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Westinghouse Air Brake Technologies Corp. (WAB)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Wabtec's Second Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

Kyra Yates

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

Thank you, operator. Good morning, everyone, and welcome to Wabtec's second quarter 2025 earnings call. With us today are President and CEO, Rafael Santana; CFO, John Olin; and Senior Vice President of Finance, John Mastalerz. Today's slide presentation, along with our earnings release and financial disclosures, were posted to our website earlier today and can be accessed on the Investor Relations tab.

Some statements we are making are forward-looking and based on our best view of the world and our business today. For more detailed risks, uncertainties and assumptions relating to our forward-looking statements, please see the disclosures in our earnings release and presentation. We will also discuss non-GAAP financial metrics and encourage you to read our disclosures and reconciliation tables carefully as you consider these metrics.

I will now turn the call over to Rafael.

Rafael O. Santana

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

Thanks, Kyra, and good morning, everyone. Let's move to slide 4. I'll start with an update on our business, my perspectives on the quarter, and progress against our long-term value creation framework. And then John will cover the financials.

Before we get into the numbers, I'd like to highlight a couple of points. We had a strong first half of the year where we were able to achieve better-than-expected margin expansion as well as double-digit adjusted earnings per share growth during a volatile and uncertain economic environment. This is a direct result of our team's continued discipline and unrelenting focus on taking actions to manage outcomes and to deliver against our commitments.

As I look ahead to the second half, I'm encouraged by the continued demand for our core products and services. Momentum remains strong across our end markets and pipeline, both international and domestic opportunities, with significant activity underway in key businesses, even as we navigate a persistently volatile global economic and geopolitical environment. We are entering the second half with a strong momentum reflected in our organic revenue forecast, a healthy 12-month backlog, and continued margin expansion.

That said, I'm also very excited to bring the Inspection Technologies business into Wabtec, following the closing of that acquisition on July 1. With that, I'd like once again to welcome those employees to Wabtec. We have adjusted our guidance to reflect the business expected financial performance with our company. With the progress we've made and the strong opportunities ahead, I'm confident that Wabtec is well-positioned to drive sustained, long-term, profitable growth.

Having said that, sales in the second quarter were \$2.7 billion, which was up 2%. Adjusted EPS was up 16% from the year ago second quarter. Total cash flow from operations for the quarter was \$209 million. And the 12-month backlog was \$8.2 billion, up 11.9%, reflecting continued momentum and visibility ahead.

Shifting our focus to slide 5, let's talk about 2025 and market expectations in more details. While key metrics across our freight business remain mixed, we are encouraged by the strength of our pipeline of opportunities across the globe. Despite the strong momentum that we're experiencing, we continue to exercise caution as we navigate a volatile and uncertain economic landscape in the second half of the year.

North American traffic was up 2.5% in the quarter. Despite this traffic growth, the industry's and Wabtec's active locomotive fleets were down when compared to last year's second quarter. However, the active locomotives are running harder than in the previous year. As we look forward, we continue to see significant opportunities in demand for new locomotives and modernizations as well as digital technologies, due to our customers investing in solutions that continue to drive fuel efficiency, reliability, productivity and safety.

Looking at the North American railcar [ph] built (00:05:20), last quarter we discussed the industry outlook for 2025, which was for approximately 35,000 cars to be delivered and which now has been reduced by industry sources to approximately 29,000 cars. This forecast represents a 31% reduction from last year.

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

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

Next, let's turn to slide 6 to discuss our recent M&A activity. In addition to the core business strength, I'm very proud of what our team has been able to accomplish with the acquisitions of Inspection Technologies, Dellner Couplers, and Frauscher Sensor Technology. Each one of them has a rich history of innovation and hold the number one market position within their respective markets.

Over the past six months, we have committed \$3.5 billion in investments to acquire three high-quality businesses, which are expected to deliver immediate shareholder value. Each company is expected to deliver accretive growth, accretive adjusted EBITDA margins, accretive adjusted earnings per share in the first year, and accretive ROIC over time.

In aggregate, these acquisitions are expected to generate first-year annualized revenues of \$850 million, producing an expected EBITDA of \$217 million, and an EBITDA margin of 25.5%. We expect significant growth and margin expansion over the next three years, which includes the expected realization of \$60 million of run rate synergies.

As I mentioned earlier, Inspection Technologies joined the company at the beginning of this month, Frauscher Sensor Technology is expected to close by the end of the year, and Dellner Couplers is expected to close in the first half of 2026 as we finalize customary regulatory approvals. While these acquisitions provide very attractive financial metrics and returns, the most exciting aspect is the strategic fit that they bring to our existing technologies, our existing customers, and our existing business model. These strategic acquisitions align with our value creation framework, and Wabtec will grow faster and more profitably because of them, which will, in turn, make us stronger and even more resilient.

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

John A. Olin

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

Thanks, Rafael, and hello, everyone. Turning to slide 7, I'll review our second quarter results in more detail. Sales for the second quarter were \$2.71 billion, which reflects a 2.3% increase versus the prior year. Sales growth in the quarter was driven by the Transit segment. Excluding the impact of currency, sales were up 1.9%. Our second quarter revenue results played out differently than previously anticipated and clearly below our expectations.

Q2 revenues were adversely impacted due to a supplied part issue that we experienced during the quarter. This delayed shipment of locomotives to our customers. The net impact of the issue was approximately \$60 million of revenue in the quarter. Excluding this issue, we would have posted growth of 4.6%, in line with our expectations and our guidance. The supplied part issue that caused the delay has been corrected, and we expect to catch up on the delayed locomotive shipments by the end of the year.

Looking forward, we expect second half new locomotive deliveries to post strong growth, partially offset by lower year-over-year second half mod deliveries. We expect stronger revenue growth in the second half of the year versus the first half. As we rebalance our production in the second half of the year, we expect revenue to be largely the same in the third and fourth quarters, which would result in the fourth quarter having a higher year-over-year growth rate than the third quarter.

In spite of challenges in the second quarter locomotive deliveries, our operating margin expansion came in even better than expected. This was driven by favorable product mix, partially as a result of lower locomotive shipments, and as a result of our focus on prudent cost management, which was initiated in the first quarter as a result of economic and market uncertainty. For the quarter, GAAP operating income was \$472 million. The increase versus the prior year was driven by higher sales, improved gross margin, and proactive cost management.

Adjusted operating margin in Q2 was 21.1%, up 1.8 percentage points versus the prior year. This increase was driven by improved gross margins of 1.5 percentage points and driven by operating expenses, which grew at a slower rate than revenue, increasing our Q2 margin by an additional 0.3 percentage points. GAAP earnings per diluted share was \$1.96, which was up 19.5% versus the year-ago quarter.

During the quarter, we had net [ph] pre-tax (00:11:48) charges of \$6 million for restructuring, which were primarily related to our integration and portfolio optimization initiatives, as well as a benefit of \$7 million related to M&A activity that includes transaction costs and a hedge gain. In the quarter, adjusted earnings per diluted share was \$2.27, up 15.8% versus the prior year. Overall, Wabtec delivered another strong quarter despite the challenges that we faced on locomotive deliveries during the quarter, which further demonstrates the underlying strength of the business.

Turning to slide 8, let's review our product lines in more detail. Second quarter consolidated sales were up 2.3%, which, per my previous comments, were below our expectations due to a supplied part issue. Our services revenue was up 6.0%. Sales growth was driven by higher part sales and increased modernization deliveries. Equipment sales were down 4.2% from last year's second quarter. This decrease was due to a supplied part issue for which we see approximately \$60 million of revenue shift from the second quarter to the second half of the year as we rebalance our manufacturing production.

Component sales were down 3.1% versus last year due to a lower North America railcar build and our portfolio optimization efforts, which was partially offset by increased product sales from our industrial businesses. Digital intelligence sales were down 4.0% from last year. This was primarily driven by timing of international projects.

Our Transit segment sales were up 8.7% in the quarter, driven by our products and services businesses. Foreign currency exchange had a favorable impact on sales of 3.0 percentage points. The momentum in the Transit segment remains positive due to elevated infrastructure investment and global ridership, which accelerates the need for investments in sustainable infrastructure.

Moving to slide 9, GAAP gross margin was 34.7%, which was up 1.7 percentage points from the second quarter last year. Adjusted gross margin was also up 1.5 percentage points during the quarter. In addition to the higher sales, gross margin benefited from favorable mix and contract escalation. Mix within the Freight segment was more favorable than anticipated, primarily driven by the shifting of new locomotives out of the quarter and into the second half of the year.

The strong mix favorability in the first half will be a headwind in the second half. Foreign currency exchange was a benefit to revenue in the quarter as well as to gross profit, but slightly unfavorable to operating margin. During the quarter, we also benefited from our ongoing Integration 2.0 and 3.0 savings, our proactive approach on cost management, and transit's strong productivity.

Now, turning to slide 10, for the second quarter, GAAP operating margin was 17.4%, which was up 1.1 percentage points versus last year. Adjusted operating margin improved 1.8 percentage points to 21.1%. GAAP

and adjusted SG&A expenses were higher versus prior year. Engineering expense was \$50 million, which was down \$7 million versus last year as a result of timing. We do expect higher engineering expenses in the second half compared to the first half as a result of this shift in timing.

We continue to invest in engineering resources in current business opportunities, but more importantly we are investing in our future as an industry leader in fuel efficiency and digital technologies that improve our customers' productivity, capacity utilization, and safety.

Now, let's take a look at segment results on slide 11, starting with the Freight segment. As I already discussed, Freight segment sales were largely flat to last year's second quarter as a result of the delay in locomotive deliveries. GAAP segment operating income was \$415 million, driving an operating margin of 21.6%, up 1.2 percentage points versus last year. Adjusted operating income for the Freight segment was \$480 million, up 3.9% versus the prior year.

Adjusted operating margin in the Freight segment was 25.0%, up 0.9 percentage points from the prior year. The increase was driven by improved gross margin behind favorable business mix and proactive cost management. Finally, 12-month segment backlog was \$6.02 billion. Our 12-month backlog was up 10.7% on a constant currency basis, while the multi-year backlog of \$17.14 billion was down 4.0% on a constant currency basis.

Turning to slide 12, Transit segment sales were up 8.7% at \$787 million. When adjusting for foreign currency, Transit sales were up 5.7%. GAAP operating income was \$109 million. Restructuring costs related to integration and portfolio optimization were \$5 million in Q2. Adjusted segment operating income was \$120 million.

Adjusted operating income as a percent of revenue was 15.2%, up 2.5 percentage points. The increase was driven by higher adjusted gross margin behind integration and portfolio optimization efforts as well as strong operational execution. Finally, Transit segment 12-month backlog for the quarter was \$2.19 billion, which was up 10.5% on a constant currency basis. The multi-year backlog was up 6.5% on a constant currency basis.

Now, let's turn to our financial position on slide 13. Second quarter operating cash flow generation was \$209 million, which was lower on a year-over-year basis, resulting from higher working capital, which was partially affected by higher inventories due to the delay in Q2 locomotive deliveries. We continue to expect greater than 90% cash conversion for the full year.

Our balance sheet and financial position continue to be strong, as evidenced by: first, our liquidity position, which ended the quarter at \$4.09 billion; and our net debt leverage ratio, which ended the second quarter at 1.4 times. The leverage ratio was below our stated range in anticipation of funding the acquisition of Evident's Inspection Technologies Division that closed on July 1. Adjusting for the cash payment at closing, our leverage ratio would have been approximately 2.2 times.

We continue to allocate capital in a disciplined and balanced way to maximize returns for our shareholders. During the quarter, we repurchased \$50 million of our shares and paid \$44 million in dividends.

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

Rafael O. Santana

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

Thanks, John. Now, let's turn to slide 14 to discuss our 2025 outlook and guidance. As you've heard today, our team delivered a strong start to the year, which was ahead of our expectations, while navigating through a

challenging environment. Our global pipeline remains strong and our 12-month and multi-year backlogs provide visibility for profitable growth ahead.

Additionally, we successfully closed the acquisition of Inspection Technologies. We are pleased to include their expected financial performance in our updated outlook for the remainder of the year. With these factors in mind, we are increasing our previous guidance. We now expect 2025 sales of approximately \$11.1 billion at the midpoint, up 6.5% from last year, and adjusted EPS to be between \$8.55 to \$9.15, up 17% at the midpoint. Looking ahead, I'm confident that Wabtec is well-positioned to drive profitable growth into 2025 and beyond.

Now, let's wrap up on slide 15. As you heard today, our team continues to deliver on our value creation framework, thanks again in large part to our resilient installed base, world-class team, innovative technologies, and continued focus on our customers. With solid underlying demand for our products and technologies, strategic portfolio enhancements through acquisitions, and intense focus on continuous improvement and cost management, we remain committed to maximize our returns for our shareholders. While the economic environment remains uncertain, we are committed to maintaining discipline and to take the appropriate actions to deliver against our commitments.

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

Kyra Yates

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

Thank you, Rafael. We will now move on to questions. But before we do, and out of consideration for others on the call, I ask that you limit yourself to one question and one follow-up question. If you have additional questions, please rejoin the queue.

Operator, we are now ready for our first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question will come from Rob Wertheimer with Melius Research. Please go ahead.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Hi. Good morning, and thank you. Question on rail industry dynamics, and I know you're not going to want to comment on potential mergers, but I wonder if you could give us a mini teach-in on kind of coast-to-coast operations and whether there's any major inefficiencies that result from two parties. If that question is allowed, I'll stop there.

Rafael O. Santana

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

A

Rob, thanks for the question. I think we see a significant opportunity here, and that's for what I'll call increased carloads, increased rail volumes, that would be a positive for us, a positive for the industry. That's how we look at it.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Meaning there's more efficiency, so rail is more attractive versus other modes of transport?

Rafael O. Santana

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

A

Exactly. We see an opportunity for rail to win share out there as a result of that, and that would translate into growing volumes, which would be a positive for us.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Okay. Thank you. I'll stop there. Thanks.

Operator: The next question will come from Angel Castillo with Morgan Stanley. Please go ahead.

Oliver Jiang

Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. This is Oliver Jiang on for Angel. Just on international markets, would you mind just sharing some more detail on what you're seeing in demand, especially within Freight and Transit? Just curious if you've seen any step changes up or down with customers just as a result of geopolitics or macro and whether that's driving the decrease in kind of your multi-year backlog, or if that's something else entirely? Thanks.

Rafael O. Santana

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

A

Well, thanks for the question. Let me mention a couple of things here. I think it was about 18 months ago, I said we had the strongest pipeline since the merger. Well, today that pipeline is stronger. I think there is a combination

of sizable opportunities in our international markets. I think I've been quite open about that in the last calls, but it's also on the domestic market. So, I will now emphasize that. And our teams are continuing to convert that pipeline. I think it's certainly encouraging to see the 12-month backlog exceeding \$8 billion for the second consecutive quarter, which really provides what I'll call a solid coverage into 2025 and beyond. So, I'm confident you're going to see that strength reflected in continued backlog growth.

And as far as specifically international, I mean, it continues to be strong, the opportunities there. You asked a little bit on the Transit business. We're very pleased with how that business continues to perform and we're continuing to look at positive book-to-bill for our businesses as we close 2025 here.

Oliver Jiang

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's helpful. And then maybe just one on capital allocation. Obviously, you guys have a couple of deals live in the pipeline. How should we think about capital allocation in the near future and if that eventually ends up transitioning back to perhaps paying down debt or more buybacks?

John A. Olin

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

A

Hey, Oliver. This is John. With regards to our capital allocation strategy, we see nothing has changed. We've always had a bend for driving increased shareholder returns through M&A. And I think what Rafael talked about in the prepared remarks is, we couldn't be happier with the three acquisitions that we've done, the financial returns and certainly the strategic benefits. So, we will continue to focus on M&A going forward.

In terms of the very near term, we would look to bring down our net debt leverage ratio as we – in anticipation of funding Frauscher, which we would expect by the end of the year, and then following that with Dellner in the first half of next year.

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

Adam Roszkowski

Analyst, BofA Securities, Inc.

Q

Hi. It's Adam Roszkowski on for Ken Hoexter. Thanks for taking my question. I guess, John, maybe just thoughts on the shape of the back half of the year. You gave some kind of the revenue puts and takes, and that looks like a bit more of a mix issue. But any way to just think broadly about Freight and Transit margins year-over-year or just sequentially? Thanks.

John A. Olin

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

A

Yeah. Let's start from a very high level. When we look at the second half as it relates to revenue and margin growth, we see a very strong second half in front of us. First, our organic revenue growth will accelerate in the second half as compared to the first half. Next, our adjusted operating margin will increase quite robustly on a year-over-year basis in the second half.

Now, with that, let's talk a little bit more specifically about the cadence of each. When we look at revenue, initially, we were expecting quarterly revenue growth to be relatively consistent with our full year guidance. Given the shipment delays in Q2 that pushed roughly \$60 million into the second half, we're now expecting our second half organic revenue to grow faster than the first half.

In addition, we've added – in the second half, we've added revenue from the acquisition of Inspection Technologies. So when we consider the revenue shift to \$60 million and the acquisition, we would expect second half revenues to grow approximately 10% at the midpoint of our guidance. When we look at the splits between the quarters, we expect the third and the fourth quarter revenue to be largely the same.

When we shift over to margin cadence, we expect our second half margins to grow at a strong pace, but somewhat less than the 1.8 percentage points we experienced in the first half. There's two reasons for this. First is mix, as you had pointed out. On the first half, we experienced considerable mix favorability as a result of our higher margin services business, which grew at 11.5% during the first half, and our lower margin equipment business was actually down by 6.8%.

In the second half, we expect the reverse of this. In the second half, we expect equipment revenue to grow well into the double digits behind an approximate 70% increase in new loco deliveries, while we expect our services revenue to be down in the second half behind approximate 30% reduction in mod deliveries. It is important to note that overall, we continue to expect our combined loco and mods to be up in the high-single digits on a full year basis.

The second piece that affects the margin cadence slightly is the timing of expenses. As you'll note, the first half on R&D in particular was favorable on a year-over-year basis by about \$9 million. We'll see some of that reverse out in the back half. So looking at the quarters, within the second half, we expect the fourth quarter adjusted operating margin to be directionally higher than the third quarter.

Adam Roszkowski

Analyst, BofA Securities, Inc.

Q

Great color. Thank you. And then just one more follow-up on the backlog. Some acceleration in the 12-month minor moderation in the total on a year-over-year basis. Maybe just thoughts broadly on the pipeline, and is that more timing as some of these things flow through? Thank you.

Rafael O. Santana

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

A

So yes, it is a question of really lumpiness on how we acquired that backlog and how we delivered it as well. I think you're going to continue to see quarter-to-quarter variation. But as I said before, it's quite encouraging to see the 12-month above \$8 billion for the second consecutive quarter.

I think the other thing I want to just continue to highlight is the way we run the business, which is ultimately making sure that we have strong coverage, as you look at 12 months, 18 months, 24 months. And the 12-month backlog, it has grown over time. We have what I call solid coverage in 2025. And I think, most importantly, we are continuing to build momentum into 2026 and beyond. So, all in all, I think we have better visibility into future years. It just reinforces our position to continue to drive profitable growth ahead.

Adam Roszkowski

Analyst, BofA Securities, Inc.

Q

All right, Rafael, John, thank you.

Rafael O. Santana

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

A

Thank you.

Operator: The next question will come from Daniel Imbro with Stephens. Please go ahead.

Brady Lierz

Analyst, Stephens, Inc.

Q

Hey. Morning, everyone. This is Brady Lierz on for Daniel Imbro. Thanks for taking our questions. Rafael, I wanted to go back to the previous question on the potential rail mergers. Who knows what ultimately happens there? But maybe if we are, as an industry, considering that to be possible again, what else do you think could potentially be on the menu that previously hasn't seemed likely? Are you seeing any progress on Zero to Zero from the regulators or potential for automation? Just broader thoughts on the shifting regulatory environment would be great. Thanks.

Rafael O. Santana

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

A

Okay. Well, we're certainly following that very closely. In the previous calls, I did mention specifically the progress we had seen with FRA on specifically some technologies. And I think I highlighted the Trip Optimizer Zero to Zero Air Brake Control product. So, we do anticipate FRA under new leadership to continue to focus on what I'll call advancing both rail safety, but supporting innovation, driving, I'll call, ultimately efficiency, and to combine that with a merger here, I think we would certainly see, I think, an opportunity here for increased carloads and rail volumes. And I think that's a direct element of winning share of transportation, and that would be a very positive thing for us.

Brady Lierz

Analyst, Stephens, Inc.

Q

Okay. Great. That's helpful color. Maybe just as a follow-up, I wanted to ask on Transit. The revenue growth and margin expansion has continued to exceed our expectations in recent quarters there. Can you just talk about what's driving the growth, maybe the runway for that growth, and just where you see the margin going over the coming years, particularly as you add scale to the business? Thanks.

Rafael O. Santana

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

A

Yeah. We're very pleased with the overall progress in the Transit business. Our team continues to take, what I call, really significant steps to both simplify the footprint and drive sustainable margin improvement. I think the greater news here is the backlog is stronger in the business. We're on track to expand full year margins. That business will continue to benefit from Integration 3.0 portfolio optimization. They will continue to be selective on the approach to profitable growth.

Of course, as the business becomes more and more competitive, I think they're earning the right to win penetration and share of wallet with customers. And while we'll continue to have quarter-to-quarter variation, that's driven by like mix, project timing, and I think the business will continue to be very intentional about the growth they pursue, so they'll be selective here. This team is committed, continues to take focused actions, and you're going to continue to see margin expansion and long-term profitable growth beyond the mid-teens.

Brady Lierz

Analyst, Stephens, Inc.

Q

Awesome. Thank you so much, Rafael. I'll go ahead and stop there, pass it along.

Rafael O. Santana

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

Thank you.

A

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

Jatin Khanna

Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Hi. Good morning, everyone. This is Jatin Khanna on behalf of Jerry Revich. Can you provide us an update on how tariffs are flowing through the business in the second quarter and your anticipated impact in the third quarter? Also, any changes in customer behavior?

Q

Rafael O. Santana

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

Yeah. Let me start with that one. I think the tariff plan continues to be quite fluid and continues to change. I think it's important, number one, we don't expect any impact to the guidance we have provided for 2025 and we are taking the necessary cost and pricing actions in that regard.

A

With that being said, there's clearly a balancing act here, and we have been working constructively with both customers, with suppliers, with [ph] other (00:34:48) stakeholders. So, we ultimately make sure that we're managing the supply chain shifts in a way that's fair and that minimizes any sort of disruption to our customers. Our teams are committed to make this a nonevent over time, and that will come with cost and pricing actions, as we have done before. And we would expect to be able to navigate those very similar to what we've done in the past.

John A. Olin

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

And to add on to what Rafael said, I think it's important to understand that the significant majority of our purchased materials for sale in the US are actually sourced in the US. Again, we got a lot of level of – a high level of vertical integration and a high level of US sourcing. While there's a percentage that we buy internationally for items that are difficult to source at all in the US as well as from a cost competitive standpoint, we certainly do purchase outside the country. For those, as Rafael had mentioned, we're focused on mitigating the cost of these tariffs through largely a four-pronged approach. We've incorporated our best estimate of the overall impact of tariffs as to what it would have on our costs as well as our revenues, and that's baked into our current guidance.

A

Now, it's important to note that our guidance includes all tariffs levied through the end of the second quarter. There's been a fair amount of activity after the quarter in terms of proposed tariffs and the date has been pushed out a bit. Now, we're looking more at August 1. So, those haven't been incorporated and we'll certainly incorporate them when we get to the next quarter, the third quarter. But the process at which we follow to mitigate those tariffs will certainly remain intact. I think most importantly, the tariffs are not expected to have a material impact on our 2025 earnings.

Jatin Khanna

Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Got it. Thanks for that. And just as a follow-up, you completed the Inspection Technologies acquisition early in the third quarter. I know it's very early, but what's been the customer response so far? And how has the business performed year-to-date versus expectations?

Rafael O. Santana

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

A

Hey, I have the opportunity to be in a couple of the largest sites here with employees. I think it's great to see the excitement. It's quite positive, really a great leadership team here. The business is looking, I'll call, favorably in terms of some of the demands that's out there. We're – again, feel very strong about the quality of the business and the quality of the results and the numbers that will come with it in that regard.

So, customers are looking very favorably into that. This can be again a significant element of how we continue to drive improved reliability and availability into really not just the rail space, the mining space. And we're – feel very strong about this right now.

Jatin Khanna

Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Great. Thanks a lot for that.

Operator: The next question will come from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Q

Thanks for taking my questions. I appreciate the M&A response on pro growth aspects of a transcontinental merger. And certainly, with your leadership position in North American locomotive, that seems very logical and real. But the Class 1s do have different strategies in terms of maintenance, insourcing versus outsourcing, parts agreements. And that business is really core to your locomotive cradle-to-grave strategy and really the aftermarket revenue and stability that that generates for Wabtec. Can you talk a little bit about maybe the differences across the different rails, without necessarily specifying which does which? And just what opportunities and risks would some combination of rails present for Wabtec on the services business? Thank you.

Rafael O. Santana

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

A

Thank you. Hey, I'm not going to go into any specifics of customers' operating models and things like that. But what I will tell you is we've got – with regards to the two railroads that have been highlighted in this process, we do have strong partnerships. We have significant opportunities to really help in terms of driving further efficiency, driving, I'll call, efficiency forward. And that's tied to a lot of the products that we have. And I think we're especially looking very favorably to the progress we've seen around automation, some of the FRA comments I made. I think those things really compound on that.

And keep in mind, we have managed through that in the recent past with other mergers in the space. As I look back into those, they have translated into, I'll call, a positive for both our customers and for ourselves as a result of that process. And I wouldn't anticipate anything different in that process overall. So, it's a positive certainly over time.

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Q

Thank you for that. And just as a follow-up, irrespective of the merger situation, two of your largest mod customers are six months from the expiration of their long-term contracts in North America. The backlog doesn't indicate that you have new multiyear agreements in there quite yet. Can you talk a little bit about where that stands? When we might see an update? And how you feel about the opportunity to continue to grow combination of both mods and new-build deliveries in North America in 2026 and beyond? Thank you.

Rafael O. Santana

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

A

Thanks for the question. It goes right into the commentary I provided a little earlier, which is we're right now sitting on the strongest pipeline that we've had for years. And I think we've got very meaningful discussions there. What's certainly a bit different than maybe a few quarters ago is, I think, there's a greater interest when I look at new locomotives in that context, I think that's really continuing. What doesn't really change is the fact that the fleet is old and there's significant opportunities here, especially as customers look into obsolescence, as they look into some of the advancements we've been able to provide into the product.

And I'm very confident you're going to see, I think this pipeline converted into ultimately a backlog growth. And you certainly feel it right now with, I'll call, the 12-month backlog providing, I think, greater visibility certainly into a solid 2025, but visibility is growing into 2026 and beyond in that context.

Bascome Majors

Analyst, Susquehanna Financial Group LLLP

Q

Thank you.

Rafael O. Santana

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

A

Thanks.

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

Christian Zyla

Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning. This is actually Christian Zyla on for Steve Barger. Thanks for taking our questions.

Rafael O. Santana

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

A

Thank you.

Christian Zyla

Analyst, KeyBanc Capital Markets, Inc.

Q

Rafael, after the Inspection Tech deal, you talked about your digital TAM expanding to \$16 billion. What will that TAM be now with Frauscher? And then can you just talk about that TAM in terms of rail, mining or other industrial and end markets? Where do you see the biggest digital growth opportunities?

Rafael O. Santana

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

A

We continue to see opportunities in the digital front. I think that's a positive for us. You talk a lot about the pipeline of opportunities, especially on M&A, with bolt-on deals, I think that has been an area that we have highlighted, and we continue to have opportunities there. We're going to be opportunistic as we take that approach. And you're right, we're expanding our TAM through that process. I think, most importantly, I think we've got some very strong relationships in certain geographies. So, there's an element here of synergies that we can drive and they're just not cost synergies, they're significant synergies that can come from growth in this context. And we'll continue to work on those.

So, we see the opportunity here to accelerate profitable growth within specifically the digital segment. And those are margins that are accretive to Wabtec and that really continues to be a part of how we position the company here for faster profitable growth ahead.

Christian Zyla

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. And then if I could add one more on digital. Once your deal is closed, you'll have added about \$600 million in annual sales to that business, which almost doubles it, I guess, with your recent comments. Do you think you have the proper scale post those acquisitions closing and the right technologies for organic growth in long-term digital? Or do you see yourself adding more businesses? And what categories or end-markets do you think you're missing or underpenetrated in? Thank you.

Rafael O. Santana

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

A

I think we certainly have the scale in the business. This is not about the scale we currently have. This is about utilizing that scale and certainly the penetration, the relationships, the service that we can provide to those customers and the overall experience, I think, that allows us to grow those businesses faster.

I think in terms of our strategy, it's not just, I'm going to call it, pure acquisition strategy. I think one of the things I'd highlight to you here is what we've done in the railcar telematics business. I think it was at the 2023 when we announced really that we would enter that market by creating a platform of proven technology that has continued to play out. I mean, at that point, it was really focused on North America. We have expanded that now to include the European market as well.

I mean, that alone it's a market that we expanded from 1.6 million into – 1.6 million railcars to 5.2 million railcars worldwide. So, this is a multibillion-dollar opportunity for us, and that's how we think about it. It's utilizing that penetration, the global presence we have, I think the very positive service capability we have with our customers and continue to scale that business up and drive faster, profitable growth to Wabtec.

Christian Zyla

Analyst, KeyBanc Capital Markets, Inc.

Q

Great color. Thanks for the time.

Rafael O. Santana

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

A

Thank you.

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

Ivan Yi

Analyst, Wolfe Research LLC

Q

Good morning, everyone. This is Ivan Yi on for Scott. Thanks for taking the time.

Rafael O. Santana

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

A

Thank you.

Ivan Yi

Analyst, Wolfe Research LLC

Q

First. How does the One Big Beautiful Bill impact your operations? And more specifically, how does the bonus depreciation part impact your customers?

John A. Olin

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

A

Hi, Ivan. This is John. With regards to the One Big Beautiful Bill, we're very pleased to have those tax benefits restored that we've enjoyed in the past. But if we look at it strictly from an effective tax rate because we had them in the past, we don't see a big change on that. But certainly, it's a big change from where we would have been if they would have expired. When we look at the accelerated depreciation, there is two facets to that and certainly we enjoy it on the things that we're buying here and being able to take that tax benefit upfront.

But when we look at our customers, we've talked a lot, Ivan, we've – the way we sell our stuff is based on return on investment to them, right. We sell equipment that makes them more productive, safer and so on. What this does is certainly helps that IRR, right, because they get that benefit of accelerating it and improving the cash flows or the tax benefits that they have. So, that just serves to add on to the already good returns that we had in terms of an IRR to them.

Ivan Yi

Analyst, Wolfe Research LLC

Q

Thank you for that. And then my follow-on, what's next on the regulatory front now that CARB dropped its loco mandate? Do you expect California to revisit it at some point or is this over? Also, anything else we should be monitoring regulatory-wise? Thank you.

Rafael O. Santana

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

A

I think a lot of it we'll continue to focus on, what I'll call, advancing rail safety and supporting innovation. Made some of the comments on Zero to Zero, I think you'll see some [ph] moderate (00:47:50) elements of how you could drive further automation. And you can think of yards, you can think of really ultimately in terms of better outcomes for rail and what I think ultimately could translate into benefiting the overall sector and winning more volume in terms of the total transports that's out there. So, we're certainly paying a lot of attention to that. And I think we've seen initially here some positive steps in the FRA waiver request advancing.

Ivan Yi

Analyst, Wolfe Research LLC

Thank you.



Rafael O. Santana

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

Thanks.



Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Ms. Kyra Yates for any closing remarks. Please go ahead, ma'am.

Kyra Yates

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

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

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

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