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Westinghouse Air Brake Technologies Corp. (WAB)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Wabtec Fourth Quarter 2018 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 Mr. Tim Wesley, Vice President of Investor Relations. Please go ahead.

Timothy R. Wesley

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

Thank you, Sean. Good morning, everybody. And it is a good morning. The sun is shining here in Wilmerding. Welcome to Wabtec's investor call. We're going to discuss a lot this morning: our 2018 fourth quarter and full year results; our guidance for 2019; and, of course, the closing of our transaction with GE Transportation. Along with our press release, we've also provided slides for our presentation this morning. You can find those on our website at www.wabtec.com, go to the Investor Relations tab, click on the link for the February 25 investor presentation.

And, as Sean mentioned, of course, following our remarks, we will do a Q&A session. We do ask that you limit yourself to one question and one follow-up. If we can't get to everyone's questions in the allotted time, we will be reaching out following the call. And, again, as a reminder, the call is being recorded for replay purposes.

We will make forward-looking statements during the call. So, I would just ask that you review today's press release and slide 1 of the presentation for the appropriate disclaimers. During the call, we will also discuss non-GAAP financial metrics and performance measures. We encourage you to read the bottom of slide 1 before considering those metrics.

With that, if you would turn to slide 2, I'm going to introduce you to the others who are here with me in Wilmerding and will be presenting during their prepared remarks this morning; Al Neupaver, our Executive Chairman; our President and CEO, Ray Betler; our CFO, Pat Dugan; and Rafael Santana, President and CEO of our Freight segment. Also here is John Mastalerz, our Corporate Controller.

With that, let me turn the call over to Al for some comments and an overview of our agenda this morning. Al?

Albert J. Neupaver

Executive Chairman, Westinghouse Air Brake Technologies Corp.

Okay. Thanks, Tim, and good morning to everyone. Today is a very, very important day for the New Wabtec. We started this process well over a year ago, and before we get into the presentation, I want to take this time to really acknowledge and thank the entire team for all their hard work and dedication to get to this point. And I especially want to identify the people in this room who were just introduced, as well as Dave DeNinno, our General Counsel, that has spent endless hours trying to get us to where we're at today. So, we're really excited about the opportunity, but it didn't get here without a tremendous amount of effort and work by a great team.

Today, we're even more convinced in the strategic logic and the value of this transaction. The combination of our uniquely complementary capability creates new opportunities for growth well into the future. We have the ability to advance technologies, to improve the safety, the efficiency and the productivity of both the freight and transit industries.

We'll be better positioned to perform through the business cycle with expanded margins and expected double-digits earnings growth supported by a run rate of synergies of $250 million by the fourth year of this combination. Overall, we couldn't be more excited about the future of Wabtec.

As you could see on slide 2, Ray and Rafael will discuss in more detail the New Wabtec and our future plans. Pat will follow up and provide a review of our fourth quarter and full year 2018 performance followed by our 2019 outlook.

I now turn it over to Ray Betler, our President and CEO.

Raymond T. Betler

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

Okay. Thank you, Al. So, folks, we're really excited and happy to be here at this point today to finally be completing this merger so that we can focus on the future. The merger brings together two companies with rich heritages in many areas: engineering, manufacturing, technology, innovation and over 400 years of combined experience within this industry.

It brings together a corporation that will be a diversified global leader that's ideally positioned to address the opportunities and needs of the future in transportation worldwide. Our company will be a Fortune 500 company with business operations in over 50 countries around the world. We'll be listed on the S&P 500 Index.

So if you look at page 4, you can see the complementarity of the companies. The companies have both demonstrated historically strong financial performance. Wabtec has a comprehensive, technology-based portfolio that leads in many sectors of the market in which we operate: freight car products, locomotive electronics, brakes, heat exchangers and so on. We also have a very strong market share position worldwide in transit. We have a successful track record financially and a diversified revenue base with extremely strong aftermarket positions in our core businesses. And as you know, we have a leadership position in Positive Train Control, and finally, a very strong backlog across our total business.

GE Transportation is also a leader in their market segments. They bring into this merger a leadership position in freight rail technology. They're a diversified engineering company just like us. They have state-of-the-art diesel freight locomotives globally. They've demonstrated strong financial performance with a robust aftermarket business, and they have a diversified electronics digital portfolio with a demonstrated history in innovation. It's important to note here that our combined business will have over 60% aftermarket, and we will have about 55% of our business internationally. So, we really are well positioned for the future.

If you turn to page 5, we can talk a little bit about the strategic rationale and benefits of this merger for our shareholders. Our existing shareholders of Wabtec will now own 50.8% of the combined entity. GE and its shareholders will receive 49.2% of Wabtec shares. So, GE will receive 24.9% ownership and its shareholders directly will own 24.3% at the time of closing. Wabtec, under the final agreement, will issue 3.3 million shares fewer than at the time of the announcement earlier this year, and GE will receive $2.9 billion in cash.

As you can see from the table in the middle of slide 5, GE will complete the sale of their ownership by the end of year three. Our company will be called Wabtec, will be headquartered in Pittsburgh. I will remain President and CEO of the combined company and, in the interim, President and CEO of our Worldwide Transit Group.

I've spent 41 years of my career in Transit and joined Wabtec, as you know, in 2008 when I headed up the Transit Group. So, I know that part of our business and our customers very well, as well as the freight part of our business.

Rafael Santana will be the new President and CEO of the Freight segment. Rafael has worked now for about 30 years of his life. He's been with GE for almost two decades. He's been with GE Transportation for a decade and has been in executive management for a dozen years. So, Rafael is a very strong executive with international experience and capability, and he brings with him an extremely strong expert team in his management team.

We also are fortunate to continue to have Al remain as our Executive Chairman. While Al didn't mention it in the introductory comments, he led this overall negotiation and ultimate merger process along with Pat and Dave and other senior members of our executive team.

If you go to page 6, you'll see, as we explained in May, that the strategic rationale and the financial logic for this deal are quite impressive. Our belief in the deal rationale has only increased since we announced in May, and we want to reiterate a few of those points. From a strategic perspective, we're a more diverse and global business than we were prior to this merger, both companies are. We have significantly enhanced our overall electronic and digital portfolio, and we're well-positioned to approach our customers to continuing to support them in terms of increasing their ability to improve their safety, productivity and efficiency.

We also believe we're well-positioned to leverage our collective positions in the overall PTC business to start to grow a phased approach toward full automation in the rail industry. Financially, we have very strong portfolios and are targeting a synergy run rate of $250 million with significant tax benefits and expect to generate strong free cash flow that will enable us to de-lever our company, and to maintain our dividend and investment-grade rating. We continue to view this as a highly attractive opportunity because of where both companies are in the cycle. We're both experiencing deal wins on the freight locomotive side of our business.

So, there's a lot of reasons for why we brought this organization together under this merger, and we have a 150-year history we're celebrating this year, and we strongly believe that there is great opportunity for every employee in this company to enjoy an equal opportunity for another 150 years in the future.

So, with that, I want to turn it over to Rafael to make some detailed comments about the Freight segment.

Rafael O. Santana

President & Chief Executive Officer, GE Transportation

Thank you, Ray, and good morning. The GE Transportation team and I are incredibly excited to be part of Wabtec in the start of this new chapter. I'm very proud to be leading the Freight segment, which is really the combination of the former GE Transportation business with the Wabtec Freight business.

As a leading OEM, we're not just the largest global producer of diesel-electric locomotives, but we also produce components for freight cars, railroad track, for signal products, and in addition we manufacture propulsion systems for mining a range of engines, and electric motors utilized both in marine and in drilling.

If you turn to slide 7, you can see we have a large installed base with approximately 23,000 locomotives, which provides long-term revenue opportunities for our Services and Digital segments. Our Services segment maintains and modernize fleets at various stages through the life of these assets. The combination of reliable, available, and fuel-efficient products really place a high value on the maintenance and the overall services that we provide to our customers, generating recurring revenue opportunities. We also have significant contractual coverage of our fleets with the majority of locomotives covered under long-term contracts.

Today, approximately 70% of our installed base are under long-term service contracts, which is roughly two-thirds of our backlog. This fleet will continue to be used and is a strong foundation for the growth of our business. Our fleet is relatively young with an average age of 10 years. This is a competitive advantage, and we are strongly positioned to drive a better total cost of ownership deal for our customers. This drives better performance, better reliability, and better fuel efficiency. We have approximately 11,000 units that are upgrade opportunities with an average of 10 to 20 years in service. We finished 2018 with a strong backlog for upgrades that will deliver a significant outcome for our customers.

As for the bottom of the page, we are in an attractive point in the cycle. While the new locomotive deliveries have always been cyclical, we're coming out of the trough. We had a strong orders performance in 2018, and we ended the year with a total backlog of approximately $19 billion. Again, this supports our volume growth in the coming years. But our Freight business also produces a number of solutions for automation, combining the Wabtec Electronics business with the legacy GE Transportation Digital business. This is a significant part of our business and it includes some of the most impactful solutions that optimize performance, increase operational savings, and improve safety.

If you turn to slide 8, you'll see that Wabtec's uniquely positioned to put railroads on a path to advanced automation and to really meet the rapidly growing demand for improved rail performance. Automation will have the single biggest impact for railroad productivity in the next decade. This has the potential to unlock significant annual savings across freight rail for customers and operators. We're seeing an increasing demand for our combined portfolio of products and services, and we share a commitment to innovation that will ensure that we continue to meet the growing need.

With that, Ray Betler will share with you some more details with you on our integration.

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

Okay. So, folks, you can see why I am excited because this guy is a superstar, and we're certainly excited to have Rafael on our executive management team. So, if you move to slide 9, you can see that we're making good progress on our synergy plan. We committed to $250 million of run rate synergies by 2022, and since we announced in May, our executive team under the leadership of Al and the Steering Committee that included Al, Rafael, and myself, have been meeting with senior members of our management team and functional leaders to focus on specific work streams or process streams within our organization.

In addition, we had external candidates to add rigor to the process in terms of tracking, in terms of monitoring progress, as well as talented evaluation. We're able to actively review our progress and actions on a monthly basis, and we have regular integration and steering team meetings to do that.

If you look at the five areas of synergies that we focused on, we're focused on opportunities in sourcing. We think there's tremendous opportunities in both direct and indirect spend; in SG&A, opportunities for reductions in cost and shared services, as well as corporate costs. We mentioned TSAs that are in place with GE Corp. that we will manage to eliminate as quickly as possible, and to insource those support services.

IT is one of those services. That's an area of great opportunity as we rationalize our systems and our networks. We have consolidation opportunities for our facilities, both in terms of office consolidation, as well as factory consolidation worldwide. And finally, we have good revenue synergies that we believe exists, not only in the electronics area, but across the locomotive market. We talked about insourcing opportunities previously that will be associated with the components and subsystems that Wabtec has within our portfolio that can be sold into and integrated into complete locomotives. We also have opportunities within our aftermarket business to combine aftermarket service and support into some of the MSAs that exist in the current GE portfolio.

And with that, I want to turn it over to Pat Dugan, our CFO.

Patrick David Dugan

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

Thanks, Ray. So, I'm going to take the opportunity now to just talk about the Wabtec Q4, and then we'll move on to guidance for 2019.

So, when you look at our Q4, we had a strong end to the year with sales of about $1.1 billion. That represents a 4% growth year-over-year, driven by organic sales growth of roughly $47 million, and from acquisitions of about $28 million. That more than offset the negative effect from changes in foreign currency exchange rate on the sales line of about $33 million.

I want to emphasize, at this point, our good performance related to cash from operations. On a GAAP basis, in the quarter, we generated about $277 million cash from operations; and for the year, $314 million, better than what we had guided to in Q3. So, one, we have is in this good performance, we got to focus on – in reduction on receivables, on our inventories in the quarter, as well as increased cash flow from our customers and better management of our payables and liabilities.

I just want to make one final point on those numbers. The cash performance that I just talked about is on a GAAP basis. And if you look at some of the impact of the GE transaction costs and any restructuring activities, it was about [ph] $50 million (00:21:29) negative impact to our cash from operations for the year.

For the full year, our sales were about $4.4 billion which represents about a 12% growth year-over-year. And again, this increase was driven by organic sales growth of about $285 million, sales from acquisitions of about $135 million and a positive effect from the changes. So, while it was negative in the fourth quarter, overall for the year, had a positive impact from foreign currency exchange rates of about $62 million.

Our earnings per share for the quarter on an adjusted basis was $0.97. Not excluded – or included in that $0.97 is about a $0.03 negative impact from foreign exchange. So foreign exchange made the $0.97 worse than what we – what would normally have been incurred. We reported earnings per share of $0.36. The adjustments or the impacts come from the GE acquisition and deal costs, certain discrete restructuring programs due to changing and consolidating of certain Transit businesses, and discrete pension, litigation and tax charges. Our 2018 full-year adjusted EPS was $3.81 and our reported earnings per share was $3.05.

Our income statement for Q4, just to some of the normal disclosures that we would give in our call, for the quarter, the operating income was $93 million or 8.4% of sales including transaction costs related to the GE Transportation merger, restructuring expenses of about $31 million, and $9 million related to certain litigation and tax GST costs. Excluding those items, our operating margin was 12.6% and consistent with the full year adjusted operating margin.

Other items that impacted our quarter, I talked about the FX item of about $5 million and certain discrete items related to the operations. Our full year 2018 adjusted operating margin target is now about 13%, and it's slightly lower than our initial guidance due to tariffs, and then we continue to work through some of our lower-margin contracts in the UK. Our SG&A was $168 million. This increase is mainly due to the expense items I mentioned, and from acquisitions. Engineering expense was $26 million and amortization expense was about $10 million, and both are consistent with our prior-year periods.

Interest expense for the quarter, $36 million in the fourth quarter. Absent the capital structure that we did put in place in the middle of the third quarter – late third quarter for the GE Transportation merger, our interest expense would have been about $14.5 million or $15 million lower. Other income and expense was less than $1 million, actually other income was less than $1 million, which is lower than previous periods, reflecting some costs that came through related to pension settlement charges and – which were about $3 million. Our income tax expense, our tax rate for the quarter was about 39%, a lot of different discrete items flowing through that number, but on an adjusted basis, it would have been 22.5%.

When you look at our segments for the quarter, we had a good segment growth with Freight revenue greater than – growing 12% and Transit revenue growing greater than 13%. Our adjusted operating margins for the full year was 12.6%. Our restructuring initiatives in the UK, North America and in several international operations impacting those results are expected to drive our margin expansion and cash generation into next year.

Backlog for the year, total backlog was a near record-high of $4.5 billion for Wabtec, with our 12-month backlog increasing 12% in the fourth quarter versus the third quarter. We are pleased to report that our recent new orders included all major product lines in all key geographies. And as we look ahead, we see favorable market trends heading into 2019, with Freight traffic volumes growing and Transit spending increasing.

Okay. To talk to 2019, I'd point you to page 13. And I just want to highlight some of the key assumptions for our 2019 plan. Assumptions include a global economic growth of about 2% to 3%, our FX at about current rates. We have assumed major tariffs in the current rates. We are assuming low-single digit rail traffic growth in NAFTA. We're assuming about 10 months of the GE Transportation results in our adjusted guidance and our full guidance. We expect that global locomotive and freight car deliveries to be up versus 2018, transit car deliveries to be up versus 2018 for Wabtec, and an effective tax rate of about 24%.

Page 14, we've done a number of different comparisons to help you look at the numbers on an apples-to-apple or like-for-like basis. So, if you look at page 14, this is essentially a pro forma view as if Wabtec and GET were combined for the full 12 months without any of the top-side adjustments that will come through related to items like purchase price accounting or accounting harmonization. These would be numbers that would be comparable to what we've discussed in May and in our various regulatory filings throughout the interim period since May. We have about $9.2 billion in combined revenue, an EBITDA of about $1.7 billion, an income from operations of about $1.4 billion.

Turning to the next page, which is page 15, of our debt, you would see that this is – we have adjusted these numbers for what I would call recurring PPA and amortization, so costs that will have impacts into the future periods reducing our income from operations by about $200 million – yeah, $200 million, $0.2 billion. And then factoring in a combination of the partial year of the GET operations and some of the accounting eliminations that we would need to do for inter-company sales, we end up with a guidance of about $8.4 billion of revenue, EBITDA of about $1.6 billion, income from operations of about $1.2 billion.

Using our fully diluted weighted average shares outstanding of about 177 million shares gives us an earnings per share range that where – we're guiding everybody to of about $4.00 to $4.20.

Moving to page 16, just some final adjustments to get you to what would be comparable numbers on a GAAP basis. We take this adjusted guidance and we factor in our current estimate of transaction costs, the one-time purchase price accounting that would be associated with inventory and backlog, and the accounting harmonization of – view of the impact on revenue recognition and some other costs that are incurred, and we have differences in how they're capitalized in the enterprise, we end up with a revenue guidance of about $8.4 billion, EBITDA of about $1.3 billion, income from operations of about $900 million. Our budget for both organizations, about $200 million of capital spending for the year. And again, on that 177 million of outstanding shares on a weighted average basis, we end up with a range of earnings per share, $3.00 to $3.20. I just want to take a moment and highlight that we have included various reconciliations and comparisons with a little more detail in case you want to dig in and review those schedules.

So, to recap, on page 17, on a pro forma basis, on a like-for-like basis of 2018 to 2019, you see revenue increasing $8.3 billion to $9.2 billion, our adjusted EBITDA from $1.5 billion to $1.7 billion with a – maintaining an EBITDA margin of roughly 18%, income from operations increasing from $1.2 billion to $1.4 billion with a margin increase of about 100 basis points or 14% to 15%, and CapEx steady at $200 million, $0.2 billion.

Page 18, just an update on where we are in terms of debt and our leverage ratios. Clearly, these numbers are impacted by the partial year when you compare this sheet to previous estimates that we would have given you, but the partial year and some of the own cash generation from Wabtec and reflecting the deal costs and the other costs that did incur for the second half of the year, we expected our debt at close about $2 billion, adding $2.9 billion of transaction debt for a total debt estimate of about $4.9 billion, net debt about $4.8 billion, giving us a gross leverage ratio of 3.3 times on an adjusted basis, pro forma basis, with a net leverage ratio of about 3.2. Our current estimates with our cash flow – cash from operations goals, we expect to see this leverage go from 3.3 at close to a 2.8 by the end of the calendar year of 2019.

So, just a couple of points I want to emphasize with this cash flow. We expect to have a strong free cash flow profile. We expect to see this leverage ratio come down. Our financial policy remains the same. We are committed to our investment grade ratings. We're committed to de-lever the company and that's a key part of the investment grade rating. But we also will be investing in our growth strategy as we go forward.

Again, I'll point you to all the reconciliations later in the deck, and at this point, I'd like to turn it back over to Ray.

Raymond T. Betler

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

Thanks, Pat. So, let me one more time tell you why we're so excited about this new combination and confident in our future. It truly is a once-in-a-lifetime opportunity for all of us. It's a milestone event in the history of rail transportation in the world. And if you look at the strategic rationale, the strength associated with this new combination start with our focus on technology and innovation. We'll be a very highly diversified engineering and product portfolio company and we'll have products that can reach customers in 100 countries plus all over the world.

We'll have over 5,000 engineers of all different functional capabilities and backgrounds and disciplines to serve our customers in our product portfolio. One of the areas we believe is extremely strong is our position in electronics and while we're not a full-fledged signaling company, we are a very strong niche player in the areas that we do serve. And the beautiful thing about those areas, as I've explained before, is when we superimposed the product roadmap for automation that we had with that what GE has, what we found was that the voids that existed in each were filled by the other company.

So, getting started on that opportunity in earnest is very exciting to us. We don't expect full automation to occur in a single step within this industry, but we do expect it to occur in a phased process, each phase representing an opportunity for us to generate high-margin revenues. Some of those revenues will come in the aftermarket. The aftermarket opportunity in electronics, in locomotives, in freight car and transit are significant, and our position today is significant. It gives us a great foundation and platform to build on. And we think there's opportunities for us to leverage the complementarity of our existing positions in the aftermarket, as well as the expertise that exists across the total corporation in Transit and Freight.

We have a very strong pro forma financial profile, as Pat noted, and we're hitting this combination at a great time in the cycle. A year ago, we came out of the freight cycle while in a downturn, in this year the GE Transportation folks are experiencing the same in the locomotive side. And we have an extremely strong backlog to support the deal wins that we believe exist in the market.

Our opportunities to generate synergies are significant, they're worldwide, and we've defined those as $250 million on a run rate basis with significant tax benefits that will drive value creation. And I honestly believe that as we explore in more detail our opportunities around the world, we'll find more opportunities through the creative and capable management team that we have in place.

And, finally, our cash flow profile, as Pat said, we had a really good fourth quarter. We believe that we'll be able to build on that position, to continue to generate strong cash flow throughout 2019 which will allow us to further de-lever this company and eventually position us to look for new opportunities to invest. So if you look across the business, if you knew the people that – the way I do now after having the opportunity to start to become familiar with the management team on the GE side, having worked for over a decade with the management team on the Wabtec side, we're really putting together a powerful organization, proven leadership that is going to allow us to grow and to manage through the cycles across all of our businesses in the future.

And with that, I'll turn it over to Tim.

Timothy R. Wesley

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

Okay. Thanks, Ray. So, Sean, you can go ahead and poll for questions. And again, let me remind you that if you can limit yourself to one question and maybe one follow-up so that everybody has an opportunity, we would appreciate that. Go ahead, Sean.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Justin Long with Stephens. Please go ahead.

Justin Long
Analyst, Stephens, Inc. Q

Thanks. Good morning, and congrats on closing the transaction.

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

Thanks.

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

Thank you, Justin.

Justin Long
Analyst, Stephens, Inc. Q

So, maybe, Pat, we could start with a couple questions on the guidance for you. I just want to clarify some things that would help us make an apples-to-apples comparison of this guidance because there are a lot of moving pieces. So, on the adjusted EPS guidance of $4.00 to $4.20, does that include the recurring PPA accounting? I just wanted to clarify that. And then, I also believe on the share count, you said the assumption is that's 177 million, just wanted to make sure I heard that correctly as well.

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

Yeah, exactly. The share count is 177 million for all these – and that's an annual number for all these purposes. Because of the first quarter, you only have the shares outstanding from today on. So, you'll have – but that's a weighted average share count based on current calculation. And then the recurring PPA right there on page 15.

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

Back to the share count, I wanted to explain how that happens because, by the end of the year, we will get back up to the total amount, which is more like, what, 193...

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

193 million.

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

...million.

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

Yeah. So, the Q1 outstanding shares are – right now our estimate is 130 million shares outstanding. That's like a weighted average count. Q2, Q3 and Q4 would be 193 million shares. So, you end up with an annual weighted average of 177 million. And then, of course, when you start again in 2020, you would be at the full 193 million.

Justin Long
Analyst, Stephens, Inc. Q

Okay, great. And then, on the PPA.

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

Yeah. So, the PPA is – if you look at page 15, that's the very first column, that's the negative purchase price accounting amortization that is related to intangibles that we do amortize.

Justin Long
Analyst, Stephens, Inc. Q

And what is the negative EPS impact from that, is it right around $0.70 or so?

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

$200 million. Yes, exactly.

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

Yeah. I think that's right.

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

It's in the fourth quarter...

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

Yes. I have $0.70.

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

$0.70.

Justin Long
Analyst, Stephens, Inc. Q

$0.70. Okay. That's really helpful. And then, I wanted to circle back to the synergy commentary, Ray, that you made. And I wanted to ask, first, what's the assumption for synergies within the 2019 guidance? And then, also if you could help us think about the annual cadence of these synergies. I think previously you had talked about them being more weighted towards the out-years, years three and four, but is there potential that we see some of those synergies pull forward as you've done a little bit more diligence on the business?

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

Yeah, I think there's always potential. So, our intention is to always push. So, we're going to be pushing our folks to accelerate as much as possible. But our best look right now is about $20 million net synergy effect for 2019, and they will be obviously heavier weighted towards the out-years.

Justin Long
Analyst, Stephens, Inc.
Q

Okay. Great. I'll leave it at that. Thanks again for the time.

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

Thanks, Justin.

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

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

Hi, guys, good morning.

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

Hi.

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

Hi, Allison.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC
Q

And just talking on the broader digital platform, obviously a bigger area for you now. Could you help us understand the implied growth maybe for 2019 and the out-years, and any color on the margin opportunity there?

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

So, as far as the growth, we're going to probably change a little bit going forward, Allison, as we transition from reporting purely on PTC to reporting on what Tim has defined as train control to reporting on our overall Electronics Digital business first of all. So, our mix of products and our product capability and ability to address the market is going to be a little bit different in the future compared to what it is today.

So, we just look back historically on last year. We exceeded significantly our forecast in the PTC area. The reason for that was there were additional projects that came in to complete the overall implementation of PTC. There are still – hard to believe, but there are still projects that we're booking, they're small single-digit numbers, but there still are a few projects that will yet come in, turnkey projects, to implement PTC for commuter lines.

But for the most part, the overall delivery of PTC has been completed. The system integration and commissioning is underway. Our focus for 2019 and 2020 will be on reliability on supporting our customers to literally deploy across their total system PTC, so to obtain a safety case as well as full deployment. So a lot of the work is not going to be significant revenues in terms of opportunities, it will be more associated with service enhancements and support. But as we start to combine our capabilities, we have products like Movement Planner, Trip Optimizer, Locotrol from the GE side that are already being used to interface with customers to address some operational efficiency issues. So, there's a lot of talk across the industry about precision railroading. Our belief is that full automation is the ultimate solution to optimize precision railroading. So, we're trying to work with the railroads to start to focus on fuel efficiency, speed optimization and things like that. So, we will have growth within our business. We believe our overall Electronics Digital business will grow this year and will be our highest growth opportunity in the future.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Great. That's helpful.

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

A

I'll just add. I mean, we do expect growth to be coming from this segment. The combination of what the two companies bring together will really be an accelerator here for automation. And as I have mentioned, we see automation having the single biggest impact for railroad productivity, very much aligned with precision railroading and some of the efforts our customers currently have.

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

A

That was Tim in case you didn't recognize before.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC

Q

Thanks. And then, just lastly on Transit, obviously, a number of operational challenges in 2018, can you give us a perspective of where we are, are those challenges behind us that we should have a smoother and better visibility in 2019? And color there?

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

A

I missed the...

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

A

The question, Ray, is the Transit – we've had a lot of issues in the Transit business, and obviously again in the fourth quarter the margins picked up, and is some of that behind us is the question.

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

Yeah. So, thanks, Allison. I just missed the first part of your question. So, the answer to your question, Allison, is, yeah, we continue to improve our overall performance within the transit sector. We had, as you know, a lot of write-offs associated with large projects, particularly in the UK over the last two years. Those projects are starting to be completed. The largest one literately has just finished its deliveries first quarter of this year. We've been able to – I was – spent a week over in the UK at the end of last year, and I'll be back over there at the end of this quarter to meet with every one of our customers. So, yeah, the business is under control. We're starting to close down those projects and we don't anticipate any significant problems as we've experienced in the past.

For the overall Transit business, we still have a significant backlog of about $4 billion. We're in a good position. We're growing that business about 2 times market share on a worldwide basis, and margins within the individual product areas are continuing to improve year-on-year, and we have productivity and operational performance objectives in place to accomplish that again this year.

Allison Poliniak-Cusic
Analyst, Wells Fargo Securities LLC Q

Great. Thank you.

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

Thanks, Allison.

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

Matt Elkott
Vice President, Industrials - Transportation OEMs, Cowen and Company, LLC Q

Good morning. Thank you, and congratulations on closing the deal. Ray and Rafael, in 2018, I think your initial guidance for locomotive deliveries was 272 – or actually it was 300 and you did 272. Can you give us an idea on what the difference to the guidance was? Was it timing of deliveries? And also, what's baked into your 2019 guidance?

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

I'll let you take that Rafael.

Rafael O. Santana
President & Chief Executive Officer, GE Transportation A

So, yeah, as we look into 2018, what I'll tell you is, we had a very strong 2018 with regards to locomotive orders. We closed the year with – again, a total backlog of $19 billion. I think it was different in that year. We've been able to get what I'll call multiyear service agreements and multiyear locomotive agreements, which really translates into a baseload that really supports, I'll call it, strong foundation for growth ahead for us. We had deliveries of 272 units. Some of those delays were associated with the timing on which we started to deliver locomotives. In India, I'm very happy to say we have been delivering already north of 48 units as part of that contract last year. And this year, just on the last couple weeks we've delivered the first locomotives being manufactured in-country including an AC6000, so moving very well and as per plan.

Matt Elkott
Vice President, Industrials - Transportation OEMs, Cowen and Company, LLC

Q

And, Rafael, the number that's baked into the 2019 guidance?

Rafael O. Santana
President & Chief Executive Officer, GE Transportation

A

Well, we have strong growth in 2019. What I'll tell you is, when I look at our backlog, we've got more than 90% of the necessary coverage for 2019 which is a significant improvement versus last year. On the top of that, I'll tell you that our pipeline of opportunities, more than two-thirds of those associated with, I'll call, international opportunities, so we feel very strong about the year.

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

A

Yeah. We do not plan on providing an exact number for 2019 as far as locomotive build for various reasons. But I think that the general trend in the backlog and everything else gives you a good feel that we're counting on an increase, but we're not going to provide the absolute number.

Matt Elkott
Vice President, Industrials - Transportation OEMs, Cowen and Company, LLC

Q

Okay. And just a quick follow-up, if I could. If we just take a longer term view on your forecast through 2021, obviously, you're expecting strong growth in locomotive deliveries. Can you just talk about the different drivers of this growth by geography and how much of this demand is replacement demand versus new demand?

Rafael O. Santana
President & Chief Executive Officer, GE Transportation

A

So back to what I had told you before, I think we've been successful in getting multiyear agreements which really build off on the demand from our customers. We currently have approximately 2,000 new locomotives in our backlog and that's again, I'd say, significant baseload for the years ahead of us. The demand doesn't stop with regards to new locomotive only. One of the things that I think I've highlighted is the opportunity for – upgrade opportunities that we have and we currently have in our backlog more than – approximately 900 locomotives for modernizations in backlog.

Matt Elkott
Vice President, Industrials - Transportation OEMs, Cowen and Company, LLC

Q

Thank you very much.

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

A

Thanks, Matt.

Operator: Our next question comes from (sic) Scott Group with Wolfe Research. Please go ahead.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Hey. Thanks. Morning, guys.

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

A

Hi, Scott.

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

A

Hi, Scott.

Scott H. Group
Analyst, Wolfe Research LLC

Q

So, I wanted to just start on the core legacy Wabtec margins. Looks like you're guiding to around 13% for the year. I think when we talked last year, once we got through the transit contract issues that we'd be on a run rate closer to 15%. Can you help us understand the delta here?

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

A

So, I think your 13% is a little low, but the increase year-over-year that we're expecting is really going to be driven by the fact that we have these projects which haven't performed so well winding down, as Ray was talking about earlier. So, as you replace those projects with your more typical performing transit projects, you have the improvement. But the rest of the margin improvement is going to come from – as we expect from our typical sources as we focus on sourcing opportunities that we already had in place or were in process before we closed this deal from our lean efforts to drive cost out of our plants and our operations, and lastly, the benefits of some of these restructuring programs that we took, charges related to redundancies or other severance or other asset combinations as we put plan together. So, all those things add up to an improving margin profile for 2019.

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

A

Yeah. And without a doubt, Scott, we're disappointed in the margins in Transit in 2018. And it will be a focus point. We made great progress in certain business areas and not the progress we expected. But if you look at the Freight margins, they really were maintained and improved, so that we're happy about. We're not happy about the margins in Transit and I can tell you that going forward it will be a focus point along with the integration of these businesses.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. But in the slides, you've got recurring PPA and one-time PPA. Can you just help explain the differences and then the recurring piece, that $200 million, how should we think about that number in 2020? Is it still there, does it go away? I guess they're just not clear to me.

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

A

Yeah. So, that's a current estimate based on the valuations for purchase price accounting for the recurring. That is a multi-year number and once finalized, it shouldn't change. It's specific to the additional depreciation expense on assets that have been fair valued, on intangible assets that have a life that we have to amortize to. So, that number is a – it's a non-cash D&A that's going to have multi-year impact and that should be fairly stable.

The one-time is related to the accounting rules, that we have to step up inventory values closer to its fair value and on some of the value that we have to attach to backlog. And so, this is our current estimate of what we – we think that amount will be and will turn over – typically, that's a 12-month process as we consume, use, and sell the inventory we have on hand at close, and we deliver the backlog that has value attached to it. So, recurring is multiyear, non-recurring should be around 12 months.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. Very helpful. If I can actually just ask one more, maybe for Rafael, so the long-term guidance on loco deliveries hasn't changed since May. And, obviously, we've got more rails doing precision railroading. So there's some sort of skepticism about that. You talked about multiyear agreements in the backlog. How much of that backlog is coming from outside of the U.S.? Maybe that can help us gain some more confidence in the double-digit CAGR in loco deliveries?

Rafael O. Santana
President & Chief Executive Officer, GE Transportation

A

So, I'm not going to give you the breakdown, international versus North America. But what I'll tell you is, again, when I look at last year, we grew our backlog, and that backlog comes with multiyear locomotive agreements. We've got more than 90% of the coverage for this year. As I look into 2020, we're also significantly ahead from where we were a year ago.

And I'll just give you a number from a total backlog perspective for 2019. We're north of 74% which is at least 6 points better than we were a year ago. So we feel strong about 2019, and we're well-positioned for 2019 with a strong pipeline of opportunities internationally. When you think of precision railroading, I think – the other thing to keep in mind is, there is continued demand for reliable and available power. So the fact that locomotives could be a big part, there's still a demand for modernizing that fleet which we're capturing on, and there is the opportunity to make sure you ultimately have reliable and available power running in your key corridors. And we're certainly capitalizing on those opportunities, not to mention all the discussion we had around the automation which really aligns very well with better performance, better reliability and better fuel efficiency for our customers. So, we really like how we're positioned here in terms of the next few years and the recurring nature of some of the services in our fleet.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. Very helpful. Thank you, guys.

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

Matthew Brooklier
Analyst, The Buckingham Research Group, Inc.

Q

Hey. Thanks. Good morning, and congratulations.

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

A

Thank you.

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

A

Thank you, Matt.

Matthew Brooklier
Analyst, The Buckingham Research Group, Inc.

Q

So, I wanted to go back to the $250 million of expected synergies over four years. You had nice detail on the slide, but wanted to get kind of a sense and more color in terms of how much of those synergies are expected from the cost side of things, and then how much of the $250 million is potentially driven by the sales synergies.

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

A

Yeah. So, Matt, the way I would answer that is that the majority of the $250 million is coming from the cost side. We do have a little bit of revenue and associated EBIT that's been considered in the combination of the Digital and Electronics business. But typically, in our synergy plans, we have focused on cost. It doesn't mean we don't think that there's great opportunity in those Digital, Electronics combinations, but for the purposes of this integration, we are focused on cost.

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

A

Especially in the short term, the cost items are what we would expect to see the synergies on. As we go further out, that's where the revenue synergies will kick in.

Matthew Brooklier
Analyst, The Buckingham Research Group, Inc.

Q

Okay, that's helpful. And just to clarify, year-one expected synergies, I think I heard a $20 million net number, is that correct?

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

A

Yes.

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

A

Yeah. That's the number.

Matthew Brooklier
Analyst, The Buckingham Research Group, Inc.

Q

Okay. That's great. Thanks for the time.

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

A

Thanks, Matt.

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

Saree Boroditsky
Analyst, Jefferies

Q

Good morning, and thanks for taking my question.

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

A

Hi, Saree.

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

A

Hi, Saree.

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

A

Hi, Saree.

Saree Boroditsky
Analyst, Jefferies

Q

So, within Freight, I know you don't want to give any exact numbers out, but could you just help us understand within the different buckets, between aftermarket, original equipment and digital, kind of where you're seeing the highest growth for 2019 and maybe the lowest?

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

A

So, we are seeing again growth across – when I look at the Freight segment, we're seeing growth really cutting across all segments. It's certainly stronger when I look at our automation portfolio and when I look at the locomotive deliveries. But we're growing our services business. It's a business that when I look at the former GE portfolio, it's going to be north of $2 billion of revenues.

Saree Boroditsky
Analyst, Jefferies

Q

Okay. And then, in your recent filing, there was a comment about the backlog being pushed out slightly. I guess, could you provide color on what caused that change, and then maybe a little bit on how much flexibility customers have to push out orders?

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

A

Yeah. Well, you're referring to the latest registration statements with that proxy and had the pro formas numbers in there. We did highlight that when you compare it to those numbers that were originally generated over a year ago that there was some impact from some shifting of backlog. That's what you're referring to. So, in terms of GE – so that comes down to the customer timing, the estimated moment where we think that the orders will come in, all those things factor in. I would emphasize that the backlog coverage for Wabtec and for GE going forward is at a very high level and we're confident of those numbers.

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

Yeah. And I think it's fair to point out that when the initial forecast was given, that's almost a year ago.

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

Yeah.

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

And all we're trying to do is, we updated it on what transferred in the marketplace over that almost 10 to 11 months. And there absolutely was some movement of those orders that went from one period to the next and some change in the marketplace. But we still have the strong backlog, and I think the one important statistic is the fact that, right now Rafael talked about the 70-plus-percent is already covered. So, that's higher than he is used to seeing in the business...

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

And I would just say, in every one of our served markets, that's a common phenomenon for customers for a host of reasons to push or delay the start of new orders. It's really not unusual at all.

Saree Boroditsky
Analyst, Jefferies
Q

Okay, that's helpful. So, I guess would it be fair to say that, that was more a function of the pro forma numbers being – or forecast being I guess a while away and in the near term you should see kind of less of that?

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

Yeah, I think so.

Saree Boroditsky
Analyst, Jefferies
Q

All right. Thank you so much.

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

Thank you.

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

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

Thank you. I think you said that you expect your tax rate to be 24%, it doesn't seem to include any benefit from the tax advantage. I mean, I guess, it's because it accrues to GE in the early years. Am I thinking about that right, and can you remind us of how that changes in the coming years?

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

A

Yeah. Yeah. So, the tax benefit is a cash-only benefit. It has to – and not to get into accounting for deferred income taxes, but, yeah, so it has a limited impact to the ETR, and it's really only on a cash basis. And you're right, the first few years that we accrue – GE gets that benefit and it just comes through with additional consideration to GE. But then, we would realize the benefit of those tax items on a go-forward basis.

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

Q

Got it. And can you also talk about maybe the opportunity for putting more Wabtec components on a GE locomotive? I mean, do you see that as being more of just a vertically-integrated solution going forward, and do you think much is going to change there?

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

A

Yeah. I think over time, Mike, that opportunity will come up. So, for the existing orders that Rafael is currently filling with his locomotive, he obviously already has suppliers determined and fixed and approved by customers. But if you think about the $2 billion of aftermarket opportunities that he supports every year, there's flexibility, to some extent, in the supply base. So, on a short term, I'd say the best opportunity is associated with the aftermarket and in the medium term on new OEM business if he starts to bid on new opportunities.

Rafael O. Santana
President & Chief Executive Officer, GE Transportation

A

So, our installed fleet of 23,000 locomotives I think provides really a significant opportunity here to look at a channel to sell our combined portfolio and especially internationally with some of the strong relationships we have, we see very good opportunity to grow market penetration as we bring the two portfolios together.

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

A

And one thing I would say about that is, you can just imagine the benefits, efficiencies that you get when – when you're doing a complete system integration under one roof, you don't have communication issues in terms of understanding what the requirements are and expectations, you know you want one team of engineers that are basically design-in from the locomotive down and from the component up, that's a huge advantage and opportunity for everyone.

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

Q

Got it. That makes a lot of sense. And maybe just since no one has asked it, can you give us a status, I think there were some reports in the recent days about labor agreements and so forth, can you just give us a status update on those things?

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

A

Yeah, I'll be happy to. We've settled with all but one of the unionized facilities associated with GE's business. If you recall, we did not accept the labor agreements. So, we had to renegotiate all those. We're in negotiations with the folks up Erie. Our view is very simple. We want to integrate that workforce into our organization. They have an agreement now such that what we've committed was two-tiered wage structure that would allow us to be competitive internationally that would not impact the wages of any of the existing legacy employees, and that's probably the biggest sensitivity that exist. So, we're working through that with the union and we believe we'll be able to settle that agreement hopefully in the near term.

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

Great. Thanks very much.

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

You're welcome.

Operator: [Operator Instructions] Our next question comes from Willard Milby with Seaport Global Securities. Please go ahead.

Willard Milby
Analyst, Seaport Global Securities LLC
Q

Hey. Good morning, everyone. Pat, if I look at the debt, the $4.9 billion, what's the current average rate on that? And as far as the split floating versus fixed, where do you stand currently?

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

I think the average interest rate on the whole debt is 4% and then the split is roughly 60% fixed.

Willard Milby
Analyst, Seaport Global Securities LLC
Q

Okay. And you mentioned in the presentation the appropriate mix of permanent and prepaid, do you have that percent prepaid number? And I got a follow up to that one.

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

Sorry. Ask the question again?

Willard Milby
Analyst, Seaport Global Securities LLC
Q

The amount of, I guess, pre-payable debt that you – you mentioned in the slide 18, appropriate mix, permanent and pre-payable?

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

Yeah. I'm sorry. Yeah. Okay. So, I'm going to say that we probably have – bear with me, I would say, pre-payable, we have the $500 million related to the short-term bonds and then we probably have about $600 million related to the line of credit. And then, we have other maturities that are five years out, so--.

Willard Milby
Analyst, Seaport Global Securities LLC

Q

Right. Right. And bigger picture question, now that you've got the whole of GE Transportation under the Wabtec umbrella. When you look at all the business lines, does GE Transportation in its current, I guess, form makes sense for Wabtec to retain ownership of all those businesses, or is this – are there opportunities to maybe find new homes for certain segments of GE Transportation's business?

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

A

Yeah. Right now, the portfolio fits ideally with the Wabtec portfolio. And it was really constructed in a way there's tremendous amount of synergies between the various groups. So, right now, we do not see that. However, we're always looking for what our portfolio needs to be and there will be a lot of effort over the next year of developing a strategy together that makes sense for the combined business.

Willard Milby
Analyst, Seaport Global Securities LLC

Q

Great. All right. Thanks, gentlemen. I appreciate the time.

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

A

Thanks, Willard.

Operator: Our final question comes from Steve Barger with KeyBanc Capital Markets. Please go ahead.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning, guys. Just a follow-up.

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

A

Hi, Steve.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Ray, you talked about this being an attractive point in the cycle and the industry saw nearly 100% step-up in railcar orders in 2018 versus 2017, which makes for a tough comp this year. But do you think rolling stock is further along in the cycle than locomotives in North America, or just how do you compare it with legacy freight versus locomotive right now?

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

A

I think it's a little bit like what Rafael said. I think rolling stock is a little bit ahead of locomotives, but then you have to get into the details and granular definition of rolling stock. So, there's different trends for different types of cars right now as you know, Steve. And right now, we still have a significant backlog. We have within our plan or budget for this year a significant increase, 2018 to 2019. So far, we're seeing that and hopefully it's going to continue throughout the year. Included in that is our international growth opportunity, so more and more of rolling stock providers, North American providers are setting up shop in international communities. We're following those folks and supporting them, partnering with them. So, in addition to our North America growth, we have growth opportunities in the international side.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. Thanks very much.

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

A

Thanks.

Operator: And this now concludes the question-and-answer session. I would like to turn the conference back over to Tim Wesley for any closing remarks.

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

Thank you, Sean. Well, we appreciate everybody's attention this morning, and we look forward to talking to you or seeing you over the next weeks and months. Thanks very much. Having a good day.

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

Thank you.

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

Bye. Thanks.

Operator: And the conference has now concluded. Thank you for attending today's presentation and you may now disconnect.