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# Westinghouse Air Brake Technologies Corp. (WAB)

Acquisition of Inspection Technologies by Wabtec Corp Call

## CORPORATE PARTICIPANTS

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### Eric Gebhardt

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

### John A. Olin

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## OTHER PARTICIPANTS

### Steve Barger

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### Daniel Imbro

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### Ivan Yi

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Wabtec Corporation's Conference Call to announce the Acquisition of Evident's Inspection Technologies Division. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

### Kyra Yates

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

Thank you, operator. Good morning, everyone, and welcome to Wabtec's conference call. Today, we will be discussing our acquisition of Evident's Inspection Technologies division, a strategic and powerful addition to our Digital Intelligence portfolio. Today's slide presentation, along with the press release, were posted to our website and can be accessed on our Investor Relations tab. As a reminder, this conference is being recorded and a replay will be available on our website later today.

Before we start, I would like to remind everyone some statements we are making are forward-looking and based on our best view of the world and our business today. I'd ask that you review today's press release and the second slide in this presentation for the appropriate disclaimers. We will also discuss non-GAAP financial metrics and encourage you to read our disclosures carefully as you consider these metrics.

Today, I am joined by Rafael Santana, our President and CEO; CFO, John Olin; Nalin Jain, President of Wabtec's Digital Intelligence Business; and Eric Gebhardt, Wabtec's Executive Vice President and Chief Technology Officer. We will discuss details regarding the purchase of the Inspection Technologies division of Evident, including the strategic rationale, and overview of the company and the transaction terms. Following these remarks, there will be time for a Q&A session.

I will now turn the call over to Rafael.

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## Rafael O. Santana

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

Thank you, Kyra, and good morning to everyone. Today, we're excited to announce that Wabtec is acquiring Evident's Inspection Technologies division, an industry leader, renowned for its leading position in nondestructive testing, remote visual inspection, and analytical inspection technologies. The addition represents a unique opportunity to strengthen and accelerate growth in our Digital Intelligence business. This acquisition will help accelerate Wabtec's growth trajectory and meet the increasing demand for advanced diagnostic technologies. It also aligns with our stated growth drivers, including accelerating the innovation of scalable technologies, increasing installed base, expanding high margin recurring revenues, and driving continuous operational improvements.

The Inspection Technologies division of Evident will expand our Digital Intelligence offering with advanced products and services for the rail, mining and industrial sectors, while broadening our reach into other high growth, high margin end markets. Through this acquisition, Wabtec is positioned to accelerate profitable growth by enhancing productivity, reliability and safety in our customers' operations through investments in predictive maintenance and integration of advanced analytics, sensors and AI technology. Moreover, this acquisition doubles the total addressable market for Wabtec's Digital Intelligence business from approximately \$8 billion today to \$16 billion, while incorporating a revenue base with recurring and repeat revenues of approximately 68%. We expect this addition will provide immediate shareholder value with a high-single-digit revenue growth outlook and accretive adjusted EBIT margins.

Next, let's talk about Evident's Inspection Technologies division on slide 5. Inspection Technologies is a globally recognized leader in the mission-critical inspection space with a history of over 50 years of innovation. Their expertise covers three core critical areas of Inspection Technologies that include nondestructive testing, remote visual inspection and analytical instruments. Collectively, Inspection Technologies product portfolio helps ensure productivity, reliability and safety across our customers' assets, aging infrastructure and supply chains.

From a financial perspective, Inspection Technologies division has estimated revenues for calendar year 2024 of \$433 million, with an estimated EBITDA of \$112 million, representing a 25.9% EBITDA margin. In addition to robust financial metrics, this addition brings consistent and sustainable revenue streams, including a significant recurring revenue component. Inspection Technologies solutions detect potential failures before they occur, enabling customers to take preventive measures, often ensuring compliance with both regulatory and safety standards, while improving reliability and minimizing operational downtime.

When we look at this acquisition, three key areas stand out as drivers of growth opportunities. The first one is shared segments. Evident's Inspection Technologies division will enhance Wabtec's strong presence in rail, mining and industrial sectors. This will extend Inspection Technologies to Wabtec's existing customers, creating additional value. The second area involves leveraging Wabtec's software expertise by integrating our Digital Intelligence software capabilities with Inspection Technologies existing portfolio. We will deepen penetration with their current customers, while unlocking value for our Digital Intelligence business.

Finally, driving innovation. The combination of our technologies and expertise will accelerate the development of the innovative products, enabling us to expand into new segments and capitalize on new opportunities for growth. In the next few slides, Nalin and Eric will share specific use cases that demonstrate how these areas will drive value. On slide 6, let's discuss how [ph] Wabtec and (00:07:19) Inspection Technologies complement each other. For this, I'd like to introduce Nalin Jain. Nalin is the President for our Digital Intelligence Group. Nalin?

## Nalin Jain

*President-Digital Intelligence, Westinghouse Air Brake Technologies Corp.*

Thanks, Rafael, and hello, everyone. I am happy to discuss how this acquisition significantly enhances Wabtec's capabilities in Inspection Technologies for its existing product offerings like kinetics, expanding Wabtec's opportunities with its existing customers. Our two businesses fit well together. The combination of our technologies will further strengthen Wabtec's capabilities in advanced analytics, ultrasonics, vision and optimization solutions, remote monitoring, and of course, artificial intelligence. Wabtec's KinetiX suite and telematics solutions pair with Inspection Technologies nondestructive testing capabilities and sensors will advance our inspection capabilities to better understand how assets are performing, such as railcars, tracks and locomotives.

Now, let's turn to slide 7 to discuss how Inspection Technologies expands Digital Intelligence business and growth potential. Most notably, and importantly, Inspection Technologies product portfolio strongly complements our existing Digital technologies. This will allow us to draw on common technologies and applications from each business, and to sell our products and services to additional customers. It will also promote innovation across the various businesses through sharing of technical capabilities and to focus on operational excellence, leveraging specific technologies across business segments and accelerating penetration of innovative products across our combined businesses.

Inspection Technologies use of Digital Group's software development capabilities will serve to accelerate the proliferation of software-based solutions within their product offering. Inspection Technologies have numerous opportunities to combine hardware sales with software products that bring workflow functionality and deep analytics to the customer. We see this as an opportunity for Wabtec to differentiate the product lines and drive greater customer value. An example of this is pattern recognition software, which is powered by AI. Observations coming from sensors could be used to recommend next steps for maintenance and repair technicians, which is what we do today on our locomotives. Conversely, the Digital business has the opportunity to use Inspection Technologies products to further penetrate our existing inspection products with our rail, mining and industrial customer base. Eric will walk you through some of these examples on the next page.

In addition, the combination of Inspection Technologies with our Digital business offers the following benefits. First, increase in scale of our most profitable business group, increasing revenues by over 50% with highly profitable earnings, and adds to recurring revenue stream of approximately 68%. Next, strong customer loyalty coupled with products that have number one, number two global positions. Inspection Technologies excels in building long-lasting relationships by working directly with their customers. And finally, a high-single-digit growth profile which doubles the size of our total addressable market to \$16 billion. With the acquisition of Inspection Technologies, I expect an acceleration of our customer penetration and share of wallet with our rail, mining and industrial product lines. As the leader of Wabtec's Digital Intelligence business, I couldn't be more excited for the opportunities ahead of us, as we add Inspection Technologies to our Digital portfolio. We expect to drive significant value to our combined customers.

Next, I would like to ask Eric Gebhardt, our Chief Technology Officer, to walk through how the addition of Inspection Technologies will support our core rail and mining segments, as well as new potential opportunities in the future. Eric?

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## Eric Gebhardt

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

Thanks, Nalin, and hello, everyone. On slide 8, we have outlined how the addition of Inspection Technologies will support our core rail and mining segments. The rail and mining industries have always had a focus on safety, availability and reliability, and this focus is always increasing. Let me walk you through some examples of how this acquisition can enhance inspection capabilities in rail and mining.

Leveraging Inspection Technologies expertise in ultrasonic, phased array, eddy current, and remote visual inspection will be a great value to railroads by improving operations and keeping the trains moving. Inspection Technologies currently has automated nondestructive testing capabilities for wheels, axles and track inspection. And by combining this with Wabtec's KinetiX suite of wayside technologies and our technical depth in wheels, we will accelerate the development of solutions for real diagnostics and inspection, and this will improve our customers' productivity, reliability and safety.

On the mining side, Inspection Technologies nondestructive testing solutions combined with our Digital Intelligence business and industry expertise can make inspections of various mining equipment faster and more accurate, enabling our customers to run their mining operations more efficiently. For example, in mining, remote visual inspection and nondestructive testing can be used to inspect gears and welds for defects, as well as using eddy current and internal rotor inspection for heat exchanger tubes on mining equipment.

As Rafael has mentioned previously, there are three areas of growth opportunities. I would like to discuss the third area in more detail. The third area is future innovation as a result of the combination of our two businesses. When I think about the future of inspections, we will have the best of both worlds with this acquisition. We currently have inspection at a distance with our KinetiX platform, where we use visual, acoustic, and other technologies from a distance to perform inspections.

With Inspection Technologies, we will now have close up, more precise inspection capabilities. I can foresee use of KinetiX's visual and acoustic technology to do continuous rail inspections from the locomotive looking for anomalies rather than using a separate inspection vehicle. And when an anomaly triggers, a follow-up inspection would be performed with a more precise NDT technology. And this will be a virtuous feedback loop, where our initial inspections will become more accurate over time based on the results of these more detailed inspections and more detailed inspections become better based on industry experience. This type of strategy could be used for wheels, conveyors, gears, frames, and many other things. I'm excited for this future that can improve productivity, reliability and safety for our customers.

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

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## Rafael O. Santana

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

Thanks, Eric. Now, let's turn to slide 9. This is a highly strategic deal that complements our Digital Intelligence portfolio as well as supporting our company's growth drivers. The acquisition will accelerate the development of scalable technologies by enhancing predictive maintenance and integrating advanced analytics, sensors and AI technology. It increases our installed base while augmenting Wabtec's existing offerings in the rail, mining and

industrial sectors, broadening our reach into our high growth, high margin complementary segments. The acquisition also expands high margin recurring revenue streams and predictability for the company with repeat maintenance of our customers' asset base. Finally, it will drive continues improvement for our customers by boosting productivity, reliability and safety of their operations through actionable inspection solutions.

Now, I'd like to turn it over to John, who will review the transaction details of this acquisition. John?

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## John A. Olin

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

Thanks, Rafael. Let's turn to slide 10. While the team has just shared the significant strategic and technical benefits of this acquisition, I'd like to take a moment to highlight that this investment also has attractive financials, it is accretive and a source of significant value creation for Wabtec. First and foremost, our investment in Inspection Technologies is expected to yield an estimated purchase multiple of 12 times Inspection Technologies projected 2025 EBITDA when adjusting for estimated transaction and separation costs, the estimated tax benefits of approximately \$95 million, and expected run rate cost synergies.

I believe it is important to note that this investment profile is built on expected cost synergies of \$25 million to be realized over the next three years. The cost to achieve these synergies are estimated at \$5 million. We also believe that there are revenue synergies that have not been included in this investment profile, but which could provide upside to these investment returns. Purchase of Inspection Technologies is expected to drive immediate shareholder value with a high-single-digit revenue growth outlook, accretive adjusted EBIT margins, and accretive ROIC to be realized over time with an IRR into the double-digits. We also expect the acquisition to be slightly accretive to adjusted EPS in the first year of ownership.

Now, let's turn our attention to cost and close. We are purchasing the Evident's Inspection Technologies division for \$1.78 billion in cash, subject to customary adjustments. We intend to finance this transaction with cash on hand, temporarily tapping into the company's credit revolver and issuing a term note. At the time of purchase, we expect our net leverage ratio to be approximately 2.5 times, which is within our stated range of 2 to 2.5 times. We would also expect to bring this leverage ratio down as we progress through the year. As far as the timeline, there are normal and customary regulatory approvals that are required. With that, we expect to close by the end of the first half of 2025.

Before I wrap up, I'd like to emphasize the quality of revenue that Inspection Technologies brings to the company. I think of this in three areas. First is, revenue resilience, which is driven by mission-critical nature of the assets and infrastructure that Inspection Technologies products protect. The second is, revenue predictability, which is supported by its high share of recurring revenues. And the third, revenue underlying growth trajectory, which is expected to continue in the high-single-digits.

With that, I'd like to turn the call back over to Rafael for a few closing remarks.

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## Rafael O. Santana

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

Thanks, John. In closing, I'm excited about the acquisition of Evident's Inspection Technologies division and what it means for our customers, shareholders, and employees. This strategic acquisition enhances Wabtec's existing portfolio, expand its prospects in high growth industrial sectors, and squarely aligns with the company's long-term vision for innovation and sustainability. Inspection Technologies product portfolio complements our Digital Intelligence business as the advance of detection technologies, software and inspection services will expand



Wabtec's capability to improve productivity, reliability and safety for our customers' assets and businesses. The addition of Inspection Technologies opens up new possibilities for Wabtec by doubling the total addressable market for the Digital Intelligence business from roughly \$8 billion today to \$16 billion. We are excited by all the possibilities this acquisition brings to Wabtec and the value it brings to our shareholders.

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

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## Kyra Yates

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

Thank you, Rafael. We will now move on to questions. But before we do, and out of consideration for others on the call, I ask that you limit yourself to one question and one follow-up question. Operator, we are now ready for our first question.

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## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from Steve Barger with KeyBanc Capital Markets. Please go ahead.

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### Steve Barger

*Analyst, KeyBanc Capital Markets, Inc.*

Good morning and congratulations.

Q

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### Rafael O. Santana

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

Good morning, Steve.

A

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### Steve Barger

*Analyst, KeyBanc Capital Markets, Inc.*

I'd like to start with the 68% recurring revenue for Evident. What is the average length of customer relationship, how long does the average contract run, and how have you trended on renewal rate percentage over time?

Q

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### Rafael O. Santana

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

Steve, let me start with just how business is done here. It's really around partnering with the customer, understanding the application, ultimately, really defining equipment that the company is going to buy, they're going to be using that equipment for five to seven years. That equipment, now that it's used, it's got wearables, so that's where the recurring revenue comes in. And once you get to that five, seven-year time, I mean, you've trained the technicians, you've trained people to really be able to perform that. So, it's very natural for the customer to stay and keep going. So, that's the nature of the recurring revenue here. I believe part of your question [indiscernible] (00:22:48) same time, it probably behaves a little bit more like our flow businesses, and lead times are generally what I'll call 60 to 90 days, but it's a high recurring revenue business.

A

**Steve Barger***Analyst, KeyBanc Capital Markets, Inc.*

Q

Understood. And when you combine the business, it looks like you're going to have high-single-digit share of a \$16 billion TAM. Where does that put the combined business relative to competitors? Like, will you be number one share as you define TAM or number five, and how fragmented is it below you? Meaning, will there be opportunities for further acquisitions in the space?

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

A

So, Steve, two things there. As we look into the three segments we defined, let me start first, this is the leader in the space. Second piece is, as you look into the segments that we defined, we are either number one or number two in that context. If you look at what I'll call the landscape for competition, throughout those three spaces, I'd say, if you look at the top three companies playing in the space, they all call for about 70% of the market into each one of those individual spaces. So, we feel very strong here in terms of the position we're buying into it and the value we can bring to accelerate growth in these spaces.

**Steve Barger***Analyst, KeyBanc Capital Markets, Inc.*

Q

Thanks very much.

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

A

Thank you.

**Operator:** The next question comes from Daniel Imbro with Stephens. Please go ahead.

**Daniel Imbro***Analyst, Stephens, Inc.*

Q

Yeah. Hey. Good morning and contrasts on the deal.

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

A

Good morning, Daniel.

**Daniel Imbro***Analyst, Stephens, Inc.*

Q

Maybe starting a little bit at higher level. So, strategically, I thought the example you gave made a lot of sense that better inspection seems complementary to your existing rail customers. I guess, can you talk about how much customer overlap there is between two companies, how much cross-selling opportunity is there? And then, what are the other potential revenue synergy opportunities outside of that rail inspection which you gave the example of?

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

A



Yeah. Let me start, Daniel, just with, I mean, we see here a significant opportunity to deliver on greater returns for our shareholders. Just got to start there. Second is, as you said, this is very consistent with the acquisitions we've done in the past. Think about Beena Vision in 2022. If you think about Nordco and Super Metal, they build right on the top of those core technologies. If you think about Track IQ, which have been part of our portfolio, these are core technologies to determine outcomes on reliability, availability and safety.

As we look at the end markets we serve today, this will serve as an opportunity for us to really sell more into those end markets and grow from that perspective. If you think about our ability today on our Digital Intelligence business to bring capabilities into Evident and ultimately make sure that we're taking that to win share into those other segments, that's going to be a key element of that. So, think about Evident leveraging the scale of our engineering, leveraging the really scale we've got in our supply chain, think about us bringing what I'll call technical and industry expertise on gears, rotating equipment, heat exchangers, welding. So, we really don't see overlap in terms of customers. We really see here an opportunity to accelerate growth and I'll probably close with really the significant relationships we're bringing on key geographies and sectors to expand and accelerate that growth.

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**Daniel Imbro**

*Analyst, Stephens, Inc.*

Q

Great. I appreciate all that color. And then, John, maybe a couple financial clarifiers. You mentioned EBITDA margin, any more help you can provide around the EBIT margin profile or the capital intensity of this business to support the high-single-digit growth? And then, how have EBITDA margins trended? You gave a point in time and you said revenue has been growing, but how have EBITDA margins been trending in the business? Thanks.

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**John A. Olin**

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

A

Thanks, Daniel. So, as we – so, let's go for the historical piece first. As we've shown, it's been an 8% CAGR over the last five years. With regards to EBITDA, it has grown faster than that level of growth over the last five years, and where they sit as of us purchasing this business in 2024, they're at about a 26% EBITDA margin. So, that's what's happened in the past. All good. However, what's more important is how we look at going into the future. So, with that, we expect our revenues to growing in the high-single-digits, supported by an industry that's growing in the high-single-digits, Daniel. We've also got opportunities to improve upon that, one, from the very strong innovation pipeline that they have in place that we'll realize over the next couple years, as well as the revenue synergies that Rafael just talked about.

From a profit standpoint, things look just as good there, and we would expect to be able to grow on profits at a higher rate than the high-single-digit revenue, and that is largely driven by the synergies that we have, the cost synergies, right. So, on a base of \$112 million of EBITDA in 2024, we will improve upon that by \$25 million over the next three years with the synergy opportunities that we have. And Daniel, as you know, driving synergies and integrating companies are no stranger to us. So, we feel very good about driving that \$25 million. And as we mentioned in the prepared remarks, that is included in the investment profile. However, when we talk about the revenue synergies, which I'll tell you, Daniel, are much more exciting to us and the reason for doing this. Well, they're very significant. We have not built those into the investment profile, and that remains for upside to the case that we're presenting to our shareholders today.

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**Daniel Imbro**

*Analyst, Stephens, Inc.*

Q

Great.

**John A. Olin**

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

You would ask about capital intensity, Daniel.

A

**Daniel Imbro**

*Analyst, Stephens, Inc.*

Yeah.

Q

**John A. Olin**

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

It's about 5% of revenue is what their spend has been on capital over the past several years.

A

**Daniel Imbro**

*Analyst, Stephens, Inc.*

I appreciate it. I'll leave it at one follow-up there. Thanks, guys.

Q

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

**Ivan Yi**

*Analyst, Wolfe Research LLC*

Good morning. This is Ivan Yi on for Scott. Thanks for taking my questions today.

Q

**Rafael O. Santana**

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

Good morning.

A

**Ivan Yi**

*Analyst, Wolfe Research LLC*

First one, can you show us how much of Evident's Inspection revenues comes from rail versus non-rail customers, such as mining? I guess, what I'm trying to get to is, how much of the revenues come from Class I rails?

Q

**Rafael O. Santana**

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

Okay. The way we should think about that and the way we look at it is, think about a third of the time we're serving what I'll call existing end markets, and think about here mining, industrial, rail, so the same customers, I mean, we deal with today. Think about really a third of the time we're bringing our expertise around rotating equipment, gear, welds, things I described it here, which is very similar and something we work on. And a third of the time, it's maybe more of a new space, where Evident is a leading player. So, we feel very strong again about not just growing within our existing customers, but bringing those capabilities, so Evident grows into their customer base.

A

**Ivan Yi**

*Analyst, Wolfe Research LLC*

Got you. And then, my follow-up is more of a broader question. You've done a very good job with small tuck-in deals in the past. But then, considering past large acquisitions [indiscernible] (00:30:30) had some hiccups at

Q

least initially under the prior management team. So, I guess, the question is why is now the time to do a larger \$1 billion-plus acquisition and what does this imply about your outlook for the underlying standalone business? Just any color there would be great. Thank you.

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**Rafael O. Santana**

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

A

Thank you for the question. First, we see, as I said, a significant opportunity to deliver on greater returns to our shareholders, it starts there. Second, this is consistent with the acquisitions we've done of Beena Vision, Nordco, Super Metal, Track IQ, and the core technologies that are really needed to determine outcomes when it comes to reliability, availability and safety. This is the number one player in what they do, while it's on the larger sides of what we've done since 2020. With that being said, we feel very strong about the company right now, and at this point, we're continuing to look into allocating capital to share repurchase and bolt-on M&A.

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**Ivan Yi**

*Analyst, Wolfe Research LLC*

Q

Thank you.

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**John A. Olin**

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

A

Hey, Ivan. It's John. You had mentioned about the underlying standalone business and...

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**Ivan Yi**

*Analyst, Wolfe Research LLC*

Q

Yes.

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**John A. Olin**

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

A

...this brings up a topic I'd like to hit on, and that's how we're going to provide guidance, right. We're sitting here early in January, and in less than a month, we're going to be providing our fourth quarter guidance and – I'm sorry, fourth quarter results and the guidance for 2025. We will not be including Evident in the 2025 guidance at that time. We expect this transaction to close by the end of the first half, and as it closes, we will update our guidance for this change. And that kind of gets back to the view of the underlying business we feel very good about and we will provide that in a month's time. And then, on top of that, we will add the benefits of this transaction.

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**Ivan Yi**

*Analyst, Wolfe Research LLC*

Q

Thank you.

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**Rafael O. Santana**

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

A

Thank you.

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

**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

Yes. Hi. Good morning, everyone.

Q

**Rafael O. Santana**

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

Good morning, Jerry.

A

**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

I'm wondering if you folks can talk about the potential timing of the opportunity to leverage the technology here to drive higher aftermarket market share for your core business, as you lay out the technologies here, it feels like a pretty natural overlap in terms of capability improvement on the core base to drive more intelligent replacement cycle opportunities and potentially higher share. Can you just expand on that opportunity set and how far out could that benefit be?

Q

**Rafael O. Santana**

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

Jerry, I think you're right on. I mean, just as I said, built on – I mean, if you think about the acquisition we've done of even Nordco, Super Metal, it's really the ability to work. And today, we have a lot of elements of what Eric described as inspection at a distance. So, we're now coming to a more precise look to really determine outcomes on reliability and availability, and this is not just rail as described on the wheels, axels, track, I mean if you think about mining, it's looking at a mining truck, looking at the frame, looking at gears, looking at the rotating equipment, looking at the heat exchangers. They're in there. So, there's significant opportunity for us here to translate into more service with the end markets we serve today. And think at the same time, how we bring those capabilities we have today in our Digital Intelligence business with the scale we have on engineering, the scale we have on software, the scale of our supply chain to really accelerate the growth of Evident on this other key geographies and other key segments.

A

**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

And in terms of the recurring revenue profile of the business, can you just expand on that? Is any of that subscription base? How much of that is transactional? And separately, can – do you have information on the longer term organic CAGR, obviously, with 2020, comps could be skewed a bit. I'm wondering if that high-single-digit growth that we've seen over the past four years is representative of longer timeframe.

Q

**Rafael O. Santana**

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

Jerry, let me start with, I think we've highlighted the 68% recurring revenue. I think, one of the things that really made us excited about this business as we went into due diligence was, first, there was a track record of growing at high-single-digits. And when we looked at the pipeline of innovation, we felt very strong about not just continuing, but accelerating that profile. So, it's very good from that perspective. In terms of how the business behaves, as I described, we partner with customers. You really develop here a solution for specific application which ultimately determines the acquisition of equipment that's going to be run for the next five, seven years. That's in the nature of how you do.

A

The business profile if you think about how the business runs, lead times here run more in the 60 to 90 days, and that's how you should think about how customers [indiscernible] (00:35:56) orders shop for that equipment. But it's a high recurring revenue business as those parts wear out on that equipment, and ultimately comes down to renewal, because technicians are trained and the customers have been working that, that's very much incorporated into the recurring revenues. Those guys have been doing this for over 50 years of innovation. So, there is a track record here, there is consistency, and they've been really the leading player in the space.

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**Jerry Revich**

*Analyst, Goldman Sachs & Co. LLC*

Thank you.

Q

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**Rafael O. Santana**

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

Thank you.

A

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

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**Kyra Yates**

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

Thank you for your time today, and please join us again for our fourth quarter earnings call, which will be on February 12th at 8:30 AM Eastern. Thank you and have a great day.

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

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