplier of public address and passenger information systems for transit vehicles and stations; and Lynxrail, a manufacturer of vision-based wayside inspection systems for the rail industry. Combined, they have annual sales of about \$60 million.

Annax is headquartered in Germany and provides a wide range of products and solutions including communication systems, intercoms, audio technologies and displays throughout all main car builders' platform and market segments. Annax focuses on offering the innovative and added value solutions and processes, example Wi-Fi, passenger counting, smart window technology. Annax strategically aligns with our existing electronic product for transit and [indiscernible] (00:23:06) markets, and its leading edge solutions complement well and broaden Wabtec's product portfolio.

Lynxrail with headquartered in Australia offers product that [indiscernible] (00:23:19) sophisticated machine vision technology and algorithms to assess components and provide real-time actionable amenities to the customer. This technology complements the condition monitoring products supplied by another Wabtec unit, Track IQ which specializes in wayside condition monitoring equipment and data management systems. The combination of Lynxrail and Track IQ creates a unique opportunity for Wabtec to become one of the largest supplier of wayside condition monitoring technology worldwide. Ray?

#### Raymond T. Betler

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

Thanks, Stéphane. I'll conclude my prepared remarks by talking about our long-term growth opportunities. As you know, we completed our first strategic plan as an integrated company last year, and our five-year plan meets our long-term financial goals to average double-digit growth in revenues and earnings through the business cycle, while improving margins. To achieve these goals, we have growth initiatives in each of our major product lines, consistent with our forward-going strategies. Five years from now we expect to be a stronger, more global, more balanced, more profitable company.

So just to reiterate some of my comments at the beginning of the call, we're off to a solid start in the first quarter 2018. We slightly exceeded our guidance for the quarter and affirmed our guidance for the year, which we hope will prove to be conservative. We saw year-on-year revenue growth in both of our segments for the second quarter in a row. Our backlog grew again and remains a record high. We expect to build on these first quarter accomplishments throughout 2018. Based on our record and growing backlog, the improvements we're seeing in our freight aftermarket and our Wabtec Excellence Program which gives us the ability to generate cash and continue to increase margins over time, we believe this is going to be a good year.

With that, we will be happy to answer your questions. I'll turn it over to Tim.

#### Timothy R. Wesley

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

Okay. Steven, if you want to poll for questions, go ahead.

#### QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Sam Eisner with Goldman Sachs. Please go ahead.

Samuel H. Eisner
Analyst, Goldman Sachs & Co. LLC

Yeah. Good morning, guys.

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

Good morning, Sam.

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

Good morning, Sam.

Samuel H. Eisner
Analyst, Goldman Sachs & Co. LLC

Can you maybe talk a bit about some of the investments that you're making in freight? You called out increased investments in strategic growth initiatives. Curious how much of that has been a drag on the first quarter performance, how much should we expect for the year? Presumably, that's embedded in your 13.5% margin target for the full company. How long do you expect them to last? Just the overall review of kind of what these investments are, how big they are, how long they are going to last. Thanks.

# Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

Yeah. Okay. Thanks, Sam. Yeah, we've talked off and on about the investments in the freight market throughout last year and happy to continue to do it. As you recall, last year, we invested in the heat exchanger for the energy business – energy market over in China. It was through our heat exchange business this year. We talked about last year and started this year our investment in a facility in Turkey to expand our presence in Turkey overall, but significantly to focus our freight activities in Turkey. Turkey is a large market. East Europe is a large market. We have a facility in Macedonia, which we continue to upgrade, which will complement the facility in Turkey.

One of the things that we did is, with the Unitrac business which is one of our [indiscernible] (00:27:35) infrastructure businesses. When we acquired that company, it had two separate locations. While they were a short distance apart, they were still two separate locations. They did not offer really efficient production capabilities. And so we've invested in a brand new facility. It's in the same geographical location, but a couple of miles from the existing businesses and we've consolidated everything in one location. It's all under roof. One of the two facilities that we acquired was exposed to the environment which you can imagine in Tennessee is a tough way to work in the summer.

So we've completed that investment and we'll be able to improve our product offerings and productivity for infrastructure products, and we've mentioned several times the investments we're continuing to make in electronics which are significant.

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Samuel H. Eisner

Analyst, Goldman Sachs & Co. LLC

hould be, the expectation for a

Understood. Is there any way to put any numbers behind what these investments should be, the expectation for a drag on profitability, the return profile that you expect on and then just any kind of financial details would be greatly appreciated.

Raymond T. Betler

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

Yeah, Pat is the numbers guys, so let me allow him answer that.

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Patrick D. Dugan

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

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You know, Sam, I guess we don't want to carve out a whole lot of data on the specific investment programs. I can tell you that all these investments are definitely in our guidance. I would say that you kind of look at our overall spending for R&D and other operating-type expenses and these developments are somewhat consistent with what we've spent in prior years. You can clearly see a little bit of additional CapEx versus a normal year in our numbers. But where it really comes to light and becomes visible is you can see it impacting our segment operating percentage time to time based on the timing of those expenses, how they're going hit. We always look at these initiatives and expect to have them pay for themselves in a fairly short order, if not even within the year.

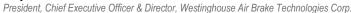
Samuel H. Eisner

Analyst, Goldman Sachs & Co. LLC



Understood. And maybe just sticking with freight, you guys historically have given expectations for rail traffic growth, locomotive deliveries, railcar deliveries. Any update that you guys have on those specific figures now that we're a quarter through the year and seemingly freight does maybe a bit better than expected when you guys first gave guidance?

Raymond T. Betler





I think that's our feeling, Sam. We're pretty encouraged by the improvement that we've seen in freight on the locomotive side. You know that there was an order for 200 cars earlier in the year and that order was not expected to come that early. Certainly, in 2018, we are aware of other orders that are in discussion in the industry. Freight car build is definitely tracking ahead of plan. Cars in storage are coming down pretty dramatically both on the locomotive side and freight car side. There's about a 10% improvement for instance since the end of December on the locomotive side and for railcars about 15% since mid-year last year. So I think all in all, the market is headed in the right direction. We're picking up business in the aftermarket and are encouraged by the OEM opportunities.

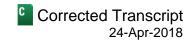
Samuel H. Eisner

Analyst, Goldman Sachs & Co. LLC



If I can just sneak one more in on PTC. I know you're guiding 5% up year-on-year at \$350 million for 2018. Just looking out to 2019, I know you don't have guidance out there, but presumably a lot of investors are focused on what happens post the deadline. Any way for investors to kind of think about, is there a hole, is there not a hole, do you anticipate having the aftermarket revenue go from \$50 million to \$100 million? Is there any kind of broader comments that you can give on 2019 post the deadline?

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#### Raymond T. Betler

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

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So, maybe let me talk about the deadline for a minute so people really can put it in context. The deadline for end of 2018 is a mandate that people need to have their equipment completely installed and basically be under a test mode to qualify the equipment. Some people won't be able to go into PTC operation across their entire network. Some people will need to extend – to leverage the opportunity to extend from 2019 to 2020. Those extensions will be based on specific case-by-case submittals that have to be approved from the FRA. We're meeting with the FRA on a regular basis to make sure that everybody is on the same wavelength in terms of information and to optimize the rollout.

So the fact of matter is the market's not going away. There is going to be business in 2018, 2019, 2020. And as that PTC business continues, we're going to build on that business through the enhancements we've talked about, operational improvement opportunities and through new product development that ultimately for our product roadmap leads to autonomous operation.

Samuel H. Eisner

Analyst, Goldman Sachs & Co. LLC

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Got it. I'll hop back in queue. Thanks.

Raymond T. Betler

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

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Thanks, Sam.

**Operator**: Our next question comes from Matt Elkott with Cowen. Please go ahead.

Matt Elkott

Analyst, Cowen & Co. LLC

Good morning. Thank you for taking my question. Ray, it sounds like you clearly have increased confidence in the guidance for 2018. Can you talk about the primary areas of the business that give you this increased confidence? Is it mostly freight aftermarkets or margins or just any more clarity on what seems to give you more confidence in the guidance for 2018 would be appreciated.

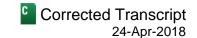
Raymond T. Betler

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

Yeah. I think it's a combination of things. I think the freight market in general that I just spoke of is certainly one big factor. But also the fact that we spent a lot of time and effort to integrate our business last year and that we have done a lot of work to baseline our projects, the backlog we have in transit and the work that Stéphane is doing to improve our overall performance and productivity across our organization, the opportunities that exist through the synergies that we've already completed and the ones that are still in our plan and frankly our position in PTC, I mean, it's a very good position that we're in. And this is an important year for everyone, and because of the closeness of our company with our customers and the regulatory authorities, I believe that's going to offer new opportunities for us.

Matt Elkott

Analyst, Cowen & Co. LLC



Okay. That's great. Speaking of the freight aftermarket business, you did have an encouraging increase in the organic portion of freight sales. You had a decline last quarter. Do you think based on what you see in the market and based on what we are today in the second quarter, this organic freight sale growth can continue for the rest of the year?

#### Raymond T. Betler

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

I can't really speculate on where it's headed, but I feel good about the market right now. We're in regular touch with the freight car builders both in terms of their domestic build as well as their international. A lot of these freight car builders are expanding their operations overseas. And certainly the aftermarket, you folks know the issues that exist right now with congestion sensitivities, each of the Class 1s have been called in to respond to Surface Transportation Board and velocity is down. So I think between the need for implementing in terms of overall performance and the need for equipment, it looks pretty good. So I guess the term I would use is we're cautiously optimistic about the market going forward.

#### Matt Elkott

Analyst, Cowen & Co. LLC

Got it. And just one final question. I know you guys are always evaluating a pool of different acquisition targets. Can you talk about the acquisition candidates that you're evaluating at this point? Are they more freight companies or transit companies or sizes? Any color would be appreciated.

#### Raymond T. Betler

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

Yeah. So when we do our strategic plans, each of our business unit leaders identify candidates, and we go through very large potential portfolio of acquisition candidates through a funneling process to shortlist candidates. So there is at any given time a dozen candidates that will be in some phase of pursuing. So it's a mix across our total business. There is good opportunities in every one of our segments and really it comes down to which one represents the best return on investment for us as they compete for our acquisition funnel.

#### Matt Elkott

Analyst, Cowen & Co. LLC

Okay, great. Thank you very much.

#### Raymond T. Betler

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

Thanks, Matt.

Operator: Our next question comes from Justin Long with Stephens. Please go ahead.

#### Justin Long

Analyst, Stephens, Inc.

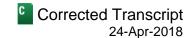
Thanks and good morning.

#### Raymond T. Betler

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

Hi, Justin.

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Justin Long

Analyst, Stephens, Inc.

Q

So maybe to follow up on Matt last question, obviously there was an article that came out last Friday about the GE transaction and your potential involvement. I know you guys won't comment on rumors and I certainly want to respect that. So maybe I can ask a different way, when you think about your buying power for acquisitions and you look at your leverage ratio today, the integration of Faiveley and other recent deals, is there a limitation on the size of acquisitions that you'd be willing to entertain?

Timothy R. Wesley

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

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Yes. Yeah, I think – Justin, this is Tim. Yeah, so in the context of your question and the media reports and everything, we've always had our longstanding policy of not speculating on rumors – or commenting on rumors or speculations, so I think we'll stick to that.

Patrick D. Dugan

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

A

But separating your – this is Pat. Separating your question about how you led into the question to our leverage, we said in our prepared remarks that we intend to remain an investment grade company. We respect the leverage ratios and that is something we consider in all our capital allocation strategies and that's very important.

Justin Long

Analyst, Stephens, Inc.

C

Great and you think in order to remain in investment grade you would need to keep leverage ratios about where they are today. Is that the assumption?

Patrick D. Dugan

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

Δ

I think we've talked about our long-term goal and where we want our leverage ratios to be. Obviously, there's a certain amount of deleveraging that is expected in our investment grade rating right now. And that's a big part of our formulating our cash – cash strategy. And I think that's remained consistent and hasn't changed.

**Justin Long** 

Analyst, Stephens, Inc.

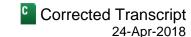
Okay and I guess secondly going back to some of the margin commentary for this year you gave guidance for both freight and transit margins to improve year-over-year and in 2018. But is your view that margins in both segments should improve quarter to quarter throughout the year relative to what we saw in the first quarter. I just wanted to get a better sense for how we should think about the cadence?

Patrick D. Dugan

Δ

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

Yeah. Justin, that's sort of quarterly guidance, isn't it? I mean, really at the end of the day we're executing on our plan, and hitting the numbers that we have put forward for the full year, really sort of imply that throughout the year we're going to have continuous improvement in our margins just as we always – as we always build in our strategic planning and into our budgeting year-to-year. We feel good about our full-year guidance, and so I think that kind of gives you an indication of how it should evolve.



#### Justin Long

Analyst, Stephens, Inc.

Okay. And lastly, there's been a lot of discussion about the freight aftermarket business, and it's encouraging to see the pickup there. I wanted to ask about what you're seeing in the transit aftermarket business. How should we think about the growth profile of that operation over the remainder of 2018?

#### Raymond T. Betler

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

Stéphane, do you want to take that one?

#### Stéphane Rambaud-Measson

Chief Operating Officer & Director, Westinghouse Air Brake Technologies Corp.

Thank you, Ray. Actually it's a slightly different dynamic than the one of the freight market for very obvious reason. One of them is that our transit business is absolutely truly global. We primarily – what we call aftermarket for transit is primarily two components, one is selling spare parts, and it usually starts after the warranty period, and lasts for 30 years to 40 years. In most of the cases, we have a relatively captive position, as most of our spare parts are safety-critical. The second part of our offering is engineering services, we offer to our end customers to refurbish equipment, repair equipment, modernize equipment over the lifespan of the train.

We – I mean, it's relatively difficult to model any service business of the transit part due to the significant fragmentation of our customer base that gave you global business, and very different nature of the contractual arrangement we have all over the world. But we can foresee, and it's one of our strategic targets to continue to feel the volume of our service business for transit worldwide, and gradually balance services and original equipment.

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Analyst, Stephens, Inc.

Okay, great. I'll leave it at that. Thank you so much for the time.

#### Raymond T. Betler

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

Thanks, Justin.

Operator: Our next question comes from Allison Poliniak with Wells Fargo. Please go ahead.

#### Allison A. Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Hi guys. Good morning.

#### Raymond T. Betler

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

Hi, Allison.

#### Allison A. Poliniak-Cusic

Analyst, Wells Fargo Securities LLC



C

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Not to harp on this freight margin question, but I guess if I – Pat, if you strip out the investments that you're making and just look at the base organic margin, are you seeing expansion there, and would you expect wider expansion at least on the base core, as we go with some volatility with the investments? Is that how we should think about it?

Patrick D. Dugan

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

A

Yeah. I think you could see that the margins would get to a kind of more typical for the full year. You definitely have an impact of some spending here and some other costs there being realized in that segment, but I think to answer your question is the best way to look at it and model this would be to recovery to a more typical freight margin, which is a little bit higher for the full year. We continue to be focused on these – on the margin for these businesses, and it's a big part of the overall EBIT expansion that we talk about through – through the rest of the year. We have programs in place to continue to improve, and I think that you'll see that as we look at it on a full year basis.

Allison A. Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Great. Thanks. And then just on Faiveley synergies coming in pretty quickly. As you dig a little bit more into the two businesses, with that number, you think, at this point you could exceed that number on the revenue side are you seeing incremental that maybe you weren't expecting coming out of it? Any thoughts there?

Raymond T. Betler

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

А

So I mean, let's say, we talked about it in the prepared remarks which is that we were on our plan that we built into our plan additional savings and synergies that we're realizing. I think in terms of any kind of top-line synergies, you're really seeing it manifest itself in the backlog improvement that we get quarter-to-quarter. Clearly, the Faiveley integration is a big effort by our management team. We feel really good about it. It's been successful. Ray talked about it earlier and we really see that the long-term vision of this to continue to evolve and result in improved results.

Allison A. Poliniak-Cusic

Analyst, Wells Fargo Securities LLC

Great. Thanks so much.

Patrick D. Dugan

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

А

Thanks, Allison.

Operator: Our next question comes from Scott Group with Wolfe Research. Please go ahead.

Scott H. Group

Analyst, Wolfe Research LLC

Hey, thanks. Morning, guys.

Raymond T. Betler

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

A

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Hi, Scott.

Scott H. Group

Analyst, Wolfe Research LLC

Q

So I wanted to try one more on the GE question. I know it's tough, but is there anything you guys have ever said in the past that suggests that a deal with GE couldn't or wouldn't happen because of any sort of strategic or [ph] sizing (00:46:41), is there anything you ever communicated in the past? And then maybe can you say what your average content is per locomotive and maybe in an ideal world, how high it could go if an OEM used all of your products on their loco?

Timothy R. Wesley

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

Δ

Yeah. Scott. This is Tim again. I'll jump in again and just say that we're not going to comment on anything related to rumors or speculations. So we're not going to comment on that. As far as content on locomotives, it varies. I think we said that if we get everything maybe it's a couple hundred thousand, but we've never given an average content number, that's on the max.

Scott H. Group

Analyst, Wolfe Research LLC



Okay. Pat, the last couple quarters I think you've given some sort of directional guidance on – on the upcoming quarters' EPS. I don't think you said anything this quarter, any color or comments that you feel appropriate to make?

Patrick D. Dugan

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



I don't know – I don't know that I've said anything about quarterly guidance in terms of EPS. So at this point it's really kind of – will be very difficult for me to really break it out by quarter what – what we think is going to happen and we – we're going to stick to our full year guidance and in terms of EPS.

Scott H. Group

Analyst, Wolfe Research LLC



Okay. And then on the PTC aftermarket I think, Ray, you said that you're already doing \$50 million to \$100 million of aftermarket this year. Is there any way to say what percent of your customers are already paying aftermarket, I'm just trying to get a sense of if this is already as good as it gets or should there be a lot of growth from here in aftermarket because only half or less than half of customers are paying aftermarket?

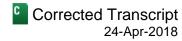
Raymond T. Betler



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

So, we – one way to know that we're servicing all of the customers, and we've delivered equipment to in various ways. 1s under MSAs, we've mentioned in the past that all the Class 1s are under MSAs with one or two international customers, and a few commuter rail customers, and we continue to negotiate, there's many customers Scott, as you know that have just recently entered into contracts for the OEM equipment. So those customers probably won't come under MSA agreements for two to three, maybe four years down the road. But we have a pretty significant portfolio now, and we're supporting either under MSAs ongoing medium long-term MSAs or just normal aftermarket transactional business or all the customers that we've serviced so far, and in that

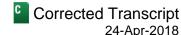
portfolio there's 40 plus customers.



Scott H. Group  Analyst, Wolfe Research LLC	Q
Okay. And then last one, real quick, the low margin contracts that you talked about a couple of time much is that impacting full-year operating margin?	nes back, how
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	А
Yeah. We haven't given that number. I mean, I think that you kind of look at it as the adjustments fourth quarter, and we call those out, but clearly it creates a very low margin revenue stream that portion of 2018. So that does affect our operating income a little bit, that percentage income	
Timothy R. Wesley Vice President, Investor Relations, Westinghouse Air Brake Technologies Corp.	A
Included in the guidance.	
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	А
but it is, it's all yeah, as Tim points – reminding me, it's all been contemplated in our guidance a year.	nd so in that full
Scott H. Group  Analyst, Wolfe Research LLC	Q
Okay. All right. Thank you, guys. Appreciate it.	
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.  Thenk your air.	A
Thank you, sir.  Operator: Our next question comes from Matt Brooklier with Buckingham Research. Please go	ahead.
Matthew Brooklier Analyst, The Buckingham Research Group, Inc.	Q
Thanks and good morning.	
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.	A
Hi, Matt.	
Matthew Brooklier Analyst, The Buckingham Research Group, Inc.	Q
The \$75 million in new orders that you talked to in the press release for first quarter, is that	

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

Raymond T. Betler



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Sorry.	
Matthew Brooklier Analyst, The Buckingham Research Group, Inc.	Q
inclusive of – of signaling I'm just trying to get to what – what's your positive strength for nu in terms of orders?	ımber for first quarter
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.	A
It's just that new orders do include whatever we've booked in train control. We don't break it of	out.
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.  No. Yeah, we count the total.	A
Raymond T. Betler  President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.  So Matt, PTC and train control systems projects are in that \$75 million if that's what you are a	Aasking.
Matthew Brooklier  Analyst, The Buckingham Research Group, Inc.  No. I'm just trying to figure out what's – what's pure PTC and then what's second lien, because included – you include that now together. I'm just trying to figure out of the \$75 million what's versus some of the non-PTC signaling work that you guys do?	
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	A
Yeah. Again, we don't break it out. We do give you the revenues for both, but we just haven't backlog or the contracts for those.	t broken out the
Matthew Brooklier Analyst, The Buckingham Research Group, Inc.	Q
And then I think I heard more numbers talked to in terms of the revenue that you booked in the have the standalone PTC revenue number for first quarter?	he quarter. Do you
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	Д
I'll look for that. So ask your next question. I'll look for that.	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Matthew Brooklier	

Analyst, The Buckingham Research Group, Inc.

Okay. Yeah. We can take it offline if need be. And then just finally, it sounds like you're more positive on the aftermarket portion of your business at freight. You talked to it a couple of times through the conference call, and I think part of that has to do with this directional pick-up in the locomotive market. Could you maybe talk to your OEM business, the new order side and delivery side of it if you think that potentially this pick-up in locomotive

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activity that sounds like it's hitting your aftermarket portion of your business, could it potentially also result in maybe better industry deliveries this year, and maybe the timing around that if that's the case?

#### Raymond T. Betler

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

A

Yeah, I think the OEM business will come later in the year, Matt. What we're seeing right now that the OEM business from the improved OEM locomotive orders, on the OEM side for freight, that business is relatively short term, three to six months turnaround. So that business is coming now, part of the revenue stream that we are seeing now.

But to give you an example of some of the types of businesses, you have to remember, in terms of capital budgets, the Class 1s have committed to basically hold flat their capital budgets year-on-year. So they're putting more money into other parts of their systems because they don't have to spend as much on PTC. Some of that is showing up in rolling stock, some of that is showing up in maintenance [ph] away (00:54:26), both of which we get.

But in the aftermarket side, there's customers that have increased their overhaul programs for overhaul locomotives from one customer, I won't name the customer, but from one program change from a request of 100 to 200 this year, overhauls. A lot of that is drop-in business for us. There's another customer that's converting DC to AC power for 100 locomotives. These are all business opportunities that are improving conditions over last year.

#### Timothy R. Wesley

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

A

Hey, Matt, this is Tim again. So, the first quarter revenues for PTC was \$59 million, signaling was \$32 million, for a total of \$91 million.

#### Matthew Brooklier

Analyst, The Buckingham Research Group, Inc.



Okay. That's great. That's all I have. Thanks.

#### Timothy R. Wesley

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

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Thanks.

#### Raymond T. Betler

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

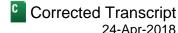
Thanks, Matt.

Operator: Our next question comes from Saree Boroditsky with Deutsche Bank. Please go ahead.

#### Saree Boroditsky

Analyst, Deutsche Bank Securities, Inc.

Good morning.



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Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.  Hi, Saree.	A
Saree Boroditsky Analyst, Deutsche Bank Securities, Inc.	Q
I appreciate all the color on PTC and was wondering if you would just help us underst revenue between transit and freight.	tand the breakout of overall
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	Д
Yeah. We don't give the specific breakdown for train control and signaling by the two majority of it has been in freight. That might be shifting a little bit more – the mix might transit as we do some of the project work with the transit agencies, but we don't give a	t be shifting a little bit to
Saree Boroditsky Analyst, Deutsche Bank Securities, Inc.	C
Okay. And then just to confirm, I believe you'd previously set a debt-to-EBITDA of 2 ti the investment grade. Is this how you're still thinking about the leverage targets?	mes to 2.5 times to maintain
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	Д
Yeah. I think our long-term view of our leverage is that we should be in that 2 times to of the Faiveley acquisition. When we talked about this with our rating agencies, there over time and they're fully aware of our financial policy and our goal of getting there. Voinvestment grade company and maintain that investment grade rating, and that leveral long-term vision.	was a plan for deleveraging We expect to be an
Saree Boroditsky Analyst, Deutsche Bank Securities, Inc.	C
Thanks for taking my questions.	
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.  Thanks, Saree.	Α
Operator: Our next question comes from Mike Baudendistel with Stifel. Please go at	head.



Thank you. Just wanted to ask you, on the components that you are selling to locomotive manufacturers over the world, do you view the North American freight locomotive manufacturers as being competitive with others in other parts of the world that specialize in either transit locomotives or locomotives for other geographies?

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Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.	A		
Michael, they are very different. GE is definitely competitive in all freight applications. So, heavy haul markets around the world. EMD, the same. But they are not competing for typical European passenger locomotives. Siemens, Bombardier, Alstom compete for that business. So, their core business is really focused on freight.			
Michael James Baudendistel  Analyst, Stifel, Nicolaus & Co., Inc.	Q		
Got it. Makes sense. And just to sort of add on to that, are you selling the same or similar components to a those locomotive OEMs or are those different product lines that you're selling to those different segments?			
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.	А		
It's different. You're familiar with the components that we sell for freight here, the compressors, the brake systems, electronics, the heat exchangers.			
I'll let Stéphane talk about the European locomotive builders.			
Stéphane Rambaud-Measson Chief Operating Officer & Director, Westinghouse Air Brake Technologies Corp.	Α		
Naturally, the technology is very, very different and most of the European builders are supplying locomotive which are for electrified networks. The technology is not following the same standard as in North America. they are [ph] vastly (00:58:51) different. And we supply actually most of [ph] the other (58:54) car builders geographies whether it is Europe or India or China.	So,		
Michael James Baudendistel Analyst, Stifel, Nicolaus & Co., Inc.	Q		
Great. That answers the question. Thanks very much.			
Stéphane Rambaud-Measson Chief Operating Officer & Director, Westinghouse Air Brake Technologies Corp. Thank you. You're welcome.	A		
Operator: Our next question comes from Steve Barger with KeyBanc Capital. Please go ahead.			
Steve Barger Analyst, KeyBanc Capital Markets, Inc.	Q		
Hey. Good morning.			
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.	A		
Good morning, Steve.			
Steve Barger Analyst, KeyBanc Capital Markets, Inc.	Q		

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Nice year-over-year swing in operating cash flow. Can you tell us, did you generate positive cash flow on both freight and transit this guarter and would you expect both will be positive in each guarter this year?

Patrick D. Dugan

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

Yeah. We actually – because the operations are so intertwined, we really don't kind of break it out in transit versus

freight. It just would be - well, first off, we are not set up to do it, it would be very difficult to do.

I think, all-in-all, what you see is a good overall cash flow performance. When you look at the prior quarter, it's typical operations as we come out of year-end in the first quarter and some of the things and the timing of some of how our working capital evolves. But our goal for the year is to exceed our net income.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Okay. And just, longer term, thinking about free cash flow efficiency or conversion, is there any structural reason why Wabtec can't get back to the levels that it used to run prior to the Faiveley acquisition?

Patrick D. Dugan

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



I don't think so. I mean, clearly, last year, with the acquisition, we became more international, more transit and it really created some challenges in last year's performance. But what you've seen now is three quarters in a row where we continue to improve and we feel very good about our quarter-over-quarter cash flow from operations and performance and I want to see that continue.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.



Okay. And then, one last...

Patrick D. Dugan



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



Our goal remains the same as I said. We haven't changed our goal. That's what we're planning to do is have our cash from operations exceed our net income.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.



Got it. Thanks. And one more quick one. I'm curious about electronics and signaling orders outside of the North American freight market. As you are out in the market, talking to customers, are you seeing more interest from new projects where you can get involved in project design early on or is this more upgrading existing systems? And I'm just trying to get a sense for what type of customer is seeing the value in the products and how that's evolving.

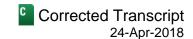
Raymond T. Betler

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



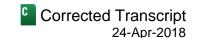
Yeah. So, we try to stay pretty close with our customers, try to understand their business [ph] with them (01:01:38) and opportunities. Certainly when we get to a point where they have orders in their own orders forecast, we're trying to position ourself to work with them as a partner, not just as a supplier.

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So, in the case of transit, I mean we work with customers two, three years ahead of the actual award of the contract. So, there is a long-term ongoing relationship with the freight car builders and the locomotive builders that facilitate that on the freight side also. So, yeah, we're involved with our customers early on and basically trying to work with them more in a partnership to integrate our equipment into their designs and their platforms.

Steve Barger Analyst, KeyBanc Capital Markets, Inc.	Q
Got it. Thanks.	
Raymond T. Betler  President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.	А
Thank you.	
Operator: Our next question comes from Jason Rodgers with Great Lakes Review. Please go ahead.	
Jason A. Rodgers  Analyst, Great Lakes Review	Q
Yes. Do you expect FX to benefit sales at a similar rate as you saw in the first quarter, looking on into the quarter and the second half?	second
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	А
Yeah. I mean, we don't usually forecast FX, but I think if you just kind of look at the FX rates, obviously, to extent that you see them, remain consistent, that's the kind of impact you'll see in consolidation.	o the
Jason A. Rodgers  Analyst, Great Lakes Review	Q
And I wonder if you could talk about what you're seeing in the way of raw material price increases and if y contract surcharges are fully offsetting those increases.	our/
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	A
We're definitely seeing an impact, but so far, it's been relatively small, minor impact to our earnings. What is we get in with our contracts with the opportunity to re-price or apply an escalation to really offset those to us.	
Jason A. Rodgers  Analyst, Great Lakes Review	Q
And then, finally, the accounts receivable was up year-over-year and sequentially a bit larger than a norm increase for you. What was the reason for that?	nal
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.	A



Well, when you just look at the absolute dollars on the balance sheet, you have to factor in some impact of FX, especially when you look at prior quarter. But, all-in-all, it's really related to the higher sales and the timing of how those sales hit in the quarter. So, as we're growing, we're going to see some receivable growth and some inventory growth and some payable growth offset that.

Jason A. Rodgers  Analyst, Great Lakes Review	Q
Okay. Thank you.	
Patrick D. Dugan  Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp.  Thanks.	A
Raymond T. Betler  President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.  Thanks, Jason.	A
Operator: Our next question comes from Liam Burke with B. Riley FBR. Please go ahe	ead.
Liam Burke Analyst, B. Riley FBR, Inc.	Q
Thank you. Good morning, Ray.	
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.  Hi, Liam.	A
Liam Burke Analyst, B. Riley FBR, Inc.	Q
Ray, could you give us some sense both on an opportunity and competitive front how th for Wabtec?	e transit PTC is rolling out
Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.	A
So, I think, on the commuter side, again, we're in a sole source position, but what we've	been able to do is

So, I think, on the commuter side, again, we're in a sole source position, but what we've been able to do is improve our overall product offerings and capability to be able to participate either at turnkey level as a prime or as a sub to a prime. So, we are not only able to deliver the onboard PTC, we're delivering a model subsystems and in some cases, the entire project management and integrated system.

So, you have places that are greenfields like [indiscernible] (01:05:32) as an example [indiscernible] (01:05:35) where we're participating in that position that we're delivering in the overall signaling system and separately, we have a contract to deliver the PTC. So, we're, I think, in a pretty good position in that market. There's other people that are doing that, but I think we get the majority of the share.

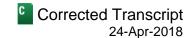
### Westinghouse Air Brake Technologies Corp. (WAB) **Corrected Transcript** Q1 2018 Earnings Call 24-Apr-2018 Liam Burke Analyst, B. Riley FBR, Inc. And on the pricing side, the profit profile side, is it similar to freight? Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp. Yes, very similar. Liam Burke Analyst, B. Riley FBR, Inc. Great. Thank you, Ray. Raymond T. Betler President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp. Thank you. Operator: Our next question comes from Jay Van Sciver with Hedgeye. Please go ahead. Jay Van Sciver Analyst, Hedgeye Risk Management LLC (Research) Great. Thank you for taking my question. I just want to follow up on the materials cost component, if you could. Does that become at all a headwind later in the year as there is a lag between the price changes and your costs as you incur them? Patrick D. Dugan Executive Vice President & Chief Financial Officer, Westinghouse Air Brake Technologies Corp. Yeah. So, we study it and obviously some more information will come later when we get the Q filed, but what we've seen is that our material costs as a percentage of sales have not changed. And we've also measured a kind of on the outside through our sourcing team and a little bit is definitely impact – that is impacting us is definitely immaterial, it's just not a big number. But what we think and expect to happen is that similar to other years where we've had rising material costs due to commodities that the programs and the protections that we have in place will continue to operate well. We have – obviously can re-price some of our shorter-term orders that come into our backlog that are shorter term in the sense that they are - you win the order and deliver, the pricing can be adjusted to accommodate that. We have surcharge programs in for our longer-term agreements with our customers. And finally, we have escalation provisions in our long-term transit project. So, all those things are in place to protect us from the impact of any kind of commodity spike.



Analyst, Hedgeye Risk Management LLC (Research)

Just on SG&A as a percentage of sales, there was a little bit, I think, higher than what we would have expected. How do you think about that, the cadence of that through the year?

Q1 2018 Earnings Call



#### Patrick D. Dugan

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

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So, when we look at our SG&A, I think in our prepared remarks, we talked about a run rate about \$140 million to \$145 million. It's higher from a quarter a year ago because of acquisition, because of the FX impact on our — especially our European operations and we definitely have some discrete items that were lower a year ago and some discrete items that came in as, especially in the professional fee area, related to some costs we incurred in the Tax Reform Act bill that was passed. So, all-in-all, I think you definitely see some big — an increase compared to 2017 first quarter. But when we look, study it on a run rate basis, we're probably in that — we feel very good about that \$140 million to \$145 million as a go forward.

Jay Van Sciver

Analyst, Hedgeye Risk Management LLC (Research)

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Thank you.

Patrick D. Dugan

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

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Sure.

**Operator**: And this concludes our question-and-answer session. I'd like to turn the conference back over to Tim Wesley for any closing remarks.

Timothy R. Wesley

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

Okay. Thanks, guys. We will talk to you again after our second quarter. Take care.

Patrick D. Dugan

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

At the investor conference.

Timothy R. Wesley

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

Oh, we will see you at the investor conference. Bye-bye. Thank you.

Raymond T. Betler

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

Bye now.

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



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