16-Feb-2022

# Westinghouse Air Brake Technologies Corp. (WAB)

## Q4 2021 Earnings Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to Wabtec's Fourth Quarter 2021 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Kristine Kubacki, Vice President 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 2021 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.

With that, I'll 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, and I'll start with an update on our business, my perspectives on the quarter and our long-term value framework. John will then cover the financials. Overall, we achieved significant progress against our strategy, and delivered a strong fourth quarter as noted by the expansion of adjusted margins by 2.1 percentage points and adjusted earnings per share increase of over 20%.

Total cash flow from operations was strong at $314 million. This takes year-to-date cash from operations to over $1 billion, up 37% versus last year, which was a record for the company. This is a solid illustration that the team continues to drive strong operational performance and quality earnings. Cash conversion for the quarter was at 99%.

Finally, we ended the year with over $22 billion of multiyear backlog, which was up $578 million in 2021. Overall, our team delivered really strong execution to finish out the year despite significant supply chain disruption and rising costs.

On the back of this strong performance and our confidence about the future, I am pleased to announce that, our board of directors approved a 25% increase in the quarterly dividend and reauthorized the $750 million share buyback program.

 

Shifting our focus to slide 5. Let's talk about our end market conditions in more details. Internationally, freight activity continued to grow in the fourth quarter across our major markets, and our order pipeline remains strong. We expect long-term revenue growth in the majority of our end markets. Freight trends in North America were down year-over-year in the fourth quarter. This was not driven by lack of demand, but largely by ongoing global supply chain disruptions.

Locomotive parkings continue to decline despite weaker freight traffic in the quarter. Throughout the year, the advancements we have made in reliability, efficiency and safety continue to drive measurable outcomes across our customers' operations. Last year, our fleet of locomotives traveled more than 1.5 billion miles in some of the world's harshest conditions.

Looking ahead, we expect demand for reliability, productivity and fuel efficiency to continue to increase, placing our services business and modernization portfolio in a position of strength. When it comes to the North American railcar build, demand for railcar is increasing. Railcars in storage are below pre-COVID levels with about 19% of the North American fleet car in storage. As a result, industry orders for new railcars are continuing to improve. The industry delivered just over 29,000 railcars in 2021 and the outlook for 2022 is for over 40,000 cars.

Transitioning to the Transit sector, ridership trends continue to be uneven in various markets. However, infrastructure spending for green initiatives continue to be a bright spot, especially as governments globally invest in rail for clean, safe and efficient transportation. Overall, the long-term market drivers for passenger transport remain strong.

Next, let's turn to slide 6 to discuss some recent wins that are providing good momentum and visibility as we enter into 2022. Let's start with the shift to battery electric. In recent weeks, Union Pacific announced an agreement to buy FLXdrive locomotives. This comes on the heels of already strategic commitments from international customers in Canada and in Australia, all of which will leverage this next-generation technology to increase productivity, reduce fuel and slash emissions across their operations.

And in Transit, Wabtec was named a founding member of Europe's Rail Joint Undertaking, which is investing nearly €1.2 billion to fund green rail projects. These are government-led projects focused on automation, digitization and network optimization, areas where we can help drive innovation and technology adoption across the rail sector.

I'd also highlight during the quarter, in Freight Services, we won a significant international long-term service contract, as well as orders for international locomotive modernizations. Overall, the modernization backlog remains strong. Throughout the fourth quarter, we delivered a record number of MODs marking a significant milestone for the team. We also won strategic digital contracts in North America to upgrade PTC hardware, along with an order for SmartHPT at a Class 1 to help our customers improve the asset utilization, driving fuel efficiency and reducing emissions. Looking forward, our backlog gives us the confidence that we will drive long-term profitable growth and lead the industry in advancing its position in sustainable rail even farther.

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

## John A. Olin

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

Thanks, Rafael, and good morning, everyone. Turning to slide 7, I'll review our fourth quarter results in more detail. We had another good quarter of operational and financial performance. Sales for the fourth quarter were

 

$2.07 billion, which reflects a 2.4% increase versus the prior year. Sales were positively impacted by the continued broad recovery we are experiencing across our portfolio, recent pricing and the acquisition of Nordco, partially offset by continued weakness in the North America OE locomotive market, lower year-over-year sales in Transit and unfavorable foreign currency exchange.

In addition, we continue to experience adverse impacts to our sales results in both segments due to shortages across many component parts, including computer chips, which caused delays in production and customer delivery. We estimate that our enterprise revenues were 3% to 4% lower than they would have been without the supply chain disruptions and that the majority of these lower revenues represent delayed sales versus lost sales.

For the quarter, adjusted operating income was $334 million, which was up 18.0% versus the prior year. Most notably, we delivered margin expansion in both of our segments, up 2.1 percentage points on a consolidated basis. Margins were aided by strong mix favorability, realization of synergies and improved productivity. The team achieved margin expansion across both segments, even in the face of a highly disrupted supply chain and a challenging inflationary environment. We estimate that cost headwinds adversely impacted operating margins by $20 million to $25 million during the quarter.

In the fourth quarter, adjusted earnings per diluted share were $1.18, up 20.4% versus prior year. GAAP earnings per diluted share were $1.02, which was up 122% versus the fourth quarter a year ago. In addition to growth in operating margins, GAAP earnings benefited from a significantly lower tax rate. The fourth quarter 2021 GAAP tax rate of 17.4% was 9.2 percentage points lower than fourth quarter of 2020. This decline in tax rate was due to an election, which accelerated deferred tax benefits from our merger with GE Transportation. This favorable tax benefit of $25 million is considered one-time in nature and, therefore, not included in our adjusted effective tax rate.

As Rafael noted, we are pleased with our Q4 results and particularly our sales growth in the face of supply chain disruptions and our margin growth in the face of continued cost increases. We remain diligent and proactive as we work to minimize these challenges.

Turning to slide 8. Let's review our product lines in more detail. Fourth quarter consolidated sales were up versus last year, driven by higher sales in the Freight segment, partially offset by lower Transit segment sales. Fourth quarter sales were adversely impacted by foreign currency exchange of 0.8% and supply chain disruption of 3% to 4%. Equipment sales were down 12.9% year-over-year due to fewer locomotive deliveries this quarter versus last year and no new locomotive deliveries in North America, partially offset by continued strong mining sales.

Component sales continued to show recovery and were up 11.8% year-over-year, driven by demand for railcar components and recovery in the industrial end markets. We remain encouraged by the continuing trend of railcars coming out of storage and higher deliveries of new railcars.

In line with an improving outlook for rail, our Services sales grew 21.2% versus last year. The year-over-year increase was largely driven from a record quarter of MODs deliveries, the unparking of locomotives and the acquisition of Nordco. The superior performance, reliability and availability of our fleet continues to drive customer demand, as railroads increasingly look for predictable outcomes across their fleet. Excluding Nordco, organic sales for the fourth quarter were up 10.1%.

Digital Electronics sales were up 1.8% versus prior year, driven by improved demand for onboard locomotive products, largely offset by ongoing shortages of chips. Notably, our backlog in digital continues to increase. And even more importantly, we continue to see a significant pipeline of opportunities in our digital electronic product line as customers globally focus on safety, improved productivity and increased capacity utilization.

Across our Transit segment, sales decreased 5.4% versus prior year to $648 million. Sales were down versus last year due to supply chain issues, COVID-related disruptions and the negative impacts of foreign currency exchange, which adversely impacted revenues by 2.1 percentage points. Excluding near-term supply chain challenges, we estimate that Transit sales would have been up on a year-over-year basis. We believe the medium and long-term outlook for this segment remains positive as infrastructure spendings for green initiatives continue.

Now moving to Slide 9. Our adjusted gross margin expanded 5.7 percentage points to 31.7%, driven by strong product mix, increased pricing and favorable manufacturing costs, partially offset by higher raw material costs and unfavorable foreign currency exchange.

Mix and pricing positively impacted our margins. Mix benefited margins as Services sales outpaced our Equipment and Transit sales. Additionally, higher pricing was realized from price escalations incorporated into many of our long-term contracts, along with other price actions that were implemented to recover increased costs.

Raw material costs were up significantly, led by dramatically higher metals costs, including steel, aluminum, copper, and increased transportation and fuel costs. Foreign currency exchange adversely impacted revenues by 0.8% and adversely impacted fourth quarter gross margins by $5 million.

Finally, manufacturing costs were positively impacted by realization of synergies and productivity gains, partially offset by exponentially higher transportation and logistic costs. Container costs continue to be significantly higher than last year. In aggregate, the continuing effects of the supply chain disruptions, higher materials, transportation and logistics and labor costs are estimated to be $20 million to $25 million higher than last year's fourth quarter.

Our team continues to work hard to mitigate the impact of these cost pressures and supply chain disruptions by triggering price escalation clauses that are included in many of our long-term contracts, implementing price surcharges and driving operational productivity and our lean initiatives.

Turning to slide 10. For the fourth quarter, adjusted operating margin expanded 2.1 percentage points versus last year, driven by higher adjusted gross margin but partially offset by higher SG&A and engineering expenses. Adjusted SG&A was $271 million, which was up $65 million from the prior year due to the normalization of certain expenses, higher incentive compensation and employee benefit costs and the acquisition of Nordco. GAAP SG&A includes a net benefit of $7 million primarily of sales of a closed manufacturing facility.

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

Now let's take a look at the segment results on slide 11, starting with the Freight segment. As I already discussed, Freight segment sales improved for the quarter and segment adjusted operating income was $267 million for an adjusted margin of 18.7%, up 2.4 percentage points versus the prior year. The benefits of improved productivity, realization of synergies and mix across our portfolio were partially offset by higher net input costs.

Finally, segment backlog was $18.5 billion, up $615 million from the end of last year due to the broad multi your order momentum that Rafael discussed earlier. This year's backlog growth was driven by an unusually high number of long-term service contracts. Looking forward, we expect our service long-term orders to normalize in 2022.

Turning to slide 12. Transit segment sales were down 5.4%, driven by supply chain disruptions and the negative effects of foreign currency exchange. Adjusted segment operating income was up $11 million to $88 million, which resulted in an adjusted operating margin of 13.6%, up a strong 2.3 percentage points versus the prior year and up 1.1 percentage points for the full year. Across the segment, we continued to drive down costs and improved project execution despite the volatile environment.

Finally, Transit segment backlog for the quarter was $3.67 billion, down slightly versus a year ago. Adjusting for the negative effect of foreign currency exchange, backlog would have been up 3.6%.

Now let's turn to our financial position on slide 13. We had another strong quarter of cash generation. We generated $314 million of operating cash flow during the quarter, bringing full year cash flow generated to over $1.07 billion which, as Rafael noted, is a record high for the company. This performance clearly demonstrates the quality of our earnings and our business portfolio.

During the quarter, total CapEx was $52 million, bringing total year CapEx to $130 million. Our adjusted net leverage ratio at the end of the fourth quarter declined to 2.5 times and our liquidity is robust at $1.67 billion.

Also during the quarter, we returned more cash to our shareholders, repurchasing an additional $100 million of shares, bringing the full year share repurchases to $300 million and paid dividends of $92 million. As you can see in these results, our balance sheet continues to strengthen, and we are confident that we can continue to drive solid cash generation, giving us the liquidity and flexibility to allocate capital toward the highest return opportunities and to grow shareholder value.

Moving to slide 14, quickly recapping the year. Overall, the team delivered a very strong year for all our stakeholders. Despite challenging dynamics, we drove revenue growth, expanded our operating margins across both segments and generated robust cash flow. The strong execution provides us a solid foundation and good momentum as we enter into 2022.

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 15, to discuss our 2022 financial guidance. We believe that the underlying customer demand for our products and the end-market momentum remains strong across our product lines and our backlog continues to provide visibility into 2022 and beyond.

North American freight markets are expected to show growth, despite another year of zero locomotive deliveries in North America. Our international pipeline remains strong and order momentum continues to build.

International markets continue to be the bright spot and we expect overall locomotive deliveries to be significantly higher versus 2021. We expect strong growth in equipment in 2022, which will create negative mix for us during the year.

When it comes to North American railcar builds, railcars are coming back into use. And we expect railcar deliveries to increase. Our Service business continues to benefit from demand for reliable, efficient and available power, driving the need to modernize and refresh fleets, along with the continued unparking of locomotives.

In Digital Electronics, our growing backlog of orders supports a return to growth in 2022. Now transitioning to Transit, we expect growth as ridership continues to recover and infrastructure spending increases as governments invest in clean, safe and efficient means of transport.

We are committed to driving adjusted margin expansion in 2022, despite headwinds from supply chain disruptions, unfavorable mix and still challenging cost environment with higher investments in technology.

The team is committed to driving a strong top line growth, while aggressively managing costs. With the statures in mind, we expect sales of $8.3 billion to $8.6 billion and adjusted EPS to be between $4.65 and $5.05 per share. We expect cash flow conversion to be greater than 90%.

Now, let's turn to our next slide. Our teams remain committed to delivering long-term profitable growth. Our strategy is built on our significant installed base and deep industry expertise, grounded in innovation, breakthrough initiatives and scalable technologies that drive value for our customers.

These efforts will continue to be accelerated by our lean and continuous improvement culture and disciplined capital allocation. I'm proud of the strong execution by the team in the fourth quarter, despite a challenging environment. You are seeing their efforts in the strength of the company, our 2021 financial results, in our 2022 guidance.

As we go forward, the rail sector is well positioned to increase share and address the critical issues facing the world's freight and logistics sector. We will continue to lean into the strong fundamentals of this industry and our company to deliver long-term profitable growth.

As we've said before, Wabtec's mission holds a larger purpose to move and improve the world. And after demonstrating strong performance in 2021, I'm confident that this company will continue to deliver and lead the transition to a more sustainable future.

With that, I'll turn the call back 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. Before we begin Q&A, I'd also like to remind everyone, we will be holding our virtual Investor Day on March 9, beginning at 8:00 a.m. Eastern Time. During that discussion, we look forward to sharing more details on our long-term growth strategy and financial outlook. A detailed agenda will be released shortly.

We will now move to questions. 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 comes from Courtney Yakavonis with Morgan Stanley. Please go ahead.

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

Q

Hi. Good morning, guys. Thanks for the question. If you could just give us a little bit more detail on your thoughts for 2022, appreciate the sales guidance. But if you can give us any thoughts on how the growth rates should compare on freight versus transit?

And then, you talked about some negative mix and cost headwinds through the year, but if you can comment at all on the first half versus second half margins or incrementals since many of your peers were talking about a worse first half and specifically first quarter versus second half. Just helpful for us to frame the cadence through the year.

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

A

Hi, Courtney. Thanks for the question. Let me start with top line growth at 8%. When we think about 2022, we have stronger coverage than we had last year. So that's a positive. We're continuing to invest in the business with engineering up as a percent of sales. We like the momentum on how we're progressing with the deal pipeline. We do have headwinds from inflation.

We are going very much through a transition in terms of costs coming in while our teams are working on both elements of pricing but also continuing to manage costs. I think mix is relevant elements, especially with equipment, really growing at a faster rate than the rest of the company. Our teams are focused on driving what I call profitable growth into 2022 and beyond, and with EPS growing at double-digits.

You asked a little bit about the dynamics between first half of the year and second half of the year. We would say revenues relatively are similar to what you saw last year with maybe a couple of points higher in the second half of the year. Profitability on the other way around, you should think about profitability a bit higher in the first half of the year versus the second half – and that's really driven by, again, the mix as we have deliveries of what I call new locomotives into the second half of the year.

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

Q

Okay, great. That's helpful. And then, I think you mentioned a couple of times about your record MODs deliveries this year. And if you can just comment on your thoughts for MODs, I think you had also mentioned Services should grow next year, but just how much visibility you have there and how we should be thinking about that specific driver within Freight.

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

A

Courtney, strong results on that side. We had also, I think, very strong orders last year, and those are multiyear orders. I think in the fourth quarter, in specific, we're continuing to pick up momentum internationally on that, which I think provides a significant opportunity for us to continue growth. So that business line is growing in 2022. And we see the opportunity to continue to grow beyond that. There's just a significant opportunity for us to modernize units, really drive, I think a lot of the technology that we've developed with fuel and automation and demand is out there.

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

Q

Okay. 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 and good morning.

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

A

Good morning.

**Justin Long**
*Analyst, Stephens, Inc.*

Q

I wanted to circle back to the supply chain impact. I know you've called that out the last couple of quarters in terms of how it's impacted revenue. It sounds like at some point, there will be a catch-up. I think, John, you said some of those – some of that revenue was delayed, not lost. So I'm curious if you could give us a little bit more color on what's getting baked into the 2022 guidance in terms of the supply chain headwinds and maybe a catch-up at some point?

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

A

Thanks, Justin. Yes, as we've discussed and taking you back to the third quarter, we certainly had a drag on revenue because of the supply chain disruptions of three to four and – I'm sorry, in 2 to 3 percentage points, and that increased in the fourth quarter.

As we look forward into next year, we've incorporated a catch-up into the guidance that we have and would look to – that to be hopefully, over the next couple of quarters. It's very difficult to tell. We see parts of the supply chain improving and other parts getting a little bit worse. So – and it's kind of spread out beyond just the material piece, to labor with Omicron. So we expect there will be some impact certainly in the first quarter, and we'll just have to see how things work out over the next few quarters.

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

A

Justin, I'd like to add the following. I mean just in the fourth quarter and this transition here between fourth quarter and first, we saw record absenteeism in the business, something we hadn't seen before. And well, needless to say, some of the continuation of some of the supplier delays. But that has ultimately just delayed revenues and, in that case, for the fourth quarter was over $70 million. We're with [ph] best at peak (30:26) and we have a strong team who's executed well, and we're seeing that coming through in the first quarter.

**Justin Long**
*Analyst, Stephens, Inc.*

Q

Okay. So maybe just to clarify, if I run the math on the third and fourth quarter, it looks like the revenue headwind was somewhere in the range of $100 million to $140 million. And your guidance is assuming that you kind of catch up that revenue here in the first half, but maybe with some offset in the first quarter from headwinds.

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

A

Yeah, Justin, they're not necessarily additive, right? It affected us in the third quarter, took revenue down. In the fourth quarter, as we exited, a way to look at it more is, is it was 3 to 4 percentage points. At the midpoint, that's around $72 million. So we're looking year-over-year, not sequentially from quarter-to-quarter. So we would expect to pick up a fair portion of the majority of that $72 million that we believe we were short at the end of the year.

**Justin Long**
*Analyst, Stephens, Inc.*

Q

Got it. Okay. That makes sense. And then from a cost perspective, you called out the $20 million to $25 million of increased costs here in the fourth quarter. I'm assuming that's a gross number. Can you maybe talk about how that number trends going into 2022? And maybe what that net number looks like, when you include some of the mitigating actions?

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

A

Sure, Justin. Let's take the two pieces and start with the gross cost. And you're absolutely right, the $20 million to $25 million is a gross cost.

And again, let me take you back to the third quarter, at the time this all started. And we had higher costs, which were predominantly on the transportation side, but called out the fact that coming behind that on the material side was a lot of costs that were getting caught up in inventory. And that they would release over time.

And at that time, we had $15 million to $20 million of cost, we said it would rise. And indeed, it did in the fourth quarter. It grew to $20 million to $25 million. We also saw that piece coming behind us and inventory grow, which we expected.

So as we look forward, Justin, we would expect cost to continue to grow over the next few quarters, certainly in the first half of the year. And, as you pointed out, there's two sides of this equation. And so that takes us to the other side in the cost recovery or the pricing side of it.

Again, taking you back to the third quarter, at that time, we said about half of the higher costs of $15 million to $20 million were being recaptured in terms of pricing. We also talked a little bit about our uniqueness in that the majority of our revenues are tied up in long-term contracts, and they have price escalators in them.

So we feel very confident that pricing will come. These have been in contracts for decades and very tried and true. But they will come over a period of time. And they typically, while some are monthly, most of them are annual. And they'll tick at the anniversary dates. And that will happen throughout the four quarters after the third quarter or throughout the next year.

And what we saw in the fourth quarter is exactly what we would have expected, is that price recovery has increased from the 50% into the fourth quarter. And we will expect to see that to continue to increase over the next few quarters, as we lap those anniversary dates in our contracts with our customers.

**Justin Long**
*Analyst, Stephens, Inc.*
Q

Okay. So gross costs probably go up sequentially in the first quarter, but do you think net costs go down?

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

Gross costs will certainly go up in the first quarter. And we'll also see the pricing go up, not saying anything about the net costs.

**Justin Long**
*Analyst, Stephens, Inc.*
Q

Okay.

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

So the timing of what comes to – it's just a little bit harder to tell, because the timing of what comes through the balance sheet or off of inventory.

**Justin Long**
*Analyst, Stephens, Inc.*
Q

Got it. I appreciate the time. Thanks.

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

Thank you, Justin.

**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.

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

A

Rafael, can you expand on your comments on the battery electric locomotive order trend? Sounds like you're getting test units in place. I'm wondering. Can you just quantify the orders that you've seen to-date? And what level of order opportunities do you see for those products over the course of this year?

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

A

Jerry, I think strong progress here. We're continuing to work closely with customers. And this is an area we are a leader. And we'll continue to be in that space. We are continuing that dialogue. We've had a number of orders announced now, more recently in North America, but we've had orders in Canada and Australia.

There's really conversations continuing with customers in other geographies. So the pipeline is continuing to build up and we're confident about that. When you think about the deliveries here, they're mostly into the 2024 timeframe. And that's, I think, when you're going to be seeing more of that.

With that, I mean, we're excited to see some of the evolution on the technologies and a lot of the elements of what we consider today in terms of power density, in terms of what's possible, we see growth in that power density. And combining that with really the digital portfolio we have, we feel like we are uniquely positioned to really do energy management and drive significant value for customers in terms of the results they get from this technology.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

And Rafael, just order of magnitude, you've had initial orders, I think, in the 10s range. Are we talking about potential hundreds of orders in 2022? Or can you just frame for us, just the order of magnitude, please?

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

A

Yes. I think if you look at the announcements, it's about 20 at this point. But I think a lot of it is tied to customer testing that technology into their specific operations. Jerry, we're not going to be commenting on specific numbers around these orders, but we're picking up. If you think about when we really started to talk about this. This is reality. It's got application in a variety of areas for customers and will ultimately help them drive not just the fuel expense down that will ultimately also help them meet the decarbonization goals, which most of them have put out there.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Appreciate the discussion. Thanks.

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

A

Thank you.

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

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Thanks. Good morning, guys. Just want to follow-up on a couple of things. Rafael, your comments about first half or second half, the year-over-year – was that a year-over-year comment about better year-over-year earnings growth in first half than second half? And better year-over-year revenue growth in second half and first half?

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

A

Yes, it was a comparison between first half and second half, Scott.

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

But you're talking year-over-year, correct?

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

A

Yes.

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Okay. Great. And then I guess I want – John, you made a comment about maybe something unusual in the backlog. If you could just – I wasn't sure what you meant. And then, Rafael, you were talking about a big increase in international locos. Can we just put some directional numbers on where international locos were last year, where you think they're going to be this year?

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

A

John?

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

A

Scott, so in the prepared remarks, we talked a little bit about the backlog. We're very pleased overall with the growth that we're seeing. Just wanted to point out that in 2021, we had a strong level of orders coming in on pretty long-term multiyear orders on the service side. And while we expect backlog to continue to grow into the future, we'll see a little bit of normalization in some of those long-term contracts because we picked up a lot of them from some of our largest carriers in 2021.

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

A

Scott, let me add the following. I mean when you look at how we finished last year, 12-month backlog growing double-digits. But really, I think what's most important here is providing higher conversion into 2022 versus what we had a year ago. So stepping into the elements of the guidance we've provided. We certainly have higher confidence based on that backlog conversion that we have moving forward.

We talked about equipment growth, which it's really tied to our international locomotive orders largely concentrated in the second half of the year, especially in the fourth quarter. And those were the comments that I made earlier associated with mix and the elements of higher margins in the first half of 2022 versus second half of 2022.

**Scott H. Group**
*Analyst, Wolfe Research LLC* Q

And just so if there's a lot in fourth quarter, should we think that there's going to be good momentum on international going into 2023.

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

Scott, certainly, we're continuing to work on building on that momentum. I talked about a strong pipeline there. So it's all about convertibility, making sure we continue to drive convertibility. But as I look across the various geographies, the momentum is there. So it's not a single geography. It's really I'll call it, number of different elements driving that discussion with customers.

**Scott H. Group**
*Analyst, Wolfe Research LLC* Q

Thank you, guys. Appreciate it.

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

Thanks.

**Operator**: The next question comes from Rob Wertheimer with Melius Research. Please go ahead.

**Rob Wertheimer**
*Analyst, Melius Research LLC* Q

Thanks. It seems like you had really solid progress on FLXdrive during the quarter. Just a quick question on that. Does that – when you see those orders, and I know it's early, do they tend to drag in orders for other power units. I know it's a system that could probably operate a lot of equipment ages. But nonetheless, they tend to sort of see the potential dragging other locos with it.

And then just one other one, if I may, just put both of mine at ones. Any comments on Transit demand – Transit systems across US and Europe, how they're doing with maintenance versus schedule, if there's any sort of comeback demand in the coming years? Thank you.

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

Rob, sure. Thanks. On battery electric first, I think customers are really taking those units into operation to really test on their own realities. And I think some of these customers were having parallel discussions in terms of increased demand and demand for new locomotives. And that's the reality in a variety of geographies that are traditional to us, and that's where also, I based some of my comments on a strong pipeline, right, if I think about Kazakhstan, Australia or Brazil, I think that's part of the dialogue.

On Transit and Transit guidance in specific, we expect top line growth, more in the low-single-digits for this year. And the team is really committed to continue to drive profitable growth in the Transit business, as we continue to work there. I think we continue to have opportunities to invest overall on making what I'll call Wabtec businesses more efficient. And a big chunk of that is really relooking at our footprint. And with that being said, we're continuing to work through the dynamics of what John highlighted earlier, pricing, inflation and supply chain disruptions. So you could see some variation quarter-to-quarter, but we see really progress in 2022, driving profitable growth.

**Rob Wertheimer**
*Analyst, Melius Research LLC*

Q

Okay. Thank you.

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

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

Q

Hi. Good morning. I want to stay on that Transit topic in terms of margin. The margin performance was incredibly strong, kind of what we would have viewed the prior peak to be. I guess, one, is this sort of the new step-up for there? Or is this one of those businesses, again, similar to Freight that the equipment growth that you would anticipate in the coming years given that the funding could be a headwind from a mix perspective as we think of Transit. Just trying to think of that business going forward.

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

A

Hi, Allison, this is John. Yes, number one, we're very pleased with the fourth quarter margin results, which were up 2.3 percentage points. But beyond that, they were up 1.1 points on a full year basis. And if you go back the last four years, we've been up about 400 basis points. So we couldn't be more pleased with what we're seeing from the Transit group. But zeroing in on your question, Allison, in the fourth quarter, the margin was driven by three areas.

Number one was mix within Transit was strong. Now this can go both ways, right? So I wouldn't say that, that is structural, but it did benefit us in the quarter. The other two are. The second area, and we talked about this in the third quarter is – and it has been a focus of Transit for the last couple of years is really working on higher – more profitable contracts. And each quarter that goes by, we're seeing that take hold and we're seeing it reflected in our margins. And we do believe that is certainly structural going forward.

And then the other piece, of course, which is also that way is their focus on productivity and integration. They've done an absolutely fantastic job of driving productivity, whether it has been continuous improvement on the day-to-day things or integrating within the Transit organization and integration with the broader Wabtec company. So very pleased with that, and we expect them to continue to drive their margins forward in the future.

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

Q

Got it. Thank you. That's helpful. And I just want to go back to Freight. I hate to beat this up, but I know the sales in Equipment is going to increase, and that's certainly a positive thing in the back half of the year. Is there a way to think about the mix headwind, I guess, within the back half? And then also in, obviously, freight the backlog has certainly improved. Is there some mix element there that we should be thinking of? I know the contracts in MODs have increased as well. Just trying to balance out Equipment versus some of the other businesses that are improving as well.

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

A

Yes, Allison, this is John. I'll take the question on the Freight mix in 2022. So it is going to be a bit of a drag on overall margin growth, but I wouldn't call it a headwind as such. Any time that we can put an installed base out there that's going to be for the next 20 or 30 years to me is a tremendous positive. And we will sell year-over-year, a big increase as we believe we hit the trough in locomotive sales in 2021 of locomotives as well as mining equipment.

So with that, the fact is, is that while Equipment has strong margins, they are on the lower side of the five groups that we have, and they will grow a fair amount faster than the rest of the groups in 2022, as Rafael pointed out, particularly in the back half. And so that, yes, there will be a headwind with regards to margins, but we'll have those assets out there that we'll continue to service and modernize and put digital equipment as well as the component replacement parts. So we feel great about that mix unfavorability going into 2022.

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

Q

Got it. And then just the backlog as well. How are we thinking of similar situation where that Equipment backlog is increasing, so that mix will – to your point, it's good growth longer term. But from a margin perspective, sort of a drag on margins as we sort of look out into the back half and into 2023 based on the backlog today?

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

A

Well, I think kind of going back to the previous comment, as we launched from 2021, we took on a lot of long-term service contracts in that mix. So those – we feel very good about the profitability going forward.

And we also improved our – increased our mix of international – or of our locomotive orders that we'll see being delivered next year. So, I would say that the margin that we're seeing as we exit the year in terms of overall margin is pretty balanced.

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

Q

Yeah.

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

A

I think there's an element here to be considered just on quarter-over-quarter and specific variations you might have there. But the dynamics, as you heard, are very favorable in terms of demand for MODs. I think Digital, also, I think, really turn it into a growth story coming to the year and as we progress forward.

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

Q

Perfect. Thank you.

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

**Ken Hoexter**
*Analyst, BofA Securities, Inc.*
Q

Hey. Good morning, Rafael and John.

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

Morning.

**Ken Hoexter**
*Analyst, BofA Securities, Inc.*
Q

You have a pretty big range in terms of the EPS. Just – maybe talk about your assumptions on the upside, downside. Is that mix and impacts on the costs? And in the past, within that, you kind of had a 100 basis point margin improvement target for each segment. Does that still hold for 2022 or not necessarily given some of the margin variations? Thanks.

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

Let me start, and I'll let John complement here. Number one, I think the range is very consistent with what we've done for the past years. So I'll just start there. The second thing I would want to highlight is, we continue our focus on really driving profitability forward, and it's about driving profitable growth in 2022 and beyond. And I speak on both segments as well. I mean we are going through a transition here. As I described, there could be variation quarter-to-quarter, but this is really what we're going after.

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

Yeah, Ken, when we look at our EPS guidance of $4.65 to $5.05 with the midpoint of $4.85, represents 14% year-over-year growth on a midpoint of 8% volume growth, we feel very good about the construct of our P&L and the leverage that we'll get as we cascade down through it.

When you look at the core drivers of that, is on the positive side is that the productivity and synergies that we expect, which we feel very good about. Also, the absorption, the fixed cost absorption that will be a tailwind to us in 2022, those being somewhat offset by the cost that we talked about.

So until we get to price cost equilibrium, there will be a headwind on our costs, largely in the first half. And then, the mix piece, which will be somewhat of a headwind, but I'm very positive in terms of why that's happening.

SG&A, as we've talked about, will be lower as a percent of revenue. And we'll continue to invest in technology. And that takes us through the P&L. So we feel very good about the range that we have. And we certainly feel good about 2022.

**Ken Hoexter**
*Analyst, BofA Securities, Inc.*
Q

Just to clarify, though, John, then the – in the past, the 100 basis point margin was for last year, right? It's not a continued 100 basis points on each segment? Or is that – was that multiyear in terms of each segment?

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

A

No, no. That was last year.

**Ken Hoexter**
*Analyst, BofA Securities, Inc.*

Q

Okay.

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

A

We achieved that. We got 0.9 points out of freight and 1.1 points of margin growth out of Transit. Now when we look to 2022, what we do expect, Ken, is that operating margin percent will be up on a year-over-year basis, but we're not calling a percent.

**Ken Hoexter**
*Analyst, BofA Securities, Inc.*

Q

Perfect. Thanks for that. And then, just to go back to the FLXdrive for a second. Rafael, is there when you start thinking about the testing of this, how long until you start thinking this starts getting mass deliveries in terms of really getting implemented and driving? Obviously, as you mentioned, every company seems to be talking about ESG and the benefits and really counting on the locomotive to get to their multiyear targets. So maybe talk us through the progress from electric and then maybe eventually hydrogen, whatever the next steps are to get the pulling capacity on over-the-road type of next-gen locomotives?

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

A

So let me start with the battery electric, which we're happy with really the testing that we did of the technology, which gives us the confidence to really move forward with customers here and ultimately work on a product that really solves for them in terms of the reliability expectations and driving a lot of the value that you described in terms of not just fuel, decarbonization ultimately, better operating ratio.

But we're working with customers on a variety of solutions. I'm glad you touched alternative fuels, which is a significant element of that. One of the things that we're certainly proud is when you look at the engines that equip our locomotives there, they tend to be at least 4 to 6 points more efficient than the competitors' locomotives.

So I'll just start there, but that's at the engine level. When you go to the locomotive level, you step it up another 1 to 2 points. And by the time you add really the digital portfolio we have, you're really getting to double-digit arena here, and that's an area we'll continue to step-up. And if you think about biofuels and you just add on the top of that, the opportunity to make sure that ultimately you're driving decarbonization in most efficient way. So we feel strong about these elements, and they were built really over time. And we continue to really invest on continuing to find solutions to upgrade installed base and stay ahead of the game here.

There are other alternative technologies that are being looked at. I think we talked last year about hydrogen and fuel cell technology, things that we're doing in partnerships. So there is really a number of things that we're looking at it. We're working very closely with customers ultimately through that process. And some of this will play longer term, as we have described in the fuel cell side, and there's a lot to be validated there. But in terms of alternative fuels, we think that could play shorter term, and we feel strong about well leading on that front as well.

**Ken Hoexter**
*Analyst, BofA Securities, Inc.*
Q

Great. Thanks, Rafael. Thanks, John. Appreciate the insights.

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

Thank you.

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

Thank you.

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

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

Hey, guys, James on for Chris. Wanted to ask about services revenue within freight. Seems you have stepped up in the quarter. Just wanted to know how much of that was essentially a new run rate, seasonal or just basically a catch-up from 3Q. Just trying to figure out how we should think about that going into 2022.

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

James, this is John. The services revenue was up 21.2% in the quarter. If you take away Nordco, we were up 10.1%, and that's really what we've been running largely throughout the year and have had a good year. And we expect growth momentum to continue into 2022 in our Services group.

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

Got it. And then if we're also just thinking about the unparkings going into 2022 as well, could you just – what have you seen sort of year-to-date? And is there a certain level of improvement in locomotive unparkings that you've built into the guidance throughout the year?

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

When we looked at the last six months, we've seen unparking to continue – continued. When you look at the specific dynamics on the first quarter here, I think certainly, the weather conditions have been really quite disruptive. So that actually has also driven what I'll call demand for the Services business as our customers are investing on that fleet. And if you think about the elements of how the network has slowed down, that will also be an element of potentially driving unparkings here and more freight cars online. So, positive from that perspective.

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

Got it. And then just more, just wanted to understand if you could – how you're thinking about the buyback in terms of the timeframe, and I think there was a benefit from other income in the quarter. Just understanding how to think about that going into 2022. Thank you.

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

A

Yeah. We couldn't be more thrilled. The board had two approvals in the recent board meeting. One is, they upped the dividend by 25%, and the other is reauthorizing $750 million of share repurchases. The other thing I'm happy to point out is that in the back half of the year, we purchased $300 million.

We don't provide guidance going forward on what our share repurchases are. But when we look at the overall capital allocation opportunities that we have, we kind of waterfall that from making sure that we build our balance sheet and strengthen that, protect the dividend and invest in our business. And Rafael just talked about that and some of the technology investments that we're making.

Then with the cash that's left over from that, we are largely looking at what opportunities there are in M&A activity for accretive, strategic bolt-on type M&A work. And at the end of the day, when there's excess cash, we are committed to returning that to our shareholders through share repurchases.

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

A

I'll just emphasize that we're really committed to drive the higher return on investment to our shareholders. And to complement, we're committed to certainly investment grade and continue to work the discipline that you've seen from us through that process.

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

Q

Thank you.

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

**Matthew Elkott**
*Analyst, Cowen and Company, LLC*

Q

Good morning. Thank you. Rafael, just a follow-up on your discussion of the different new technologies on locomotives earlier. Were you suggesting that all these battery electric, hydrogen, biodiesel, RNG, can coexist in the network long-term? Or do you think that the industry will have to coalesce behind one or two technologies?

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

A

A couple of comments there. Number one, I'll start with just the elements of modernizing the fleet. I think that's one of the things that our customers look at and it's probably top of mind. And that's to a large extent, tied not just to the MODs business, but it's also tied to investment in Tier 4 and the newest technology that we have there.

If you were to ask me what's second on that, I think alternative fuels specifically with biofuels, that's not a key element, and that drives very little, I'll call or they change in terms of how they operate in that context. And as I've got to highlight here the elements of what we got in the digital portfolio, which is continue to equip those fleets with those capabilities that will drive significant, I'll call fuel reduction and ultimately good outcomes for the customers.

When I think about the next technology, I think battery is something that's really being tested. I think there is the opportunity here to have a real application of that in terms of certain routes and specific customers. When you talk about mixing all of that, I think there's a significant degree of sensitiveness around mixing different technologies and different fuels because that would churn into a significant challenge.

So ultimately, I think you're going to see evolutionary progress here. There could be an element of really hybrid locomotives, then as you step into some of these new technologies, I think what's most important is the leadership role we've had on testing those and working them with customers, but there could be an element of some of these being adopted faster with some customers that might have a more simplified logistics than we have in North America, for instance.

**Matthew Elkott**
*Analyst, Cowen and Company, LLC*

Q

Got it. So it sounds like maybe you're suggesting that there will be experimentation with different technologies in the near to intermediate term and maybe we'll have a number of bridge technologies that will take us to a more kind of unified system in the long term, we're talking here like a decade or longer.

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

A

You got it. I think it's going to be more evolutionary as we look into the next couple of years before you get to really a transformational step.

**Matthew Elkott**
*Analyst, Cowen and Company, LLC*

Q

Got it. And then my follow-up to that is, what do you think this will do? How do you think this kind of fluid and uncertain future as far as new technologies will do to the Class 1s mindset as far as ordering locomotives? Is it going to limit their orders to just basic replacement demand when they absolutely have to because no one really knows what the locomotive of the future is. And then once we know there will be a massive replacement cycle? Or do you think the railroads will just go on as they have in the past?

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

A

So that should not because, I mean, to a large extent, these are technology that you can apply to existing fleet and upgrade the fleet. So you can work on that transition. So some of the technologies we're talking about, what if I start with alternative fuels, I mean that's the thing you'll apply on the existing fleet. If you think about all the testing we're doing on batteries, ultimately, that leads to potentially considering a hybridization of locomotives.

So next thing, as you're thinking about MODs, you could be connecting batteries into that MODs and drive that fuel efficiency moving forward. So again, back to my comments on evolutionary versus revolutionary, and you've got to be very sensitive to the elements of operations and how you make sure you don't disrupt any of the elements that exist there today, especially if we start switching fuels, if you go into hydrogen, for instance, I think we certainly have experience with LNG, and that drives a much more significant change in the overall infrastructure.

**Matthew Elkott**
*Analyst, Cowen and Company, LLC*

Q

Got it. And just one final quick question. Sorry if I missed it, but did you guys say anything about the elevated geopolitical risk in and around Ukraine? And then previously a couple of months ago with the turbulence in Kazakhstan. And if it's had any – if it's caused you any concerns about your business over there?

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

A

We certainly this – these are important parts of our portfolio. Let me start first with Russia, in specific. While it's an important part of our portfolio, and we're, I'll say, certainly concerned about the situation, with that being said, Russia accounts for less than 5% of our business. If you think about Kazakhstan, yes, we've followed that very closely. We have a significant operation there with employees, but there's really minimum disruption as we went through that process. And we continue to operate strongly there.

**Matthew Elkott**
*Analyst, Cowen and Company, LLC*

Q

Thank you very much.

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

A

Thank you.

**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 joining us. We look forward to talking to you over the quarter and certainly, next quarter. Thank you.

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