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Westinghouse Air Brake Technologies Corp. (WAB)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Wabtec's First Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

Kyra Yates

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

Thank you, operator. Good morning, everyone, and welcome to Wabtec's first quarter 2025 earnings Call. With us today are President and CEO, Rafael Santana; CFO, John Olin; and Senior Vice President of Finance, John Mastalerz. Today's slide presentation, along with our earnings release and financial disclosures, were posted to our website earlier today and can be accessed on the Investor Relations tab.

Some statements we are making are forward-looking and based on our best view of the world in our business today. For more detailed risks, uncertainties, and assumptions relating to our forward-looking statements, please see the disclosures in our earnings release and presentation. We will also discuss non-GAAP financial metrics and encourage you to read our disclosures and reconciliation tables carefully as you consider these metrics.

I will now turn the call over to Rafael.

Rafael O. Santana

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

Thanks, Kyra, and good morning, everyone. Let's move to slide 4. I'll start with an update on our business, my perspectives on the quarter, and progress against our long-term value creation framework and then John will cover the financials.

Before we get into the numbers, I'd say that we had a strong start to the year delivering results ahead of our expectations. While we had favorable business outcomes in the quarter, such as business mix and timing of expenses, more importantly, we have amplified our cost control levers as a direct result of the uncertain economic environment that we're anticipating to play out over the remainder of the year. With that said, we are approaching the remainder of the year with caution, with discipline, and the focus to take the necessary actions to deliver against our commitments in an uncertain and volatile economic landscape.

Having that in mind, sales were \$2.6 billion, which was up 4.5%; adjusted EPS was up 21% from the year-ago quarter; and total cash flow from operations for the quarter was \$191 million. The 12-month backlog was \$8.2 billion, up 6%, reflecting the continued momentum and visibility across the business.

Shifting our focus to slide 5, let's talk about 2025 and market expectations in more detail. While key metrics across our Freight business remain mixed, we are encouraged by the strength of international market activity in our current pipeline of opportunities across geographies. However, we are cautious with regards to our North American business as the current tariff activities play out over the remainder of the year. North American traffic was up 3% in the quarter. Despite this traffic growth, the industry's and Wabtec's active locomotive fleets were largely flat when compared to last year's first quarter. As we look forward, we continue to see significant

opportunities across the globe in demand for new locomotives, modernizations, and digital technologies as our customers continue to invest in solutions that drive fuel efficiency, reliability, productivity, and safety.

Looking at the North American railcar built, last quarter, we discussed the industry outlook for 2025 to be about 35,000 cars to be delivered, which is down 17% from last year. This industry forecast has remained unchanged. Internationally, activity is strong across core markets such as Africa, Asia, and CIS. Significant investments to expand and upgrade infrastructure are supporting a robust international locomotive backlog and orders pipeline. In mining, an aging fleet continues to support activity to refresh and upgrade the truck fleet.

Finally, moving to the Transit sector, we continue to see underlying indicators for growth. Ridership levels are increasing in key geographies along with fleet expansion and renewals.

Next, let's turn to slide 6 to discuss a few business highlights. In Kazakhstan, we continue making progress on finalizing orders associated with our installed fleet by signing a \$300 million multiyear service agreement to increase availability, reliability, and productivity of KTZ's locomotive fleet. In North America, we secured a \$140 million order from a Class 1 customer for new locomotives. This order demonstrates the need for our Class 1 customers to upgrade their aging fleet by investing in new locomotives.

Moving to the APAC region, we secured orders totaling \$130 million for new equipment and service contracts. This included orders for new locomotives and mining drive systems. These orders continue to highlight the growth opportunity we see in the region.

Moving to our Transit segment, Transit won two multiyear platform door contracts valued at \$85 million for the Madrid Metro and the new Hamburg Metro U5 line. And finally, we secured a \$50 million order to provide brakes and couplers for servicing the New York City Transit Authority. This win signified the European and North American transportation authorities' commitment to investing in solutions that enhance passenger safety and modernize metro networks. Overall, this success has continued to demonstrate our leadership in the markets we serve and the commitment of the Wabtec team to deliver meaningful results for our business and for our customers.

Moving to slide 7. Before turning it over to John, I want to briefly discuss the positive momentum we have in our international markets. Over the last several quarters, we have highlighted that our international pipeline of opportunities continue to be strong. Our international revenue has grown over the last couple of years at a high-single digit growth rate and delivers a higher level of profitability than our North American region. The continued growth in our international locomotive install base has enabled us to leverage our international footprint and has underpinned our share gains in services, components, and digital solutions.

As we walk around the world, let's discuss some of these drivers. In Europe, our Transit business is supported by urbanization trends and growing infrastructure funding, which has led to resilient and steady revenue growth while providing safer, cleaner, and more cost-effective commuting. The CIS region growth is driven by the locomotive fleet expansion, which has led to robust growth in services and digital products in the region. The Sub-Saharan/Africa region is benefiting from new mining projects and volume growth. The new equipment orders for the Simandou mining project that were secured in 2024 are expected to provide further opportunity for services and digital growth in the region. Beyond Guinea, there are more opportunities for African expansion in 2025.

Moving to the APAC region, we see trends supportive of growth for both Freight and Transit. Urban infrastructure investment in our growing install base of equipment is driving Transit growth while mining fleet renewals and a growing locomotive install base supports Freight growth, particularly in Australia. And finally, South America is

upgrading fleets, exploring alternative fuel and automation technologies, as well as implementing various digital products such as Trip Optimizer suite of onboard products, PTC 2.0, digital mining, and our inspection technologies. This is in support of the region's needs for efficient transportation of goods to help with increased Freight demand.

We expect our execution, the strength of our business, and our leading products and technologies will result in Wabtec continuing to convert to opportunities in our pipeline into orders and growth.

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

John A. Olin

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

Thanks, Rafael, and hello everyone. Turning to slide 8, I will review our first quarter results in more detail. Our first quarter results came in better than expected behind strong operating margin expansion. The drivers of the first quarter's operating margins were due largely to favorable timing of expenses and mix, improved operational execution, and as a result of our proactively taking a more defensive spending posture as we head into significant economic uncertainty.

Sales for the quarter were \$2.61 billion, which reflects a 4.5% increase versus the prior year. Sales growth in the quarter was driven by the Freight and Transit segments. Excluding the impact of currency, sales were up 6.2%. For the quarter, GAAP operating income was \$474 million. The increase was driven by higher sales, improved gross margin, and proactive cost management. Adjusted operating margin in Q1 was 21.7%, up 1.9 percentage points versus the prior year. This increase was driven by improved gross margins of 1.7 percentage points and driven by operating expenses which grew at a slower rate than revenue, increasing our Q1 margin by an additional two-tenths of a percentage point.

GAAP earnings per diluted share was \$1.88, which was up 22.9% versus the year-ago quarter. During the quarter, we had net pre-tax charges of \$9 million for restructuring, which were primarily related to our integration and portfolio optimization initiatives to further integrate and streamline Wabtec's operations.

As you may recall in our Q4 earnings call, we introduced Integration 3.0 which is expected to drive \$100 million to \$125 million of run rate savings as we exit 2028 and another round of portfolio optimization initiatives that are expected to eliminate roughly \$100 million of low-margin non-strategic revenue while reducing manufacturing complexity. In the quarter adjusted earnings per diluted share was \$2.28, up 20.6% versus the prior year. Overall, Wabtec delivered another strong quarter, demonstrating the underlying strength of the business.

Turning to slide 9, let's review our product lines in more detail. Before we discuss our business group sales performance for the quarter, I would like to point out that we have realigned a couple of our businesses within the Freight segment. Essentially, we have moved our Nordco maintenance-of-way and a freight distribution business to our Components group from our Services group. This shifts \$91 million of revenue in the quarter to Components from Services. Prior year's results have been adjusted to make our presented financials comparable year-over-year. We believe that this realignment will improve focus and better match our group's competencies to deliver improved growth in the future.

With that being said, first quarter consolidated sales were up 4.5%. Our Services sales were up 16.9%. This was driven by the timing of modernizations and overhauls. During the first quarter, we allocated additional capacity to

our mods production, which was a reverse of what we experienced in the fourth quarter. Regarding our core Service business, we experienced expected growth as our active fleets ran according to plan.

Equipment sales were down 9.5% from last year's first quarter. This decrease was expected given the shift of capacity to mods during the quarter. In Q2 and the second half of the year, we are planning for a shift back to new locomotive production. This is expected to result in slightly lower year-over-year mod production in Q2 and a more pronounced reduction in the second half.

Components sales were down 0.8% versus last year due to portfolio optimization efforts and a lower North American railcar build, which was partially offset by increased industrial product sales. Digital Intelligence sales were up 2.8% from last year. This was driven by growth in our international sales, which was partially offset by a lower North American market.

In our Transit segment, sales were up 5.3% and driven by our Products and Services business. Foreign currency exchange had an adverse impact on sales in the quarter of 2.6 percentage points. The momentum in the Transit segment remains positive due to elevated infrastructure investment and global ridership, which accelerates the need for investments in sustainable infrastructure.

Now moving to slide 10, GAAP gross margin was 34.5%, which was up 1.8 percentage points from the first quarter last year. Adjusted gross margin was also up 1.7 percentage points during the quarter. In addition to higher sales, gross margins benefited from timing of expenses, favorable mix, and modest contract escalation. Mix within the Freight segment was also favorable, despite significantly higher new local and mod deliveries in the quarter.

Foreign currency exchange was a headwind to revenue, as well as gross profit and operating margin in the quarter. During the quarter, we also benefited from improved operational execution into our proactive approach on cost controls. Our team continues to execute well by driving operational productivity and lean initiatives.

Turning to slide 11. For the first quarter, GAAP operating margin was 18.2%, which was up 1.7 percentage points versus last year. Adjusted operating margin improved 1.9 percentage points to 21.7%. GAAP and adjusted SG&A and engineering expenses was up versus the prior year, with adjusted SG&A slightly lower as a percentage of revenues. Engineering expense was \$46 million, slightly lower than Q1 last year. We continued to invest in engineering, resources, and current business opportunities, but more importantly, we are investing in our future as an industry leader in fuel efficiencies and digital technologies that improve our customers' productivity, capacity utilization, and safety.

Now, let's take a look at segment results on slide 12 starting with the Freight segment. As I already discussed, Freight segment sales were up 4.2% during the quarter. GAAP segment operating income was \$420 million, driving an operating margin of 22.1%, up 1.9 percentage points versus last year. GAAP operating income included \$3 million of restructuring costs, primarily related to our integration, and portfolio optimization initiatives.

Adjusted operating income for the Freight segment was \$488 million, up 11.2% versus the prior year. Adjusted operating margin in the Freight segment was 25.7%, up 1.6 percentage points from prior year. The increase was driven by improved gross margin behind favorable business mix, timing of expenses, improved productivity, and proactive cost controls.

Finally, 12-month segment backlog was \$6.07 billion. Our 12-month backlog was up 9.1% on a constant currency basis while the multiyear backlog of \$17.85 billion was up 1.4% on a constant currency basis.

Turning to slide 13. Transit segment sales were up 5.3% at \$709 million. When adjusting for foreign currency, Transit sales were up 7.9%. GAAP operating income was \$90 million. Restructuring costs related to integration and portfolio optimization were \$6 million in Q1. Adjusted segment operating income was \$103 million. Adjusted operating income as a percent of revenue was 14.6%, up 1.9 percentage points. The increase was driven by higher adjusted gross margin behind favorable mix and strong operational execution.

Finally, Transit segment 12-month backlog for the quarter was \$2.13 billion, which was up 2.2% on a constant currency basis. The multiyear backlog was up 5.1% on a constant currency basis.

Now, let's turn to our financial position on slide 14. First quarter cash flow generation was \$191 million. We continue to expect greater than 90% cash conversion for the full year. Our balance sheet and financial position continued to be strong as evidenced by, first, our liquidity position, which ended the quarter at \$2.54 billion; and our net debt leverage ratio, which ended the first quarter at 1.5 times.

The leverage ratio was below our stated range in anticipation of funding the acquisition of Evident's Inspection Technologies division that we announced on January 13, which is expected to close at the end of the second quarter. Upon closing this purchase, we anticipate that our leverage ratio will be roughly 2.3 times.

We continue to allocate capital in a disciplined and balanced way to maximize returns for our shareholders. During the quarter, we repurchased \$98 million of our shares and paid \$43 million in dividends, which was recently increased by our board of directors, up 25% per share versus prior year.

With that, I'd like to turn the call back over to Rafael to talk about our 2025 financial guidance.

Rafael O. Santana

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

Thanks, John. Now, let's turn to slide 15 to discuss our 2025 outlook and guidance. As you've heard today, our team delivered a good start to the year. Our international pipeline remained strong, and our 12-month and multiyear backlogs provide visibility for profitable growth ahead. With that being said, we are approaching the remainder of the year with caution but with the discipline and focus to take the necessary actions to deliver against our commitments in an uncertain and volatile economic landscape. Consequently, we are increasing our previous adjusted EPS midpoint guidance, and we now expect adjusted EPS to be in the range of \$8.35 to \$8.95, up 14% at the midpoint. Our revenue and cash flow conversion guidance remains unchanged.

Now, let's wrap up on slide 16. As you heard today, our team continues to deliver on our value-creation framework, thanks in large part to our resilient install base, world-class team, innovative technologies, and our continued focus on our customers. With solid underlying demand for our products and technologies and intense focus on continuous improvement and cost management, consistent with our previous guidance, we continue to expect to drive mid-single digit organic growth while delivering double-digit EPS growth through our planning horizon, thereby maximizing our returns to our shareholders.

As we have discussed, the current economic environment is uncertain and volatile. We will be proactive with our cost control levers and drive actions to deliver against our commitments.

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

Kyra Yates

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

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster. The first question today comes from Rob Wertheimer with Melius Research. Please go ahead.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Thanks and good morning, everybody. Rafael, you called out in your opening remarks just some of the obvious uncertainty around North America. I wanted to ask just how that shows up in your business or in your pipeline or your pre-pipeline, whether it's less appetite for new locos, more than expected more for mods, less for mods, more – just kind of talk about what you meant by those comments and what you're seeing. Thank you.

Rafael O. Santana

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

A

Absolutely. Well, first, as we look into some of those dynamics, we continue to see North America lagging versus what we see internationally, and that's really part of how we're managing the overall business. We've got strong momentum internationally. It's more profitable, and those orders continue. We have a strong pipeline that we're continuing to convert, so it's good to see. We're seeing some mod elements tied to both the Transit and the mining business, which continued to be strong. Even on our Components business, industrial seems to be holding quite well. So I go back to the fundamentals for the business continue to be strong. I think the best way to look at it is the quality of the backlog in which we've got not just better visibility at this point but higher margins.

With that, there's always going to be elements of lumpiness quarter-to-quarter on both the elements, on how we grab those orders, but how we go about delivering on them. So we continue to approach the year with caution but very focused here on what we can control. And ultimately, we're going to continue to take the actions to, number one, deliver on the 2025 guidance but, most importantly, make sure that we're driving profitable growth into 2026 and beyond.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Perfect. And so, you're saying basically that both the profitability and the order flow from international is, currently anyway, offsetting any hiccups or weakness or softness or [ph] kind of limitation (24:56) in North America. But are you seeing like less appetite for mods in North America right now or – just any color there on what you mean by that and I'll stop there. Thank you.

Rafael O. Santana

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

A

It's very customer-specific at the end of the day, and I think what we've seen is not necessarily customers migrating from one to the other. It's customers that maybe we're not investing as much. You see them now investing on some new fleets, so we're certainly seeing tier 4 locomotives growing in North America.

I think the other element here to keep in mind is, very often, we're very focused on North America and dynamics between new locos and mods. We're managing ultimately a global business, and there's elements here of how we mix some of those shifts and moves between the global volumes we see in North America. We'll very often look at continuing to extend and expand on some of these agreements, so it's very dynamic from that perspective. And I go back to the comments I made, which is taking every action to deliver on that 2025 guidance which we've just given you and making sure that we're driving profitable growth into 2026 and beyond.

Rob Wertheimer

Analyst, Melius Research LLC

Thank you.

Q

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

Adam Roszkowski

Analyst, BofA Securities, Inc.

Hey, team. It's Adam Roszkowski on for Ken Hoexter. Thanks for taking my question.

Q

Rafael O. Santana

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

Good morning.

A

Adam Roszkowski

Analyst, BofA Securities, Inc.

So maybe Rafael or John, I think the 2025 guidance assumes tariffs with the exception of reciprocal tariffs. So can you just clarify kind of what you're expecting there? Is that just assuming that after the 90-day pause, there's no further impacts? If you could clarify, thanks.

Q

Rafael O. Santana

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

Thanks, Adam. So as we put our guidance together, we looked at all the tariffs that have been, I would call, the first round of tariffs and excluding the reciprocals. So that would include, Adam, 25% in Canada, 25% in Mexico, 25% steel aluminum, and 20% in China. So those are – have been initiated in February and March. We're currently paying on those tariffs today, and that's been built-in to our forecast, both the impacts on cost as well as revenue.

A

We have not built in the reciprocal, which is 125% to China and 10% on all the other countries. And that's simply a factor of there is so much volatility in those and kind of the forward look at those tariffs, whether they'll be on or off. And as you've mentioned, Adam, there's a 90-day reprisal on lifting them higher. So, we're going to continue to read that situation. Now, those tariffs don't – won't start to affect us financially until the end of May because there's an on-water exemption for them to hit. So we're going to take some more time and understand where they land and the impact that they'll have on the economy.

Adam Roszkowski*Analyst, BofA Securities, Inc.*

Q

Thanks, John. And then just following up on the kind of the cadence and shape of this year, I think, last quarter, you noted that you expected balanced revenue growth, but 2H would be a little bit more heavier weighted on the EPS side. So maybe just talk about how you're thinking about margin progression in both Transit and Freight? Thanks.

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

A

Adam, again, going back to this incredible amount of uncertainty and volatility, I don't think it helps much to kind of go out a couple of quarters. Maybe to bring it in a little bit, let's talk about the second quarter in relationship to the first quarter. We do expect a strong, solid quarter in the second quarter. However, a couple of things that you should note as we do move into the second quarter is the – a lot of the mix favorability that we had and drove a fair amount of margins in the first quarter. We do not expect this to be at the same level in the second quarter. Remember our first quarter revenue mix – I'm sorry, mix was driven by strong revenues out of the Services group at up 16.9% and somewhat given back with regards to the Equipment group being down 9.5%. And again, this is just how we allocate the capacity that we have.

In the second quarter, we expect our Equipment group to be up a fair amount and our Services group to be up but at a much more moderated pace, so that will be a headwind with regards to mix in the second quarter.

And the second thing, as we had mentioned, there's some timing items that impacted our first quarter that we expect to not repeat in the second quarter.

Adam Roszkowski*Analyst, BofA Securities, Inc.*

Q

Thank you.

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

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

Q

Yes. Hi. Good morning, everyone, and congratulations on the strong start to the year. I want to ask in terms of – on the feedback from customers, Rafael and John, that you're hearing on the tariff side, can you just talk about are there any customers that are essentially opting to age their fleet or any specific feedback that you're seeing? And as you think about Integration 3.0, to what extent are you thinking about potential pivot in that strategy if you were to, let's say, increase capacity in the US? As you think about that multiyear plan, to what extent does the tariff situation impact your planning process?

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

A

Yeah. Sure, a couple of things. I mean, there's clearly what I'll call a balancing act here. I think we've been working quite constructively with both customers and suppliers to ultimately make sure that we're managing these supply chain shifts in a way that's fair and that minimizes disruption. I think a large part of our focus here is ultimately making sure that we're protecting what I'll call the reliability and availability of our customers' fleets.

That's key. That's how they ultimately support the service levels and ultimately how we support demand. So, I think it's important to start there.

We're actively evaluating a range of levers, things like USMCA. We've looked at alternative sourcing strategies. Of course, you've got to evaluate inventory positioning and broader supply chain adjustments. But at the same time, I think we've taken cost. You asked specifically with regards to Integration 2.0 and 3.0. We do have the opportunity to accelerate those, and those are the kinds of things that we're going to actively and proactively manage it. And we've taken pricing actions that help offset the additional pressures we're facing there.

John A. Olin

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

A

Hey, Jerry, you also asked about any pivot on Integration 3.0, [ph] our strategy's (31:46) direction there, and the answer is no. Our strategy remains the same. There's plenty of opportunity for us to reduce costs by that \$100 million to \$125 million. However, as we get into the execution piece, we'll look at – we do an IRR on every project that we run and as the economics change, some of that may change. But overall, the direction remains the same, and our ability to take out \$100 million to \$125 million is not going to be affected by the tariffs.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Super. And then can I ask, the international install base is growing really nicely. I think you're also going to have more locomotives entering the sweet spot from a service standpoint. Based on your models, what kind of growth rate do you expect in international aftermarket service just given the age profile in 2025, 2026? What do your models tell you as those fleets age?

Rafael O. Santana

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

A

Well, Jerry, we certainly see an acceleration of that. [ph] I mean (32:42), the way I would answer you there, if you look at more mature service businesses that we have running out there, if you look at the core of Services, and that excludes things like modernization, you'll see those growing at what I'll call 6% to 7% rate. That's what we've seen in the past. I think one of the things that's important here is we're seeing not just that transition that you spoke about of fleets that were under warranty entering to a normal service. Our fleets are running. They're running hard and what I mean by that, we have over 18,000 units that we monitor regularly. When you look at the megawatt hours, that really translate into how much work those units are doing. Those hours are up. They're up in the first quarter of this year as well, and we haven't really seen any change on that.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

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

Daniel Imbro

Analyst, Stephens Inc.

Q

Yeah. Hi. Good morning, guys. Thanks for taking our questions.

Rafael O. Santana

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

Hi, Daniel.

A

Daniel Imbro

Analyst, Stephens Inc.

Maybe to follow up on the tariff backdrop, John, I appreciate the color on maybe what you're including and what you're not including, but can you maybe actually expand on what the impacts are from these tariffs? I think back in 2018, there was a – it was a few million dollars of a gross margin headwind per quarter, but can you maybe expand on how many of your Freight components are imported, what that import map looks like, and what the actual impacts will be starting on May 1?

Q

John A. Olin

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

Thanks, Daniel. Hey, Daniel, we're not going to disclose the impact of the tariffs on the business due to the fact that timing, volatility, uncertainty continue to change on a daily basis. I don't think that would benefit. Again, we've got a great competency going here of putting them on and taking them off and delaying them. So, I'm not going to provide any of that guidance at this point. Suffice to say, we are collaborating with our stakeholders to minimize the impact of incremental tariffs on our businesses. We're also working multiple work streams to minimize the tariffs, and we've adjusted our prices of the tariffs that are currently in place, again, with the exception of the reciprocal tariffs.

A

Rafael O. Santana

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

I think as you mentioned, I mean, we've done this over the last six years, and we'll continue to manage this dynamic environment. There could always be an element of specific impact into quarters, but we'll continue to navigate these challenges and continue to really make sure that we drive profitable growth over time for the business.

A

Daniel Imbro

Analyst, Stephens Inc.

Great. That's helpful. Appreciate it. And then maybe my second – or my follow-up is on just free cash flow. In the first quarter, I think it was down year-over-year, John. I think the receivable securitization slowed, if we read that right. Was that just a timing issue or is something in the ABS market different where it was less receptive given the volatility? Just any thoughts on how it should trend through the year. You reiterated the 90% free cash flow conversion guidance but just curious what's going to make that get better given the timing there. Thanks.

Q

John A. Olin

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

Yeah. Daniel, thanks for the question. Matter of fact, we had a very good cash flow quarter in the first quarter when you adjust for that securitization financing that happened a year ago. So what you're seeing is we ended the year last year with a balance of \$230 million of outstanding securitization. And this quarter, the first quarter of this year, we have zero. So with that, you're seeing that change, and that's driving the \$143 million lower, actually a fair amount more than that. And if you adjust that out, we would be up over 20% in terms of cash flow for the quarter.

A

As we go forward, Daniel, we have amended our securitization trust and will now recognize all changes in securitizations in the financing section of the cash flow statement. So, they won't be flowing through operating cash anymore. Now, it doesn't mean – we still have the prior-year quarter that will have an impact on the growth rates. But going forward, there'll be no more cash from securitization or changes in securitization in working capital – I'm sorry, in operating cash.

Daniel Imbro

Analyst, Stephens Inc.

Q

Great. Thanks for all the detail. Appreciate it.

Operator: The next question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hello?

Operator: Vincent, your line is open. You can ask your question.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hello?

Rafael O. Santana

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

A

Good morning, Vincent. Go ahead.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Can you hear me?

Rafael O. Santana

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

A

Yes.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hey, this is Angel Castillo. I'm from Morgan Stanley. I'm not sure why I came up as Vincent Andrews. Anyway, just thank you for taking my time. Just wanted to ask about the margin backdrop. You talked about the two key dynamic. I was hoping you could quantify that a little bit better just in terms of how much of that mix favorability, how much of an impact that is maybe on a sequential basis, and same thing with the timing dynamic that you talked about and any other kind of factors that may be a surprise on the first quarter, if you could kind of help quantify the magnitude of the move.

John A. Olin

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

A

Thanks, Angel. Angel, not going to quantify in terms of percentage points. I think I would like to do is make sure the understanding of we had four dynamics that really drove our first quarter margin and certainly came in over our expectations. Mix being the biggest piece of it, and we would expect that to not be the same in the second quarter. But on a full-year basis, mix is more of a timing element on a full-year basis.

The other one is we talked about some timing of expenses. And again, that's just more the way the timing works out. I think the other two though are areas where we will see them continue on, and that's why we took our guidance up. And that is with the strong productivity that we've experienced. Again, led by Integration 2.0 and portfolio optimization, they came in higher than expected, and we'd expect that to stick on a full-year basis.

And then finally, this idea of proactive cost management, right? As we've seen, the tariffs come in and we are getting incredibly prudent on every dollar that we spend to make sure that we can deliver on our commitments to our shareholders. So, some of that favorability is what we're taking our guidance up for as well.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

And maybe to that point, on just the margin side and the ability to kind of respond to the tariff dynamic, curious for the reciprocal side where there's still a little bit of uncertainty, and particularly as we go into kind of the May 1 timeframe, could you talk about your ability to kind of respond and quickly kind of pivot to whatever the ultimate kind of normalized level of tariffs is? Meaning, should we expect somewhat of a lag in terms of any kind of your ability to kind of pull levers beyond to kind of reflect the kind of new environment, or is there an ability to kind of pass that through and reflect that kind of May 1 kind of immediately as soon as we know?

Rafael O. Santana

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

A

Like I said before, I think it's going to be a balancing act here. We're managing through a number of variables. I think it's important to really highlight some of the comments John made here with regards to second quarter, which we've gotten more visibility into it. We're taking every action to make sure we deliver on the guidance for the year. But down from that perspective is really making sure that we're managing the business here, most importantly, to drive profitable growth into 2026 and beyond.

And there's an element of [ph] shifts (40:35) on suppliers. There's an element of really looking at our inventory positioning. We have, as I mentioned, not just taken cost actions, we've also taken pricing actions that help us offset those additional pressures. There will always be some element of variability quarter-to-quarter, but we're taking every measure here to continue to drive profitable growth over time.

John A. Olin

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

A

Hey, Angel. You mentioned...

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Very helpful. Thank you.

John A. Olin

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

A

...a couple of times May 1. The reciprocal tariffs won't start hitting us, or we won't be charged at the border until the end of May.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Sorry. Yeah, I meant – yeah.

Q

John A. Olin

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

The earlier of that or May 26 for an on-water exemption. So we got a little bit more time before the financial impacts start to hit us.

A

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Got it. Very helpful. Thank you.

Q

Rafael O. Santana

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

Thank you.

A

Operator: The next question comes from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors

Analyst, Susquehanna International Group

Yeah, I understand the concern about being too precise on the reciprocal tariffs when a lot of that is still in flux and you've got some time to see how that plays out. But can you give us a little qualitative help on your supply chain? For example, some of the locomotives you're assembling internationally in Kazakhstan or maybe India, how much of that content do you support with kits and engine and other key components shipped out of the US? Just understanding the back and forth of what's coming from the US, if those negotiations end up in escalation rather than de-escalation. Thank you.

Q

Rafael O. Santana

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

Let me start with just North America. I mean, we have a large footprint in North America. We're largely localized in North America. And even as you look into the aspects of USMCA, we're quite balanced from that perspective. As you go into I'll call those international markets, we'll balance the elements of what I'll call what's competitive locally. And at the same time, you've got to make sure you're leveraging the scale on some critical components that will ultimately be imported. So, it's a balancing act here between global and local. I think we do that quite well, and that's one of the elements that we'll continue to manage through that transition.

A

Bascome Majors

Analyst, Susquehanna International Group

But your term, balanced, are you suggesting that the content if a locomotive built in Central Asia is actually similar in value to what's coming locally and what's coming from the US? I just want to understand how literally we should take the word, balanced, when we think about the puts and the takes of what's coming from each direction in some of your international supply chains.

Q

Rafael O. Santana

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

A

Bascome, I'm being generic here because some of those is going to [ph] depend (43:29) even on the maturity of some of these supply chains and scale that we use them internationally. But take for instance like in Kazakhstan, I mean, we have a lot of the fabrication, a lot of the elements tied to the platform and all of that. It's done locally. I mean, what you'll ultimately ship is some of the very specific controls, some of the elements tied to the engines, and things like that. So, it's what I'll call how you go about leveraging the elements of things that you can acquire locally on competitive terms. At the same time, you leverage the scale of concentrating some of these specific components in certain markets. And I think we're very well-balanced from that perspective.

John A. Olin

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

A

But we don't – we wouldn't expect a huge amount of things going from the US outside. We haven't seen much retaliatory tariffs at all around the world with the exception of China.

Rafael O. Santana

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

A

Our biggest impact continues to be in North America from that perspective.

Bascome Majors

Analyst, Susquehanna International Group

Q

Thank you, both.

John A. Olin

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

A

Bascome. We didn't catch that.

Bascome Majors

Analyst, Susquehanna International Group

Q

I'm sorry, I said thank you.

Rafael O. Santana

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

A

Thank you.

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

Q

Hello. Good morning. This is [ph] James (44:55) on for Saree. Thanks for taking questions. I guess I just wanted to touch on the margin. You talked about, like, international margins being higher than North American margins. So I just wanted to understand when did the crossover occur like in water, like primary, like drivers behind like that shift, is it like mixed pricing like or structural like cost advantage and kind of do you expect like international to continue to outpace like North America margin basis?

John A. Olin

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

A

[ph] James (45:23), this is John. It isn't something that just happened. We just haven't disclosed it. So this is the first time we're really talking about the margin differential between international and North America. That's a common question that we get and basically, the margin structure that we have in our international business yields a higher overall margin than our North America business does, and we would expect that to certainly continue on into the future.

Rafael O. Santana

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

A

I think if you go back five years ago in the business, there was a number of markets that we were still at the stage, in some cases, of developing a platform to compete, you're still in the early stages of standardizing some of the elements of the product. We've certainly made, I think, a lot of progress in terms of the productivity on some of the international footprint we have out there. I think that has ultimately helped us really transform this over time. But I think John's comments that it hasn't changed overnight, I mean, this is something we've been working at, and it's good to see reflected in a business that it's more profitable internationally than in North America.

Q

Great. I guess then another follow-up question here. You guys talked about like amplified cost control measures, like can you provide more color here? Is this like structural and kind of included in Integration 2.0 and 3.0 efforts, or will they kind of reverse once kind of uncertainty and like inflation and everything kind of resides?

John A. Olin

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

A

Yeah. This is certainly in addition to the more structural efforts of Integration and portfolio optimization. This is, James, just getting down to blocking and tackling, right, is things that's [indiscernible] (47:11) less, holding positions open, again scrutinizing all investments, accepting higher return capital projects and so on and so forth. What we're doing is, again, to provide more opportunity and a certainty that we'll hit those guidance that we delivered today. But I want to assure you, James, that has nothing to do with anything that would have an impact on the future of our business, but these are just things that we can tighten up and as we get a little bit more defensive on the risk profile that we have through the remainder of 2025.

Q

Got it. Thanks for the color.

Rafael O. Santana

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

A

Thank you.

Operator: The next question comes from Steve Barger with KeyBanc Capital Markets. Please go ahead.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. To follow up on the international margin difference, is that positive variance pretty consistent across regions and product lines? And I know you're focused on margin expansion continually, but do you feel like there's still room to run on international?

Rafael O. Santana

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

A

I think it's consistent. The growth we've seen in our margins internationally, of course, will vary country to country based, number one, on some of the maturity of some of the products we sell. It varies also depending on what the mix is in some of these countries. But I think we have seen consistent improvement in the margin, and that's driven a lot by some of the integration work that we have done and just really being very focused on our lean efforts and productivity efforts across the board. We feel like we have a good portfolio to compete for the opportunities we have out there. Even on the most recent opportunities like [ph] Guinea (49:02), we were able to ultimately adapt some of the existing platforms to be able to competitively compete in these products which will have ultimately translated into, I think, really positive margins on the Equipment side of the business.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

That's great. And I know it's an uncertain environment and you don't want to look too far ahead but just to ask it again directly, have you heard anything from your emerging market customers about international trade policy changing how they think about building rail or mining infrastructure? Like, would you – do you think that there's a negative reaction to that, or are those countries just focused on what they're doing?

Rafael O. Santana

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

A

I mean, tariffs are certainly not good, but the projects we talk about here, I mean, those are decade-long projects in a lot of ways. If you think about Guinea, it's not about the price of iron ore right now or it's not about any elements of specific tariffs that we're transitioning here. With that, some customers are more mature out there. I think we've also seen the dollar weakening. So, there's so many elements moving and in transition here that can make the business more competitive. There's some other ones. There are more headwinds to this.

So right now, as I've said, I think a lot of them are just really focused on running their business and making sure that we're taking the necessary actions to mitigate some of the things that we can control in that regard, and those were some of my comments in terms of how we really have this balancing act on looking at supply chains and making sure we're being constructive and proactive with our customers.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

Rafael O. Santana

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

A

Thank you.

Operator: The next question comes from Oliver Holmes with Redburn Atlantic. Please go ahead.

Oliver Holmes

Analyst, Redburn (Europe) Ltd.

Q

Hi, guys. Thanks for having me on. Just a quick one from me on pricing pass-through. Just as a comment you made earlier about passing through, or maybe just as you're repricing for tariffs and, if I'm correct, your contracts there [indiscernible] (51:13) to pass that through to customers. Just wondering how customers are reacting to that pass-through and is there a risk that perhaps they want to keep their CapEx budgets flat so maybe they extend their delivery cycles? Thanks.

Rafael O. Santana

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

A

Well, I'd go back to really the posture we've been having. We just want to make sure that as we look into this managing the supply chain shifts, we do it in a fair manner and that we minimize disruption. I mean, if you look at it and I mean, fleets are running, so the need to make sure that you're supporting those fleets is there, and you want to make sure you support reliability and availability of those fleets. And that's prime time to make sure you're ultimately supporting the demand you have from the customers of our customers in that case.

We're continuing to take a number of strategies. I mentioned USMCA because we're working quite actively there to qualify more items in that regard. We are certainly looking at our inventory positioning. We've taken ourselves cost actions that have also helped us through that process, but we've also taken a pricing action. So, it's not a one-way stream with cost and pricing go through. I think there's a number of levers that we've been working through it, and that's what really keeps, I think, a more constructive dialogue with not just customers but with suppliers in that context as well.

Oliver Holmes

Analyst, Redburn (Europe) Ltd.

Q

Thank you.

Rafael O. Santana

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

A

Thank you.

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

Ivan Yi

Analyst, Wolfe Research LLC

Q

Hey. Good morning, guys. This is Ivan Yi on for Scott. First...

Rafael O. Santana

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

A

Ivan.

Ivan Yi

Analyst, Wolfe Research LLC

Q

...quickly going back to tariffs. I know you're not quantifying the exact financial impact, but can you roughly estimate how much can you pass through? Can you pass through 100% of this through higher pricing? Just any additional color. Thanks.

John A. Olin

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

A

Ivan, we will work with our customers. Again, first of all, we're going to do everything we can to minimize those tariffs through USMCA exemptions, as well as moves that we can do in our supply chain. But at the end of the day, we expect to come out of this whole and margins intact and deliver the margins that we've signed up for – I'm sorry, the guidance that we've signed up for.

Ivan Yi

Analyst, Wolfe Research LLC

Q

Thank you. And then my follow up, any additional color on the new Class 1 local order, how many units, when does it start, over how many years? Thank you.

Rafael O. Santana

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

A

We're, again, not going to comment on any specific business with any specific customer on that regard. To your question earlier, I mean, we certainly manage a basket of opportunities and different projects with various customers. So, this is ultimately a discussion that's very customer-specific based on really the impacts that you see, the elements you're able to mitigate, and how you ultimately translate that into any price changes into those projects.

Ivan Yi

Analyst, Wolfe Research LLC

Q

Thank you.

Rafael O. Santana

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

A

Thank you.

Operator: The next question comes from Tami Zakaria with JPMorgan. Please go ahead.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thank you so much. I actually appreciate all the comments you gave on tariffs earlier given how fluid the situation is. I think I heard you talk about pricing action. I just wanted to clarify, are you able to reprice the backlog if needed, or would pricing actions be primarily focused on new orders going forward if tariffs escalate from here?

Rafael O. Santana

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

A

Again, I'm not going to go into specifics. I mean, as I've said, we do have a basket of business we do with customers. Those involve not just sometimes new locomotives, modernizations. There's a number of multiyear agreements that sometimes we have. We've got customers that are more transactional in nature in terms of the

parts. So, this is ultimately about managing that basket of business and making sure that, through that process, [ph] we're both – we're (55:33) fair, we're smart as we're looking to balancing all the elements of the things that are at stake here, and that's what we're really managing.

And I think to the comments we've made earlier, we feel strong about being able to manage that. Despite of any specific impact on any given quarter, we expect to be able to manage this through and continue to really make sure we deliver on the guidance we've provided through the year but, more importantly, make sure we're constructing profitable growth into 2026 and beyond. I think those were really some of the comments here John made.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Understood. That's fair. That's very helpful. Thank you. And a follow-up question on FX. It seems it was a headwind in the first quarter, but the US dollar strength has reversed from earlier in the year. So, is there any FX headwind embedded in the revenue guide for this year?

John A. Olin

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

A

We've – again, the guidance takes everything that we know right before we issue it. So earlier this week, Tami. So it would include our view of what revenue or what currency would be over that period of time.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Got it. Thank you.

Rafael O. Santana

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

A

Thank you.

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

Kyra Yates

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

Thank you, Betsy, and thank you, everyone, for your participation today. We look forward to speaking with you again next quarter.

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

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