Corrected Transcript

11-Feb-2026

Westinghouse Air Brake Technologies Corp. (WAB)

Q4 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

Oliver Jiang
Analyst, Morgan Stanley & Co. LLC

Scott H. Group
Analyst, Wolfe Research LLC

Ken Hoexter
Analyst, BofA Securities, Inc.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Christian Zyla
Analyst, KeyBanc Capital Markets, Inc.

Brady Lierz
Analyst, Stephens, Inc.

Harrison Bauer
Analyst, Susquehanna Financial Group LLLP

Ben Mohr
Analyst, Citigroup Global Markets, Inc.

Tami Zakaria
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone. And welcome to the Wabtec Fourth Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please also note today's event is being recorded.

At this time, I'd like to turn the floor over to 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 fourth 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. Before John and I get into the details of the fourth quarter, I'd like to take a moment to reflect on our performance over the past year and share my thoughts on the year ahead.

2025 was another outstanding year, reflecting the strength and resilience of our business model and our ability to execute in dynamic markets. We delivered top line growth of 7.5% and grew adjusted EPS by nearly 19%. We accomplished all of that while converting a record orders pipeline into a very strong multiyear backlog. As we move into 2026, our orders, backlog, and pipeline momentum remain very strong, supported by growing demand. We also advanced our strategic priorities through acquisitions and integration initiatives, unlocking synergies and driving operational efficiencies.

To these ends, we're very pleased with the businesses that we acquired in 2025, the teams that came with these businesses, and the strong financial results that we have seen from day one of our ownership. Additionally, our efforts on integration, cost management, and simplification continue to exceed our expectations. As we exit 2025, the underlying momentum of our business gives us the confidence in delivering another strong cycle. We expect 2026 to mark our sixth consecutive year of mid-to-high-teen adjusted EPS growth, positioning us to drive very significant long-term value creation.

Finally, our financial position remains strong. We continue to execute against our capital allocation framework to maximize shareholder value by investing for future growth and returning value to our shareholders. And as a result of our performance in 2025 and our confidence in the future, our board of directors has increased our dividend by 24% and has increased our share buyback authorization to $1.2 billion. This is the strongest position our company has been in, and we're both confident and determined about the years ahead.

Let's move to slide 5 to discuss our fourth quarter results. 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 another strong quarter. Sales were $3 billion, which was up 15%, and adjusted EPS was up 25% from the year-ago quarter. Total cash flow from operations for the quarter was $992 million, representing a very strong cash conversion. The 12-month backlog closed the year at $8.2 billion, up 7% from the prior year, while the multiyear backlog surpassed $27 billion, up 23%. This backlog results will drive our continued revenue and earnings momentum and provides us strong visibility and revenue coverage in 2026.

Shifting our focus to slide 6, let's talk about 2025 and market expectations in more details. While key metrics across our Freight markets remain mixed, we are very encouraged by the overall strength of our business, the momentum we are seeing in international markets, and the continuing pipeline of opportunities across geographies.

In North America, carload traffic was flat in the quarter, which resulted in fewer active locomotives. However, the locomotives that were in service operated at a higher intensity compared to last year, demonstrating the critical role our technology and solutions play in driving efficiency for our customers. Internationally, carloads continue to grow at a robust pace across core markets such as Latin America, Africa, India and Asia. Significant investments to expand and upgrade infrastructure are supporting our international orders pipeline.

Looking at the North American railcar build. As discussed last quarter, demand for new railcars was down compared to the prior year and landed at approximately 31,000 cars for 2025. The industry outlook for 2026 is expected to be 24,000 cars, down another 22% versus 2025.

Finally, moving to the Transit sector, we continue to see underlying indicators for growth. Ridership levels are rising in key markets such as Europe and India, and we are seeing high backlogs at car builders alongside increased public investment for fleet expansion and renewals.

Next, let's turn to slide 7 to discuss a few business highlights. This quarter, we converted more than $2 billion of pipeline into new locomotive and modernization orders for North American customers, an important milestone that reflects our customers' long-term commitment to invest in their fleets and further strengthen what is now our largest multiyear backlog for North America.

We are seeing some customers capitalize on strong fleet investment returns. This is not just about upgrading assets, it is about improving service levels for their customers, lowering total cost of ownership, reducing obsolescence, and positioning fleets for the next generation of technology-enabled operations focused on safety, reliability, and availability. We expect orders to follow this trend, reinforcing the long-term demand for Wabtec's innovative solutions.

Moving to Digital, we secured $75 million in orders for PTC and KinetiX in key international markets such as Brazil and Kazakhstan. Also in the quarter, we delivered the first battery electric heavy-haul locomotives to BHP, an important milestone for Wabtec and the industry. These locomotives are engineered to perform in one of the world's most demanding environments, leveraging advanced energy management technology, including regenerative braking to maximize efficiency and significantly reduce emissions. Together with BHP, we are demonstrating how cutting-edge solutions can help meet operational needs while advancing sustainability efforts.

And finally, I'm excited to bring Frauscher Sensor Technologies (sic) [Technology] (00:09:14) into Wabtec, following the closing of that acquisition at the beginning of December. This business is a market leader in train detection, wayside object control solutions, and axle counting systems. In addition, we are pleased to share that we closed on the acquisition of Dellner Couplers yesterday. This acquisition will further strengthen our position in critical rail technologies. With that, I'd like to welcome both the Frauscher and Dellner employees to Wabtec. 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 8, I want to briefly discuss how we are positioned to deliver strong and sustainable results. Over the past five years, Wabtec has built a track record of navigating challenging markets, geopolitical uncertainty, hyperinflation, tariffs and order significant disruptions, and 2025 was no exception. Our success is driven by a highly committed management team and industry-leading technologies, allowing us to remain resilient and relevant to our customers and our stakeholders.

Our 12-month backlog of $8.2 billion provides visibility and support for growth. This backlog has consistently grown over the past five years, even amid a relatively flat North American rail market and a volatile macro economy, thanks to the innovation and the high level of recurring revenues that our products generate. Our ability to expand operating margins across the business reflects disciplined execution by driving continued productivity, simplifying the organization, managing costs, and pricing for the value we deliver.

And finally, we have also demonstrated our ability to consistently generate strong cash flows with cash conversion averaging 99% over the last six years. Looking ahead, we are confident that our execution, combined with the strength of our business and leading technologies, will result in Wabtec being resilient through the economic cycles, delivering profitable growth and driving superior shareholder returns.

Turning to slide 9, before turning it over to John, I want to highlight the significant fleet renewal opportunity that remains in North America. Fleet renewal is not discretionary. It is a critical lever our customers have to improve operating ratios, enhance service for their customers, and strengthen their overall competitiveness.

As I mentioned last quarter, North America railroads are still operating in aged fleet. Today, more than 25% of active locomotives are over 20 years old and 25% still run on DC technology. This aging fleet creates a compelling case for continued modernization. As locomotives age, failure rates and maintenance costs rise, making modernizations a highly attractive return on our customers' investment.

We have also noted the operational advantages of AC technology. For every three DC locomotives, customers can replace them with approximately two AC units, enabling Class 1s to reduce fleet sizes while improving productivity and reliability. This helps address obsolescence, reduces maintenance costs, and enhances service levels, all while providing our customers with impactful returns on their investments for modernizing their fleets.

To help our customers capture these benefits on additional fleets, we are excited to launch our first-ever EVO modernization program in 2026. The Evolution Series locomotives, first introduced in 2005, are now reaching an age where modernization becomes increasingly compelling. Our new EVO modernization builds upon our proven

EVO engine platform and is designed to deliver meaningful operational impacts to optimize performance, reduce costs, and advance their long-term strategic objectives.

Key new technologies, such as an upgraded control system and EVO Advantage, will be available as part of this EVO mod. This product is expected to deliver greater than 20% improvement in reliability and tractive effort by replacing DC traction motors and replacing aged electronics and control systems. In addition, the new mods with EVO Advantage are expected to drive up to 7% improvement in fuel savings. Overall, we're excited about the significant value modernizations will unlock for our customers and for our business, and we remain confident in the long-term opportunities ahead.

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 10, I'll review our fourth quarter results in more detail. Overall, the quarter came in slightly ahead of our expectations for both revenue and EPS. Cash from operations significantly exceeded expectations, while operating margins were lower than planned. Operating margins were adversely impacted by higher compensation expense, driven by our outstanding operating cash flow and cash conversion performance during the quarter.

Sales for the quarter were $2.97 billion, which reflects a 14.8% increase versus the prior year, with strong contributions from both the Freight and Transit segments. As expected, Q4 sales benefited from very strong organic growth behind strong orders and sales momentum, along with catch up on locomotive deliveries that shifted from the second quarter due to a supplied part issue. We also delivered strong inorganic growth led by Inspection Technologies, which outperformed our acquisition plan. Excluding the impact of currency, Q4 sales were up 13.2%.

For the quarter, GAAP operating income was $356 million. The increase was driven by higher sales and improved gross margin as we continue to focus on productivity and simplification. GAAP operating margin fell in the quarter due to higher restructuring and transaction costs. Adjusted operating margin for the quarter was 17.7%, up 0.8 percentage points versus prior year. This increase was driven by improved gross margins of 2.1 percentage points, which was partially offset by operating expenses, which grew at a higher rate than revenue.

GAAP earnings per diluted share was $1.18, which was down 4.1% versus the year-ago quarter. During the quarter, we had net pre-tax charges of $55 million for restructuring, which were primarily noncash and related to our integration and portfolio optimization initiatives to further integrate and streamline Wabtec's operations, as well as transaction costs related to the most recent acquisitions. In the quarter, adjusted earnings per diluted share was $2.10, up 25% versus the prior year. Overall, Wabtec delivered a very strong quarter, demonstrating the underlying strength and momentum of the business.

Now turning to slide 11, let's review our product lines in more detail. Fourth quarter consolidated sales were up 14.8%. Equipment sales were up 33.5% from last year's fourth quarter. For the year, Equipment sales were up a strong 12.2%. Our Services sales were down 5% as expected. And as we discussed in our third quarter call, this was driven by the timing of modernization deliveries. For the full year, Services had revenue growth of 1.2%, despite mod deliveries being significantly down year-over-year, which demonstrates the strength of the core services business.

Component sales were up 11.1% versus last year due to growth seen in industrial products, offsetting the impact from the significantly lower North America railcar build. For the year, Component sales were up 2.0%, despite North American railcar build being down 27%. Digital Intelligence sales were up 74.4% from last year. This was driven by the Inspection Technologies and Frauscher Sensor Technology acquisitions. When excluding acquisitions, Digital was down 1.0%. For the year, Digital sales were up 31.0%, driven by acquisitions.

In our Transit segment, sales were up 6.7%, driven by our products and services businesses. For the year, Transit was up 7.3%. Foreign currency exchange had a favorable impact on sales of 4.7 and 2.2 percentage points for the quarter and total year.

Moving to slide 12, GAAP gross margin was 32.6%, which was up 1.7 percentage points from fourth quarter last year. Adjusted gross margin was up 2.1 percentage points during the quarter. Our team continues to execute well by driving operational productivity and lean initiatives in an effort to offset higher material costs, primarily a result of incremental tariffs.

GAAP operating margin was 12.0%, which was down 0.9 percentage points versus last year. Adjusted operating margin improved 0.8 percentage points to 17.7%. Operating margin was positively impacted by cost recovery from escalation, increased productivity, integration savings, partially offset by unfavorable mix and higher tariff costs.

Adjusted SG&A expenses were higher year-over-year, due largely to the SG&A expense associated with our acquisitions and higher compensation expense for our employees tied to our very favorable cash performance in the quarter and for the year. GAAP SG&A was up an additional amount over adjusted SG&A due to restructuring expense associated with our Integration 2.0 & 3.0 and Portfolio Optimization costs associated with divestitures. Engineering expense was $68 million, $17 million higher than Q4 last year, primarily due to acquisitions.

Now, let's take a look at the segment results on slide 13, starting with the Freight segment. As I already discussed, Freight segment sales were up a very strong 18.3%. GAAP segment operating income was $318 million, driving an operating margin of 15.0%, down 0.2 percentage points versus last year. GAAP operating income included $50 million of restructuring costs and Portfolio Optimization charges, and was adversely impacted by purchase accounting charges resulting from our acquisitions.

Adjusted operating income for the Freight segment was $470 million, up 35.1% versus the prior year. Adjusted operating margin in the Freight segment was 22.1%, up 2.7 percentage points from the prior year. The increase was driven by improved gross margin, even despite mixed headwinds and tariff impacts. The increase in gross margin was partially offset by an increase in our operating expenses, expressed as a percentage of revenue. Finally, segment 12-month backlog was $6.02 billion. Our 12-month backlog was up 8.0%, while the multiyear backlog of $22.49 billion was up 25.1%.

Turning to slide 14, Transit segment sales were up 6.7% at $842 million. When adjusting for foreign currency, Transit sales were up 2%. GAAP operating income was $108 million. Restructuring costs related to Integration 2.0 & 3.0 and Portfolio Optimization were $4 million in Q4. Adjusted segment operating income was $118 million. Adjusted operating income as a percent of revenue was 14.0%, down 2.4 percentage points from prior year, driven by higher operating expenses as a percent of revenue. Finally, Transit segment 12-month backlog for the quarter was $2.21 billion. Our 12-month backlog was up 5.1%, while the multiyear backlog was up 14.7%.

Now, let's turn to our financial position on slide 15. Fourth quarter cash flow generation was very strong at $992 million, resulting in total year cash from operations of $1.76 billion and cash conversion of 104%. During the year, cash flow benefited from significantly higher net income and higher year-over-year down payments, partially offset by tariff headwinds.

Our balance sheet and financial position continue to be very strong as evidenced by: first, our liquidity position, which ended the quarter at $3.21 billion, and our net debt leverage ratio, which ended the fourth quarter at 1.9 times after funding the purchase of Frauscher Sensor Technology for approximately $765 million. Our leverage ratio remained in our stated range of 2 to 2.5 times after closing on the acquisition of Dellner.

During the year, we repurchased nearly $223 million of our shares and paid $173 million in dividends. As a result of our performance in 2025 and our confidence in the future, our board of directors approved a 24% increase in the quarterly dividend. Our board also increased our existing share repurchase authorization to $1.2 billion. We continue to allocate capital in a very disciplined way to maximize returns for our shareholders.

Moving to slide 16, I'd like to provide an update on the progress that we've made on our Integration and Portfolio Optimization initiatives. Starting with Integration 2.0, when we originally announced, we indicated that the initiative would deliver an incremental $75 million to $90 million of run rate cost savings by the end of 2025. With program-to-date restructuring expenses of $149 million, we exited 2025 having achieved $103 million of run rate savings, with the program largely complete and ahead of original expectations.

Integration 2.0 was a clear success, and importantly, we have carried that momentum forward as we execute our Integration 3.0 initiative, which we announced in early 2025. When we introduced Integration 3.0, we outlined an incremental $100 million to $125 million of run rate cost savings by the end of 2028. I'm pleased to report that our team has delivered strong early performance. In the first year alone, we generated $49 million of run rate savings at a cost of approximately $50 million. Given this performance, we are raising our guidance. We now anticipate $115 million to $140 million of run rate savings by the end of 2028, with anticipated expenses of $125 million to $155 million.

Turning to our Portfolio Optimization initiative, we have continued to execute against all planned dispositions of nonstrategic product lines, actions designed to strengthen our focus, improve profitability, and reduce manufacturing complexity. During 2025, we exited $72 million of low-margin, nonstrategic revenue and expect to exit an additional $60 million in 2026. Overall, we remain very encouraged by the team's execution and the value these initiatives continue to unlock across the company.

Now, moving to slide 17, let me quickly recap the year. Overall, the team delivered a great year for all our stakeholders. We generated 7.5% revenue growth, expanded adjusted operating margins by 1.4 percentage points, and increased adjusted EPS by 18.7%, while delivering very strong cash flow. The resiliency of the business, combined with disciplined execution, positions us for a solid foundation for continued profitable growth as we enter 2026.

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

Rafael O. Santana

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

Hey. Thanks, John. Now, let's turn to slide 18 to discuss our 2026 outlook and guidance. We continue to see underlying demand for our products and solutions across the business. Our pipeline is very strong, and both our 12-month and multiyear backlogs provide clear visibility to profitable growth ahead. Our team is fully committed to driving top line growth and margin expansion in 2026.

With these factors in mind, we expect 2026 sales of between $12.2 billion to $12.5 billion, up 10.5% at the midpoint, and adjusted EPS to be between $10.05 and $10.45, which represents 14% growth at the midpoint. It is important to note that this guidance incorporates the expected impact from the Dellner acquisition.

As we discussed earlier, our cash conversion performance has been very strong, and we expect that to continue. Over the past two years, we have delivered in an average of over 110% cash conversion, which is a testament to the strength of our operating discipline. Best-in-class cash conversion has been and is expected to remain a hallmark of investing in our company. While we will continue to provide long-term cash guidance, beginning in 2026, we'll no longer be providing annual cash conversion guidance. I remain confident that Wabtec is well positioned to drive profitable growth and maximize shareholder returns in 2026 and beyond.

Now, let's wrap up on slide 19. As you heard today, our team continues to execute against our value-creation framework and our five-year outlook, driven by the strength of our resilient installed base, world-class team, innovative technologies, and our customer-focused approach. With solid underlying demand for our products and technologies and rigorous focus on continuous improvement and cost management, we feel strong about the company's future and our ability to maximize shareholder returns. With that, I'd like to thank our team for their great work this year and their continued commitment to drive top-quartile performance.

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 the 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: [Operator Instructions] Our first question today comes from Angel Castillo from Morgan Stanley. Please go ahead with your question.

Oliver Jiang
Analyst, Morgan Stanley & Co. LLC

Q

Hi. It's Oliver on for Angel. Thanks for taking our questions. We just wanted to talk about the recent flurry of orders that you guys had announced. With those signed, does your pipeline of opportunities potentially narrow a little bit? And if not, could you talk about how that's grown across different regions and different end markets? Any color there would be super helpful.

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

A

Perfect. So, no, we continue to have a very strong pipeline of opportunities. And internationally, it's very, very strong. Our teams are continuing to work very hard to convert that pipeline into orders. And it speaks to really some markets where we have a strong presence, places like Australia, Brazil, East Asia. We continue to have opportunities in Africa and parts of the CIS region.

Of course, we are encouraged by the momentum we saw here in North America. I think this reflects ultimately strong customer commitment to win and grow the business through improved reliability, lower operating costs, better fuel efficiency, and reduced fleet obsolescence. So, as we look at aging fleets out there, I think that's much more pronounced in North America. And that continues to be probably the single biggest, powerful tailwind we have in the company.

Oliver Jiang
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks, Rafael. That's super helpful. And then, just on your Components business, I know your railcar deliveries are expected to be down 20% to 25% again this year. Can you talk about potential offsets there, whether it's in the industrial business or the heat transfer piece? Potentially, do you see that growing to offset some of that decline? Thank you.

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

A

So, as we look into 2026, every single one of our businesses, we see them driving profitable growth. With regards to the Components business, I think we're very pleased with the progress there despite of the softer Freight car builds. I think those teams have continued to take decisive action to adjust the cost structure to new volume levels.

And what I like about what I'm seeing there and across the company is really the portfolio is working, right? I mean, we've made investments, but if you think about the organic plays or inorganic plays. In the case of Freight Components, some of the investments we've made in the heat exchanger business and industrials is really paying off. And that's where you see some of those offsets taking place, allowing those businesses to continue to perform.

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

Scott H. Group
Analyst, Wolfe Research LLC

Q

Hey, thanks. Rafael, can you just go through that bit about the cash conversion and the guidance change and just the rationale there?

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

A

Yeah. Hey, Scott. Number one, very strong cash conversion for the business as we expected. We're continuing to operate and reward our stakeholders in the business based on cash performance. So, that continues to be paramount for the company. We continue to have very strong variation as you see it, not just quarter-to-quarter, year-to-year. It's certainly more pronounced as you go into some of the international deals and you collect cash earlier, but we expect to continue to improve cash performance in the company.

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

A

Yeah, Scott. With regards to the overall guidance, we continue to shoot for above 90% in our long-term guidance. As we look at what we've done over the last six years, we've averaged 99% on a business that is growing its working capital quite substantially as our revenues and profits have grown very much since then. And actually, Scott, if you look at the last two years, we've been up 110% on average cash conversion.

So, with that, we'll continue to stay focused. Our comp plans are all very much tied into cash, both short term and long term, and it has become a hallmark of an investment in Wabtec. But with that, we'll continue to shoot for the 90%. But in terms of an annual guide, we're pulling the 90% this year.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. I think I understand. This transition we're starting to see with fewer mods and more new, I guess how should we think about the net impact here? Maybe just a couple of things. Just do you think are sales with the Class 1 rails growing this year? And then sort of this shift to more new, how do we think about the net impact to margins for that business and I guess bottom line with this shift?

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

A

Let me start here, Scott, first, with regards to new units and mods. We continue to see the combination of that at a global level growing. Well, while I say that's true for the globe, it's not true for North America, and especially driven this year again by mods. Last year, the modernizations, we had a pronounced decline. It was double digits. It's more pronounced this year. And yes, we have seen a shift towards some of the Tier 4 units.

With that being said, I think we continue to see modernization of the aged fleet in North America as one of the most powerful tailwinds we have as we continue to really invest on solutions. We just announced the EVO Advantage, and that opens up a fleet that's growing to really 10,000 units here. It's a global fleet with, I'll call it, very compelling elements of a payback tied to fuel efficiency, tied again to reliability. So, I think we're continuing to invest on that, and that's going to be a very compelling piece of it. But new locomotives are certainly making more and more headlines there in terms of investment.

Operator: Our next question comes from Ken Hoexter from Bank of America. Please go ahead with your question.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Hey, great. Good morning. Hey, I'm on a plane, so I'll be quick. So just given the orders, what was in the backlog, and what is new when you think about those recent announcements? And then, thanks for the update on the backlog, but in your outlook for EPS, can you talk about what the upside/downside to the target is?

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

A

With regards to what's in the backlog, Ken, is everything that was done in the fourth quarter is certainly in the backlog. So, when we talk about the $2.2 billion on our key win sheet, that's all in backlog, right? And when we talk about things in the pipeline, which Rafael did, they're not in the backlog yet. But as they convert, they will certainly be put in the backlog.

Now, when we look at overall guidance, Ken, we feel real good about where we're at, and the range that we have there. We've got a fair amount. We've got a lot of good things happening within our business. We have some headwinds. We just talked about mods, but also on the railcar build.

But with that, we've also got a fair amount of headwinds with regards to tariffs coming at us, right? We've seen in the third quarter to fourth quarter, a significant increase in the cost of tariffs. As things come out of inventory and in through the P&L, we would expect to see the same type of dynamic in 2026, and in particular the first half, while we are running all our mitigants against that. So, we believe we've got a very balanced plan and a good guide as we go into 2026 to manage any eventualities that come at us.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Thanks, John. I guess my question was of all the Class 1 rails that have just put out orders, were half of those already in the backlog as of last quarter? Or is it all new?

And then follow-on would be just thoughts on the first new build order from Progress Rail in a long time. Is there – is that likely to see something you're seeing increasing competitive step back in? Thanks.

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

A

For clarity, Ken, everything that we've announced on the Class 1s, some of those have been announced this quarter, they are in last quarter's backlog. We signed those agreements in 2025. And so, there's nothing that we've done that is not in the backlog at this point.

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

A

With regards to your second part of your question, I'm not going to comment on the specifics of a competitor order. What I'll tell you is we're very confident about the portfolio of solutions we have. In the case of Tier 4s in specific, this is about really the proven reliability, availability of over 1,000 units that we got running out there. Those are units that we've continued to really invest and to continue to further create advantages versus competitive products that are out there.

So, we're very confident about that portfolio when it comes to Tier 4 and when it comes to modernizations as well. So, you'll see us keep being advancing that and coupling that with really a lot of the elements of software and the digital electronics, Digital Intelligence business. So, we're not sitting on our laurels. We've got the best products that are out there, and we're certainly investing to make them better.

Operator: Our next question comes from Jerry Revich from Wells Fargo. Please go ahead with your question.

Jerry Revich
Analyst, Wells Fargo Securities LLC
Q

Yes. Hi. Good morning, everyone.

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

Hey, Jerry.

Jerry Revich
Analyst, Wells Fargo Securities LLC
Q

Hi. Rafael, so really nice to hear the EVO-class locomotives are entering the commercial phase of the rebuild cycle. Can you talk about, based on customer interest and the pipeline, when do you expect to see those locomotives enter the rebuild pipeline? And separately, what are lead times like today for North America? I know you combine mods plus new. Can you just talk about the overall lead times in the facilities, if you don't mind, as well?

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

They are entering that phase. So, some of the first EVOs were delivered back in 2005. So, that makes it again a compelling case here on that, and I think that's a positive for the overall business.

In terms of lead times, it will depend very specifically on the fleets that you're looking at it. But I would say, at this point, when we look especially at 2026, I mean, we've got the coverage we need with regards to both mods and new units. So, discussions with regards to new programs would really, for most of it, sit towards 2027 and beyond, which is, by the way, where most of really the orders that have been announced, it really sits on 2027 and beyond from that perspective, Jerry.

Jerry Revich
Analyst, Wells Fargo Securities LLC
Q

Super. Thank you. And then, obviously, very active M&A environment for you folks over the past couple of years. And I know it's early on Dellner in particular, but I'm wondering if we could just talk about how your expectations for the performance of the businesses have evolved since you've announced the acquisitions and anything interesting in terms of opportunities that you're seeing as you're integrating the assets?

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

A

Jerry, a couple of comments. We just had our board meeting last week, and we actually reviewed the acquisition since 2019. And we're ahead of pro forma, great IRRs on those. With regards to specifically the three announced last year, ahead of pro forma, really strong performance from that perspective.

I think some of my comments, I mean, it's good to see – let me take just the case of Evident. We've got three new product introductions happening on that business on each one of their product lines. And that coupled with, I'll call it, just global reach we have, we're seeing strong interest on that. We've got one of the products that's on the RVI, on the remote visual inspection. The other one's on the NDT side with ultrasonic, and the other one on the ANI piece of that.

Strong demand. We're having to really make sure we continue to invest in the supply chain to support that. So, positive dynamics. It's great to see the teams we've brought onboard, and good progress. Early days. First six months here for Evident and Frauscher, we just announced, but good momentum.

Operator: Our next question comes from Steve Barger from KeyBanc. Please go ahead with your question.

Christian Zyla
Analyst, KeyBanc Capital Markets, Inc.

Q

Morning. This is Christian Zyla on for Steve Barger. Thanks for taking the questions.

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

A

Hey, Christian.

Christian Zyla
Analyst, KeyBanc Capital Markets, Inc.

Q

With orders and backlog so strong, can you just talk about how that impacts your near-term and long-term visibility? Your 12-month backlog is nearing annual levels and your total backlog is about two years' worth of sales now. So, do you guys just have better-than-usual visibility into 2027? And are customers giving you longer road maps or more information about their modernization efforts long term? Thank you.

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

A

So near term, I'd say, if you look at the coverage we have for 2026, it's really consistent with the coverage we had a year ago. And of course, that's not including the acquisitions that we did because those have shorter lead times. So, the coverage there is less, but very consistent from that perspective.

When you look at 2027 and beyond, it's stronger, that coverage. And with that, I mean we have also a very strong pipeline. So, that gives us really, I think, a good opportunity here to convert more orders and really add into that coverage for 2027 and beyond.

Christian Zyla
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. And then there just seems to be a pickup in new builds for locomotives and mod activity, along with maybe an inflection in over-the-road freight. Like, do you see those as indicators to overall freight improvement? Just what are your thoughts on kind of how that inflection's playing out? Thank you.

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

A

I think you've got to separate a little bit here, North America from international, in some of that regard. We're continuing to see strong demand internationally. I think we've been quite specific about fleets growing at a pace of 5%. So, that continues to be very robust. Megawatt hours, which is really fleets are running harder as well, so that's quite a positive. When you look at North America, the dynamics short term, 2026, we're actually going down when you look at the elements of both modernizations and new units. So, I think it's very important to keep that in mind.

And by the way, when you think about our service business overall, while the core of service is really strong, the numbers are coming down. And it's a function of really modernizations driving that. The core service business continues to be very strong. It's one that is expected to continue to outperform the growth average of the company over time.

The fleets are running harder in North America. So, the megawatt hours are tracking the right direction, but we've got lower dynamics going to the modernization, which is, I'll call, pulling some of those numbers down. But I think it's very important to emphasize that underlying trajectory of the core growth of service remains solid, strong, and above mid-single digits as we look into 2026 and beyond.

Operator: Our next question comes from Brady Lierz from Stephens. Please go ahead with your question.

Brady Lierz
Analyst, Stephens, Inc.

Q

Yeah, great. Thanks. Morning, everyone. Rafael, I just wanted to follow up on some of the EVO mod commentary from earlier. Is there any way you can help us think about the size of the EVO mod opportunity compared to the over 2,500 mods you've already completed? And just do any of your recently announced mod orders with the Class 1s include this new EVO modernization product, or are they all still FDL?

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

A

So, we would expect first programs on the EVO to start this year, meaning to progress with customers there. I think that opens a significant opportunity. I mean, that fleet's growing to be close to 10,000 units globally. So that's an important install base that we have with really a very strong track record on that product. I think the biggest opportunity really immediately continues to be this ageing fleet we talk about when you think about the active fleet, over 25% of the units are still DC traction. Just an enormous opportunity here for significant payback for customers.

And as I mentioned before, we see that as one of the most powerful tailwinds for the company in that regard. And those units are also over 25%, over 20 years of age, so at that point in cycle. So, we continue to see opportunities for that to continue to happen, and it's more pronounced in North America.

Brady Lierz
Analyst, Stephens, Inc.

Q

Okay, great. Thanks. That's helpful color. Maybe just as a quick follow-up. John, SG&A was up a pretty meaningful amount sequentially and year-over-year. Could you just help us understand what drove the increase? I know in your remarks you mentioned higher incentive comp. Was that really the majority of the driver? Just any color there would be helpful. Thank you.

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

Yeah. So, there's two things, Brady, that drove it. One is just the acquisitions, right? Now, we've got the SG&A for Evident and Frauscher in those numbers. But in addition to that is the comp accrual that we had in the fourth quarter was much higher than what we had anticipated. So, as we talked about cash a little bit earlier, right, cash is a hallmark of our investment, our investment in our company, and we take it very seriously. And we do have it in our comp programs, both our bonus and our long term.

As we got through third quarter, we're at about 57% cash conversion. We were expecting more in the 90% range on the year. But the team knows how important it is, and they did a fantastic job of bringing in working capital. And we finished the year with an incredible cash conversion in the fourth quarter, almost 300%, and $992 million of absolute cash. So, with that, it comes with a compensation accrual. And it doesn't come with additional earnings on that, right? So, that pushed our SG&A up as a percent of revenue. But we feel really good about the overall dynamics of our margin in the fourth quarter.

When you look at the driver of margin, our gross margin was really strong, up 2.1 percentage points, and that includes a fair amount of headwinds with regards to mix. Remember you saw that Evident – I'm sorry, Equipment at a lower margin is growing at 33.5% versus Services a higher margin being down that 5%. And that's that flip-flop between new and mods we've been talking about.

And then in addition, tariffs grew quite a bit from third quarter to fourth quarter. Remember we've talked about it, it takes two to four quarters to get through our inventory. And we're at that spot. We're about a year into tariffs, and we're starting to really see it come out of inventory onto our P&L. And we'll see that as we move into 2026 as well, Brady.

Operator: Our next question comes from Harrison Bauer from Susquehanna. Please go ahead with your question.

Harrison Bauer
Analyst, Susquehanna Financial Group LLLP
Q

Hey. Thanks for taking my question. You guys mentioned the largest multiyear North American backlog, which is great. Do you see the need to make any investments in your North American capacity to ramp total new locomotive and mod productions as you look further out or maybe just at production lines? And then do you expect relatively stable [ph] mod as (00:52:26) new locomotive and mods over time from North America or really just an extended visibility? So just curious on ramps and investment in your capacity you might have to make in North America. Thank you.

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

We have the capacity in North America, and we continue to invest on the quality of that capacity. So, we continue to improve productivity and so forth. So, feel very positive from that perspective.

I think with regards to the dynamics of North America, I mean, CapEx is actually down if you think about Class 1s into 2026, which reflects a bit some of the dynamics I just described on the combination of mods and new units being down for this year versus last year.

With that being said, we're sitting on a very significant opportunity here that really provides very significant payback for our customers so they can win with their customers. They can grow volumes and on very proven programs that will ultimately reduce the total cost of ownership. It will improve fuel efficiency. It will drive reliability and service levels. So, I think that continues to be a significant opportunity that the customers are going to be evaluating in North America.

Harrison Bauer
Analyst, Susquehanna Financial Group LLLP
Q

Thanks. And maybe just as a follow-up on tariffs, understood that the guidance assumes tariffs and effective the latest. But could you maybe provide what you saw as maybe the realized tariff impact in 2025 and then maybe bridge to what your guidance implies for 2026 and what that incremental year-over-year tariff impact might be? Thank you.

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

Yeah. If you're referring to an absolute number, we're not providing an absolute number. We want our stakeholders to focus on the actions that were taken to mitigate, and certainly on the growth trajectory of our overall business. What I can say is is that just as we had expected, the financial impact of tariffs is growing. It's growing exponentially as we come out of the third quarter into the fourth quarter, and we'll expect that growth as we move into the first half of the year.

Right now, it's a significant number, but also we've been at this for a year in terms of our mitigants and how we're going to minimize those tariffs. And we've talked about in the past, a four-pronged approach which we continue to employ, which is, one, getting all the exemptions that we're entitled to. The second is on the supply chain, right, is are we sourcing these parts and products from the right places today, given the new landscape? Now, that takes more time. Those things sometimes can take up to a couple of years to requalify suppliers and those types of things, but that is in the mix. And the third one certainly is sharing the cost with our customers.

And when we take those three, those are not enough to mitigate all the tariffs that we have coming at us, in particular in 2026. And that kind of leaves us with that fourth lever, right, which is an overall proactive approach to how we're managing our company's costs. But in aggregate, we feel that we'll mitigate those costs. And quarter-to-quarter, we're going to feel more headwinds in the first half of 2026 than in the back half with regards to tariffs, and that's where we expect them to peak.

Operator: Our next question comes from Ben Mohr from Citigroup. Please go ahead with your question.

Ben Mohr
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Morning. Thanks for taking my question. Hey, Rafael, John, John and Kyra. I'm just trying to understand the lower sales on for your service on significantly lower North American mods. And maybe if I can ask it this way, last year, you gave your cadence of Services versus Equipment revenue on the lumpiness first half versus second half. Can you give a similar kind of view on cadence of that for 2026 and then also kind of driving impact on Freight operating margins first half versus second half?

John A. Olin

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

A

Yes, absolutely. What we're seeing in the fourth quarter with Equipment up 33.5% and Services down 5%, it's what we had been talking about most of last year. In the first half of last year, we saw Services growing at a faster rate, and actually Equipment was down. We knew that was going to flip in the back half. And it's just a matter of timing of our runs between mods and new locos. But it played out [ph] exactly the (00:57:15) quarter, and with that we had a mixed headwind.

But let's turn our attention to next year and broaden the question out a little bit from just Services, but let's talk about overall cadence of our earnings. When we look at the midpoint of our guidance that we just came out with, we're at 10.5% year-over-year growth on volumes. I think the way to think about that is that about half of that is driven by inorganic growth, right? That's our three acquisitions that are coming at us, and partially offset by Portfolio Optimization, which continues to serve the company very well.

And then to think about the other part of it, about mid-single-digit organic growth. So, on an absolute basis, we're looking at more revenue in the second half than the first half. Not a lot, but certainly it'll be bigger in the second half.

And when we turn and look at growth of our revenues first half to second half, we would expect our growth in the first half to be significantly higher than the second half. And that's going to be driven by two things. The first thing is, number one, is the acquisitions, right? In the first half of 2026, we will have revenue from our three acquisitions, Inspection Technologies, Frauscher and Dellner, across most all of the first half and has got nothing to compare against in the year-ago half. As we get into the back half, we are going to have a comparable, and that will be with Evident. The second thing that's going to affect the timing of our growth between halves is we would expect to do more combined mods and locos in the first half than the second half, okay?

As we move on and we look at the second part of our guidance, which is EPS is up 14.25%, while we do not give operating margin as a guidance, we do expect it to be up in 2026. And that's what you'll find when you do the math.

As we talk about that operating margin and we look at the first half, we would expect the first half to have modest growth in overall operating margin, and we would expect the second half to have more significant growth in operating margin. And there's three reasons for this. Number one, as we look at the first half being just modestly higher, it's going to be affected by the year-over-year comps. In 2025, our first half was up 1.8 percentage points of operating margin, and the back half was up 1 percentage point. So, that dynamic is going to play out as we move through 2026.

The second area is again going back to what we talked about on tariffs, right? Tariffs are going to peak in 2025 in the – I'm sorry, in 2026 in the first half, and it'll virtually have nothing to compare to on the year-ago basis. While tariffs were there, it was mainly going into inventory. And so, we're going to have some headwinds on the first half. Our mitigants will come in more equally over the year in that respect.

And then the third thing is our incredible focus on managing our costs through Integration 2.0, 3.0, regular productivity, and Portfolio Optimization. Those will build over the year and will deliver more benefit in the second half than the first half.

Ben Mohr
Analyst, Citigroup Global Markets, Inc.

Q

Amazing. Thank you so much, John. Maybe for Rafael, switching to sort of more of a longer term outlook. Your Freight backlog has been averaged at about $18 billion for several years now. And it's been great to see the jump to $21 billion from the Kazakh order last quarter and then to $23 billion today, which is fantastic. How is your view for the outlook, given all the puts and takes from international and US opportunities in the pipeline? Should we see that step back down to $18 billion for the longer term going back to the last several years' average, or can we see incremental step-up and staying above the $21 billion or even the $23 billion going beyond?

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

A

Hey. We are very pleased with the progress, especially with regards to the pipeline. And despite of the record order intake, that pipeline continues to be very strong. And it's international. It's really a very significant part of it. It's driven by international. But there's some other parts of the business that are doing very well. If you think about mining, in specific, we're continuing to see a strong demand for ultra-class trucks, which we happen to be very well positioned to work on that as well. And I think we're very happy to see how the portfolio is working.

I made some earlier comments on areas that we're seeing softer demand, but the investments we've made, and I mentioned on both fronts, on organic, some of the investments we made on PTC 2.0, that's allowing a lot of international orders for our Digital Intelligence business. So, that's a very important part of it. But also in areas like inorganic. We talked about the drop in the freight car manufacturing side of it, and we're seeing the opportunity for parts of the business, like in the heat exchanger, in the industrials to really offset some of those pressures.

So, I think we're going, moving forward towards with that portfolio. With that, some parts of that portfolio might not have necessarily the same dynamics if you think about the elements of especially a backlog, but it's a stronger portfolio. So, the progress with acquisitions, it's clear we're moving in the right direction here, ahead of pro forma. And I think most important here is the quality of the backlog. The margins as you look at individual products and individual elements of that, we have higher margins.

And the other piece, which we can't underscore enough is the amount of really activity the team's got going on right now in terms of simplifying, taking costs out. It's really an element of record cost out those teams are going to be driving. And it's encouraging to see that momentum across the portfolio. With that, I think we're very confident and committed to deliver on what I guess we've highlighted here as another cycle of meaningful, profitable growth.

Operator: Our next question comes from Tami Zakaria from JPMorgan. Please go ahead with your question.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thank you so much. And thanks for all the color on the margin cadence. We would think the Transit segment probably doesn't have a lot of tariff impact. So, if you could provide some color on how to think about seasonality for that segment as it relates to last year.

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

A

Let me just start here. We remain very much on track to expand full year margins again. And that's supported by a lot of the elements of Integration 3.0, the Portfolio Optimization we continue to do, and the fact that team continues to be very selective on the order intake. And overall strategic plan, we expect Transit margins to move into the high teens. I think that's very much the direction. We're very pleased with the overall progress we're continuing to make, but John?

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

A

And specific seasonality, Tami. We talked a little bit earlier this year in second quarter and third quarter that the team in Transit was trying to better level load some of their production. And what they did was they brought forward some of the volumes. So, we saw a greater organic growth in the second and the third quarter than the fourth. And we garnered some of those manufacturing efficiencies in Q2 and Q3, a little bit to the detriment of the fourth quarter.

And having said that, as we look into 2026, we would expect a pretty balanced view of volume growth and margin growth over that year. Now, there's always variations quarter-to-quarter. We saw a variation certainly in our fourth quarter for both Transit and the full company here in 2025 with regards to the extraordinary cash performance that we had. So, we'll always see those things. But I think we'll see a more balanced delivery out of Transit in 2026.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

That's very helpful. And quickly, on the incremental $15 million savings that you talked about, is it mostly accruing to the Transit segment or Freight, or pretty much split between the two?

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

A

Yeah. When we look at the Integration 3.0, as we did 2.0, Transit's a little bit overshared. So yes, I think, Tami, we're closer to the kind of the 50/50 between the two segments, even though the Transit segment's a smaller part of overall revenue.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

Operator: And ladies and gentlemen, that will conclude today's question-and-answer session. At this time, I'd like to turn the conference call back over to Kyra for any closing remarks.

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

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

Operator: And with that, ladies and gentlemen, we'll conclude today's conference call and presentation. We thank you for joining. You may now disconnect your lines.