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Westinghouse Air Brake Technologies Corp. (WAB)

Q1 2019 Earnings Call
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 MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Wabtec Corporation First Quarter 2019 Earnings Release 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 Tim Wesley, Vice President of Investor Relations. Please go ahead.

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

Thank you, Nancy. Good morning, everybody, and welcome to our 2019 first quarter earnings call. We do have a lot to cover, so let’s get started. I’m going to introduce everybody else here in the room with me. First of all, our Executive Chairman, Al Neupaver; our President and CEO, Ray Betler; Pat Dugan, our CFO; Rafael Santana, President and CEO of our Freight segment; Corporate Controller, John Mastalerz; and our new VP of IR, Kristine Kubacki, whose has recently joined us. We think Kristine is familiar to many of you. She's got a lot of experience on the sell side covering, not just Wabtec, but many other companies in transportation and equipment.

So, we'll make our prepared remarks as usual, and then we'll take your questions. We do ask that you limit yourself to one question and one follow-up, and of course, if we can't get to everyone's questions in the allotted time, we'll reach out following the call. We will make forward-looking statements during the call, so please review today's press release for the appropriate disclaimers. And also during the call, we will discuss non-GAAP financial metrics. We encourage you to read our disclosures and the reconciliation tables we provided as you consider these metrics.

So, I'm going to turn the call over now to Al Neupaver.

Albert J. Neupaver
Executive Chairman, Westinghouse Air Brake Technologies Corp.

Thanks, Tim. Good morning, everyone. It’s good to talk with you today. We're happy to report that we had a good performance this quarter and that we’re on track to hit our guidance for the year. So, we’re off to a good start in 2019, especially as we begin to integrate Wabtec and GE Transportation after completing our merger in late February. Thanks a lot to a detailed plan and hard work prior to closing, we believe the integration has been seamless to this point. We've already validated our annual savings target of $250 million by year four.

Before we get to the first quarter financials and discussion, I’d like to start off by talking about the management succession plan that we announced this morning. After conducting a thorough external and internal search, our board has named Rafael Santana, the company’s next President and Chief Executive Officer and a board member to become effective July 1 of this year. He succeeds Ray Betler, who will retire as a Wabtec executive and board member. I will continue to serve as Wabtec's Executive Chairman.

This transition comes at a time of strength at Wabtec, given our diverse portfolio, excellent management team, and strong backlog and balance sheet. Rafael, as you know, joined Wabtec earlier this year with the GE Transportation merger after serving as President and CEO of that division. Rafael held a wide range of executive leadership positions at GE and has spent more than a decade in the transportation industry. He’s the right leader
for this role, bringing to Wabtec a passion for operational excellence and technology, and a strong track record of growth and performance.

A native of Brazil, Rafael brings 25 years of commercial, product management, and executive leadership experience to this post. He has a proven track record of transforming businesses, while delivering top and bottom line growth. While leading GE Transportation, he significantly expanded the company’s regional footprint, built a strong overall modernization capability and backlog through multi-year programs. Prior to that role, he was President and CEO of GE in Latin America where he helped to transform the market into one of GE’s largest and fastest growing regions. He also served as President and CEO of the Turbomachinery Solutions business of GE Oil and Gas where he drove significant margin improvement and growth in a contracting marketplace. Rafael has a degree in Engineering from the Federal University of Engineering in Brazil and will be based at Wabtec’s new headquarters in Pittsburgh. Congratulations on your new role.

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

Hey, good morning, and thanks, Al. I'm definitely honored to have the board have selected me to succeed Ray as the next President and CEO and to really build on Wabtec's solid foundation of growth. Our company has a rich history of meeting the needs and expectations of our investors, customers, and employees. Since merging GE Transportation and Wabtec, we have really been working hard to ensure that we hit both our operational, financial, and synergy commitments, and I'm fully committed to delivering on these efforts. Based on our first quarter results, we're off to a solid start. I'm really excited about the year. I'm really excited about the future. With that...

Albert J. Neupaver
Executive Chairman, Westinghouse Air Brake Technologies Corp.

Okay. Thanks. And Ray, on behalf of our board and shareholders, I'd like to thank you for serving Wabtec over the last 11 years, including the past five as President and CEO. Ray's leadership at Wabtec has been extraordinary. Since joining the company, he's been an integral part of Wabtec's growth story, increasing revenues five-fold from $1.5 billion in 2008 to more than $8 billion this year. Ray also has been instrumental in reshaping our global footprint, strengthening our technology leadership position, diversifying our portfolio through the acquisition of Faiveley Transport and the merger with GE Transportation. The board is very confident that Wabtec investors, customers and employees, will benefit from these achievements for years to come, and of course, we wish you all the best in retirement.

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

Hey, thank you, Al, and I want to say that I'm grateful to you. I was just following the strategy that you set up to grow this company, and it's been an incredible experience over the last 11 years. And I want to thank every employee in this company for the support that they've given me as well as the board, the management team, and our shareholders.

After 40 years in the transportation industry and a career that started with Westinghouse Transportation Division out of Westinghouse Corporation and now has culminated with Wabtec, the time is right for me to transition my leadership of this great company to Rafael Santana. I'm absolutely confident that he will build on our success, and he will ensure that this corporation is strong and more capable in the future than it has been in the past. Throughout my career, I've been humbled by the commitment and hard work of our people and their passion to
create a purpose-driven company. Together, we’ve raised the bar on safety, on quality, on engineering, on talent, and on value.

And with that, I’d like to ask Pat to now review the first quarter numbers.

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

So, let me add my thanks to you, Ray, for everything you’ve done for me and for the employees of Wabtec, and I’d like to offer my congratulations and thanks to Rafael as you begin the next stage of your career.

So, as you can see from our press release this morning, we discussed both the GAAP and adjusted numbers. So, I want to encourage you to review all the reconciliations we have provided. In addition to the adjustments we discussed, other factors are worth noting as you model your quarterly results for the rest of the year. So, just as a point of emphasis, the first quarter results included about five weeks of GE Transportation’s results, and it was a particularly strong period based on the delivery of products and projects, and meeting the schedules of our customers.

Going forward, I want to point out that we will see some fluctuation or variation in our quarterly results based on the timing of project deliveries, and also the impact of normal seasonality in our transit business due to the European slowdowns in the summer months. And just a reminder, our share count will change again in the second quarter, the first full quarter we will own GE Transportation. The second quarter share count will be about 193 million shares compared to about 121 million in the first quarter. So, taking this into account, I’d like to emphasize that, today, we affirmed our guidance for sales, for adjusted income from operations, adjusted EPS, and adjusted EBITDA, which shows that our business is performing up to expectations.

So, looking at the income statement, sales for the first quarter were $1.59 billion. The adjusted sales would be $1.64 billion. That’s excluding the – the GAAP numbers exclude the effects of accounting policy harmonization. Our Freight segment sales increased 131% to $876 million. The increase is due to the GE Transportation merger, which added about $495 million, and organic growth of about $9 million, offset by some small impact of FX. As I mentioned, the GE Transportation had a strong five weeks to finish the quarter. Quarterly run rate for the rest of the year will fluctuate based on the delivery schedules and other factors I mentioned earlier.

Transit segment sales increased 6% to $717 million, driven by a strong growth in our OEM sales. The increase was due to strong organic growth, adding about $77 million, and acquisitions about $15 million, which more than offset the impact of a negative FX of about $51 million. This is the fifth quarter in a row we’ve seen organic sales growth, which shows that our backlog has started to kick in. Just to comment on the legacy Wabtec business, our first quarter sales were about $1.1 billion, about 4% higher than a year-ago quarter.

Switching to consolidated operating income, for the quarter, operating income was $67 million and adjusted operating income was $220 million or 13.4% of adjusted sales. Adjusted operating income excluded pre-tax expense of $153 million related to the merger with GE Transportation. Just to highlight those adjustments, we had $80 million for one-time non-cash purchase price accounting charges, $59 million for transaction and restructuring costs, $14 million for non-cash accounting policy harmonization, and just to help, I would reference the reconciliation table for all the details. In addition to these expenses, the company also had pre-tax expense of $20 million for non-cash recurring purchase price accounting charges, which is not added back to the adjusted income from operations.
So, looking at some of the more detail on the line items, our SG&A was $260 million, including $59 million of the $153 million I mentioned above. We expect the adjusted number to be about $280 million per quarter going forward. Engineering expenses increased to $35 million on the face of the income statement due mainly to the addition of GE Transportation.

Amortization expense of $29 million included $20 million of recurring PPA for the GE Transportation merger. Going forward, we expect amortization expense to be about $70 million per quarter. Looking again at just legacy Wabtec, adjusted income from operations was about $121 million, slightly lower than the year-ago due to increased sales in the lower margin Transit segment.

Moving to our segments and the operating income in our segments, our Freight operating income was $75 million and adjusted operating income was $175 million for an adjusted operating margin of 18.9%. Transit operating income was $59 million for an operating margin of 8.2%. That was impacted by some product mix items and certain discrete expenses that we recorded in the quarter. Compared to a year-ago quarter, we had a significant sales increase from lower-margin OE projects, about 22% higher, and a slight decrease in aftermarket revenues, a decline of about 5%. This mix shift accounted for the majority of the margin decrease. We expect the margin to improve during the year as we continue with our restructuring and cost reduction initiatives.

For the full year of 2019, we expect adjusted operating margin improvements for both segments compared to last year. These improvements will come through better project performance, a better mix of sales, and the benefits of restructuring and cost reduction programs. We have also included net synergy benefits of about $20 million in our adjusted guidance for the year. I want to emphasize that the quarterly results can fluctuate due to product mix and other factors, which is why we don't guide to quarterly segment margins.

Net interest expense for the quarter was $45 million due to higher debt balance after the GE Transportation merger. Adjusted interest expense was $30 million to reflect the timing of the merger. If you'll recall, we had borrowed the money several months earlier than we actually closed the transaction. Going forward, we expect interest expense to be about $55 million per quarter. Remember that we are focused on generating cash to reduce this debt and, therefore, the interest expense. Other expense was $8 million due to certain losses on the re-measurement of foreign currency-denominated contracts. Income tax expense was $19 million. Excluding the net tax benefit from transaction costs for the GE Transportation merger, adjusted income tax expense was $41 million for an adjusted effective rate of about 23%.

So just to recap a lot of that information, on an earnings per share basis, for the Q1 EPS, we had a loss per diluted share of $0.04 and adjusted earnings per share of $1.06. To reconcile that first quarter EPS, you can find those details in our press release. But just to reiterate, GAAP was a negative $0.04: add back one-time non-cash PPA, that's a positive $0.46; add back the cost incurred for transaction and other restructuring costs, that's about $0.42; add back the impact of changing accounting policy, that's about $0.08; add back a tax benefit, that's $0.14; and that gives us an adjusted EPS of about $1.06.

In addition to the expenses noted above, the company also had after-tax expense of $0.12 per diluted share for non-cash recurring purchase price accounting charges, and we do not add that back into the adjusted EPS. EBITDA, which we define as income from operations plus depreciation and amortization, was $123 million, and adjusted EBITDA was $276 million. Adjusted EBITDA excluded the pre-tax expenses of $153 million related to the GE Transportation merger that I had discussed earlier.

Moving to the balance sheet, I just want to point out again that we believe that it provides the financial capacity and the flexibility to invest in our growth opportunities. We have an investment-grade rating, and our goal is to
maintain it. In the quarter, we generated $31 million of cash from operations mainly due to improved working capital. I'd also like to point out that cash from operations was reduced by about $50 million of cash transaction costs for the merger. Excluding those costs, our cash from ops would have been about $81 million.

Working capital at March 31, our receivables were about $1.7 billion. Inventories were about $1.9 billion. Accounts payables were about $1.2 billion. Receivables included unbilled receivables of $456 million, which were more than offset by customer deposits of about $573 million. At March 31, we had about $513 million in cash and total debt of about $496 billion with a net debt-to-EBITDA of about 3. By year-end, we are targeting a net debt-to-EBITDA of about 2.5 times.

Just some miscellaneous items in covering our backlog, our depreciation was $27 million versus $18 million in the year-ago quarter, increase due to the merger. For the full year of 2019, we expect it to be about $175 million. Amortization, $29 million in the quarter compared to $10 million in last year's quarter, the increase also due to the merger. For the full year of 2019, we expect it to be about $225 million or about $70 million per quarter. Our CapEx, about $30 million in the quarter compared to $17 million a year ago, the increase again due to the merger, and we expect to spend about $200 million in 2019.

Our backlog impacted obviously by the merger. At March 31, our multi-year backlog was $23 billion, and our rolling 12-month backlog, which is obviously a subset of that multi-year backlog, was $6.1 billion. GE Transportation added about $19 billion to that total backlog number.

So looking to our 2019 guidance, based on our first quarter performance and our current backlog and our assessment of the conditions in our key markets, today, we affirmed our full year guidance for revenues and adjusted earnings per diluted share. Our guidance is for sales to be about $8.4 billion, adjusted EBITDA of about $1.6 billion, adjusted income from operations of about $1.2 billion, and adjusted earnings per diluted share between $4 and $4.20.

For the year, we expect GAAP cash flow from operations to be between $500 million and $600 million, impacted by about $300 million related to the GE Transportation merger. Excluding all of our costs related to restructuring, one-time purchase price accounting and non-cash accounting policy harmonization, our adjusted operating margin for the full year is about 14%, and our effective tax rate for the full year is expected to be about 24%. For the full year, we expect adjusted cash flow from operations to exceed our adjusted net income.

I'd also like to point out that our adjusted guidance includes after-tax expense of about $0.80 per diluted share for non-cash recurring purchase price accounting charges. In other words, we are not adding back the recurring purchase price accounting for our adjusted EPS guidance. If you do that, I'll just also point out that our adjusted operating margin would be about 16% for the year.

Regarding Q2, a couple things that need to be highlighted compared to our first quarter results. We expect our second quarter sales, our second quarter adjusted net income, and adjusted EBITDA to be higher than the first quarter, with adjusted earnings per diluted share expected to be lower due to the fully diluted share count increasing to about 193 million as a result of the merger. Based on the expected timing of project deliveries, we also expect that our product mix and adjusted earnings per diluted share to improve during the rest of the year.

So with that, I'd like to turn it over back to Ray.

Raymond T. Betler
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
Thanks, Pat. Before I ask Rafael to talk about the Freight business, I'd like to briefly discuss our Transit business and reiterate the strategic rationale for our merger with GE Transportation. In Transit, we have a very strong backlog that started to kick in, as you can see from our numbers and sales growth. We have not, however, started to see the margin improvement that we're targeting due to a less favorable product mix and higher project costs.

We're taking actions to continue to improve on our profitability, and our goal is still the same, to drive Transit margins higher by 1% annually during our STRAP period. And we expect to achieve this goal by applying a more rigorous upfront bidding process, improved project management, improved cost structure from ongoing new restructuring initiatives and transfer of work to lower-cost countries, through a new disciplined deployment of lean and sourcing initiatives that we can leverage the GE experience now in addition to our own. And in addition, as OEM projects begin to result in aftermarket revenues from these projects, we'll see a better mix of aftermarket versus OEM, which will improve our margin significantly.

Leading these efforts will be a new President of our Transit business, Lilian Leroux. Lilian joined Wabtec with our acquisition of Faiveley Transport. About 20 years experience he has in the transit industry, and he's accepted this challenge with enthusiasm and is developing an action plan to take steps toward accomplishing these objectives.

Just to pause here to give you a little background on Lilian, he's been in the industry about 20 years, as I said. He has an engineering degree in France, and he has a graduate degree from INSEAD. Lilian worked for customers like SNCF early in his career. He's worked on multiple continents, and he also is fluent in multiple languages and has an extremely good grasp of the industry and of our business. And I have tremendous confidence in his ability to lead and improve the overall operating performance of the transit business.

Worldwide, the state of the transit market remains strong, and we continue to bid on and win significant orders in all of our major markets. We've won significant door contracts on high-speed trains in excess of $20 million in Europe. We've won door contracts on metros in China and Taiwan in excess of $10 million, freight contracts on metros in Canada and India in excess of $15 million, freight contracts on coaches in excess of $50 million in India and Canada, and on locomotives in excess of $30 million in India and Canada.

So, you can see that we're winning good orders, diverse technologies, diverse geographical areas across the globe, multiple aftermarket service contracts, including anti-fire systems in Italy and maintenance contracts for our equipment in Asia. We were also either awarded or signed train control contracts in the transit agencies in North America that are associated with out PTC technology, the latest of which is in New Mexico in excess of $50 million.

And for our full year, we expect the book-to-bill of greater than 1, and remember that our OEM orders typically lead to long-term aftermarket contracts with good profitability of 30 to 40 years. So as a true global player over time, our transit business should have better visibility and stability, more growth opportunities both organically and through acquisitions and improved margins as we benefit from increased scale and market share and as those aftermarket revenues increase.

Let me talk for a minute about the strategic rationale of GE Transportation. As you know, I've been calling this a once in a lifetime opportunity, and I truly believe that that's what it is. We're excited by both the short-term and long-term opportunities it creates. We just shared with you some of the benefits in the short term already in Q1. We have combined Wabtec's Freight and Transit components with GE Transportation's locomotive manufacturing and service capabilities. We've combined our electronics and digital product portfolios that are unmatched in the industry. Based on our integration and synergy planning initiatives so far, we're seeing strong cultural fit, which is enabling a seamless combination of our business.
Wabtec is now a member of the S&P 500 and we’re a global transportation leader in rail equipment, software and services, with operations in more than 50 countries around the world. We have validated, as Al said, our operating synergies, which will drive value creation. We estimate about $250 million of run rate synergies by year four, mainly through cost reductions. Our combined electronics and digital technologies can lead to fully automated operations in the Class I network, for instance, Wabtec is positioned to meet the growing demand for train intelligence and network optimization.

Given the increased electronic scope of our business with GET, and we do not plan to disclose, from this point forward, individual revenues segmentation on PTC. We'll report on a total electronics basis from this time forward given our new combined portfolio. We will benefit from a recurring revenue in the high-margin aftermarket and services.

Our complementary global customer relationships will drive substantial cross-selling opportunities in dampened cycles. And our pro forma financials are compelling, especially, at this attractive point in the cycle. We expect to have significant scale, a rapid growth trajectory, superior margins, and strong free cash flow. We have a strong free cash flow profile to enable rapid de-levering. We remain committed to retaining our investment-grade rating and our dividend.

And with that, Rafael will address the Freight segment.

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

Thanks, Ray. Let's talk about overall freight market. I'd say overall mixed market conditions. In North America, freight rail traffic is down about 1% year-to-date with most of the railroads really citing bad weather as a factor. Rolling stock and storage has increased during the quarter, partially due to lower volumes and partially due to railroads implementing PSR, which I'll talk to you more about it in a couple of minutes.

On the other side, we're seeing good activities in some critical and key international rail markets. I'd say we're well positioned to really take advantage of this and really working on some critical opportunities in Southeast Asia, in Brazil, in Africa, and I think it's worth mentioning that of our current top line of prospects; about two-thirds are coming from international opportunities. So, considering all of this, I'd say our Freight business performed about as expected in the first quarter with locomotive deliveries maybe a bit stronger than expected.

In India, I think we are on pace to really significantly increase deliveries this year. This is a 10-year, 1,000 locomotive unit order. And during the first quarter this year, we delivered our first AC6000 unit. That was built in our new India facility. Deliveries of locomotives, locomotive modernizations, and mining wheels are on pace for, what I'll call, double-digit percentage increases for 2019. The freight car market is tracking towards 52,000 to 55,000 deliveries this year. It's about in-line with the expectations and the industry backlog did decline during the first quarter.

During the quarter, we also had strong order intake in our Wayside and Track products business portfolio, indicating really continued capital spending by the railroads. Our engine cooling group maintained a strong backlog. And we also saw strong orders intake in our power generation products business.

With that, let me talk a little bit about PSR, which is really a topic on a lot of minds. I'll probably just start with making railroads more competitive is a good thing for us and, in the long run, really leads to growth in the business. We believe our business model of being both a technology and service provider is very much aligned...
with what railroads are trying to accomplish. As a result of PSR, we're seeing really railroads very focused on efficiency, costs, getting the most out of their existing equipment fleets. Wabtec has both a strong service and technology offering to really help support that. We're currently working close with customers to both improve performance, reliability and efficiency of their fleets.

I think the locomotive modernization program is a great example of that. I think I've mentioned in addition to our backlog of about 2,000 new locomotives, we have a backlog of about 900 modernizations, and we expect to deliver a few hundred mods this year. And that's compared to just maybe dozens a few years ago. Of our global install base, 23,000 locomotives, we've got about 70% really covered by long-term service agreements. Running locomotives fleet harder does create also additional aftermarket opportunities for us.

On our automation suite of products, we're really geared here towards improving on-time performance of trains, increasing efficiency, improving safety, and as railroads seek to optimize their assets, our portfolio of digital solutions can really create greater fuel efficiency. That's what we see with products such as Trip Optimizer, which drives fuel savings by 7% to 13%.

So within North America, railroads for a time might be buying fewer new locomotives. We do have the opportunity here to continue to work on really tackling large fleets, so to be modernized, and we have a significant pull of fleet that we can attack there investing in technology to really help achieve this PSR efficiency goals. So, we feel we're well positioned to respond to these opportunities.

Finally I'd like to point out that we're well positioned in the key international freight corridors around the world. We feel good about the opportunities that are out there.

And with that, I'll pass it back to Ray.

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

Thanks, Rafael. I'd like to conclude our prepared remarks by reiterating some of the comments Al made at the beginning of the call. We reported good performance this quarter. We're on track to hit our guidance for the year. That means we're off to a good start with the integration of Wabtec and GE Transportation after completing our merger in late February. We have validated both the strategic rationale for the merger, as well as our plan to deliver $250 million of operating synergies by year four.

We're excited that Rafael has been chosen by the Board to lead this corporation into a new era of growth and performance, and we believe this transition comes at a time of strength at Wabtec given our diverse portfolio, our excellent management team, and our strong backlog and balance sheet.

So with that, we'll open to questions that you have, and Tim will facilitate.

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

Go ahead, Nancy, if you want to poll for questions.
QUESTION AND ANSWER SECTION


Matt Elkott 
Analyst, Cowen and Company, LLC

Question. First, congratulations to Ray and Tim on the planned retirement, and to Kristine and Rafael on the new roles.

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

Thanks, Matt.

Matt Elkott 
Analyst, Cowen and Company, LLC

My first question to Rafael, and sorry, if this question is a bit too early. But can you maybe talk about your key priorities, focus areas in the new role, both immediate and long-term more strategically?

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

Absolutely. Well, first of all, I'm very humbled to have the opportunity. Certainly a lot to learn. I'd probably highlight three areas here. First and foremost, I'll say execution. We've got very clear plans laid out for what I'll call our former businesses, and we're really laser-focused on making sure that we execute for both cash and for our EPS numbers for the year.

The second piece, it really comes down to what I'll call continuous margin improvement. I think here we've got a couple opportunities. One of them is we've really started to the integration, identified a lot of great opportunities on synergies, and we see that as an opportunity to continue to drive competitiveness out of the business. And we do have opportunities with some specific business units on really driving and turning around some of the margin results.

I think, the third piece is of course growing the business. I think, there's an element of organic which we're very committed to our programs in technology. I'd highlight here the aspects of automation which I think we've been very clear about it, but there's also really a pillar around energy management that speaks to bringing efficiency, full improvement. Hybrid is a big program for us, and as part of that, we'll also continue to be looking to inorganic opportunities in an opportunistic way.

We are going to be starting a lot of, I'll call, strategic planning, and we'll be coming to you with more specifics as we progress.

Matt Elkott 
Analyst, Cowen and Company, LLC
That's very helpful, Rafael. Speaking of strategic planning, when should we expect maybe a multi-year guidance for the combined company? And will you be – what kind of segment reporting will you be doing? And when should we expect that to begin?

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

We'll be developing that through the year, and we'll be back to you with more specifics here.

Matt Elkott  
Analyst, Cowen and Company, LLC

Great. Thank you very much.

Operator: Our next question comes from Allison Poliniak from Wells Fargo. Please go ahead.

Allison Poliniak-Cusic  
Analyst, Wells Fargo Securities LLC

I want to echo Matt's commentaries of best wishes, Ray and Tim, and congrats Rafael and Kristine. First, can we just delve into some of the commentary on Q2 in terms of the mix? Is that more Transit-related, Ray, as you were talking about with the OEM shift? Or is it Freight as well? Just trying to understand that a little bit more.

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

As far as the mix goes, our growth is coming from both sides. The mix within the Transit side is greater OEM contracts that are coming out of the backlog. In terms of future longer term mix, I was talking about the aftermarket opportunities that come with that, but then in the short term it's more OEM.

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

Just to help a little bit, we definitely had more OE sales in Q1 in the Transit versus aftermarket. That's – we highlighted that in the overview of the first quarter results and when we talked about the Transit margin.

Allison Poliniak-Cusic  
Analyst, Wells Fargo Securities LLC

But is that sort of moving into Q2 as well? Is that what we should be thinking of? Just looking at that commentary around Q2, I think you highlighted mix as being an issue as well.

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

Yeah. There was actually two issues. There was mix, and then there was a couple other items that impacted the quarter – the margin in the quarter. We expect that going forward that we're going to come back to better margins, but there will be some variation related to the timing of OE projects versus aftermarket projects. But, you know, we looked at this margin as an improving item throughout the year.

Raymond T. Betler  
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.
But to answer directly to your question on the second quarter, it's in both segments, Allison, both Freight and Transit.

Allison Poliniak-Cusic  
Analyst, Wells Fargo Securities LLC

Great. And then, Rafael, you highlighted PSR and the interest around increasing efficiencies in the network. Railroads have obviously been very slow to technology. Have you noted just because of the focus on PSR an urgency or an elevated interest now on the technology side as they're looking to gain these efficiencies going forward?

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

I think it's been a continuous effort and continuous work between ourselves and our customers. When I mentioned the modernization programs, I think it's important for me to highlight you've got at least a group of what I'll call another 6,000-plus locomotives which are DC technologies that are out there. I'd say we've been fairly successful in really converting some of those fleets into AC, which really allows the railroads to do what used to be done with three locomotives, with two locomotives. So that's a big part of a program.

The other piece is really updating some of the control systems that you might have there, and that allows you to put what I'll call more software and more tools to enable better fuel efficiency. So I think there's been a continuum, but I think we've got a lot of those tools to help drive efficiency and productivity here through PSR.

Allison Poliniak-Cusic  
Analyst, Wells Fargo Securities LLC

Great. Thank you.

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

Saree Boroditsky  
Analyst, Jefferies LLC

Good morning, and congratulations to everyone on the new roles and retirements.

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

Thank you.

Saree Boroditsky  
Analyst, Jefferies LLC

I appreciate the additional color on cash generation this year. Could you just help us understand the details behind this forecast including any working capital, cash tax assumptions and the timing of the $300 million in merger-related expenses?

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

So the $300 million is really you have restructuring costs, you have purchase-price accounting, and all that is impacting the cash flow in the year. So when we – what we did today was affirm and maybe even slightly improve
our guidance on cash flow, and if you wanted to think of it as you take that $300 million in terms of cash flow and include it and add it back, you would end up with a result that’s, I think, you can use to model and [ph] adjusted roles (44:20).

Saree Boroditsky  
Analyst, Jefferies LLC

Okay.

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

In terms of the balance sheet, I mean I think we’re still working through the combination, and we – but we’ve done a really – I think, an excellent job of addressing some of the supply chain financing factoring-type items in the first quarter. I think that that has derisked our guidance a little bit in terms of cash flows. So we feel good about that, but it’s still very early. We’re only five weeks into this combination and I think we wanted to make sure that we got a cash guidance out there that was conservative, achievable, and that you could use.

Saree Boroditsky  
Analyst, Jefferies LLC

Thank you. That was helpful. And then just my second question. GE Transportation had obviously really great sales performance in the quarter. Could you just give us any color on the timing of the deliveries for the remainder of the year?

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

So, I’m sorry. I’m trying to understand your question. So, we – in the five weeks?

Saree Boroditsky  
Analyst, Jefferies LLC

The locomotives. How many – like, what was the locomotive deliveries this quarter? And maybe the timing for the remainder of the year? The cadence?

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

So, well, we’re not going to break down specific I’ll call numbers of locomotive deliveries, but what I’ll reiterate here is, as you look into the numbers we have last year, we’re looking at double digit growth into what I’ll call all core segments. That includes new locomotive shipments. That includes modernizations. That includes mining wheels as well.

Saree Boroditsky  
Analyst, Jefferies LLC

Okay. I appreciate it. That was helpful. Thank you.

Operator: The next question comes from Justin Long from Stephens. Please go ahead.
Justin Long  
Analyst, Stephens, Inc.

Thanks. Good morning. And I know there's a lot of transition, so congrats all around as well. And for Ray and Tim, it's been a pleasure working with you both over the years.

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

Thank you.

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

Thanks.

Justin Long  
Analyst, Stephens, Inc.

Maybe to just start with a question, follow-up on locomotive deliveries. Rafael, you mentioned, I think, two-thirds of the pipeline being international-related versus North America. Could you talk about your mix of locomotive deliveries this year between North America and international, and when you look at deliveries going into kind of 2020 and beyond, how you see that progressing?

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

Okay. Well, first of all, as I look into the year for new locomotives, we're well north of, I'll call, 95% of the backlog to be delivered for this year. I think we're continuing to build on good dynamics for next year. We're not providing any guidance at this point, but I think if you go back to the vision, we settled on really more than doubling the locomotive deliveries by 2021. I think we're well into that. You're going to see a significant step coming off of that. I'd say this year it's probably more balanced between North America and international, but as we look ahead I think there's probably greater opportunities internationally.

Justin Long  
Analyst, Stephens, Inc.

Okay. That's helpful. And Rafael, you gave some good color on PSR and your view that it will be a long-term positive, but I wanted to ask about this year and some of the assumptions that you're making for the Freight segment in North America. Are you baking in any headwind from PSR and the North American order environment that seems to be slowing down recently? Just curious if that's factored into your guidance for the aftermarket or even deliveries as you think about the tail end of this year.

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

It's certainly in for this year. So we have taken that into consideration. Keep in mind, last year was a trough year for us with only 272 locomotives being delivered, and we have really a strong backlog to be able to really deliver on the guidance we've provided.
Okay. Great. I'll leave it at that. Thanks for the time.

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

Thanks

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

Thank you.

**Operator:** Our next question comes from Matt Brooklier from Buckingham Research. Please go ahead.

Matthew Brooklier  
*Analyst, The Buckingham Research Group, Inc.*

Hey. Thanks. Good morning and congratulations to everyone. So kind of a nuanced question, but the $20 million of targeted synergies to be achieved this year – when – from a timing perspective, when is that $20 million going to be realized?

Albert J. Neupaver  
*Executive Chairman, Westinghouse Air Brake Technologies Corp.*

Yeah. This is Al speaking. I'm actually working pretty closely on the whole integration process, and we already have seen some of those because there was some quick changes that we would have made on a HR basis. But what you should see is it should start building up as the year goes on. We're also seeing a lot more cost at first in order to obtain those synergies. What we right now have modeled is that we may spend close to $50 million to obtain that $20 million this year, and those will be onetime costs. And we'll see it ramp up over the next three years in a similar fashion.

Matthew Brooklier  
*Analyst, The Buckingham Research Group, Inc.*

Okay. That's helpful. And then, Rafael, you talked about international being a bigger percentage of GE Transportation's locomotive business across the board. Could you think and look five years out and talk about regions of the world where you see the greatest opportunity for incremental demand on the locomotive side? I think you did talk to some countries that you're currently in, but are there countries that you want to get into? And where do you think the most robust demand potentially originates over the next, let's call it, five years in different parts of the world?

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

Well, a couple points. Number one, it's tough to speculate on really how projects will materialize over the next five years. But what I'm really excited about is we have established what I'll call a significant footprint in, what I'll call, all key rail freight markets, and that speaks to countries like Brazil, Kazakhstan, India, South Africa. And those really have become platforms for us where we have scalability, where we've been able to work locally, where we've really grown significantly our share over time. Ultimately, they have become [ph] pulls (51:36) that have translated into having a more competitive business, and we're utilizing those platforms to actually exporting to other countries. So I think we're really excited about that and we'll continue to make use of that.
Matthew Brooklier  
Analyst, The Buckingham Research Group, Inc.

That's great. Appreciate the time.

**Operator:** Our next question comes from Mike Baudendistel from Stifel. Please go ahead.

Michael James Baudendistel  
Analyst, Stifel, Nicolaus & Co., Inc.

Thank you. Just wanted to ask you to sort of put the PSR into context, if there's some way to quantify or give us a percentage of how much of your revenue is specifically tied to newly-built locomotives, newly-built railcars. Just trying to gauge the impact there?

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

So, I'm going to give you a reference on the following. If I look at the guidance we've provided to you for 2019, I'd say the revenues coming from new locomotives for this year will be probably around 15% of the total revenues for the company.

Michael James Baudendistel  
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Got it. That's helpful. And then just wanted to ask you on the cash from operations guidance, the adjusted $800 million, is there any reason to think if results were similar in 2020 that that would be any higher or lower from changes in working capital or other things?

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

Yeah. I think we've had this discussion. We don't give guidance on the next year, but I think your point is that there is a lot of things happening in year one of this combination, and it does have an impact on the cash flow. So we can see cash from operations that would be strong in the future years, and I'll leave it at that, really. Yeah, I think I've had this conversation with a lot of people, a lot of questions. I mean the EBITDA is strong in kind of a normal year. With our expected working capital performance that we would end up with cash from operations that would be higher.

Michael James Baudendistel  
Analyst, Stifel, Nicolaus & Co., Inc.

Got it. And then just wanted to ask you, you used to talk about even before the merger the 12-months backlog, about 57% of the revenue just wouldn't go in there because we had a lead time of less than 30 days. Is there an update to that number?

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

No. I don't think we have an update to that number yet, Mike.
Okay. That's all for me. Thank you, and congrats to everyone.

Albert J. Neupaver  
Executive Chairman, Westinghouse Air Brake Technologies Corp.

Thank you.

Operator: Our next question comes from Steve Barger from KeyBanc. Please go ahead.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Hi. Good morning, everyone.

Albert J. Neupaver  
Executive Chairman, Westinghouse Air Brake Technologies Corp.

Good morning.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Thinking about your comments on backlog mix of new locomotives versus modifications, how should we think about average revenue for a new build versus a mod?

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

I'm going to give you really a wide range because it really varies across the board, but I'd probably say while new locomotives might be going anywhere from I'll call it $3 million to $4 million, you have an average ticket item that's about a-third to half of that for a mod.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

That's great. Thank you. And margin profile, is the mod higher or lower?

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

We do not comment on specific margins on those segments.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Okay. Just given some of the uncertainty around timing of when railroads might acquire equipment because of PSR or anything else, with more technology getting installed in the fleet, are you getting a better look at utilization rates for the installed base to help you forecast demand?

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

So we work very closely with the railroads and the day-to-day of their operations, and I'd say it's really part of – the value that we bring is really just productivity tools to improve efficiency and productivity availability. And it's
really part of our day-to-day. We monitor closely our fleets that are being parked. We monitor closely all the aspects of opportunities to potentially extend the life of certain assets or modernize some modern assets so you can potentially look at the last assets operating. So that's really a part of our day-to-day.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

And can you tell us how the change in the utilization rate for the fleet has evolved over the year just given where traffic levels are?

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

I'd say we're seeing, I mean, as you look into PSR being implemented, that's certainly growing, I'll call it, the efficiency in terms of number of cars being pulled by locomotives. It's a little bit different railroad-by-railroads, and I would be – I'd say it's difficult to give you specific data on each one. It really varies based on the model that's being utilized.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

But in general you'd say it is improving, right?

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

Oh. It is improving, sure.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

The utilization rate is improving?

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

Yes.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Okay. And just one last one. What were core Freight margins in the quarter ex the five weeks of GE inclusion?

Albert J. Neupaver  
Executive Chairman, Westinghouse Air Brake Technologies Corp.

Sorry. Say that again, question again?

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

The legacy Wabtec Freight margin ex-GE for the five weeks?
It was about 18%.

About 18%. Okay. Thanks.

Operator: [Operator Instructions] This concludes our question-and-answer session. I would like to turn the conference back over to Tim Wesley for any closing remarks.

Okay. Thanks, everybody. We will talk to you over the next weeks and months. Have a good day. Bye-bye.

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

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