18-Feb-2020

Westinghouse Air Brake Technologies Corp. (WAB)

Q4 2019 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Welcome to the Fourth Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there'll be an opportunity to ask questions. Please note, this event is being recorded.

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

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

Thank you, Kate. Good morning, everyone, and welcome to Wabtec's fourth quarter earnings call. With us today are President and CEO, Rafael Santana; CFO, Pat Dugan; and Senior VP of Finance, John Mastalerz. Today's slide presentation, along with our earnings release and financial disclosures, were posted on our website earlier today, and can be accessed on our Investor Relations tab on wabteccorp.com.

Some statements we're making are forward-looking, and are 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.

And now, I will turn the call over to Rafael.

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

Okay. Thanks, Kristine, and good morning, everyone. Thanks for joining us. Today, I'll share some thoughts on the fourth quarter and overall 2019 performance. We will discuss the rail transportation market, as well as provide an outlook for 2020. Then Pat will cover the quarter in greater detail.

Turning to slide 3, you can see that we delivered a strong financial result for 2019. In particular, we had a solid cash generation of more than $1 billion, which exceeded our guidance, driven by strong working capital performance. This allowed us to strengthen the balance sheet by reducing debt by over $500 million since the end of the first quarter, which creates the flexibility needed to fund future strategic organic and inorganic growth.

In line with our goal to drive continued margin expansion, adjusted operating margins for the full year were roughly at 14% as we continue to deliver on cost management actions and synergies stemming from the Wabtec and GE Transportation merger.

Total adjusted income from operations for the quarter was $313 million, driven in part by year-over-year growth in both Freight and Transit. I'd like to emphasize that total backlog increased in the fourth quarter, driven by international freight services and a significant digital electronic order that will drive enhanced network optimization for a Class 1 railroad, each provided a strong foundation for visibility and growth in the future.

Finally, we ended the year with adjusted EPS within our prior guidance range of about $4.17. We hit roughly $30 million in net synergies for the year, which exceeded our net $20 million target, and puts us on a path to deliver a total of $250 million in synergies before 2022.
Looking to 2020, we will continue to take actions on improved project execution, particularly in Transit, and we remain focused on the prioritization of resources and prudent capital allocation. We expect market conditions to continue to be challenging, primarily in the North American freight market, but our diversified global portfolio, significant installed base and backlog will help us navigate these headwinds.

With these factors in mind, we forecast that 2020 revenues will be about $8.7 billion; margins will grow about 100 basis points, driven by synergies and further improvement in the Transit segment; EPS will grow and we'll have another strong cash-generating year allowing us to further strengthen the balance sheet.

Finally, this morning, the company announced a $500 million share repurchase authorization. The program reinforces our confidence in the company, our ability to generate strong cash flows through the cycle, and deliver shareholder value.

As we turn to slide 4, I'd like to cover market conditions we're seeing across the Freight and Transit segments. Let me start with Freight. Our business performed well despite continued challenging conditions in North America. North American carloads were down about 7% in the fourth quarter, and were down about 4% for the full year versus 2018. This was driven largely by trade uncertainty, weak global macro conditions that have led to drop in intermodal traffic declines in commodities like coal and agriculture.

We expect carload volumes in 2020 to be flat to slightly down versus last year, and we forecast that the railcar build to be about 40,000 railcars versus about 58,000 in 2019. And we anticipate the locomotive deliveries to be down double digits versus 2019 driven by North America. These assumptions are included in our 2020 guidance.

As we've shared on previous calls, lower carload volumes along with precision scheduled railroading are having an impact on new local orders. However, the impacts continue to be partially offset by international orders, growth in services, including our modernization program and aftermarket sales. We remain very aligned with our customers in driving efficiency and productivity across their operations through advanced technology, digital solutions, and unique service offerings.

Our digital electronics business saw solid momentum with backlog up double digits in 2019. This gives us further confidence that the business can grow in average faster than the overall Freight segment.

Across our international installed base, we continue to see strong opportunities for growth, especially across Asia, in regions like Russia/CIS, Australia, and India where we've delivered over 100 locomotives in 2019 as part of our 1,000 locomotive contract.

In the Transit segment, we're continuing to see steady growth in ridership and urbanization. Investments in transit rail systems across Europe, the UK, and even in certain US markets, are presenting unique opportunities for growth. This includes growth in infrastructure spending in established economies like Germany where rail spending is steadily increasing due to the shift to green and emerging economies like India, where we are uniquely positioned to win.

In the fourth quarter, we were able to take advantage of these growth trends with notable orders in brakes and doors across India, Europe, US, and Asia. And across our segment portfolio, we have firm multiyear backlog that will contribute to growth.

With that, I'm going to turn it over to Pat, who will provide a deeper dive into the financials.
Patrick David Dugan
Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.

Thanks, Rafael. As we turn to slide 5, you can see that we closed 2019 on a solid note, and built good momentum to more than offset the challenges in the North American freight market. Sales for the fourth quarter were $2.4 billion. That increased year-over-year sales were mainly due to the merger of GE Transportation by OE mix and increased revenue in Transit, offset somewhat by foreign exchange, as well as lower sales for railcar components.

To provide improved transparency starting this quarter, we have recast our segment sales into new product line disclosures. You can find additional details describing the new product lines in Appendix F to our press release issued this morning. You can also see all GAAP and adjusted numbers for the year in the reconciliations that we also have provided.

For the quarter, operating income was $226 million, and adjusted operating income was $313 million, mainly driven by continued strong performance in services along with locomotive deliveries. Adjusted operating income included $16 million for non-cash policy harmonization. That number is consistent with estimates in our original guidance at close of the GE Transportation merger. However, this excluded pre-tax expense of about $71 million for transaction, restructuring, and litigation costs. Please see Appendix D in our press release for the reconciliation of these details.

So, now looking at some of the detailed line items, our SG&A was $324 million, including $61 million of the $71 million in expenses I just discussed. We expect the adjusted run rate number to be about $270 million per quarter going forward. Engineering expenses increased to $60 million, due mainly to the addition of GE Transportation. And the amortization expenses were $65 million for the quarter. Net interest expense of $58 million was due to the higher debt balance, and the adjusted net interest expense was $55 million.

I always want to emphasize that we are focused on generating cash to reduce our debt balance and reduce our interest expense. Going forward, we expect interest expense to be about $50 million per quarter. Income tax expense was $38 million. Excluding the net tax benefit from transaction costs for the GE Transportation merger, adjusted income tax expense was $63 million for an adjusted effective tax rate of about 24%.

In the fourth quarter, we had GAAP earnings per diluted share of $0.71, and adjusted earnings per diluted share of $1.04. The details bridging GAAP EPS to the adjusted EPS of $1.04 can be found attached to our press release. EBITDA, which Wabtec defines as income from operations, plus depreciation and amortization, was $337 million, and adjusted EBITDA was $424 million. Adjusted EBITDA included the $16 million of policy harmonization, but excluded the pre-tax expense of $71 million, which I had previously discussed.

Depreciation was $45 million versus $15 million in the year-ago quarter, the increase obviously due to the GE Transportation merger. For 2020, we expect depreciation expense to be about $180 million. Amortization expense was $66 million for the quarter compared to $10 million in last year’s quarter. This increase was also due to the merger. For 2020, we expect amortization expense to be about $280 million, which in 2020 will be excluded from our adjusted results as part of our cash EPS. As of December 31, I want to emphasize our multiyear backlog was roughly $22 billion, and our rolling 12-month backlog, which is a subset of that multiyear backlog, was $5.6 billion. Our backlog remains a solid foundation, and will allow us to continue to navigate the market headwinds that we’re facing.
Now turning to the segments, it is important to note that the recast of our segment and product lines has resulted in some businesses reclassified to different segments. This has caused the prior-year segment results to be revised, and those results can be found in two areas; Appendices G and H attached to our press release.

Looking at the Freight segment, sales increased to $1.7 billion in the fourth quarter. This increase was due to the GE Transportation merger again adding $1.3 billion. Organic sales decreased $22 million, primarily due to lower sales of freight car components and industrial products.

Segment operating income was $239 million, and adjusted operating income was $270 million for an adjusted margin of 16.1%. For 2020, we have good visibility into our OE deliveries through the multi-year backlog. Finally, segment backlog grew slightly from last quarter to $19 billion on new international orders.

Now looking at our Transit segment, sales increased slightly to $701 million, primarily driven by growth in aftermarket sales. This increase was due to organic growth, which was up $19 million, and acquisitions adding about $2 million, which more than offset a negative FX of $16 million.

The fourth quarter marked the ninth quarter in a row that we have delivered organic sales growth, which shows that our near-record backlog continues to drive multi-year top line visibility.

Segment operating income was $39 million for an operating margin of 5.6%. Excluding about $11 million in restructuring expenses, and including additional charges related to UK refurbishment projects, the adjusted operating margin for the segment was 7.1%.

As it relates to the UK projects, we have made several changes in recent months. This includes changes in key management and taking prudent action on driving better project governance. We are no longer taking on these type of projects. As for the existing backlog, we have completed about 75% of those refurbishment projects in the UK, and have a strategy in place to accelerate the rest.

Going forward, for the Transit segment, we will continue to enhance our efforts to drive a lean culture with cost-out improvements, have better delivery and better quality, and are confident that we can drive about 100 basis points of margin expansion across the Transit segment in 2020.

Now, let's turn to the balance sheet and cash flow, as described on slide 6. We exceeded prior guidance for the year and generated about $1 billion in cash from operations. This was the result of better financial results, improved working capital performance and the timing of cash payments received.

Now to touch on the components of our working capital, as of December 31, receivables were $1.7 billion, which is consistent with the third quarter; inventories were about $1.8 billion, compared to $2 billion at the end of the last quarter; and payables were $1.2 billion or about flat with the prior quarter.

Receivables include unbilled receivables of $514 million, which were more than offset by customer deposits that we received of about $604 million. As of December 31, we had $604 million in cash, mostly held outside the US; total debt of about $4.4 billion; and net debt to an adjusted EBITDA of about 2.6 times, which was on track with our year-end leverage target.

Longer-term, we are still targeting a net debt to EBITDA to be about 2 to 2.5 times. CapEx for the year was $185 million versus $93 million last year, the increase due mainly to the merger. And going forward, we expect to spend about $200 million in 2020, which is about 2% of sales.
Overall, our balance sheet continues to provide the financial capacity and flexibility to invest in our growth opportunities, and our goal is to be at and remain a investment-grade credit rating.

Before I hand it over to Rafael to discuss the 2020 guidance in more detail, I do want to take a moment to bridge our 2019 adjusted results on slide 7 to a pro forma view that would help you model our 2020 guidance on a like-for-like basis.

The pro forma view includes four important notable changes. The first is that the pro forma is inclusive of the two additional months of GE Transportation results interest charges. Second, as we have discussed, we will no longer have the adjustment for policy harmonization. So, the revenue recognition policy harmonization and other areas of policy organization will not be discussed. Third, we are now adding back the non-recurring PPA. And finally, we have modeled the year with a fully dilutive share count of 192 million shares.

I would note that on a full-year pro forma, there is a $0.34 impact, which you can see on the page, and it takes you from the $4.60 to $4.26.

One last point to emphasize is that the two months of GE Transportation results were impacted by the timing of locomotive deliveries, cash payments and receipts during the quarter. When you look at it in total with the GET contribution in the one-month period of the first quarter, the results and margins are very consistent with the overall Freight segment for Wabtec.

Now let's shift to the 2020 guidance as illustrated on slide 8, and I'll turn it back over to Rafael.

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

Thanks, Pat. So, based on the operating momentum we've built in 2019, our current backlog and an assessment of key market conditions, our 2020 guidance for sales is about $8.7 billion, adjusted EBITDA of about $1.6 billion, and adjusted income from operations of about $1.4 billion, and adjusted earnings per diluted share to be between $4.50 and $4.80.

We expect cash from operations to be about $900 million. This includes roughly $100 million in prior-year restructuring, transaction and litigation cash outflows. In the first quarter of 2020, we expect sales, adjusted net income, adjusted EBITDA, and adjusted earnings per diluted share to be lower when compared to the remainder of 2020. This is due to the seasonality and project scheduling. That said, we expect product mix to improve throughout the year in line with these dynamics. Building on a solid 2019, we expect to deliver over $150 million in net synergies in 2020, and we're on track to deliver $250 million in synergies before 2022.

Finally, our adjusted guidance for 2020 now includes all add-backs related to non-cash recurring purchase price accounting charges, or deal-related amortization, and excludes estimated expenses related to restructuring and transactional expenses. Excluding these expenses, our adjusted operating margin target for the full year is about 16%, and our adjusted effective tax rate for the full year is expected to be about 25.5%.

So, as you heard through the call this morning and you see on slide 9, Wabtec had a solid performance in the fourth quarter and a strong year overall. We continue to see growth in our aftermarket and services revenues, further demonstrating the importance of our installed base across both for the Freight and Transit segments, as well as the resilience of our portfolio.
We've strengthened our international footprint with significant orders in critical markets around Asia, like Russia and CIS, and India. And we exceeded expectations on cost reductions and synergies stemming from the Wabtec and GE Transportation merger. Looking forward, we fully expect to deliver a total of $250 million in synergies before 2022.

In 2019, we delivered strong cash generation placing the company in a position of strength, and we're poised to execute a focused capital deployment strategy to further grow shareholder value.

Heading in 2020, we expect to see continued headwinds, especially in North America, but we're confident that our significant installed base, our strong aftermarket reach, and our globally diverse business model will help us manage through another challenging cycle. We will take action on improved project execution and margin expansion, and as always we remain laser-focused on the prioritization of resources and prudent capital allocation.

We look forward to sharing more on our outlook for 2020, on our technology strategy, and our focus on long-term growth during our upcoming Investor Conference, which will be held on March 10 in New York.

With that, I want to thank the entire Wabtec team for a strong 2019. And with that, I'll open up to any questions you may have.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Justin Long from Stephens. Go ahead.

Justin Long
Analyst, Stephens, Inc.

Thanks, and good morning.

Patricia David Dugan
Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.

Good morning.

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

Good morning, Justin.

Justin Long
Analyst, Stephens, Inc.

So, maybe to start with the 2020 operating cash flow guidance, Pat, could you talk about the assumption for working capital that's getting baked into that? And also, how you're going to be accounting for the tax benefit that's paid out to GE within the cash flow statement? And then also, would love to get your thoughts on the magnitude of debt paydown that you anticipate this year?
Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Right. So, starting with how we’re treating the tax. The tax item obviously comes through and is a benefit to us. It is as part of cash from operations, but we then offset it with a payment almost like a – it’s an investing activity. So, you got the negative of that coming through in the different line item on the cash flow statement, okay?

We’re still going through – we feel very good about the overall benefit to us, but the year what we pay for 2019 is still being evaluated along with the GE team. When I look at the guidance, I mean, I’m kind of – the way I’ve looked at it is I think an easy way to look at it is an EBITDA, which is about $1.6 billion, and then you have interest, other and taxes that are reducing it to about $1.1 billion.

We mentioned, this is a GAAP number. We’re mentioning the fact that we have restructuring overhang or headwind that’s going to hurt us into 2020, things that we’ve added back in 2019 that we’ll have to pay in 2020, of about $100 million. And I think, we’re trying to look at our working capital with a strong second half of the year that could be a little bit of working capital pressure, which would put us to the $900 million GAAP cash from operations guidance that we gave everybody.

Justin Long  
*Analyst, Stephens, Inc.*

Okay.

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Terms of debt repayment was your last question, I think, part of the question...

Justin Long  
*Analyst, Stephens, Inc.*

Correct.

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

...is that we’re targeting a debt paydown that will get us into that 2 to 2.5 times leverage ratio. But we’re also looking at our overall capital allocation plan, where we continue to invest in the company, make sure that we’re opportunistic in right M&A situation, and then look at how we can return cash to shareholders also.

Justin Long  
*Analyst, Stephens, Inc.*

Okay. And just to clarify on the working capital point, is the assumption that you will have a headwind this year, and are there any numbers you can put around the magnitude of that headwind?

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Well, I think I kind of did the math, it’s probably maybe about $100 million of working capital pressure that with a strong second half of the year that we’re considering in the guidance. We’re obviously working on plans to do better mitigate, look at other tools, look at customer deposits and things that could be a positive in managing our receivables, managing our payables. But that’s what we’ve kind of considered in our guidance right now.
Okay, great. And then, just to help from a modeling perspective, there're a lot of adjustments in the model right now. So, I was wondering when you talk about 100 basis points of margin improvement, and it sounds like you'll see a similar magnitude in both segments, can you give us the comparable adjusted operating margins for both the Freight and the Transit segment in 2019?

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

Yeah. We haven't done that. I think that we're — we haven't disclosed that. What we're kind of looking at is overall that 100 basis points to be more weighted to the Transit side, a little bit less on the Freight side. But about the same on average between both segments.

Okay. And then lastly, and maybe this is a two-part question, and then I'll hop back in the queue. You mentioned the first quarter will be the low point of the year. Is there any color you can give us on the quarterly cadence of earnings you anticipate or at least what's baked into the 2020 guidance? So, maybe that one's for you Pat.

And then, Rafael, just taking a big step back and looking at the business right now, what's your confidence that this year is the trough given what we're seeing in the freight market? I mean, do you have confidence that 2020 is the trough for earnings for this business?

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

Well, Justin, I'll talk about the quarter guidance, and then I'll hand it over. We don't give quarter guidance. But we are trying to kind of give a nod to the seasonality of the business. So, if you just look at Q3 to Q4 and other periods, the services element of our product lines is meaningful. It has margins that can make things shift. And so, with the first quarter which tends to be a slow start because of transit freight and aftermarket, and the timing of some of the underlying OE projects, we just wanted to make sure everybody understood that the first quarter was going to be slightly different. So, that was important. But as for the kind of quarter-by-quarter guidance, we're not going to be doing that.

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

Justin, with regards to the year, I mean we certainly have many elements of trough here in this year. But I'll stay away from that. We'll continue to monitor the markets we operate in, and we're really very much focused on things we control. We're taking the necessary actions to adjust our business to the reality as we face, and the guidance we're putting out forward, it certainly contemplates I'll call new locomotives down double digits for the year in terms of deliveries, and freight cars down to about 40,000 cars versus in the 50,000s for the previous year. So, at this point, we're very much confident on being able to drive margins up about 100 basis points despite of those headwinds.

Okay, great. I'll leave it at that. Thanks for the time.
Rafael O. Santana  
*President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.*

Thank you.

**Operator:** Our next question is from Allison Poliniak from Wells Fargo. Go ahead.

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

Good morning.

**Patrick David Dugan**
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Good morning.

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

Rafael, the services is a sizable component of Freight here. Could you help us better understand, it seems like it's holding up better cyclicality-wise. I think you touched on some seasonality issues with it. Any color there that you can help us with that particular component of Freight?

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

Allison, a couple of things. I'll start internationally. I mean, our installed base continues to grow. We have a number of locomotives well either entering into service or getting out of the warranty period. So, we continue to see a robust growth there. I think our mods business, we continue to see opportunities to grow that business into this year. We've talked recently about an international order we got, and I think that also provides us similar dynamics. And I would not forget about our opportunity to ultimately help customers on driving more efficiency. We have a number of solutions that can help them in that regard as they look at ways of improving their operating ratio. So, we remain confident. So, we work with our customers very closely on fleet strategies, and making sure that ultimately our fleets are the ones delivering most value out there.

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

Great. And then, on the digital side, I think you touched on a nice order that you got there. Any specific product area that's driving some of that growth? Is it broad-based? How are you viewing that – particularly a piece of the business in light of PSR and on what's going on there?

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

I think there's a couple areas there that I'd highlight to you. Number one, as railroads look into increasing efficiency, I think, we have a number of solutions there that allow them to manage through larger trains, but also there's an element of fuel savings. And, I think, we're well-positioned on that regard. So, that's one of the specific sub-product lines within that business.
The other one is on really managing the overall operations. So, we talk about network optimization, and some of these are longer-term orders, but it certainly reflects the confidence in the business, and ultimately the opportunities we have to help customers improve their efficiency in their businesses.

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

Great. And then, just last, it might be too early for this, but any thoughts on the Alstom-Bombardier announcement in terms of any impact potential to Wabtec?

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

We think it’s early days still. I mean, we’re still really going through the details. We have good and strong relationships with both customers, and so we see an opportunity here to grow our business with them.

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

Great. Thank you.

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

Thanks.

**Operator:** Our next question is from Matt Elkott from Cowen. Go ahead.

**Matt Elkott**  
*Analyst, Cowen & Co. LLC*

Good morning. Thank you. Can you guys give some more specificity on the double-digit decline in locomotive deliveries in 2020?

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

Good morning, Matt. First, I mean, this is fundamentally driven by North America. And it’s just a reflection of really carloads being down by 4% last year, and especially in the fourth quarter by more than 7%. We continued to see, I mean, some of those challenging dynamics for the first half of this year, and we do expect that for our customers for some improvement as you go into the second half of the year. But it’s a North America-driven freight phenomenon.

**Matt Elkott**  
*Analyst, Cowen & Co. LLC*

Okay. That’s helpful. But double-digit, I guess is a big range. Are we talking closer to like teens double digits?

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

We’re going to stay away from specific, I’m going to call, counts on the locomotives. But down double digits.
Matt Elkott  
*Analyst, Cowen & Co. LLC*

Okay. And staying on locomotive deliveries, and maybe operational metric disclosures, are there going to be changes to the way you guys report any of your segment metrics or operating statistics associated with the Investor Day in March? Or any color on what we should expect at the Investor Day, long-term growth plan? Anything like that would be helpful.

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Well, I think – Matt, this is Pat. I think the first thing we've done is we've kind of recast our revenue. So, kind of a little more visibility on the revenue aligned with our equipment business, which includes locos, the freight car component business, which also includes a little bit of an industrial and services. And all those things are kind of available, both historically and restated.

Going forward into next year in the guidance at the Investor Day, I think we've been pretty consistent on disclosures of like local deliveries, and we're going to stay away from that. But I do think we've taken some pretty good steps to provide some transparency on the top line and where it's coming from.

Matt Elkott  
*Analyst, Cowen & Co. LLC*

Okay. That's helpful, Pat. Now, you talked a bit about the capital deployment priorities. I think historically, before the GE transaction, you guys did three to four tuck-in acquisitions per year. Should we expect you guys to ease back into that pace at some point in the future or do you not think of it that way?

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

Well, we've certainly – I think 2019 was very important in terms of making sure that we strengthened the balance sheet. We certainly feel confident about having the optionality to still do those bolt-on acquisitions, and it's certainly something we will consider as part of the capital allocation process along the lines with returning value to shareholder, but also looking at organic growth internally.

Matt Elkott  
*Analyst, Cowen & Co. LLC*

And Rafael, is there like a priority area when you're looking at bolt-on acquisitions? Is it digital acquisitions that relate to rail automation? Is it to support your service aftermarket locomotive business? Is there an area of focus that you prefer to do acquisitions in in the longer-term?

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

I think you touched the two. One of them being the digital electronics area, we certainly see an opportunity there. It's an area that grows faster than the overall freight market.

The other one is just an element of recurring services, making sure that we're utilizing a lot of the infrastructure we've got around customers, and continue to grow that business faster than the segment growth.
Okay. And just one final question. Any impact from the coronavirus, specifically as it relates to your Transit business? And as you think of ridership going forward, if this coronavirus thing does not subside soon, is there a risk to your aftermarket Transit business potentially?

Yes. So, a couple of comments there. Number one, very important to us is really the safety of our employees, and I think in China, we've got close to 1,500 employees; none of them with coronavirus at this point. So, it's a critical part for us.

We continue to monitor our supply chains and have taken a number of actions in order to make sure we ultimately act on alternative sources. We do about 3% of our business in China. At this point, I mean we're continuing to monitor the situation and continue to take action. If there's any relevant facts, we'll make sure to disclose them.

Hi. It's James on for Chris. Wanted to touch on synergies and the $150 million number you gave out. How much of that is flow-through from 2019 and how much is new to 2020? Also, kind of wanted to get a sense of where you thought you'd be exiting 2020 in terms of run rate for synergies?

So, the $150 million is incremental. It's an improvement. You have an element of it is, say about $60 million of it is coming from the – well, the $30 million was a net number. We do have about $60 million worth of spend that was applied against that $30 million, and then you have a additional spend though in this year. So, I don't want anybody to – don't think we still have some costs in order to achieve some of these synergies. But the $150 million net is the incremental over the 2019 results. It's coming from the same areas.

It's the full benefit of the rooftop consolidations, the sourcing, the supply chain improvements, and the restructuring efforts that we went through in 2019. We haven't quantified what the run rate is at the end of the year, but we still think that it puts us in a really good path when you look at it to achieve the $250 million worth of run-rate synergies before the original guidance when we closed the transaction.
Rafael O. Santana  
*President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.*

The one thing I would add is, consistent with what you saw last year, expect us to continue to look for ways to accelerate the synergies, and that's very much aligned with making sure that we ultimately adjust the business to the realities we face.

James Monigan  
*Analyst, Citigroup Global Markets, Inc.*

Got it. And then also, kind of wanted to get a sense of what your outlook for mix in 2020 really is. It seems you're calling out some headwinds to OE. So, I just kind of wanted to understand what you thought the OE aftermarket mix would be and sort of give an idea of how much of that do you think is sustainable from sort of getting better penetration in some of the aftermarket products you've been talking about?

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

Well, we continue to see a strong opportunity to grow our services business. I think in spite of some of the offerings, which are of course a little bit different when I compare it to last year, but that ties up to modernization, that ties up to some of the elements of really some fleets that are entering operations globally out there. Some of the headwinds are presented in our freight components business with freight cars down in the 40s. There's also a number of markets that are adjacent to that business segment. They're also down, including oil and gas.

The Transit business, we're continuing to see opportunities out there, some significant orders in the underground UK, North America as well, and India continues to be a bright spot where we're very well-positioned. So, mixed overall conditions. We're guiding to $8.7 billion of orders, which when you look at a 12-month basis, it seems basically flattish.

James Monigan  
*Analyst, Citigroup Global Markets, Inc.*

Okay. Got it. Just one quick follow-up. What level of growth in your mod business are you expecting in 2020? And then I'll just hand it off.

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

Could you say your question again, please?

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Growth of mods.

James Monigan  
*Analyst, Citigroup Global Markets, Inc.*

How much growth are you expecting in mod deliveries in 2020? And then I'll just had if off.

Rafael O. Santana  
*President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.*
Okay. In 2020, we have the opportunity to have – still slightly grow the business. And we’re continuing to invest on ultimately, I’ll call, driving more value for our customers. Those will include enhancements to fuel as you look at overhauling or modernizing the engines. And so this modernization, I think it continues to be a growth story for us as we look into ways of driving further value for our customers.

__Operator:__ Our next question is from Jerry Revich from Goldman Sachs. Go ahead.

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__Jerry Revich__  
__Analyst, Goldman Sachs & Co. LLC__

Yes, hi. Good morning, everyone.

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__Patrick David Dugan__  
__Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.__

Morning.

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__Rafael O. Santana__  
__President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.__

Morning.

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__Jerry Revich__  
__Analyst, Goldman Sachs & Co. LLC__

I'm wondering if you could talk about your order outlook for the Freight business. I know it can be lumpy in terms of timing of major contract awards. Can you just flesh out for us how your prospect looks, both on the service side as well as on the locomotive side as we kick off 2020 here?

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__Rafael O. Santana__  
__President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.__

I think internationally, we continue to have a bright spot. And I think I mentioned Asia. We're seeing demand in putting this quarter for demand for new locomotives. We're also seeing an aspect of fleet renewal that continues to take place in places like Australia, for instance, Russia and CIS continues to be a bright spot for us and growing.

As I look across West Coast of Africa, we have the opportunity of follow-up of existing projects, the next phase of them. Latin America, Brazil continues to be a market where we're well-positioned, and as you look at concessions being renewed, that's also an area of opportunity for us.

Transits, the dynamics are positive in ridership out there. It's a business that if you look at the area we work in, it provides at least 3% to 5% growth. For us, it's more about being selective in terms of the order intake we have. Headwinds in North America, lot of it really driven by the freight market and dynamics I mentioned with regards to new locomotives and freight cars.

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__Jerry Revich__  
__Analyst, Goldman Sachs & Co. LLC__

And Rafael, net of all that, do you think you could grow backlog in 2020 based on the prospect list that you have in front of you today?
Rafael O. Santana
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

We're certainly focused on doing that. I think we have a good pipeline of opportunities that we're working on. But we're certainly dealing with, I'll call, challenging dynamics in the North American market. It's good to see the fourth quarter on where we've landed with backlog growing about 2.3%, and we certainly got our teams out there working very hard to make sure that we grow the business over time.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Okay. And lastly, on the margin bridge 2020 versus 2019, so the 100 basis points or $100 million EBITDA growth. I appreciate that it's early in the year, but taking some of the discrete items, it looks like you have the pieces to get you above the $100 million increase. So, we spoke about $150 million of synergies, the improvement in Transit margins as prior projects roll off, that should be $50 million to $100 million, $100 million from pro forma GE Transportation addition based on the February 2019 presentation, and obviously we have the policy harmonization headwind, and I know it's early in the year, but I'm wondering if you could just talk about if there're any other pieces that we should be thinking about that might be headwinds? Or is it a function of look it's early in the year and the environment is choppy, so we need to give ourselves room to execute?

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

Well, I think you've kind of outlined all the aspects. The synergies are, obviously, a positive contributing to the margin growth. But we definitely have headwinds in the market. You're seeing some shift in mix of sales year-over-year where you have -- you're replacing sales like our freight component area, which tends to be a strong profitable business with other business that doesn't have the same kind of margin profile. So, when you kind of look at those things on a net basis, that's what gives us the confidence in the 100 basis points overall improvement in margin for the year.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Thank you.

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

Yeah.

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

Thank you.

Operator: Our next question is from Scott Group from Wolfe Research. Go ahead.

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

Hey, Scott, are you there? Yeah. Why don't we go to the next question? Maybe we'll add Scott back later.
Courtney Yakavonis  
*Analyst, Morgan Stanley & Co. LLC*

Hi. Good morning, guys.

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Good morning, Courtney.

Courtney Yakavonis  
*Analyst, Morgan Stanley & Co. LLC*

Just on the services part of Freight, I really appreciate the disclosure that you guys gave us. But can you help us just think about how that business is growing on a pro forma basis year-over-year exiting 2019? And any thoughts on whether that's kind of the right run rate to think about that business in 2020 given your guidance for railcar and loco deliveries?

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

So, a couple of points. We continue to see the opportunity to grow that business. I think there's a number of dynamics there. I think our mods program continues to be an area of opportunity. I can't emphasize enough internationally what some of those opportunities are.

The other element for us, it's the fleet that it's expanding globally. We have grown the number of what I'll call installed diesel engines out there, and that provides that business an opportunity to sign on what I'll call long-term service agreements to support those fleets out there. So, that continues to be an opportunity for us. I did mention that we're continuing to invest on enhancing the value our customers can get from modernizing existing fleets, that includes fuel solutions that we're going to be coming up with, I'll call, incremental opportunities there.

So, we're certainly continuing to look at services as an area of opportunity. And even in North America, as you look at a very significant number of locomotives parts, the locomotives are running, they're running harder, and so we'll continue to support customers in terms while making sure they're getting the right reliability and availability of these fleets.

Courtney Yakavonis  
*Analyst, Morgan Stanley & Co. LLC*

Okay. Got you. Just on 2019, any insight into what that growth rate was on an organic basis just since it's a little confusing with the GET not in the 2018 numbers?

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Yeah. It's kind of hard, because two aspects, you've got different bases of GAAP and policies. And so, it's a bit confusing. I would just say, overall, for 2019 the service revenue, because of the impact of the opportunities created for itself under PSR and additional mods that the revenues for services were up in 2019.
And then when you look into 2020, which I think was kind of your first question, all the things Rafael just talked about, but you have a little bit of a headwind from parkings offset by our continued focus on new products and opportunities under PSR to serve our customers. So, long-term growth rates, we'll talk – we really wouldn't talk about that on this call, but it's really for us an area of growth.

Courtney Yakavonis  
Analyst, Morgan Stanley & Co. LLC

Okay. Got you. And then just switching on to the Transit side of the business. I think you did some re-segmenting and now it looks like on the core business as it's restated margins were down for the past two quarters, and then down pretty significantly this quarter. Can you talk just a little bit about what was driving those margin declines this quarter? And then, kind of what gives you – and when we think about the 100 bps of expansion next year, how should we think about the pace of that and kind of the continuation of the UK projects flowing in?

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

Okay. Let me start here. Well, I think a couple of things to separate here. Number one, the quarterly performance was certainly impacted by, well, the lower margin of the refurbishment projects in the UK. I think we've reached some really critical milestones in these projects during the quarter. And we believe to have a really strong cost visibility as we've delivered more than 75% of these projects up to this point. So, I think that's one element of that. I think the other thing to keep in mind is we're very encouraged to see the steps taken by the Transit team in terms of the performance in the overall business, and we're starting to see that really showing up into some, what I'll call, underlying key metrics that includes improvement on on-time delivery, that includes improvement on with really lower cost associated with cost of quality.

We continue to see accountability up across the business. There's a more robust bidding process out there. Margins on the orders taken over last year are up versus the backlog. We've got costs and actions taken to drive margin improvement, and we have really pushed the supply chain to better cost locations. We do not take these results lightly. Lilian and the team have really taken action, including leadership changes at the project level, so we ultimately drive the right discipline and accountability across the business.

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

So, I just want to – just to help a little bit. In the fourth quarter of 2019, we took charges associated with certain inefficiencies, especially in terms of higher labor costs. We did reach some critical milestones in these projects in the quarter, and we think we have a really good cost visibility, and we have delivered more than 75% of these projects with most of them running off in 2020.

Our estimation is over 90% completed by the end of the year. So we feel, we're coming to the end of these projects with a good view on the profitability, and I would just add this has been well received and with hitting these milestones created cash opportunities that were realized in the fourth quarter.

Courtney Yakavonis  
Analyst, Morgan Stanley & Co. LLC

Okay. Thank you.

Operator: Our next question is from Steve Barger from KeyBanc Capital Markets. Go ahead.
Robert Stephen Barger  
*Analyst, KeyBanc Capital Markets, Inc.*

Hey, good morning, guys.

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

Good morning.

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Good morning.

Robert Stephen Barger  
*Analyst, KeyBanc Capital Markets, Inc.*

So, you're looking for around $700 million in free cash flow, which I think is about 80% of midpoint net income, plus or minus. Can you remind us how you're thinking longer term for free cash flow conversion from net income, and how long it'll take to get there?

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

Yeah, you're saying – you're going off of free cash flow, we've done cash conversion off of sort of just cash from ops, which would be in excess of – our goal is to get over 100%. And I think that we have a little bit of impact from the restructuring items I talked about and the working capital pressure in the year. But overall, we think we'll have a cash, if you look at the cash from operations as a percentage of net income that you would be in excess of 100%.

Robert Stephen Barger  
*Analyst, KeyBanc Capital Markets, Inc.*

All right. And just going back to an earlier question, you talked through the buckets of capital allocation but no numbers. You've got $600 million in cash just to use that free cash flow number, you'll have around $700 million or $900 million in operating cash flow. Can you give us any dollar targets for debt reduction this year? Or can you frame up how you're thinking about debt reduction versus share buyback in terms of size and timing?

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

I think our debt reduction would be – it goes hand in hand with that leverage ratio. So, I think – and put numbers to it, it's a similar performance to what we did in 2019, maybe a little bit less. But I really haven't thought about it in terms of total dollars. I keep focusing on the leverage ratio. And of course, the capital allocation story is one about having the cash available for funding our growth initiatives for the opportunistic M&A and other areas that would allow us to return cash to shareholders.

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

It goes back to creating the optionality we spoke, and I think the announcement that we have with regards to the $500 million program, that gives us also here an opportunity when shares are selling below the intrinsic value for us to act on.
Robert Stephen Barger  
*Analyst, KeyBanc Capital Markets, Inc.*

Well, I guess that's kind of the point I was making is that you feel good enough about the balance sheet now to start executing against that buyback? Because it certainly seems from a liquidity standpoint, you're in good shape.

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

We certainly feel we have done, I'll call, good progress through last year. And we're at a stage here that we should fully exercise optionality. And that should include our share buyback.

Robert Stephen Barger  
*Analyst, KeyBanc Capital Markets, Inc.*

Perfect. One more. Just thinking about the seasonal pattern you talked about for 1Q. As I recall the first quarter of 2019 was unusually strong due to locomotive mix. So, just to clarify, would you expect EPS will be down versus the $1.06 in 2019?

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

On a – you remember you're looking on an adjusted basis versus a different adjusted basis. But I think that a couple of things I want to point out is, if you go to 1Q a year ago, you had a partial quarter, and it was an especially strong quarter month, stub period that got included in the Wabtec results...

Robert Stephen Barger  
*Analyst, KeyBanc Capital Markets, Inc.*

Right.

Patrick David Dugan  
*Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.*

...when you look at it in total. And for the Freight segment, I think you're going to end up with a result that's kind of similar in profile to what you see here in Q4. That's the seasonality reality to 2020 in the first quarter. But as for like a specific EPS guide for the quarter, we're going to do what we always did, and we're going to – we're not going to give any kind of quarterly guidance specific to the quarter. Yeah.

Robert Stephen Barger  
*Analyst, KeyBanc Capital Markets, Inc.*

All right. Maybe I'll squeeze one more in. For the full year, do you expect negative organic growth in Freight, offset by RELCO and anything else? Or do you think that organic growth can be positive for Freight?

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

Well, when you look at what we're guiding to, I mean we certainly have pressures coming from the overall Freight business with Transit being up.
Thanks.

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

I mean, RELCO in terms of size is a...

**Robert Stephen Barger**  
*Analyst, KeyBanc Capital Markets, Inc.*

I know it's small.

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

...small tuck-in acquisition. It's strategic. It's good. It's obviously not one of the bigger ones, but that's the truth. So, I think to your question overall our revenue guidance on a pro forma basis is relatively flat. I think we said it earlier that you have a little bit of mix of Freight, and some of the stronger Freight businesses will be a little bit down, offset by some of the growth in our Transit business.

**Robert Stephen Barger**  
*Analyst, KeyBanc Capital Markets, Inc.*

Thanks.

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

Yes.

**Operator:** Our next question is from Ken Hoexter from Bank of America Merrill Lynch. Go ahead.

**Ken Hoexter**  
*Analyst, Bank of America Merrill Lynch*

Hey. Good morning. Just to follow up on the prior questions on the Transit margins which now is at 7%, maybe just your thoughts on getting back to double-digit long-term. I know you talked 100 basis points near-term and removing some charges. Is that a product shift or is it increasing competition, pushing those margins down? Maybe just talk a little bit about that on your bigger picture.

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

Well, I think – let me start here. First of all, I think we have the opportunity to improve margins in our overall business. I think I've talked before about the quality of the order intake, which the team has taken some specific actions around that, and we see improvements happening. I think we've talked about the quality of the execution, and that's why I made some comments earlier on some key improvements on some key metrics, which include on-time delivery, and really lower costs associated with the cost of quality.

The team continues along the lines of having a very robust bidding process. They've taken further cost actions to drive margin improvements. And we're continuing to push the supply chain to better cost locations. You're going to hear from Lilian and the team a lot more details on that progress, and how they're committed, even now ready this year to drive more than 100 basis points improvement during the Investor Day.
Pat? Any...

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

No, I feel – I'd just reiterate the same thing that Rafael just said. We feel good about the overall for long-term ability to drive margin expansion. It's core to both businesses as well as achieving – of having year-over-year lean efforts, other opportunities that we find to offset and improve – offset inflation and other costs, and improve the overall margin, but the synergies also contribute long-term to us improving. And while we also feel good about our $250 million, we constantly are looking for opportunities above and beyond.

Ken Hoexter  
Analyst, Bank of America Merrill Lynch

Great. Appreciate that. And then, just a follow-up on the – you mentioned some passenger opportunities stepping up in the US. Maybe – is that something you're looking to offset Freight? Is that strictly on the Transit side? Or are you talking kind of locomotives? What are you – you mentioned just in the prepared comments the step-up in passenger opportunity in the US, so just looking for some follow-up on that? Thanks.

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

Okay. So, yeah, specifically with regards to our Transit business, we continue to have opportunities in the US market. Again, we're being very selective on the opportunities we go after. But it's certainly also a bright spot in terms of both orders in brakes, specific opportunities for the Transit business.

Ken Hoexter  
Analyst, Bank of America Merrill Lynch

Great. Wrapping up. Thanks, guys.

Operator: Our next question is from Ivan Yi from Wolfe Research. Go ahead.

Ivan Yi  
Analyst, Wolfe Research LLC

Good morning, guys. This is Ivan on for Scott Group. Thanks for the time. First, there's a pretty meaningful drop in the locomotive and railcar deliveries in your guidance. Can you talk about the biggest offsets this year that keeps overall sales flat? And with that, thanks for the new sales breakdown this year, that's very helpful. Maybe you can say how much of the Freight equipment sales are in North America and how much of the components is ultimately tied to the equipment market?

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

Okay. So, I think when you look at the dynamics in the Freight business, you'll certainly see an element of freight cars and locomotives down. Our Freight components business is also, well, with pressure associated with some of the adjacent markets that we serve. We continue to see opportunity to grow our services business. I think an element of it, its international growth, tied off with not just modernization opportunities, but also an element of fleets entering into service.
Our digital electronics business, we talked about double-digit orders growth last year, which provides, I think, a solid and strong backlog for us to be executing, and that's certainly an area of opportunity for us here as we continue to progress and move forward. Well, our overall Transit business will also be growing this year.

Ivan Yi
Analyst, Wolfe Research LLC

Great. And the rails are working towards one-man crews right now. What is the opportunity for Wabtec, and when do you expect to start seeing it? And also, can you also talk directly about PTC and the direction of that business this year, up, down, flat? Thank you.

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

Yeah. So, a couple of points. I mean, when you talk about rail automation overall, we've been working with our customers over the years. And we do have an element of adoption, which might vary from customer to customer in terms of some of these tools. But we really believe we have some of the critical elements to allow that. So, we're continuing to invest on really the next generation of some of these products, the ability to go from zero to zero on basically autopilot, and there's a number of, I'll call, specific products that could further help our customers automating their operations. So, it's really up to our customers and working through it on how they would like to get there. We're really ultimately providing the tools and the optionality on how to do that.

On PTC, I think, we're very much focused this year on both elements of making sure that we've got interoperability working, and that we continue to work with our customers and making sure that you have a system that's reliable and available to them as they go through a full implementation.

Ivan Yi
Analyst, Wolfe Research LLC

Great. And last one, isn't the Transit backlog down year-over-year? So, why does Transit grow in 2020? What's the offset? Thank you.

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

The Transit is affected by FX, and some of the recast items. So, it's a little bit complicated. But, ultimately, you have a big pool of Transit backlog. And then, in terms of sales, the phasing, the timing, the delivery, the project schedules that are expected by the customer have been considered in the guidance and will drive the top line.

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

So, backlog, ex-FX basis, is slightly up quarter-over-quarter. I think there's of course an element here of what Pat just said, what if it's seasonality of timing of orders. However, when we look at our backlog, it remains at, what I'll call, historical high levels, and we're confident in terms of, well, the opportunities that we've had.

Operator: Our next question is from Saree Boroditsky from Jefferies. Go ahead.

Saree Boroditsky
Analyst, Jefferies LLC
Thanks for squeezing me in. Could you provide an update on what you saw in your industrial mining business in the quarter, and then how you’re thinking about the 2020 outlook?

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

Okay. When we think about mining, I think overall there’s certainly, what I’ll call, pressure for overall mining as we talk to our customers. I think it’s a little bit different, and we feel better about in specific the truck-size class that we serve. But it’s a market that we’re really monitoring closely, especially due the situation in China. But at this point, no specifics to be detailed. Let’s say very much reflected within our guidance the elements I just described.

**Saree Boroditsky**  
Analyst, Jefferies LLC

Okay. And then, it looks like SG&A guidance is embedded in pick-up as a percentage of sales. Can you just talk us through if there’s any headwinds in SG&A that we should think about in 2020?

**Patrick David Dugan**  
Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.

No, I don’t think so. I mean, thinking about our SG&A, we do – we are combining the two companies, and we got a 10-month GET versus 12 months, and those – that might be factoring in how you're looking at it. But I think all-in-all, SG&A is – there’s no specific item in there that’s causing a problem in comparability year-over-year.

**Saree Boroditsky**  
Analyst, Jefferies LLC

Okay. And then, just a final question just given the $500 million in share repurchase authorization, I guess any color on the cadence of how we should think about 2020? And then, would this all be upside to your current EPS guidance, it doesn't look like you're embedding any buybacks in your share count?

**Patrick David Dugan**  
Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.

That's right. We have not considered any buyback in the share count for guidance purposes, so.

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

Yeah. And the authorization was really as a way to make sure that ultimately if shares are selling below the intrinsic value that we have an opportunity here to act, and that's basically how we're looking at it.

**Saree Boroditsky**  
Analyst, Jefferies LLC

Appreciate the color. Thank you so much.

**Patrick David Dugan**  
Chief Financial Officer & Executive Vice President-Finance, Westinghouse Air Brake Technologies Corp.

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

Thank you.

**Operator:** This concludes the question-and-answer session. I would now like to turn the conference back to Kristine Kubacki for closing remarks.

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

Thank you, Kate. And thank you to everyone for your participation today, and we look forward to seeing you in March at our Investor Day or speaking to you again next quarter. Goodbye.

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