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Westinghouse Air Brake Technologies Corp. (WAB)

Q1 2020 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Wabtec Corporation First Quarter 2020 Earnings Conference 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 of Investor Relations. Please, go ahead.

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

Thank you. Good morning, everyone, and welcome to Wabtec's first quarter 2020 earnings call. With us today are President and CEO, Rafael Santana; CFO, Pat Dugan; and Senior VP of Finance, John Mastalerz.

Today's slide presentation, along with our earnings release and financial disclosures, were posted on our website earlier today and can be accessed on 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.

Before we begin, I'd like to extend wishes of health and safety to everyone on the line as we continue all to manage through this COVID-19 pandemic.

And now, I will 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. We appreciate you joining us today. We had a solid first quarter that was only possible due to the perseverance of our employees working in conjunction with customers, suppliers and key stakeholders. These are unprecedented times that have forced us all to flex and adapt. And for that, I want to sincerely thank our Wabtec team members in our factories, and in the field supporting our customers, as well as all of those working remotely for all that they're doing to deliver in the face of incredible change.

The COVID-19 crisis reiterates the appreciation for the work our team members do every day, supporting essential rail services that are critical to overcome this crisis. Their work around the world has allowed our sites to remain largely operational, although we had some facilities down in places, including China, India and Europe.

As a company, operating in the midst of this pandemic, there are some key essential priorities I'd like to highlight to you. So, please turn to slide 3. First, we are committed to protecting the health and safety of our workforce, and we're taking significant efforts across our plants and sites. In many cases, we're going above and beyond the CDC's recommendations or any local government requirements. These actions includes daily temperature checks at many of our facilities, limiting planned for activity by rotating schedules, removing noncritical staff from the
factory floor, restricting access to work areas, enhanced social distancing, deep cleanings and increased disinfection efforts, among other activities.

Second, we're focused on maintaining our operational capabilities. Roughly eight weeks ago, we assembled a COVID Response Team, comprised of global business and functional leaders. They meet daily to assess and respond to the extraordinary challenges at hand and implement contingency plans across our operations and supply chain. They assess government mandates, as well as any impacts to our business in real time and take decisive action to ensure Wabtec is proactively positioned to manage through today's extraordinary challenges.

As I shared earlier, we have an incredible responsibility to help keep people and product moving during this crisis. During the quarter, we began to feel increasing impact of the COVID-19 disruption across our supply chain, as well as our operations and our customers' operations. Throughout the pandemic, over 80% of our 160-plus global manufacturing sites have largely remained operational.

Those that experienced disruption were primarily due to the customer shutdowns, supply chain disruptions or government-mandated lockdowns. These include countries like China, which had several sites impacted in February. But they were all back in operations by mid-March. We had operations in countries like France, Italy and Spain, which were required to close for several weeks in the first and second quarters. And they're mostly all back up and running now. And it also included countries like India. However, in those regions that were on lockdown, all Wabtec service locations, field service technicians and warehouses remain in operations to support transportation's essential infrastructure as required by the governments.

In the United States, rail and passenger transportation has been squarely recognized as critical to essential operations. As such, all of our major manufacturing sites and services and parts locations across Pennsylvania and Texas and most other locations have remained open and operational throughout the pandemic.

Third, we are focused on cash and preserving the balance sheet by working to reduce CapEx by more than 40% versus our prior guidance of $200 million. In addition, we're quickly aligning working capital for the volume environment and targeting improved cash flow conversion. Overall, our financial position continues to be strong. At the end of the first quarter, liquidity was about $1.2 billion, and we recently took additional measures to further enhance liquidity by adding a new undrawn $600 million credit facility after the end of the quarter.

Fourth point. Prior to the onset of the pandemic, we were laser-focused on reducing costs and delivering on our synergy targets ahead of schedule. For example, since a year ago, during a period of top line revenue growth, the company reduced head count, including contingent workers, by more than 1,500 people and had begun to consolidate operations, reducing our footprint by 6% and removing over 1 million square feet across our operations. We're on plan to reduce our operational footprint by another 9% in 2020.

We also have captured significant sourcing savings from the merger. We've discontinued several shared services contracts with GE, and we've continued to drive Lean across our operations to enable more cost-effective and efficient throughput. We saw the results of those actions realized in the first quarter. And while we anticipate a change in the volume assumptions for near-term synergies, we have a pipeline of actions, and we remain committed to deliver our synergy targets for the year.

Today, given the rapidly evolving situation and the uncertainty regarding the duration and severity of the COVID crisis, we have withdrawn our previously issued annual guidance. We will continue to take the necessary measures to control what we can, to protect the long-term viability of the company, continue to invest in key
technologies and capabilities and deliver shareholder value for the long term. And you're seeing that focus, along with the strength of this franchise and our experienced management team in our first quarter results.

As noted, on slide 4, in the midst of a challenging market that included operational and supply chain disruptions in China, India and Europe, we delivered a solid operational quarter. Sales were $1.9 billion, with an adjusted EBIT margin of 15.7%, driven by strong execution against cost and synergy goals. This yielded $0.97 in adjusted earnings per share, a testament to the team's execution in the midst of a challenging market.

Included in our results, we estimate over $0.05 of earnings per share loss due to the impacts of COVID-19, primarily in China and Europe during the quarter. Cash used for operations was $82 million. However, this was in line with seasonality and the onetime outflows due to previously announced restructuring, litigation and transactional charges.

Our multiyear backlog of about $22 billion continues to provide visibility across both Freight and Transit. And as we continue to help support our customers during these times, we are adjusting timing and specifications on some deliveries as needed and remain confident in our backlog.

Looking across our Freight and Transit segments, we saw several dynamic market conditions throughout the quarter, many of which we related to the COVID-19 crisis. In the Freight sector, North American carload volumes were down about 5% in the first quarter and intermodal was down over 8%. This was largely driven by weak global macro conditions.

Carload volumes have further deteriorated in the second quarter as the crisis has accelerated its impact on the global economy and supply chains. This will have a near-term impact on demand for services and components, which will improve as Freight recovers. At this point, it is very difficult to predict where carloads will settle for the year, given the direct dependency on restarting the economy.

In terms of the North American railcar build, all builders in North America have taken steps to slow production lines in 2020. An industry forecast now indicate that railcar build for the year will be less than 30,000 cars. As you're aware, some of these conditions were present in pre-COVID and the collapse of the global oil market, but we had already been taking actions to adjust capacity, as outlined in our Investor Conference in early March. To be even more proactive, we are taking additional actions to align all of our operations for the new realities we face.

Reflecting on the quarter, despite of the challenging global Freight segment dynamics, there were some bright spots. Our Digital Electronics sales were up double digits versus the prior year. This gives us further confidence that the business can grow, in average, faster than the overall Freight segment. Our modernization deliveries showed good momentum, which were up on a pro forma basis versus last year, along with steady international locomotive deliveries, which helped offset North America locomotive and freight car build declines as expected.

Transitioning to the Transit sector, the COVID-19 crisis and global shelter-in-place orders have had a direct impact on passenger transportation and near-term service levels in some markets. This disruption to services and the impacts on our customers' operations will have a corresponding near-term impact on our OE and aftermarket sales. However, as I shared earlier, most of our transit manufacturing facilities remain operational.

Overall, we believe the long-term market drivers remain strong, including the need for sustainable transit solutions and projected growth in both ridership and urbanization. And as wider restrictions cease, we will see infrastructure spend also recover.
I’d also add that we delivered strong margin improvements across the Transit segment in the first quarter. While sales were down 7%, adjusted income from operations was up 14% due to improved mix and early evidence of actions to drive margin rate improvement.

Finally, as noted earlier, across both the freight and transit sectors, we have strong multiyear backlog. This helps provide stability and visibility to evolving environment demand.

With that, I’ll turn things over to Pat to provide more color on the first quarter.

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

Thanks, Rafael. Turning to slide 5, you can see that we had a good operating quarter despite an increasingly challenging environment. Sales for the first quarter were $1.9 billion, which reflects a 21% increase versus the prior year. Increased year-over-year sales were mainly due to the merger of GE Transportation, along with higher Digital Electronics and Services sales, offset somewhat by decreased revenues in Freight, Equipment, Components and Transit, as well as a negative impact due to foreign exchange.

For the quarter, operating income was $217 million, and adjusted operating income was $303 million, up 30% year-over-year, mainly driven by higher Freight sales and good performance in Digital Electronics, the realization of synergies, as well as a better mix of sales and better operational performance in Transit.

Although there are limitations on visibility into the full effect of the pandemic, we estimated the COVID-19 impact on our customers, suppliers and operations during the quarter negatively impacted our operating income by approximately $15 million or $0.05 in earnings per share.

For the quarter, adjusted operating income excluded pre-tax expenses of $86 million, of which $69 million was for noncash amortization and $17 million of transaction and restructuring costs. Please see Appendix D of our press release for the reconciliation of these details.

Now, looking at some of the detailed line items; SG&A was $243 million, including $16 million of the restructuring and transaction expenses I just discussed. Engineering expenses increased to $49 million, due mainly to the addition of GE Transportation. And the amortization expenses were $69 million, but remember, starting this year we are excluding amortization expense, which is all noncash from our adjusted operating income. For 2020, we still expect noncash amortization expense to be about $280 million.

Other expense was $15 million versus $8 million of expense a year ago. The variance year-over-year was due to severe fluctuations in the FX rates late in the quarter, most notably from the Mexican peso and the Brazilian reais. Income tax expense was $38 million. Adjusted income tax expense was $63 million for an adjusted effective tax rate of about 25%. We expect the tax rate for the full year to still be about 26%.

In the first quarter, we had GAAP earnings per diluted share of $0.58 and adjusted earnings per diluted share of $0.97. The details that bridge GAAP earnings per share to adjusted earnings per share of $0.97 can be found attached to our press release.

As of March 31, our multi-year backlog was roughly $22 billion and our rolling 12-month backlog, which is a subset of the multiyear backlog, was $5.6 billion. Our backlog continues to provide visibility across both Freight and Transit.
Now, let's take a look at the segment results on slide 6. Across the Freight segment, sales increased to $1.3 billion in the first quarter. This increase was due to the GE Transportation merger, which added $506 million. Organic sales decreased $108 million, primarily due to lower sales of freight car components due to the decrease in car builds, along with lower sales in freight equipment due to the timing of deliveries.

Segment operating income was $162 million, and adjusted operating income was $241 million for an adjusted margin of 18.5%. I'd like to note that the margin in the prior-year quarter benefited from the timing of deliveries after the close of the GET merger. Finally, Freight segment backlog was $18 billion.

Across our Transit segment, sales decreased to $629 million, driven by disruptions stemming from the COVID-19 virus. Organic sales declined $34 million versus the prior year, but were also impacted by FX, which reduced sales by an additional $18 million. Segment operating income was $69 million for an operating margin of 10.9%. The adjusted operating margin for the segment was 11.9%, an improvement of 220 basis points year-over-year. This improvement is evidence of some early success in the plans and actions the Transit team outlined at our Investor Day in March.

Now, let's turn to the balance sheet and cash flow on slide 7. We entered the year with a very different expectation of what has ultimately transpired. And while the pandemic presents uncertainty and many challenges, Wabtec is essential to our recovery, and we are confident that our solid financial position and ability to generate strong cash flow will enable us to emerge stronger.

From a cash flow perspective, the quarter played out about as expected. Our cash flow from operations was a negative $82 million in the quarter, we had about $80 million of onetime impact due to prior year restructuring, litigation and transaction charges, which we had identified in our last earnings call. Our leverage at the end of the first quarter was about 2.6 times, flat with year-end.

Our total liquidity at the end of the first quarter was $1.2 billion, down from about $1.6 billion at the end of the fourth quarter. This $1.2 billion does not reflect the new $600 million, 364-day credit facility that we entered into as part of our liquidity planning subsequent to the quarter end, which further strengthened our liquidity position. We have also stressed test our balance sheet under a variety of scenarios and expect to remain in compliance with all of our covenants.

In terms of the working capital items I typically review, they are the following: As of March 31, receivables were $1.2 billion and inventories were $1.8 billion. Payables were $1.1 billion, all roughly consistent with the end of the fourth quarter. Our unbilled receivables were $523 million, which were more than offset by customer deposits of $603 million.

Now, turning to Slide 8, I'll describe some of the actions we are taking to further strengthen our financial position. First, we are lowering our costs across the business. We are swiftly aligning our operating costs with volume realities, while remaining focused on achieving our synergy targets. We are taking further actions to lower our fixed costs by driving down SG&A, eliminating discretionary spend, suspending merit increases, implementing a hiring freeze since January 1, along with other actions.

Considering our cost structure, about 85% of our cost of sales are variable. And within SG&A, about 15% of our costs are variable or semi-variable in the short term. We expect the incremental cost actions we are taking to drive down SG&A.
Second, we are aggressively managing cash and looking to further strengthen our balance sheet. We expect improved cash flow conversion, as we reduce our working capital levels in line with the volume environment. We are also reprioritizing some of our 2020 spend to essential and critical items. We've evaluated expenditures that can be paused or canceled. And we are targeting to reduce CapEx by more than 40% versus our prior guidance of $200 million of capital spend.

In terms of capital allocation, our approach remains consistent with what we have said at our Investor Day. And we will continue to smartly invest in our people and the business. We certainly recognize the current uncertainties of the macro environment but believe our framework allows us to be flexible and make discretionary adjustments as necessary.

We, like many companies, are focused on our business and balance sheet. We are targeting to reduce debt levels and to increase liquidity. We did recently announce our dividend, payable on May 22. But for the short term, we paused our share repurchase program.

Keep in mind, we have no major debt maturities due until mid-June of 2021 and remain confident in our ability to access the markets, given our financial profile. We are already taking steps to identify solutions to retire or refinance debt well ahead of maturities, including the opportunities from government stimulus programs and other long-term forms of issuances.

With that, let's move to slide 9. And I will turn the call back over to Rafael.

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

Thanks, Pat. So, as you heard throughout today's call, the company performed well and delivered a solid first quarter despite a weakening environment. As we go forward, we remain committed to executing on our strategic plans as communicated during our Investor Day. And we will continue to carefully assess the markets, in which we operate. This includes reducing costs, aggressively managing cash and enhancing our liquidity position, while focusing on what we can control.

We'll also lean into the strong long-term fundamentals of this company. This includes our $22 billion multiyear backlog, recurring service revenues, broad aftermarket reach, significant installed base, technical capabilities, expansive international footprint and a proven leadership team with deep industry domain.

In addition, we will continue to invest in technologies and capabilities that will advance our competitive advantage and drive the long-term growth. These are the intangible differentiators that will help us successfully manage today's market headwinds over the long-term and will help us emerge as an even stronger and more resilient company.

Before I turn the call over to questions, I want to personally thank each and every member of the Wabtec team for all that they're doing. Everyday, I hear stories about people jumping into action to ensure we keep our customers' operations moving and critical medical supplies flowing into the hardest-hit communities.

But I also hear stories of team members going above and beyond to make a difference in our communities, like our technology team, who are using additive technology to produce thousands of face shields for healthcare workers and first responders; or our teams in Tennessee and in the U.K., who quickly provided radiators for generators at the University of Southern California Hospital and East London's, ExCeL exhibition center, which both delivered emergency medical care during the pandemic.
These moments and so many more like them are the stories that fill me and our team with pride. And these are the stories that demonstrate how we will emerge from this crisis even stronger.

With that, I'll turn the call back over to Kristine.

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

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

With that, 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] Our first question comes from Allison Poliniak with Wells Fargo.

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

Hi, guys. Good morning.

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

Good morning. How are you?

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

Rafael, you had talked about your European, Asian sites from a Wabtec perspective coming back online, but could you maybe talk about how the recovery is playing out in those regions on the demand side? I suspect there's a little bit of a lag there.

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

Sure. I think a couple of comments there, Allison. Number one, I think, as of today, of our 162 manufacturing sites, we only have two that are still closed. And they've got, I'm going to call, specific plans to be open within the next 10 days. So, I think that's encouraging to see from that perspective.

Of course, I mean, as sites resume, I think we're dealing with a lot of government restrictions still, so that's to be observed. And we're staying very much aligned with our customers to understand how the pace of recovery will take place.

And I think if you were to talk to most of our customers, they would describe as volumes really bottoming between, what I call, the month of April and May, and starting to really see recovery through the end of the
second quarter and through the second half of the year. So, I think that's probably the best description of how we're seeing recovery ahead of us. But we do expect a significant impact in the second quarter based on the bottoming of that volume.

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

Got it. Understand. And then, that $15 million profit impact to the quarter from the closures, is there any way to help us understand what percent went to Freight versus Transit there?

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

Hey, Allison. I would say that the majority of it was in the Transit area. The impact was really kind of disruption to our operations and the ability to maybe complete and ship, and recognize revenue on orders both from a supply chain or inflow of components, but as well our own operations and having the people there and get things completed and things out the door. So, the majority of that was in Europe and Asia.

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

Great. Thanks so much. I'll pass it along.

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

Thank you.

**Operator:** Our next question comes from Justin Long with Stephens.

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

Thanks, and good morning.

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

Good morning.

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

Good morning, Justin.

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

Good morning. Maybe to start with the balance sheet. Pat, you mentioned you've stress tested the balance sheet and expect to stay in compliance with your covenants. But is there any color you can provide on the EBITDA downside scenarios that you're modeling as you think through that? And if possible, maybe talk about the range of free cash flow outcomes in 2020 as you think about the different scenarios that you're assessing.
Patrick David Dugan  
*Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.*

Yeah. Justin, thanks for the question. It’s a little bit of guidance kind of wrapped in there. But what we’ve done is, just as a reminder, our covenant ratios are about, for this quarter and the next, at a 3.5 times, and then it reduces to 3.25, debt to EBITDA on a kind of a bank basis for calculating that those covenants.

We've done a variety of scenarios. We've looked at percentage drops of kind of, like most likely a deeper case. We've looked at changes within quarters, where one quarter is more drastically affected than others. As we've come out of those views, our covenants, we are staying within those.

We feel like our cash conversion is aligned with what we gave in terms of guidance in the Investor Day, a 90% cash conversion that will most likely improve because of working capital management. And so, all those things have really given us the opportunity to see strong – and we're confident in our strong cash performance and meeting our covenants.

Justin Long  
*Analyst, Stephens, Inc.*

Okay. That's helpful. And then, secondly, just because things are changing so rapidly here. I was wondering if you could provide any update on the quarter-to-date trends you're seeing in the business, just maybe from a revenue perspective.

And also, I think everybody's looking back to the last recession as a proxy. Obviously, the business has changed a lot with acquisitions. Is there a way to think back and/or, I guess, look at the pro forma business and what the aftermarket business did in the last recession on an organic basis as we think about kind of a downside scenario for the aftermarket?

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

So, Justin, let me maybe start here. Number one, I think just with regards to cash flow conversion, we see an opportunity here to increase debt conversion from the 90% above that we've guided into our investor relations. So, just keep that in mind.

The second piece here is, as we look into the first quarter, I think, as you think about aftermarkets – and I'll break it down here on the Freight side. It grew 8% against performance. So I think, we've seen at least a couple of bright spots in the business. And Services is certainly one of them. Digital Electronics is another one.

I think we've talked quite a bit before about the fact that we've got – internationally, fleets are growing. I think we see – especially across customers, there's some. They're being less impacted, especially you're more dependent on agriculture or specific single commodities versus dependence on what I call global trade or general cargo intermodal. So, I think that's playing differently across the different geographies we serve. And of course, there's different end markets, too, for that context. I think we see mining potentially less impacted than the overall freight market.

So, we remain confident in terms of the long-term view for some of these segments. We do again expect really based on discussions regard with our customers to see bottoming of volume between here, the months of April and May timeframe, with recovering starting to happen in the later part of this quarter and through the second half of the year. Pat?
Patrick David Dugan  
*Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.*

Yeah. I would just – it's a difficult comparison to previous crisis. I mean, not everything is the same. This is unlike anything that any of us have ever seen in our lifetime. I just keep coming back to the strength of our aftermarket and Service business, which will be disrupted, as Rafael talked about, but is obviously critical to any kind of recovery and part of the essential businesses that still operate, and in some cases, operate with some strength. So, we feel good about the business – the core business, the base business, and the cash flow that it'll generate.

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

The last thing I would add there, Justin, is just we're confident about our backlog. We're staying very close with customers. And through that process, of course, there's the impact in terms of shipments based on some of the impacts we've had and our customers have had through the second quarter. But I think the backlog gives us a strong confidence about the long-term views and the fundamentals of the business.

Justin Long  
*Analyst, Stephens, Inc.*

Thanks. And Pat, on the quarter-to-date part of that question, is there anything you can share on how the business has trended from a revenue perspective or just looking at aftermarket?

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

Yeah. It's a little preliminary to be talking about the quarter and how we performed in April. I understand the desire to get a little bit of direction there, but it's a bit early.

I can say that what we've been doing is focusing on some KPIs, looking at, again, our confidence in our backlog and how that's evolving, and looking at our kind of cash performance on a daily, weekly basis. And so far, we feel that that performance kind of supports all the comments about our confidence and strength in the overall view of backlog and cash flow.

Justin Long  
*Analyst, Stephens, Inc.*

Okay. Fair enough. I appreciate the time. Thank you.

Operator: Our next question comes from Chris Wetherbee with Citi.

Chris Wetherbee  
*Analyst, Citigroup Global Markets, Inc.*

Yeah. Hey. Thanks. Good morning, guys.

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

Good morning.
Chris Wetherbee  
*Analyst, Citigroup Global Markets, Inc.*

Maybe just drilling down a little bit on the cash flow and working capital. It sounds like there's some efforts as the year goes on to maybe improve the working capital sort of dynamics. Can you talk a little bit about sort of the first quarter and sort of dynamics within working capital, and then how that may sort of improve as you move forward through the rest of 2020?

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

Yeah. So, we talked about the impact of those onetime items that really did impact our first quarter. We had about $80 million worth of cash outflow, which are working capital items, that cash outflow related to prior-year reserves and accruals that were paid in the first quarter. They were restructuring, transaction-related; they were litigation-related. And so that $80 million did impact Q1.

You look at the rest of kind of the working capital performance in Q1, you do have a seasonality there. We have these outflows that happen in Q1 specific to some comp and benefit-type things, incentive-related reserves. And then, you also have a very good performance in Q4 that probably impacted our Q1 a little bit.

And what you'll see throughout the year is that our working capital, where we anticipate kind of the normal performance, where you – it becomes a source of cash throughout the rest of the year. And then, you layer into it the impact of a business that – we've talked about the disruption that's occurring related to the virus in our operations and revenue. And you would anticipate that working capital would become a bit of a source of cash over the course of the rest of the year. So, we feel like that working capital performance for the remaining quarters will help us drive our cash conversion up for the remainder of the year.

Chris Wetherbee  
*Analyst, Citigroup Global Markets, Inc.*

Okay. Okay. That's helpful. I appreciate that color. And then, just maybe thinking bigger picture about the Transit outlook, and maybe how we can think about sort of government budgets, just sort of potential longer-term changes post COVID-19.

Are there any sort of beginnings of thoughts around how this business might look and sort of the shape or trajectory of this business might look in sort of a three to five-year window? I know it's early on in this process, and we're still sort of learning about it, but kind of curious maybe, Rafael, your thoughts around how this business might evolve over time, if it will be sort of impacted?

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

I think what I'd say, the short-term, I mean, certainly, ridership has been impacted. But as we look at really the restarting of economies, and if you look at some of these transit systems and implementation of, what I'll call, safe distancing, it's going to demand more trains, more investments. So, we certainly looked at as, I think, a positive for the Transit segment. So, I think we continue to see a demand there. And it's certainly part of also a commitment of continuing to, I think, moving things in a better way. So, I think, well, we're bullish there.

And I'll just take the opportunity to also mention, as we think about some of the dynamics on the Freight side, I think we also see, I think, potentially some opportunities playing out of this, which would include elements of, I think, some of our end markets really valuing a lot more reliability in terms of their supply chains. And there could
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

Rafael O. Santana

be an element, especially for North America, in terms of near-shoring or onshoring some of the supply chains. So, those are probably, I think, a couple things that we could see out of this that would certainly drive volumes and trends up for the end markets we serve.

Chris Wetherbee
 Analyst, Citigroup Global Markets, Inc.

Got it. Great. Thanks very much for the time. I appreciate it.

Operator: Our next question comes from Matt Elkott with Cowen.

Matt Elkott
 Analyst, Cowen & Co. LLC

Good morning. Thank you. So, a lot of the North American freight railroads talked about — I think they still want to do locomotive modernization. Some may actually use the downtime to do more. But they're also, like everybody else, cutting capital expenditures. Where we stand now, Rafael, how does that impact the outlook for modernization this year? Are we looking at fewer modernizations or in line or up?

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

I think, at this point, we see a continuous commitment to the modernization programs. It's a big part of how you drive efficiency and productivity into the customers' operations. And I'll probably add to that, some of the elements of our Digital Electronics business as well. So, we're seeing a commitment there. And I think there's continued opportunity to play that also internationally. And I think we're currently discussing a few opportunities to drive upgrades internationally as well and continue to grow from the opportunity to highlight it end of last year.

Matt Elkott
 Analyst, Cowen & Co. LLC

But it's too soon to say whether modernization revenue would be — directionally, how it would look relative to your expectations a few months ago?

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

I mean we're confident about the backlog. And I'd say we've walked into this year with that backlog fundamentally secured. And it was the same with regards to new locomotives, which was expected to be down.

I do want to remind you that, for the first quarter, and I mentioned that before, we expect that both new locomotive shipments and modernizations to be lower. And that was even pre-COVID, but I think we remain confident about the dynamics of demand for mods in the business.

Matt Elkott
 Analyst, Cowen & Co. LLC

Got it. And just one more question; if you can just talk broadly about the impact of lower oil prices on the different part of your business.

Rafael O. Santana
 President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
Okay. So, if you think about lower oil prices, I think, as far as the freight market goes, it really calls for about 7% of what – up on North America railroads transport. That's probably where we would see most of that impact. I'd say less than a third of that 7% is really tied to any variation of what I'll call in the price of oil per se, so it's less about that.

And I think the one area to watch out is some of the energy markets that we serve with our products. And that's an area that we'll continue to watch. I think, as we really follow with customers here on how they're seeing volume ahead, I mean, we're very much committed to make sure we're taking the necessary cost actions to adjust the different parts of the business to face these new realities.

Matt Elkott  
Analyst, Cowen & Co. LLC

Great. Thanks very much.

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

Thanks.

Operator: Our next question comes from Jerry Revich with Goldman Sachs.

Jerry Revich  
Analyst, Goldman Sachs & Co. LLC

Yes. Hi. Good morning, everyone. And I'm glad you're all doing well.

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

Jerry.

Jerry Revich  
Analyst, Goldman Sachs & Co. LLC

I'm wondering if you could talk about the opportunities to accelerate the cost-reduction targets as a result of the weaker demand environment. Anything that you could do to come out a step ahead on the strategic front out of this lower volume environment? And if you could talk about your expectations for synergies, savings cadence over the course of this year, given the evolving playbook, that would be helpful.

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

Let me start, and I'll maybe pass it on to Pat. I think, I'd probably start with just SG&A is down from the first quarter about 70 base points. Hopefully, you've seen that a lot of these actions were taken in the back of the year. So, if you look at 2019, we were actually growing volume above 5%, and we took more than 5% head count down during that time. So, we are committed to take the necessary actions. They're challenging tough actions, but necessary to the environment we have.

And we're going to continue to do that. We've had announcements in terms of reductions in some of our key sites. And we'll continue to move in that direction. Earlier on, we talked about CapEx, and we're implementing more than 40% reduction. I want to balance that with the following comment. I think a lot of that CapEx reduction was
tied to projects that we have volume associated with it. So, we’re either deferring or postponing some of these, as we gain better visibility ahead. I do want to, again, emphasize our commitment to R&D and continue to invest on some key programs that will be differentiators for us, as we highlighted in the investor conference we had.

I think the other elements has been really consolidating footprint. Last year, we did about 6% of footprint consolidation, and that was about 1 million a square feet. We’re going to be executing on our 9%, so that’s also going to be an element of how we continue to drive cost down, and we’re – as I think about the synergies per se, we’re absolutely committed to the $150 million of synergies for the year. We do recognize there could be an element of impacts associated with volume, but again, I think we’ll continue to take further actions to make sure that we deliver on that. Maybe Pat?

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

Yeah. I would just add, we’re trying to be very disciplined about what we measure as synergies versus just adjusting the business for the volume realities. We’re doing both at the same time. And so, if you – to go back to your kind of original question, is there anything we can do strategically to accelerate?

We had already accelerated the synergy plan that we would hit our run rate a little bit earlier. We’re going to continue to execute on all those expectations, all those plans. And they can and will be looked at as maybe done a little bit earlier based on volume. But nothing that we want to really highlight at this point in terms of giving a number or anything plan-specific.

All I can tell you is that we are working on everything we can to ensure that we – and we expect to get those synergies, but to do more in terms of additional cost because of the change in the environment.

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

Expect us to use every lever in the business. And we’ll continue to evaluate those and make sure that we exercise those, as we’re looking to new realities ahead.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Okay. I appreciate the color. And then, in terms of Services and Electronics, specifically, how discretionary are aspects of those product lines in this type of environment, where volumes are down 20% for your customers? I’m sure they’re also targeting OpEx reductions as well. Can you just talk about how critical the services are? Do you expect to continue to outperform in your Services versus Freight volumes? Just high-level comments there would be great.

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

Okay. Well, first of all, there's certainly an element of impact there as customers park locomotives, especially in North America, in the light of volume bottoming. I think we said before, I think we have a younger fleet. Our locomotives are more productive than our competitors' locomotive, so I think we’re in better position in terms of being able to navigate through this downturn.

And I think a lot of the solutions that we have in the Digital Electronics, even though, to your point, some of that could be discretionary spending, I think a lot of those play strong in terms of allowing customers to get really lower
costs, lowering expenses, and ultimately, getting the benefit with relatively short term. And so, we continue to expect strength on those product lines.

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

Yes. I'm going to just reemphasize what Rafael just said, is that the Service side of our business helps our customers drive efficiencies and reduce operating expense. It's really – it's some of the premise of PSR, but it's – and you would think that, that would continue as we go through the rest of the year.

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

Okay. I appreciate the discussion. Thank you.

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

Okay. Thanks.

**Operator:** Our next question comes from Scott Group with Wolfe Research.

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

Hey. Thanks. Morning, guys.

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

Scott, morning.

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

So, can you help us think about the – with Transit ridership down at least so much in the near term, is that having more of an impact on OE or aftermarket? How do we think about margin mix within Transit right now? I know there was a comment in the release about committed to segment margin improvement. Does that apply to both of the segments this year?

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

Scott, so I maybe start. I think as you think about Transit, I mean, think we're seeing the end customers continue to be committed to what I'll call the projects, per se. There could be an element of, I'll call, impacts of what I'll call services for the short term just based on, well, ridership being down.

I think, again, we're probably going to see – and as we've talked to customers, I think there's an expectation that the bottom of that has really happened between here, the months of April and May. And I think ridership is expected to be ramping back up as we go into the later part of the quarter and into the second half of the year. So, I think that's one element.
I think a lot of the dynamics, what you saw in the quarter per se, I think, that referred to the over $0.05, [ph] we've had of (00:51:32) impact on EPS. I think a lot of that came really associated with our inability to ship due to shutdowns. And those were either to our own plants, especially in – I'll probably mention here India and parts of Europe.

And, well, of course, we have customers impacted through that as well, so in some cases, the inability of customers receiving some of these shipments. But, again, I think, we have a solid long term view here for the business. And we're confident about the strong fundamentals. So, Pat?

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

Yeah. I think, kind of getting to your question about what do we think about the impact of Transit ridership being down. I think, kind of, near term you're seeing a little bit of a mix of fewer trains running, but maybe some pent-up demand for some maintenance and services and safety stock. So, I mean, some of that is definitely occurring.

I think the kind of more longer-term impact is the — of a quarter or more of the lower ridership is to be seen. And part of the reason why we talk about our top line guidance the way we have is we still have to see how this unfolds. But, long term, the areas that we're operating in are heavily dependent and will continue to rely on Transit. And in some way, it may become opportunistic as everybody kind of figures out what Transit looks like in the future.

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

And I think when you reflect on the margin improvements, I think we're continuing to see the quality of the order intake. Margins continue to improve there, so the orders are coming in. And the other piece is we're seeing operational improvement in the business. That speaks to improvement in on-time delivery, reduction on cost of quality. Of course, these comments are pre-COVID. And I mean, we'll be assessing how COVID will be impacting some of that. But we're committed to the margin improvement on the Transit segment.

Scott H. Group
Analyst, Wolfe Research LLC

Okay. And then, I want to sort of see if, maybe, we can get a little bit more color. I understand you won't give us April revenue, and that's fine. But we're lapping GE, we don't really have any KPIs to track, there's not great sort of conflict.

Directionally, is there any sort of color on sort of how to think about revenue right now? Down mid-single, down high-single, double-digit, strong doubles? Like, any sort of directional color, just because with you guys, it's particularly tough right now relative to some of the other companies.

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

Yeah. I appreciate the question, Scott. I don't — with kind of pulling the guidance, I think, for the year, I think it's a little bit difficult to put anything out there. April, for us, is still being kind of accumulated and looked at. We feel good about — as we're measuring where our backlog is and our cash flow performances that we feel like it's well within some of the scenarios that we had outlined, but nothing that we really want to talk about kind of publicly right now in terms of guidance.
Operator: Our next question comes from Saree Boroditsky with Jefferies.

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

Hi, Saree.

Saree Boroditsky  
Analyst, Jefferies LLC

Good morning. I think you mentioned mining being less impacted than the overall freight market. Could you talk about what you saw from the industrial business in the quarter, and how you’re thinking about demand there for the rest of the year?

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

Okay. I think when we think about the impact, I think, certainly the energy markets is the one that we're fully more concerned about and the impact there, as we serve some end customers on that regard. We're working very closely with our mining customers and staying very close with Komatsu here. And I think we continue to see opportunities for the services of that business. And I think we're seeing certainly less of an impact there. Anything else you would add here, Pat?

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

No. I mean, I think that some of the industrial markets are really they're tied to oil and gas, or our heat exchange business, and some of our turbocharger business. And we've seen some decline in the quarter. We imagine that, that decline will be sustained a little bit with the price of oil.

Saree Boroditsky  
Analyst, Jefferies LLC

Thanks. That's helpful. And then, you talked about continued strength on the Freight Services side. I was just wondering if you're seeing any of the rails perform more in-house services, given the lower volumes.
Rafael O. Santana  
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

Could you repeat that again, please?

Saree Boroditsky  
Analyst, Jefferies LLC

You talked about continued strength in the Freight Services side, so I was just wondering, in your conversations, if you've seen any of the rails perform more in-house servicing?

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

I'd say, no, we haven't seen any significant change to that. And I think, in fact, we have some opportunities here to help the railroads potentially driving efficiency through that process. So, if you think about mods and some of the elements of things that we do on the Services side of the house, so I think that's a continued opportunity for us. We don't see that as an impact to our revenues right now.

Saree Boroditsky  
Analyst, Jefferies LLC

Okay. Thanks for the color.

Operator: Our next question comes from Courtney Yakavonis with Morgan Stanley.

Courtney Yakavonis  
Analyst, Morgan Stanley & Co. LLC

Hi. Thanks for the questions, guys. Can you just comment a little bit on the shutdown in India? Obviously, they make up a large portion of the backlog on the Freight side and on the local delivery side. Can you just comment on your ability to kind of catch up by the end of this year or whether we should be thinking about some of those expected shipments— or deliveries getting pushed into, into 2021?

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

So, I'll say our sites resumed operations today in India, except for one of them, which I think, we have a clear line of site to starting back up within less than a week. And I think, we're going to be watching really closely here. But right now, things seems to be really moving in the right direction. And we would have the ability to catch up for the year.

And even as we look at it in the quarter, there has been, I think, potentially some opportunity to partially recover some of the volume lost there in terms of shipments. Does that answer your question?

Courtney Yakavonis  
Analyst, Morgan Stanley & Co. LLC

Yes. That's helpful. And then also, you commented on kind of quantifying the COVID-related drag on the quarter has been about $0.05 or $15 million. Can you just comment what exactly you're including into that and how you would break that down between Freight and Transit?
Patrick David Dugan  
*Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.*

Yeah. We didn't view it as – when we were talking about this, this is not something we added back. We just highlighted it just for exactly this question. And mostly, it’s revenue impact to our operations in India, the ability to get some of our loco build finalized.

But I'll also point out we have a pretty sizeable Transit business in India that was also impacted. And again, it's just the timing of production and shipments in the quarter – at the end of the quarter. The rest of the impact is European operations where shutdowns or partial shutdowns occurred. And again, maybe some things weren't shipped and the revenue recognized, or our inputs components from suppliers didn't arrive in time and we weren't able to complete the project. So, all those things, kind of, added up into the $15 million worth of EBIT impact.

We did not have a lot of – we had some, but nothing worth highlighting of like cleanup costs or any kind of things like that. We clearly were taking the appropriate steps to protect our employees, to make sure that any kind of cleaning or any kind of disruption that way were viewed. But the $0.05 that we're talking about here are really revenue disruptions.

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

Okay. Thanks. And then just one more clarification on the 9% footprint consolidation, was that incremental to your previous plans or was that kind of what’s expected to achieve the synergy targets you guys are...

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

That was within how we would have achieved the synergy targets for the year, so totally tied to the $150 million that we've committed to deliver in the year.

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

Yeah.

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

Okay. Great. Thank you guys.

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

Thank you.

**Operator:** Our next question comes from Ken Hoexter with Bank of America Merrill Lynch.

Ken Hoexter  
*Analyst, BofA Securities, Inc.*

Hey. Good morning, Pat and Rafael. Interesting. On the confidence in the backlog, maybe you could just talk a little about this. You noted – I just want to see, have you had customers come and have discussions about
shift? Maybe you could talk to us and give us some precedent in prior downturns how has that committed spending been. And is that tied to production schedules in terms of the backlog? Can they shift delivery times and push that out? Just want to understand how the timeframe works on that backlog as well. Thanks.

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

Yeah. So, I think you bring a great point. I mean, this is not the first downturn we’re going through. We will operate and work very closely with customers here. And we’re confident about that $22 billion backlog at this point. We’re, of course, working with customers as COVID has impacted operations, so there could be a shift in terms of when some of these projects are shipped. But, overall, confident about delivering on that backlog.

Ken Hoexter  
Analyst, BofA Securities, Inc.

Yeah. Just can you expand a little bit on that, Rafael? Have customers come and asked for delays? I just want to understand the commitment on that.

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

I think the backlog, it’s largely – again, I think we’re executing through that backlog. The elements of delay are really associated with some of the dynamics we see in the quarter, whether it’s due to our, I’ll call, own inability to catch up on some of the elements of this delivery just based on the shutdowns we’ve been subject to or customers’ ability to also be receiving or executing through that. So, I think, again, back to my original comment, the confidence on the backlog is there. And we’ll always be working with customers proactively on that regard.

Ken Hoexter  
Analyst, BofA Securities, Inc.

But no comment directly on if customers have come and asked for delays or what the negotiations like. I’m just trying to understand how that...

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

So, Ken, I think some of it – we’re constantly in conversation with all our backlog and all our customers about the timing of deliveries, and so it does have an impact. And when we kind of look at the current year, right now, we have a lot of confidence in the current scheduling in terms of manufacturing and delivering, but it will – you do have this kind of constant demand on us and our customers to kind of work on when and how we’re going to deliver the backlog. So, it’s not kind of simple as just saying we’ll – have they all of a sudden just showed up and asked the question. This is how everything unfolds every year.

Ken Hoexter  
Analyst, BofA Securities, Inc.

Okay. And then, just on the second part of that. Is it tied to your production schedules? Can they shift the delivery times? Is that part of the backlog discussions you have?

Rafael O. Santana  
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
I think there's a mix. There's an element of, I'll call, long-term orders that we're certainly executing through. There could be delays there. I think the area where you could see some variations, really tied to more transactional volume associated with potentially fleets are being parked and maintenance, to some extent, that's going to be deferred just the fact you're not utilizing equipment.

And most of that impact, it's certainly going to be felt here, I think, in the second quarter, based on my earlier comments of bottoming of volume between the months of April and May timeframe. And they do expect that to resume as we go towards the end of this quarter and the second half of the year.

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Ken Hoexter  
*Analyst, BofA Securities, Inc.*

Great. And then, my follow-up on Courtney's question before about the 9% footprint consolidation, maybe just expand on that a bit. Are you doing any structural changes? Now that you look at post-merger and given the downturn in demand, do you see like yourself accelerating some of these structural changes or are you saying, with $150 million, you're sticking with the target, maybe you've accelerated that plan within that target, but there are no new moves that you're putting within that that are clear now that you've got downturn and can make bigger changes?

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

So, certainly, I think volume reductions allow us to potentially look at, I'll call it, accelerating some of these elements. And I think, when I go back to our comments of staying committed to deliver on the $150 million of synergies for the year, there's certainly an element of that.

And despite of any, I think, volume reductions, we're seeing there on the synergy, especially, if you think from a sourcing perspective, there could be, I'll call it, an impact there. I think we've got areas of opportunities here to continually – to take action on.

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Ken Hoexter  
*Analyst, BofA Securities, Inc.*

All right. Thanks for the time, guys.

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Operator: Our next question comes from Jeff Gates with Gates Capital.

Jeffrey Linn Gates  
*Managing Partner, Gates Capital Management, Inc.*

Yeah. I have a question, if I look at the GE business that you purchased, can you talk about the seasonality of that? And it looks like the first quarter, from the pro formas you gave last year, show that it's typically very seasonally weak in the first quarter. And I'm just wondering, what is it about that business that makes it so seasonal?

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

Hey, Jeff. I think the seasonal aspect of this business, and Rafael may add on to this, is the Service side. I think our customers have a kind of overweight in the loco areas, the Service business, into the third quarter, and not so much in the first and in the fourth. And so, that's the real seasonal element about it.
But when you kind of look at it over a multiyear period, you do have the impact of projects in that which is OE and is driven by customer demands and expectations, their own fleet for new equipment and then international projects, too. So, that can kind of create some lumpiness quarter-to-quarter in terms of revenue recognition. But the true seasonal part, which is the Service in North America and international locomotives tends to be very heavily weighted into Q3 and not so much in Q1.

Jeffrey Linn Gates  
Managing Partner, Gates Capital Management, Inc.

But am I thinking about it correctly that the GE business, the first quarter is more seasonally weaker than the legacy Wabtec business?

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

I think if you're to look historically, I think there could be elements of like weakness in the first quarter. But back to Pat's comment, it's really more tied to time of projects than anything else. And as I look into specifically this quarter, we did have both elements of not just lower shipments on new locomotives, but we also expected lower shipments on the modernization side. And those were even pre-COVID, so largely, again, project-driven.

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

And I would add one other element. And I don't know how many periods or what periods you're comparing but there's – if you go outside of the numbers that we've provided, you have different revenue recognition standards and that would maybe exaggerate some of the seasonality. But I think that it's fair to say that Q1, seasonally, is lower on the Service side. Q3 is a little bit higher.

Wabtec, on the other hand, which is doing freight car service and maintenance maybe a little bit different, but now it's a much smaller percentage of the total business, where that seasonality would be more Q1 and less in Q3. So, a lot of things to kind of add and subtract from those.

Jeffrey Linn Gates  
Managing Partner, Gates Capital Management, Inc.

Okay. Thank you.

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

Yes. Thanks, Jeff.

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

Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the call back over to Kristine Kubacki for any closing remarks.
Kristine Kubacki  
Vice President-Investor Relations, Westinghouse Air Brake Technologies Corp.

Thank you, Irene. And thank you, everyone, for your participation today. Hope everybody's safe and healthy. We look forward to speaking to you soon. Goodbye.

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