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Westinghouse Air Brake Technologies Corp. (WAB)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Wabtec's Fourth Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode. [Operator instructions] After today's presentation, there will an opportunity to ask questions. [Operator instructions] Please note, this event is being recorded.

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

Kristine Kubacki

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

Thank you, operator. Good morning, everyone, and welcome to Wabtec's Fourth Quarter 2022 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 on our website earlier today and can be accessed on the Investor Relations tab on wabteccorp.com. Some statements we're making are forward-looking and based on our best view of the world and our business today.

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

I will now turn the call over to Rafael.

Rafael O. Santana

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

Thanks, Kristine, and good morning, everyone. Let's move to slide 4. I I'll start with an update on our business, my perspectives in the quarter, our progress against our long-term value creation framework, and then John will cover the financials. We delivered a strong fourth quarter, which is evidenced by strong sales growth, an increase in adjusted earnings per share. We achieved this despite significant headwinds, including a volatile macro environment, supply chain disruptions and negative FX.

Sales were roughly $2.3 billion, which was up 11% versus prior year. Revenue was driven by strong performance across the Freight segment, but partially offset by unfavorable FX.

Total cash flow from operations was $410 million, which brings year-to-date cash flow to over $1 billion achieving a full year cash conversion rate of over 90%. Overall, our financial position remains strong. We continue to allocate capital to maximize shareholder returns by investing for future growth, executing on the strategic M&A, and returning cash to shareholders.

Total multiyear backlog was $22.4 billion, up $272 million year-over-year and excluding the headwinds from foreign exchange, backlog was up $680 million, or up 3% from last year. We continued our progress against our long-term growth strategies.

Overall, we had a strong finish to the year despite a number of challenges. As a result of this strong performance and our confidence in the future, our board of directors reauthorized a $750 million share buyback and approved a 13% increase in the quarterly dividend. We entered 2023 with strength and momentum across the portfolio, and we're well positioned to continue to drive profitable growth even with near-term uncertainty and volatility in the global economy.

Shifting our focus to slide 5. Let's talk about our end market conditions in more details. As we look at key metrics across our Freight businesses, we remain encouraged by underlying business momentum and a strong pipeline of opportunities. North America carloads were down slightly in the quarter, but locomotive parkings are down from the same time last year despite lower freight traffic. We continue to see significant opportunities in demand for modernizations and new locomotives as our customers invest in their aging fleets, and they also place a greater focus on reliability, productivity and fuel efficiency.

Looking at the North American railcar build, demand for railcars continue to show strength with industry backlog about 60,000 cars. Railcars and storage are below pre-COVID levels with about 18% of the North American railcar fleet in storage. As a result, industry orders for new railcars continue to improve, and the industry outlook for 2023 is for about 40,000 to 45,000 cars to be delivered.

Overall, we believe we have an opportunity to continue building significant long-term momentum with growth in modernizations, in new locomotive sales, in railcar builds and in rolling stock. Internationally, activity has also continued to show positive signs, and we continue to execute on a strong pipeline of opportunities.

Finally, transitioning to the transit sector, the long-term secular drivers are positive as the globe continues to increase investments in clean, safe and efficient transportation solutions.

Next, let's turn to slide 6 to discuss a few recent business highlights. We recently secured additional tier 4 locomotive orders in North America. These orders now total over 100 units to be delivered across 2023 and 2024. We also signed two international deals in Asia and South America to deliver new rolling stock and also won two international long-term service contracts in South America and in Kazakhstan.

Finally, Wabtec's FLXdrive locomotive was recognized for sustainable innovation by the Business Intelligence Group and awarded Commercial Technology of the Year by S&P Global. Looking ahead, all of this demonstrates the strong pipeline of opportunities we continue to execute on. Wabtec is well positioned to continue to capture profitable growth with innovative and scalable technologies that address our customers' most pressing needs.

Turning to slide 7. I want to briefly touch on why we are strongly positioned to deliver resilient and more predictable earnings in volatile times. We believe our demonstrated execution, combined with favorable end markets and our leading technologies and solutions, will enable us to remain resilient during times of increasing volatility. This resiliency comes in part from our multi-year backlog and strong base of recurring revenues.

Our multi-year backlog of over $22 billion provides visibility and support for both short- and long-term growth. Similarly, our base of recurring revenues of 44% of total sales, which grew by 3 percentage points in 2022, provides high margin and stable earnings. And finally, we have a track record of strong operating margin expansion across the business as evidenced by our ability to realize price, deliver productivity and aggressively manage costs.

Now, let's turn to slide 8. To further illustrate the point of our ability to drive consistent, predictable earnings, I wanted to provide more color about our combined new locomotive and modernization deliveries in North America.

Over the past six years, North American new locomotive deliveries have been challenged due to weak carload growth, PSR and COVID. Over that period, the investment in the fleet has come primarily through modernization of locomotives, but this still remains below historical replacement levels.

As we have discussed in past calls, the core North American active mainline fleet of heavy-haul locomotives is made up of roughly 16,000 locomotives. With a replacement cycle of roughly 25 years per locomotive, we estimate the annual replacement rate over time to be over 600 new locomotives and/or modernizations per year.

As you can see, the industry has been operating at roughly half of that level for the past six years. Yet, looking forward, we expect a growing need for refreshment of that fleet, and with record fleet age and growing obsolescence, driven by next-gen technologies, along with the expectation of rail share gains versus truck and the need to reduce greenhouse gases by 2030 that the demand for reliable and efficient power is increasing.

This expected demand provides Wabtec the opportunity to fill our existing capacity for delivery of new and modernized locomotive solutions in an effective and efficient fashion over the next several years.

Looking forward, we believe our execution, combined with strength of our business, leading products and technologies, result in Wabtec being resilient through economic cycles, delivering more predictable earnings and superior shareholder returns.

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

John A. Olin

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

Thanks, Rafael. And good morning. Turning to slide 9, I'll review our fourth quarter results in more detail. We finished the year with another good quarter of operational and financial performance despite continued challenges in foreign currency exchange, still elevated input costs and persistent supply chain disruptions. Sales for the fourth quarter were $2.31 billion, which reflects an 11.2% increase versus the prior year. Freight segment sales were very strong, up 17.1%, partially offset by unfavorable foreign currency exchange impacting sales in our Transit segment.

Q4 sales were negatively impacted by unfavorable foreign currency exchange, which reduced our revenue growth in the quarter by 4.5 percentage points. For the quarter, GAAP operating income was down $17 million, driven by higher restructuring costs. Adjusted operating margin in Q4 was 15.3%, down 0.8 percentage points versus prior year. We expect that our margin to be lower in the quarter on both a sequential and year-over-year basis. The key drivers of the year-over-year margin performance include; unfavorable mix within business groups, in particular, within Equipment and Services due to strong sales of locomotives and modernizations versus last year's performance, some of which pushed from the third quarter to the fourth quarter and higher technology spend associated with investment in future growth and costs associated with the commercialization of the first battery electric locomotives.

GAAP earnings per diluted share were $0.86, which was down 15.7% versus the fourth quarter a year ago. During the quarter, we had pre-tax charges of $32 million for restructuring, largely related to our Integration 2.0 initiative to further integrate Wabtec's operations and to drive $75 million to $90 million of run rate savings by 2025. I will talk more about our progress on Integration 2.0 in a moment.

In the quarter, adjusted earnings per diluted share were $1.30, up 10.2% versus the prior year. Overall, Wabtec delivered another solid quarter of results, demonstrating the underlying strength of the business and our ability to navigate through volatile macroeconomic conditions.

Turning to slide 10. Let's review our product lines in more detail. Fourth quarter consolidated sales were strong, up 11.2%. Excluding foreign currency exchange, sales were up 15.7%. Equipment sales were up 14.1% from last year due to higher locomotive sales this quarter versus last year.

Component sales were up 10.6% year-over-year, largely driven by higher OE railcar build. Digital Electronics sales were up a strong 34.7%, which was driven by robust demand for onboard locomotive products and software upgrades along with revenue contribution from the strategic bolt-on acquisitions Beena Vision and ARINC earlier in the year.

Our Services sales grew 16.6% versus last year. The year-over-year increase was driven by higher sales from a larger active fleet versus last year and increased MOD sales. Superior performance, reliability and availability of our fleet continues to drive increased customer demand for our services and solutions.

Across our Transit segment, sales decreased 1.7% versus prior year to $637 million. Sales were down versus last year due to the negative impacts of foreign currency exchange. Absent the impacts of foreign currency, Transit sales would have been up 9.3%. The momentum in this segment remains positive as mega trends such as urbanization and de-carbonization drive increased investments in green infrastructure.

Now moving to slide 11. As forecasted, gross profit margin was lower driven by unfavorable mix, adverse foreign currency exchange and higher input costs, partially offset by increased pricing and productivity. Pricing actions implemented to recover increased costs positively impacted our margins during the quarter.

Mix was unfavorable, especially within our Equipment and Services businesses behind strong sales of locomotives and MODs. Raw material costs, while down from recent highs over the last year were up again year-over-year. Foreign currency exchange adversely impacted revenues by 4.5 percentage points, and adversely impacted fourth quarter gross profits by $21 million.

Finally, manufacturing costs were favorable due to productivity gains, which were partially offset by higher transportation costs. Our team continues to execute well to mitigate the impact of these cost pressures by driving operational productivity and lean initiatives.

Turning to slide 12. For the fourth quarter, as expected, operating margin declined on both a GAAP and adjusted basis, driven by lower gross margins and increased investment in future technologies. GAAP SG&A was up $8 million versus prior year due to higher net restructuring costs related to Integration 2.0. Adjusted SG&A was $271 million which was flat versus prior year, but down 1.3 percentage points as a percentage of sales.

Engineering expense increased from last year according to plan. We continue to invest engineering resources and current business opportunities but more importantly, we are investing in our future as the industry leader in decarbonization and digital technologies that improve our customers' productivity, capacity utilization and safety.

Now let's take a look at our segment results on slide 13, starting with the Freight segment. As I already discussed, Freight segment sales were strong for the quarter, and GAAP segment operating income was $209 million for an operating margin of 12.5%, down 2 percentage points, which was impacted by increased restructuring expenses versus the year ago quarter.

Segment adjusted operating income was $284 million, down 1.7 percentage points versus the prior year. The benefits of higher sales and improved productivity were offset by unfavorable mix within business groups and higher technology investments and costs associated with the commercialization of the first battery electric locomotives.

Finally, segment backlog was $18.64 billion, up $139 million, or 0.8% from the end of Q4 last year. On a constant currency basis, segment backlog was up $344 million from last year.

Turning to slide 14. Transit segment sales were down 1.7%, driven by the negative effects of foreign currency exchange. Unfavorable foreign currency exchange impacted segment sales by 11 percentage points. GAAP operating income was $63 million, down 2.3 percentage points, which was impacted by increased restructuring expenses versus the year ago quarter, largely related to our Integration 2.0 initiative.

Adjusted segment operating income increased by $7 million to $95 million, which resulted in an adjusted operating margin of 14.8%, up 1.2 percentage points versus the prior year, driven by strong productivity, benefits from prior restructuring activities and disciplined cost management. Finally, Transit segment backlog for the quarter was $3.8 billion, up 3.6% versus a year ago. On a constant currency basis, backlog would have been up 9.2%.

Moving to slide 15. I would like to briefly touch on our progress against our Integration 2.0 initiative. Recall that during our Investor Day last March, we announced a restructuring program comprised of an estimated one-time expenses between $135 million and $165 million that would yield an incremental $75 million to $90 million of run rate cost savings by 2025. These savings were to be achieved through a combination of actions which simplify, streamline and consolidate parts of our operations.

A great example of the actions we are taking to drive these savings occurred in the fourth quarter, including two consolidation projects across our manufacturing footprint, which will eliminate a total of four facilities and a third project focused on streamlining and optimizing our North American distribution network. With full year restructuring expenses of $46 million in 2022, we achieved an initial $5 million of savings during the year. We expect investment to increase more meaningfully in 2023 and are on track to meet our 2025 goals, positioning Wabtec to drive multiyear margin expansion.

Now let's turn to our financial position on slide 16. We had strong cash generation in the quarter. Q4 cash flow was $410 million, bringing total cash for the year to $1.04 billion for a cash conversion rate of 93%. Cash flow benefited from higher earnings but was impacted versus last year by the proactive build of inventories ahead of our 2023 growth expectations and managing supply disruptions of critical parts.

Our debt leverage ratio at the end of the fourth quarter declined to 2.2 times, and our liquidity is robust at $2.29 billion. And finally, we returned a significant amount of capital back to shareholders in 2022 with $584 million returned through share repurchases and dividends.

And as Rafael mentioned, our board of directors approved a $750 million share buyback reauthorization and increased our quarterly dividend to $0.17 per share, up 13%. As you can see in these results, our financial position is strong, and we continue to allocate capital in a balanced strategy to maximize shareholder returns.

Now moving to slide 17. Quickly recapping the year. Overall, the team delivered a strong year for all our stakeholders. Despite challenging dynamics, we drove revenue growth, expanded our operating margins and generated robust cash flow. The resiliency of the business and strong execution provides us a solid foundation and good momentum as we enter 2023.

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

Rafael O. Santana

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

Thanks, John. Let's flip to slide 18 to discuss our 2023 financial guidance. We believe that the underlying customer demand for our products and solutions remain strong across our product lines and our backlog continues to provide visibility into 2023 and beyond. We are committed to driving adjusted margin expansion into 2023 despite FX volatility, a still challenging cost environment and continued investments in technology.

The team is committed to driving strong top line growth while aggressively managing costs. With these factors in mind, we expect 2023 sales of $8.7 billion to $9 billion, which is up nearly 6% at the midpoint and adjusted EPS to be between $5.15 and $5.55 per share, which is up 10% at the midpoint. We expect cash flow conversion to be greater than 90%.

Now let's wrap up on slide 19. As you heard today, our team delivered a solid quarter to finish out the strong year. We delivered on our full year commitments despite a challenging and volatile environment, thanks in large part to our resilient installed base, world-class team, innovative technologies and our relentless focus on our customers. These results were in line with our five-year outlook we provided at our Investor Day last year.

With strong momentum across the portfolio, increased visibility through our multi-year backlog and relentless focus on continuous cost improvement, Wabtec is well positioned to drive profitable long-term growth and maximize shareholder returns.

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

Kristine Kubacki

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

Thank you, Rafael. We will now move on to questions. But before we do and out of consideration for others on the call, I ask 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: We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from Allison Poliniak with Wells Fargo. Please go ahead.

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

Hi. Good morning.

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

Good morning, Allison.

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

Want to turn to the Services outlook. You noted an uptick in locomotive. Just wondering if you could give us a little bit more context on how impactful you're thinking about that for 2023. Is it sort of a point offset something bigger? I know there's a lot of moving parts in that business right now. Just any thoughts.

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

Yeah. And was the comment specifically with regards to Services, Allison?

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

Yes, yes.

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

Okay. Allison, I mean, we're certainly – when you think about North America carloads being down year-to-date, so we're continuing to see demand for both MODs and new locomotives. I think a lot of that is really tied to driving productivity, driving efficiency, driving reliability, and [ph] the counter piece (00:25:29) is certainly an element, if you think about the CapEx for Class 1s in the US, we see that up for the year. So, those are potentially some of the headwinds could come with, I think, lower carloads right now, and we're really planning for flattish in terms of that context.

But I think what's most important is really the element of the backlog coverage that we've got for the year. It's ahead of what we had a year ago. This is probably one of the highest 12-month backlogs we've had since 2019, which really just further strengthens our position to deliver in 2023. And last year, we've signed a number of multiyear orders, I think, for both new locomotives, but for modernizations as well.

So, this provides additional visibility not just into 2023, but in the case of MODs, all the way into 2025, for new locomotives, beyond that. So, we have a strong pipeline of deals, and we continue to see good momentum in both the pipeline of deals in North America and internationally.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities, LLC

Q

No, that's great. And then just a point, you mentioned sort of that replacement level for locomotives, under the assumption that you probably wouldn't reach that level this year. But how quickly, I mean, there's ESG targets and so forth. Is it sort of a 2024-2025 that you think you could reach that sort of run rate for replacement there or above? Just any thoughts there on how you see this walk towards that level. Thanks.

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

A

Allison, I wouldn't speculate how that will progress. But I think we're certainly still coming from the trough. And so when you look at some of the elements of the age of the fleet, continued investment to make sure you have productivity, but you also drive reliability on that fleet and the elements of ESG, I think we have a lot of opportunity here to help customers bridge that existing power into cleaner power. So, it comes with upgrades and incorporating technologies like hybrid and things like that. So, I think we're well positioned on that regard.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities, LLC

Q

Great. Thank you.

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

A

Thanks.

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

Justin Long
Analyst, Stephens, Inc.

Q

Thanks. I wanted to ask about Freight margins. I know you were expecting negative mix and some sequential weakness there, but the magnitude of the weakness was a bit surprising, especially when you look at the different businesses within Freight, Digital Electronics and Services revenue was up pretty significantly on a sequential basis and Equipment revenue was actually down a bit. So, I was wondering if you could give a little bit more color on the mix impact you saw maybe within those different businesses. And I know you called out the tech costs as well. So maybe a quantification of the headwind you saw there?

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

A

Okay, Justin. This is John. So, again, let's step back in the full year guidance. We expected it to be up in 2022, and we talked about margin growth in the first half and margin contraction in the back half, which you had mentioned, Justin. And that's exactly what happened. The first half was up 1.4 percentage points and the second half was down 0.7 points. And the fourth quarter was right in line with the second half being down that 0.7 point. So, overall, fourth quarter was down 0.8.

Couple of things driving that is first the unfavorable mix. That was the biggest driver of the reduction. And Justin, that was business that was mixed within our business groups. You had mentioned between our business groups, right? And some of our higher margin products did grow at a faster rate, but that was offset by unfavorable mix within the groups. And in particular, that was within the Equipment and Services group behind very strong sales of locomotives and modernizations versus last year.

And to put it in perspective, we sold 30% of all combined locos and MODs were sold in the fourth quarter. So, that put that pressure on it. And if you recall, Justin, in the third quarter, actually margins came in a little bit better than what we had anticipated. And at that time, we talked about some of our international loco MOD deliveries being pushed from the third quarter to the fourth quarter. So, that was why it was a little bit more pronounced maybe than was expected. So, that was a big piece of it.

The other piece was really our continued investment in the future of our business and decarbonization. So part of that was the technology spend. And as you can see on the face of the P&L, that was up $8 million on a year-over-year basis. And again, that is our investment in hydrogen and battery electric as well as digital.

And the other piece with regards to our investment in the future were costs associated with the commercialization of the first battery electric locomotives. So about a year from now, we'll be shipping out the first battery electrics. We couldn't be more thrilled or excited about that. And in the fourth quarter, we had costs. And as you remember, we wouldn't have had those same costs in 2021. So that's what's driving the negative variance on those. But overall, we're right where we expect it to be on a full year basis. And certainly looking forward to moving into a strong 2023.

Justin Long
Analyst, Stephens, Inc. Q

That's helpful. And is there a way to quantify the costs related to the battery electric commercialization that you referenced?

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

Well, I would say generally, overall, half of it was mix and the other half was a combination of the investment in both technology as well as the commercialization costs.

Justin Long
Analyst, Stephens, Inc. Q

Got it. Got it. Very helpful. And then on the 2023 guidance, are buybacks assumed within that outlook? And maybe, John, you could give a little bit of color on the expected quarterly cadence of that guidance because to the point you just made, we can see some fluctuations based on the timing of locomotive deliveries and MODs.

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

Yes. First, Justin, the first question is, is the use of – or the generation of cash that we expect to have in 2023 is part of our – included in our guidance. You had mentioned repurchases. Again, that could come in the form of acquisitions. It could come in the form of share repurchases. It all depends on if we have the right M&A, we'll invest it that way. But the cash generation is contemplated in the guidance that we provided this morning.

The second question is, when we move to revenue and margin cadence, I think the most important part is on a full year basis, we expect our operating margins to be up moderately versus 2022 margins of the 16.2% and to be generally in line with our long-term margin growth framework that we presented at our Investor Day about a year ago, Justin.

So okay, let's talk about revenue and margin guidance for 2023. I want to start with 2022, because it certainly plays into what we expect in 2023. All through 2022, we characterized our revenue and margin cadence as higher margin growth in the first half and higher revenue growth in the back half. And that's exactly the way it played out.

In 2023, we expect to see the opposite cadence that we had in 2022. Consequently, we expect higher revenue growth in the first half versus the second half of 2023, and we expect our full year margin growth to come largely in the second half of 2023. And as you can imagine, the drivers of this are the cadence that we continue to see with – I'm sorry, the driver of the cadence is the mix impact of our international locomotive sales.

And Justin, as we talked about it, they were pretty pronounced in the back half of 2022. And we would expect more mix headwinds in the front half of 2023 as we execute on some of those international locomotive sales. And then the second reason is that we're comping against higher 2022 margins in the first half and stronger 2022 revenue growth in the second half.

Justin Long Q
Analyst, Stephens, Inc.

Great. I appreciate all that detail. Thanks for the time.

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

Thank you, Justin.

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

Thank you.

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

Scott H. Group Q
Analyst, Wolfe Research LLC

Hey, thanks. Good morning guys.

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

Good morning, Scott.

Scott H. Group Q
Analyst, Wolfe Research LLC

So any color on the new tier 4 loco orders? Is that one rail, multiple rails? And can you say who it's with? And how do you expect that order to be split out over the next couple of years? And then just maybe just separately, as I think about like markets, any update here on ECP brakes? It's in the news a little bit and how you think about that opportunity.

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

Scott, I think first, I mean, we continue to see demand for both new locomotives and for modernizations as we had highlighted on previous calls. So we've been able to secure at this point, over 100 units. They will be delivered between 2023 and 2024. And it's really a function of us working through the supply chain here, but that's how we see it playing out.

And we continue to look at certainly, I think, expanding some of the penetration of some of the products that we have. I think specifically with brakes that's something we talked earlier on during – when we started the integration. So, it's something we're certainly looking at incorporating the new products, and it's certainly an opportunity that we'll continue to look at it.

Scott H. Group
Analyst, Wolfe Research LLC
Q

Okay. And then as I think about last year and now your guidance for this year, right, better revenue growth is sort of coinciding with maybe some margin pressure and I know and sort of when revenue growth slows and some better margin. Is there something we can do to sort of get both at the same time of good revenue growth and margin improvement sort of coinciding with each other? I'm just curious how you think about that over the next few years.

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

Well, I'll just start with, I think we're well positioned to both revenue and margin expansion going into 2023. And I think what gives us, I'll call greater confidence than maybe before even is the fact that we have the backlog coverage that goes not just into 2023. I think you saw some of my comments when it comes down to visibility into 2024 and 2025. So and we believe our guidance here is pretty prudent in the light of all the headwinds we had in the past couple of years. So we feel pretty really committed to be driving here strong mid-single digits up on the revenue line and double digits on EPS.

Scott H. Group
Analyst, Wolfe Research LLC
Q

Okay. Thank you guys.

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

Thank you.

Operator: The next question comes from Chris Wetherbee with Citigroup. Please go ahead.

Matthew Hortopan
Analyst, Citi
Q

Hey, good morning. This is Matt on for Chris. Thanks so much for taking the question. If you guys could just touch a little bit more on how you're evaluating acquisition opportunities and sort of how we should be thinking about the year in 2023 and if you think sort of in 2022, if there is any comparable metrics on that front, just sort of your puts and takes on how you're thinking about that moving forward until this year?

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

Hi, Matt, this is John. Matt, just in general, when we look at capital allocation, we are very interested in doing strong strategic bolt-on M&A that is accretive to overall margins.

So that being said, first. If we don't have that, we're very, very happy to return the cash to our shareholders in the form of share repurchases. And that's exactly what you saw in 2022. We had three acquisitions, totaling about $90 million of investment, and then we returned $473 million in share repurchases and then another 100-plus in dividends. But as we look forward, we have a very robust process that we follow, that we look at all the opportunities that we have. We certainly have areas of focus that we're pressing on to, largely in the digital and some of the new technologies that will be the future of rail. But we are very focused on garnering strong acquisitions, and we're working hard at it.

Matthew Hortopan
Analyst, Citi

Q

Awesome. Thanks so much for that detail. And just following up on a little bit of a separate topic, just touching on rail volumes in general. I know that you said they came in a little bit softer in the fourth quarter and that potentially weighed on business in some aspect. I didn't know if you had any sort of comments regarding rail volumes, seeing a little bit of a weaker freight economy in the first half of this year. And do you think that, that – if there's any risk associated with that 2023 guidance that you guys issued? Thanks.

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

A

So I think – I mean, you got to look at both, and I think we're seeing a pipeline of opportunities both strong in North America and internationally. I think quarter-to-date, we've made more progress in some key geographies. Some that I would highlight to you is certainly Kazakhstan and Africa. You'll see us continue to expand on both new locomotive modernizations and service orders. We have a number of projects under discussion in Asia, where the volume dynamics continue to be a positive.

In mining, the demand continues similar to what I said on the previous quarter, we're seeing Services growing faster than Equipment. In North America, I think despite of carloads being down, we continue to see interest and demand on both modernizations and to new locomotives.

In Transit, I think the infrastructure spending continues. Governments are continuing to invest. Our OEMs have very strong backlogs. We'll see some of that converting to orders for our Transit business and we're continuing to increase investment into technologies. So when you think of battery electrics, I think we're excited about some of the opportunities there. First delivery is happening next year and we're continuing to make progress on that as well.

Matthew Hortopan
Analyst, Citi

Q

Thanks so much for the detail.

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

A

Thank you.

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

Saree Boroditsky Q
Analyst, Jefferies LLC

Good morning. So you highlighted $5 million of savings realized this year as part of Integration 2.0. Could you provide any color on how you're thinking about these savings into 2023?

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

Yes. So number one, Integration 2.0, we just launched about a year ago, and we couldn't be more pleased. We spent – invested $46 million little bit higher than we first anticipated when we put the program together, which is great news, and that our team's got the projects off announced and set quicker than we thought. And so we would expect the savings to be garnered a little bit ahead of our schedule as well.

But the first year of $5 million, we feel great because a lot of those projects didn't start until later in the year. And we would expect a pretty quick ramp on that because as we exit 2025, we'll be at the run rate of $75 million to $90 million of savings. So that's just a couple of years away. So we would expect a pretty sizable increase, both in 2023 and 2024, leading up to 2025.

Saree Boroditsky Q
Analyst, Jefferies LLC

Thanks. And then one of your competitors recently took a large impairment charge on the lower outlook for locos and MODs. Could you maybe talk about the competitive environment and how you're thinking about market share gains?

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

On that one, we continue to really focus on partnering and creating value for our customers, and that comes with really innovative solutions that drive value for them and drives value for us as well. As a result, I think we're well positioned to drive long-term profitable growth for the business. We'll not comment on the specifics of any announcements here at this point.

Saree Boroditsky Q
Analyst, Jefferies LLC

Okay. Thanks for taking the questions.

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

Thank you.

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

Thank you.

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

Jerry Revich
Analyst, Goldman Sachs & Co. LLC
Q

Yes. Hi. Good morning everyone.

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

Good morning, Jerry.

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

Good morning, Jerry.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC
Q

I was really impressed with the Transit performance in the quarter, both from margins and bookings standpoint. Can you just talk about your expectations for margins in 2023 for that segment in particular? And if you could just give us color on what drove the bookings and the margin profile of what's coming in the book now?

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

Jerry, a couple of things. Number one, we do expect both margin expansion across both segments and revenue expansion on both segments for the year. On Transit and specifically in the fourth quarter, I think there's benefit from really a catch-up in the quarter. Some of that was an element of supply chain disruptions, which we've had. There was certainly the cyber incident, which had a significant impact there in the third quarter. And – but we also have had, what I'll call, underlying growth for the business.

The fundamentals for the business are good. The book-to-bill is above 1. The 12-month backlog on a constant current basis is above 14%. Our multiyear backlog on a constant currency basis is above 9%. And at the same time, while we're pleased with the progress, I think we still have significant work ahead to really simplify the footprint, further improve margins. We will have variation quarter-to-quarter but we're committed to continuing to expand margins here and take actions to drive profitable growth in the business.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC
Q

Great. And separately, Rafael, can I ask about MODs? You folks have been growing deliveries by it looks like mid-teens for a bit here. I'm wondering in 2023 as you ramp up on Union Pacific deliveries, does that growth rate for MOD deliveries accelerate further? And can you remind us, from a capacity standpoint, what's the constraint to ramping up production? How much would you be able to ramp up with your existing footprint versus needing to make significant investments for MOD, specifically? Thanks.

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

Jerry, MOD's growing double digits. The good news there is the element of multiyear orders that give us visibility, in this case, you're all the way out to 2025. So, we feel strong about that. And when you have that visibility, you're actually really able to translate that into, what I'll call, efficiencies across the supply chain, which drives both quality and the product. So, product performance being up, the other elements you're able to translate that into also, I'll call, economies that you're able to pass around to your customer. And I don't see necessarily constraints tied to our overall capacity.

The one thing I would highlight to you, I mean, we're certainly continuing to operate in a very challenging supply chain environment. There are some areas that have improved, but electronics, I think, is an area that we continue to see bottlenecks there. And some of those will extend throughout the first half of this year at least as far as we look at it. So, I think that's the element to keep it in mind.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Appreciate the discussion. Thank you.

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

A

Thank you.

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

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Great. Good morning. Just if I can get two clarifications, I guess, before I jump in. Is this a legacy contract on international locomotives or is that just structurally lower margins? And then mix, John, you mentioned, I think, three times already that the mix within category like Equipment, is that because you have lower margins on MODs versus new equipment? Or is there something else that I'm missing, just if I can understand those two?

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

A

So, Ken, I think that the first question is just the cadence of the way the orders unraveled. So, we've got various orders coming – or various international locomotives being built for around the world. And we have a period of delivery in the back half of 2022 and the front half of 2023 that's a little bit lower margin, and we're seeing some of that progress through the system.

Other than that, the book is typically lower margin for both MODs and new locomotives versus the company average. So when we talk about things such as an increase – of a strong increase in the volume related to that, it translates into lower margins within the groups that house those. So I called out Equipment and Services. Equipment is where we book new locomotives and the Services business kind of houses the modernizations. So with those growing, very strong in the fourth quarter, that brought those margins down in those groups and that's what drove the mix unfavorability.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Okay. I got that, John. I just thought you meant within the group. But if you just mean one group being Equipment versus Services, then I get that. And then Rafael, you talked about the 600 kind of run rate per year. I think you got a question on that earlier. Is there any reason you don't give number of MODs or new builds in order to track how you're doing versus that historical level? Obviously, we know when it was zero, it becomes irrelevant. But as it scales and gets larger, is there still a competitive differentiation in giving that number to understand when we're getting back toward a normal run rate as we get into the few hundred in that mix?

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

We think there is, I mean especially when it comes down to the number of customers that we have out there. So, we do see this as an element of competitive nature that we do not want to necessarily disclose.

On the other side, I think we're trying to really make sure we provide greater visibility in terms of what we're seeing in terms of the demand, especially with regards to modernizations and also new locomotives through that process. So, does that answer your question?

Ken Hoexter
Analyst, BofA Securities, Inc. Q

Yes. So you're saying even to break it out – even to put them together, both MODs and locos, it's still – okay.

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

And the way to think about it today, to a large extent, we're utilizing the same supply chain for that. So, a lot of the plants that were originally really thought around just dedicated to new units, I mean we've gotten those now and really able to flex between those two. So, I think it makes sense to lump those two together. And just I think through that process gives you at least visibility here in terms of how utilization looks like for the company.

Ken Hoexter
Analyst, BofA Securities, Inc. Q

And then my just last one on the – John, you had a question before about the progress on the expense cost specifically in 2023, right? Obviously, you had $46 million. Are you not talking specifically to a number and kind of what's in that guidance just so we can understand? And then, you talked about two plants being shut down or I think it was four plants you mentioned. Are there big projects coming in 2023 that we can kind of look at as far as where you get those synergistic gains?

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

Yes, Ken. So, the overall program we're expecting a one-time spending of $135 million or investment of $135 million to $165 million. We saw the $46 million in 2022. We would expect 2023 to be higher than that. And then we start to taper off in 2024 in terms of our investment. And at the same time, we would expect to see those savings escalate.

Now, of the $43 million of restructuring investment that we made in 2022, $32 million of it came in the fourth quarter. And again, we talked about the teams have been very good at lining up the projects. And an example of those were three that we were doing, two would take out on four facilities. They were both in Europe, and looking at streamlining some of the network there – manufacturing network and then the distribution in North America. So that they were kicked off in the third quarter. That's when a lot of the reserves are set up, and we'll begin to see the savings in 2023 and 2024 from those.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

And are those in SG&A and corporate costs? Or is...

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

A

No, no, no. I'm sorry, maybe we're not talking about the same thing. The $46 million is Integration 2.0 savings and they're not in our adjusted numbers. They're in our GAAP numbers. And then, we've got a bridge in the financials that show the bridge between adjusted and GAAP. And that's where this investment is recorded – reflected.

Ken Hoexter
Analyst, BofA Securities, Inc.

Q

Great. Appreciate the time, Rafael and John, thank you.

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

A

Thanks.

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

Matt Elkott
Analyst, Cowen and Company

Q

Good morning. Thank you. First, just a quick follow-up to the competitive landscape question earlier. Historically, how much have you guys done in the line of upgrading non-Wabtec locomotives? And do you think there are opportunities there going forward?

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

A

We do have opportunities there. We have I'll call – we've started a process around those, and we're currently upgrading units that are non-Wabtec. So that's certainly an opportunity that we look at it, and we look at it not just in North America, we're also doing the same internationally.

Matt Elkott
Analyst, Cowen and Company

Q

That's good to know Rafael. And then speaking of international, I think last month, Siemens announced a 1,200 freight locomotive order with Indian Railways. Is that something you guys would have bid on? And just generally, any update on the India opportunity for you guys will be helpful. There's a significant infrastructure effort there, and I think they just raised their CapEx for that for the next fiscal year to INR 10 trillion or $120 billion.

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

A

John and I had the opportunity to be in India at the end of last year. And I mean, we certainly see, I think, growing momentum in terms of the opportunities there. As you know, we have long-term agreements. We have, at this point, delivered over 500 units of that agreement. I think there is good opportunities here to further build on that momentum. I think there is demand for more. Transit has a very significant footprint and I think one that we can take advantage. We've been, I think, earlier into the market from that perspective.

When it comes down to evaluating order opportunities for the business, that's something we do always. And if we see an opportunity to step into a market with a differentiated product, we'll certainly do that. And that's something that we'll continue to evaluate for the business to certainly I think from our customers in various parts of the world, a request that we look at some of those opportunities.

John A. Olin A

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

And then the order from Siemens, that was for electric locomotives and we are currently not in the market.

Matt Elkott Q

Analyst, Cowen and Company

Yes. And John, I'm sorry if I missed it. The sequential decrease in the total backlog this quarter and last quarter, did you say anything about that? I know it's not significant, but it nonetheless have decreased.

John A. Olin A

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

Yes. Matt, it's just the – our technical term is lumpiness of backlogs. When we look at 2022, we had a very strong year in overall backlogs. They were both up – but if you look at it on a quarterly basis, there is a lot of volatility. So the first half – the first quarter in 2022, we were up $0.5 billion, $600 million in the second quarter and then down in the third quarter, about $4 million to $5 million and down $500 million in the fourth. So it's just a nature of how the backlogs come in and go out and what we're comparing to and lapping. So you're always going to see a fair amount of volatility from quarter-to-quarter.

Rafael O. Santana A

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

Matt, one of the things that I think is very important, we've got to keeping in mind are the following. When I get orders that cover now three years ahead, you're not going to see those repeat itself every year. And we've got quite a bit of those, which actually provide, I think, a lot of the visibility that I described to you guys. So I'd be careful on looking on – I'm going to call separate quarters basis, what we have is, I'll call, stronger coverage than probably we've had since 2019, to be very honest, as I look into the next 12 months. And specific when it comes down to modernization, that goes out now to 25%. And for new units, I mean, as we have some long-term agreements, I mean some of those goes way out there and especially in the case of India.

Matt Elkott Q

Analyst, Cowen and Company

Yes. Makes sense. Thanks, Rafael. Thanks, John. Thanks Kristine.

Rafael O. Santana A

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

Thank you.

John A. Olin A

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

Thank you.

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

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

Q

Good morning. Thanks for the question. I just wanted to play devil's advocate for a second on the kind of new loco outlook. I think a lot of the factors that you mentioned in terms of elevated fleet age, right, desire to kind of increase fuel efficiency they've been present in the market for a while. So in terms of the visibility that you have to get to that kind of above 600 unit milestone you laid out, I guess, just my short kind of question is like what time – like why is this time different, right? Are you having conversations with Class 1s that are giving you visibility to that number? Or what's actually driving the confidence in reaching that milestone?

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

A

So I'll go back to my earlier comments, I'm not going to speculate on how the recovery or volume I have looks like. What I can tell you is we've got great coverage than we've had in the business, especially if I go back like 2019, and that's represented by backlog we have.

I think the other point we wanted to make there is that we're still at trough levels and if you connect that to the age of the fleet, if you connect that to the elements of how you continue to drive productivity, if you start thinking about obsolescence of components into that fleet together with the component of the ESG, I think you've got a lot of opportunity here to continue to build out on that momentum. That's really the point that we wanted to make.

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

Q

Got you. Thanks, Rafael. And then if I can just ask one more on the digital growth in the quarter. It was super strong. I know there was some M&A tailwind in there as well. But considering it was one of the last verticals to kind of recover post COVID, I know a lot of the Class 1s had pushed out investment in that area now seems to be really materializing in your own revenue profile. If we want to assume a bear case for Class 1 CapEx and rail volumes into next year, just how durable could that Digital growth be just considering that, that investments have been pushed out to the right for so long on the part of the Class 1s?

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

A

So I'll start with double-digit growth last year. We see the opportunity to drive double digits again for this year. We had about $1 billion in orders for Digital Electronics in 2022. I think this is, well, number one, a significant increase versus the year before. And book-to-bill was really above – very positive, in fact, for 2021 and 2022, one of the highest between our businesses. Some of these are multi-year agreements, so no different than the past couple of years. We need to drive convertibility of orders in 2023 to cover that.

North America continues to improve. Internationally, the pipeline continues to be very strong. I think some progress made here on recurring revenues. So I think we talked about that a little bit into the business. We've got some additional work to be done there. And supply chain has improved a bit into the fourth quarter here, and that's, I think, some of the goodness you saw. But as I mentioned, I think we're continuing to see tough dynamics in supply chain in the first half of the year in terms of chip shortages and semiconductors and some other ones.

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

Q

Great. Appreciate the time.

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

A

Thank you.

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

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. On the guidance slide, it looks like you expect growth in all the categories you list. Are those rank ordered by growth rate? And do you expect anything in the portfolio will contract in 2023?

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

A

They're not listed in rank order. We have talked at Investor Day that we do expect Equipment to be the fastest growing over the next several years. We certainly saw that in 2022. But they're not listed in rank order, Steve.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Can you give us any more color around the growth rates that you do expect for those categories?

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

A

No, we don't break out that. We've talked about the $8.7 billion to $9 million is growth of 4% to 8%. We expect that to be achieved through both our Freight segment as well as Transit to both be up in revenue and in margin, but we don't break out the individual pieces of that.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Can you tell us how much of the 6% projected growth is price?

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

A

No, we don't have that broken out. We don't typically break that out as well. As we look to next year, we got a lot of uncertainties, and we feel very good about the overall margin growth or revenue growth at a midpoint of 6% but...

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

A

If I was to add color, I mean, of course, double-digit growth here in for the Services, MODs really being a key driver of that. On Equipment, I mean, we continue to see the momentum internationally. I think the question, it's really more around the speed in which you convert some of these orders, but there's certainly a very robust pipeline there, and Digital I just made some of the comments here. So overall, I think we have the opportunity here to drive both revenue and margin expansion for our businesses, and that's what we're focused on, and that's really across the board.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc. Q

Thanks, Rafael. And just to make sure we're thinking correctly about the cadence comments. If I assume first half Freight margin similar to 4Q, and Transit margin around the average of last year, it looks like first half EPS will be down somewhere mid to high single digit versus 2022. Is that how you're thinking about that first half progression?

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

Steve, we're not providing quarterly EPS guidance. Suffice to say that during 2023, we expect higher revenue growth in the first half versus the second half, and we expect full year margin growth to largely come in the second half of the year.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc. Q

Understood. But given the mix issues that you're talking about, should we assume that the first half Freight margin is similar to 4Q?

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

No, we're not providing that look.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc. Q

Okay.

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

We expect there'll be more mix pressure in the first half, and that will result in more margin growth coming from the second half of the year.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc. Q

Got it. Thanks.

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

Thank you.

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

Thank you, Steve.

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

Kristine Kubacki

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

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

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