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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Wabtec Third Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference call over to Mr. Tim Wesley, Vice President of Investor Relations. Mr. Wesley, the floor is yours, sir.

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

Thank you, Mike. Good morning, everybody. Welcome to our 2018 third quarter earnings call. Let me introduce the rest of our team here with me in Wilmerding; Ray Betler, President and CEO; Pat Dugan, our CFO; Stéphane Rambaud-Measson, our COO; our Corporate Controller, John Mastalerz; and Al Neupaver, our Executive Chairman.

We're going to make our prepared remarks as we usually do and then we will be happy to take your questions. And of course, during the call, we will make forward-looking statements, so we just ask that you please review today's press release for the appropriate disclaimers.

With that, I'll turn it over to you, Ray.

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

Thanks, Tim. Good morning, everyone. It's good to talk to you today. I'm happy to report, we have strong growth in sales and EPS for the third quarter and we're well-positioned for a strong finish to the year, both in terms of earnings and in terms of cash flow. We also affirmed our EPS guidance for the year and increased our sales guidance.

In the third quarter, we saw year-on-year revenue growth in both our segments for the fourth quarter in a row. Even with strong revenue growth this year, adjusting for changes in FX, our backlog remains a record high. We won new business in most of our major markets and product areas around the world.

As we focus on our short-term performance, we're also investing in our long-term growth opportunities, including, of course, our planned merger with GE Transportation, which we'll talk about those opportunities later in the call.

But first, I want to introduce Pat to review the third quarter numbers.

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

Thanks, Ray, and good morning, everybody. Sales for the third quarter were $1.08 billion. Our Transit segment sales increased 11% to $686 million. This increase was due to strong organic growth, adding about $61 million from acquisitions, which contributed about $21 million and those more than offset the negative impact of foreign
exchange rates of about $14 million. This is the fourth quarter in a row we've seen organic sales growth, which shows that our backlog is really starting to kick in.

Freight sales increased 15% to $392 million, the fourth year-on-year increase in a row. The increase was also due to strong organic growth, adding about $46 million and from acquisitions contributing about $11 million and that was offset by a negative impact of foreign exchange of about $6 million. Freight sales and backlog are near their highest levels in two years and Freight aftermarket sales showed year-on-year growth for the fifth quarter in a row. All of these are positive indicators.

When you look at our consolidated operating income for the quarter, it was $125 million or 11.6% of sales. Now this operating income included transaction costs related to the GE Transportation merger of about $7 million. It included restructuring expenses of about $3 million and included about $1 million for a goods and service tax law change in India, which is reflected in our SG&A. Excluding those items, our operating margin was 12.6%. That's the same as the second quarter, despite a 3% decrease in sales consistent with seasonality.

During the quarter, we also had a negative impact of about $2 million due to tariff increases, which we were able to offset a portion of with surcharges or other adjustments. Our full-year 2018 adjusted operating margin target is now about 13%, slightly lower than our initial guidance, due to the tariffs and as we continue to work through some of our lower-margin contracts we're executing on in the UK.

SG&A for the quarter was about $147 million. This increase is mainly due to the expense items I just mentioned and acquisitions. We expect it to be about $140 million in the fourth quarter, excluding any expenses related to the GE Transportation merger and any restructuring.

Engineering expenses decreased to $20 million due to the timing of our spending and because some of those expenses do get captured in cost of sales as a component of our revenue. Amortization expense increased slightly, mainly due to acquisitions.

Now when I look at my segment operating income for Transit, operating income increased 28% to $61 million, for an operating margin of about 9%. This includes $2.3 million for restructuring expenses and the Indian tax law change mentioned above. Excluding those items, the margin was 9.2%. We expect the margin to improve in the fourth quarter, as we complete some of the UK projects and to continue with our restructuring and cost reduction initiatives.

Freight operating income was $79 million, up 29% for an operating margin of 20.3%. The improvement compared to last year was due to higher sales and a more favorable product mix. For the full-year of 2018, we expect operating margin improvements for both the segments compared to the last year. These improvements will come through better project performance, a better mix of sales and the benefits of restructuring and cost reduction programs.

Just as a quick update on our Faiveley integration and synergy plan. As you know, our target for the first three years is at least $50 million and we remain ahead of that pace as we come to the end of year two.

Continuing with the income statement, looking at interest expense, it was $24 million in the third quarter and it includes about $3.2 million of incremental finance costs related to the GE Transportation merger. Going forward, we expect our interest expense to be about $20 million per quarter, if you exclude the carry cost of the new capital structure that was put in place for the GE Transportation merger. Remember that we are focused on generating cash to reduce that debt and obviously the related interest expense.
Other income and expense was an income of about $1.2 million compared to other expense of $443,000 in the prior year quarter and that improvement was mainly due to lower translation expenses for FX or foreign exchange.

Our effective tax rate for the quarter was about 16.2%, that's lower than expected due to a benefit from – a $7 million benefit from the reduction of our estimated transition tax charge that was initially recorded in the fourth quarter of 2017, specifically due to the 2017 U.S. Tax Reform Act. Excluding this benefit, our effective tax rate was 22.5% for the third quarter and we expect it to be about 24.5% for the fourth quarter.

Just to help reconcile the third quarter EPS for everybody because of all the adjustments, the GAAP earnings for Q3 were at diluted shares of $0.91. Expenses for the GE Transportation merger, other restructuring actions and the effects of the tax law changes reduced EPS by a net of $0.04. That's in the $0.91.

So, you can find these details in our press release and just to bridge this, our net income per diluted share in accordance with GAAP is about $0.91. You add back restructuring expenses that are within our cost of sales and our SG&A of $0.02, you add back our transaction costs for GE that's recorded in SG&A and interest, that's about $0.08. You add back India tax expense that's in our SG&A of about $0.01. And then you deduct the benefit from the U.S. Tax Reform liability, that's about a $0.07 reduction. So, we come up with a net $0.95 for the quarter.

So, shifting to our balance sheet and our cash from operations. We believe our balance sheet provides the financial capacity and the flexibility to continue to invest in our growth opportunities. We've obviously executed on our capital structure in preparation of the GET transaction.

We have an investment-grade credit rating and our goal is to continue to maintain that. When you look at the cash from operations for the quarter, we used $30 million of cash from operations. Now that occurs because it's been mainly used related to increased working capital, including for some of the UK projects that we mentioned earlier, but there's some other negative effects included in the cash that includes the transaction and restructuring costs of about $10 million in the quarter and about $24 million related to tax payments made in accordance with the requirements under the 2017 U.S. tax law change.

We expect the cash generation to be strong in the fourth quarter as it typically is and our cash from operations target for the full-year is now about $200 million.

Looking at working capital elements; at September 30, our receivables were $851 million, inventories were $866 million, and our accounts payable were $557 million. In addition to that, we had unbilled receivables of about $389 million, which were mostly offset by customer deposits of about $374 million.

At September 30, we had $411 million in cash on our balance sheet, mostly held outside the U.S. We also have about $1.7 billion of restricted cash, which is intended to be used for a portion of the cash requirement, under the GE Transportation merger. Our total debt is about $3.9 billion and our net debt-to-EBITDA is about 2.6 times.

Just a note about our new financing arrangements. In anticipation of the GET merger, we completed some new financing in the quarter. We issued $500 million of Floating Rate Senior Notes due in 2021. We issued $750 million of Senior Notes for the rate of 4.15% that will be due in 2024 and $1.25 billion of Senior Notes with a rate of 4.7% due in 2028. These proceeds, along with the borrowings under our revolver, cash on hand and other delayed draw term loans that are available to us will be used to pay the cash purchase price for the GE Transportation transaction, and for the related fees and expenses of that transaction.
As a reminder, our other debt includes about $750 million of bonds that are due in 2026 and $250 million of bonds due in 2023, and some other various debt including $350 million on our revolver.

Just some miscellaneous items for everybody's information. Our depreciation in the quarter was about $18 million, that's consistent with last year's quarter. For the full-year of 2018, we expect it to be about $70 million.

Our amortization expense was about $10 million compared to $9 million in last year's quarter; and for the full-year of 2018, we expect it to be about $40 million. CapEx for the quarter was $25 million compared to $22 million a year ago and we expect to spend about $100 million in 2018.

Looking at our backlog, we had another good quarter for generating new orders, as you can see from the numbers we reported in the press release. At September 30, our multi-year backlog was a near record $4.6 billion and our rolling 12-month backlog, which is a subset of the multi-year backlog, was $2.2 billion.

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

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

Okay. Thanks, Pat. As I mentioned previously, for the year we increased our revenue guidance slightly and we affirmed our EPS guidance. We now expect full-year revenues of about $4.35 billion with adjusted earnings per diluted share of about $3.85, excluding costs related to the GE merger, restructuring charges, and the effects of tax law changes.

Compared to 2017, this would represent revenue growth of about 11% and adjusted EPS growth of about 12%. Our adjusted operating margin target for the year is now about 13%, slightly lower than our previous expectation as we finish some of our UK projects and absorb some negative effects from the new tariffs in the U.S.

Before I ask Stéphane to discuss the Transit and Freight segments, let me give you an update on the merger with GE. As you know, I've been calling this a once-in-a-lifetime opportunity, and I truly believe that. We're excited by both the short-term as well as the long-term opportunities of this combination. Post-closing, Wabtec will be a Fortune 500 company, and a global transportation leader in rail equipment, software and services, with operations in more than 50 countries.

Financially, GE Transportation has continued to perform as expected this year and remains confident about its outlook for 2019. In its third quarter, the company had revenues of $932 million and a segment profit of $162 million for an operating margin of 17.4%. The company booked orders of $2 billion in the third quarter more than double the year-ago third quarter. This performance reflects what we are also seeing in our Freight markets. Rail traffic growth is up, rolling stock coming out of storage and OEM orders picking up.

Park locomotives for example are down more than 30%, since the beginning of the year. We expect the GE Transportation transaction to be completed in early 2019, subject to customary closing conditions.

As we announced recently, Wabtec has set a special meeting of our shareholders for November 14, to ask for approval for some of the steps necessary for the merger, and both Wabtec and GE are working earnestly on various regulatory approvals, including those with the U.S. Department of Justice.
So, let me review again the compelling strategic rationale for the merger. After closing, we will be a diversified global leader in transportation and logistics. We’re combining Wabtec’s Freight and Transit components with GE Transportation’s locomotive manufacturing capability and service.

From our discussions so far, we see a strong cultural fit that should enable a seamless integration. Our combined electronics and digital capabilities can lead to autonomous operations. Wabtec will be well-positioned to meet the growing demand for train intelligence and network optimization.

We will benefit from recurring revenue in a high-margin aftermarket and service sector. Complementary global customer relationships will drive substantial cross-selling opportunities and help us to dampen cyclicality. Our pro forma financials are compelling, especially at this attractive point in the cycle. We expect to have significant skill, a rapid growth trajectory, superior margins and strong free cash flow.

GE is well-positioned as the industry recovers. The significant operating synergy potential and tax benefit drive value creation, approximately $250 million of anticipated run rate synergies, driven by mainly cost reduction opportunities and a net tax benefit of about $1.1 billion. We will have a strong free cash flow profile to enable rapid de-levering. We remain committed to retaining our investment grade rating and our dividend.

And with that, I’d like Stéphane to discuss the Transit and Freight segments.

Stéphane Rambaud-Measson
Chief Operating Officer and Director, Westinghouse Air Brake Technologies Corp.

Thank you, Ray. I will start with our Transit business. In the quarter, we had about 10% organic revenue growth as our backlog has started to kick in. Our profitability has been affected by the lower margin contract in the UK that have been discussed. But our adjusted operating margin was 9.2%, slightly higher than the second quarter, despite lower sales due to seasonality.

We are taking strong actions to improve our profitability and our goal is to drive Transit margins higher by 1% annually during our [ph] comp period (20:19). And we expect to achieve this goal by applying a more rigorous bidding process and an improved project management and improved cost structure from ongoing and new restructuring initiatives and the transfer of work to lower cost countries and also disciplined deployment of our lean and sourcing initiatives.

Worldwide, the state of the Transit market remains very strong and we continue to bid and win significant orders in all of our major markets. In the quarter, we – I just signed a well-awarded train control project with Transit agencies. We are working to meet their PTC requirements. We won orders for transit car components in Germany, in Israel, in Italy, in Switzerland. We won platform screen doors in Australia and third rail conductors in China.

India remains a bright spot with good order and good bidding activity for coaches and electric locomotives for brake systems for Indian Railway, along with new Metro projects. Our growth rate in India this year is well into double-digits.

The European market continues to expand, driven by replacement of metro fleet in London, in Paris, in Berlin, but also new infrastructure project such as Grand Paris. And we see a good volume of projects for regional and commuter train in Germany.
For the full-year, we expect a book-to-bill of greater than 1. And remember that our OEM orders typically lead to long-term aftermarket contract, which then provide revenues and good profitability for 30 to 40 years.

As a true global player, over time, our Transit business should have better visibility and stability, more growth opportunities, both organic and through acquisitions, and improved margin as we benefit from increased scale and market share and as aftermarket revenues increase.

So, let's now move to our Freight rail business, which has continued to pick up due to a strong market activity. As Pat mentioned, our Freight sales and backlog are near their highest levels in two years and Freight aftermarket sales were up 22%, the fifth quarter in a row of year-on-year growth.

In NAFTA, Freight rail traffic is up more than 5% year-to-date and the rolling stock in storage continues to come down. As a result, we are seeing growth in our Freight aftermarket revenues, along with more inquiry for component servicing and repair, and locomotive overhaul projects.

Demand for new locomotives and freight cars is also improving. For example, the backlog of cars ordered in the U.S. is at the highest level in two years and we are seeing good volume in our maintenance software business with orders above sales for this year.

In the quarter, we booked contracts for train control hardware, projects and services and multi-year orders for freight cars components in the U.S. As you would expect, we are very focused on helping our U.S. customers both Freight and Transit, meet their PTC goals for the year.

We have as an example, established a [indiscernible] (24:08) to track progress on our project and have added resources as necessary. Meanwhile, international rail markets in Brazil and Australia are stronger this year and we are now operating facilities in both Turkey and India to take advantage of growth opportunities in those market. And our non-rail business is benefiting from growth in the oil and gas market, with our backlog for industrial heat exchanger near a record high. Ray?

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

Thanks, Stéphane. So, I’ll conclude our prepared remarks by talking about the long-term outlook. Two weeks ago, we've presented our five-year strategic plan to our board. The plan meets our long-term financial goals to average double-digit growth in revenues and in earnings through the business cycle with improving margins.

To achieve these goals, we have growth initiatives in each of our major product lines, consistent with our four growth strategies. After we complete our merger with General Electric Transportation, we will, of course, update our strategic plan. From our initial analysis and due diligence, we are confident the merger improves our ability to deliver on our long-term growth targets.

So, just to reiterate some of my comments at the beginning of the call. We had a strong third quarter. We are positioned to finish the year even stronger, both in terms of earnings and in terms of cash flow. We saw year-on-year revenue growth in both our segments for the fourth quarter in a row. We affirmed our EPS guidance for the year and we increased our sales guidance slightly.

Even with the strong revenue growth this year, our backlog remains near a record high. And the Freight market continues to improve. We expect to build on these accomplishments in 2019 based on the improvements we’re
seeing in our Freight business and through the Wabtec Excellence Program, which gives us the ability to generate cash and to increase margins over time.

And with that, I'll be happy to answer any questions.

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**QUESTION AND ANSWER SECTION**

**Operator:** Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions] The first question we have will come from Justin Long of Stephens. Please go ahead.

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

Thanks and good morning.

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

Hi, Justin.

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

So, wanted to start and ask about the operating cash flow guidance for $200 million. And was curious, if you could provide some more detail on what drove the reduction? I think it was a little bit surprising just because the EPS guidance for the full-year didn't change, but it looks like the expectation for operating cash flow came down by about $150 million or so. So, Pat, could you maybe walk through what drove that change? And going forward, what your confidence is that the cash flow profile of this business can return to what you've historically said, operating cash flow above net income?

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

So, the third quarter operating cash flow really was the reason for reassessing the number. We would have typically had a profile where we would have seen a building cash from operations every quarter and improving sequentially and then a strong fourth quarter, which is kind of our history.

Clearly, in the fourth quarter and we're giving you GAAP numbers, not adjusted numbers when we give you that guidance, but you had a fourth quarter that was negatively impacted by the tax payments that we had to make, under the current rules. We definitely, year-to-date, have had – cash has been used in restructuring and paying for the GET transaction costs.

And then finally, we have working capital performance that is not what we would have expected. It's really related to our projects about how some of the milestones have not been met and things have been deferred a little bit. And so, we're focused now on recovering, on aggressively completing and closing out those project milestones. We're working with the project teams, the local finance teams and the executive office and aggressively managing our payables with our suppliers. These are timing issues. They're things that we will recover on, it's just that the underlying milestones of those projects have affected the cash flow in the year and our guidance.
Justin Long  
Analyst, Stephens, Inc.

Okay. And Pat, you said that $200 million was a GAAP number. Do you have the adjusted number? What's your expectation for adjusted cash from operations in 2018?

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

So, I think if you look at that historically, okay, we have – for the first nine months. Okay? We have an impact of about $24 million from taxes. We have, for the first nine months about a $30 million impact from the GE Transportation transaction. And then, we have an impact, really kind of related to working capital that are the business needs to – and we'll recover into the fourth quarter and into 2019.

We forecasted right now a fourth quarter performance that will be about $150 million. And we think that this is a conservative view of our ability. We've had fourth quarters where we've done better than that $150 million and so we're just making sure that we have a number out there that – and a guidance for you that makes sense and is achieved.

Justin Long  
Analyst, Stephens, Inc.

Okay. Thanks. And secondly, I wanted to ask about the Freight segment and expectations for that segment going forward from both an aftermarket and an OE standpoint, it feels like inquiries have picked up. Ray, you alluded to some of the order strength that GE is seeing in their business. Could you just talk about the level of visibility you have at this point to a cyclical recovery in Freight in the year ahead?

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

So, Justin both segments are significantly up, both on the aftermarket services side as well as in new car side. Maybe I'll just mention a couple without mentioning the names, we've received an order for over $50 million in the Freight market, for – it's an order for over 3,000 cars. We have 100% content on that order. We have another one for 800 cars that we have 100% content. We have another one for 700 cars, where we have total content, but the cushioning devices. So, we're picking up our share of business and business is picking up in total.

On the aftermarket side, more and more equipment is being pulled out of storage as you know and that equipment is in lesser and lesser states of usability. So, it needs to be, in many cases, serviced and refurbished before it goes back into service. So, we still feel pretty good about, I know traffic has slowed down a little bit, but it's still positive and certainly the new orders are very encouraging.

Justin Long  
Analyst, Stephens, Inc.

Okay. Thanks. I'll leave it at that. I appreciate the time.

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

Thank you.

Operator: Next, we have Allison Poliniak of Wells Fargo.
Allison A. Poliniak-Cusic  
Analyst, Wells Fargo Securities

Hi, guys, good morning.

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

Hi, Allison.

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

Hi.

Allison A. Poliniak-Cusic  
Analyst, Wells Fargo Securities

I just wanted to go back to the reduction in the margin target. I think you cited tariffs as well as the lower priced contacts. Could you maybe help understand, one, with the lower priced contract, is it incremental? And maybe help us even quantify the tariff impact and how you're thinking about that heading into 2019 at this point?

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

So, I think in a tariff, I think we talked about the quarterly impacts about $2 million and we – that's the gross impact and we worked very hard to offset that with mitigations through surcharges or price increases or – and in some cases, we actually even bought some inventory in advance to avoid that impact. So, that's the Q3 impact and I think that we're going to have something similar going into 2019, but we're still working on that.

In terms of the lower margin projects, I mean, we definitely have been operating throughout the year with some assumptions on margins and where they would be. We did have a chance to look at those projects in the third quarter and probably had about – we had a discrete item as we always do, of about a net of about $10 million in the quarter. And just related to improving the estimates on the cost on filling that contract. So, all those things kind of impacted the Q and of course, that impacts the full-year.

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

Maybe Allison, if I could make a comment about tariffs, so we are basically tracking that issue on a daily basis. So, we have reasonably good visibility, trying to be proactive about what the impact potentially could be, but also establishing strategies for how to mitigate the tariffs by moving things to other countries – through other countries, we're obviously trying to anticipate what's going to happen, if the next round of tariffs get implemented. So, it's a little bit of a dynamic situation on a day-to-day basis. But, I think we're doing a pretty good job anticipating it and trying to put mitigation steps in place.

Allison A. Poliniak-Cusic  
Analyst, Wells Fargo Securities

Great. That's helpful. And then the OEM, you talked about ongoing price pressure still for the new cars. Could you explain to us how that flows, if it even flows down to you, your ability to price in this market on the Freight?
Raymond T. Betler  
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

So, the Freight market has really not changed dramatically. There's always some price pressure, but we have some leverage too, there's a lot of demand right now, so there's some pricing opportunities. So, it goes both ways. I think we're in a pretty good position relative to our pricing.

Allison A. Poliniak-Cusic  
Analyst, Wells Fargo Securities

Great. Thank you.

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

Thank you.

Operator: Next, we have Matt Elkott of Cowen.

Matt Elkott  
Analyst, Cowen & Co. LLC

Thank you. Ray, can you give us some update to the financial targets you have for GE? I think, the last time we heard about this was last month. Are those EBITDA and EBIT estimates still intact? Or how has your confidence changed, if any, since then?

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

Good. I can answer that. I think that, as far as GE’s performance, I think they announced today and they were right on-track with their third quarter numbers and that’s very encouraging considering where they’re at in the cycle. As far as going forward, what has been published is out there. So, we don’t see any change – we haven’t heard anything from GE that would change that.

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

So, I think the backlog is built in there…

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

The backlog is enormous.

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

…so we’re in a very positive situation too, with the pickup in the market.

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

Yeah, I agree, Ray.
Matt Elkott  
*Analyst, Cowen & Co. LLC*

Got it. That's helpful. And then just one more on PTC as we approach the installation deadline and 2018 is largely behind us. Can you give us an idea on how the aftermarket contribution to your PTC revenue has shaped up relative to your expectations going into the year? And how that's going to trend in 2019 and 2020 as we approach the implementation deadline in 2020?

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

Yeah. Sure, Matt. We’ve always said that, we thought we would be in a $50 million to $100 million aftermarket range in the aftermarket business. And we’re right in that range. I think we've done a reasonably good job forecasting that. That's a result of mainly MSAs that we’ve been able to book with the Class 1s and now more and more commuter agencies. So, the commuter agencies are smaller contracts, but there's many commuter agencies, so we're able to sign those up as we're implementing the projects with those agencies, Matt.

Some of those agencies just received funding over the last year or two, so we literally still are booking new orders in project-based orders in the PTC area to do sub-system and turnkey projects. As far as deployment goes, I think it's going pretty well across the Class 1. [ph] CFRA (39:32) is deeply involved with that and we're doing everything we can to support our customers as well as FRA.

Matt Elkott  
*Analyst, Cowen & Co. LLC*

Ray, do you see any – year in the next three or four years where there would be a big step function decline in PTC revenue – total PTC revenue?

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

I think, again, Matt, we need to maybe differentiate again the difference between PTC per se and signaling. So, we’ve migrated to the term signaling not to, to be cute. We migrated to the term signaling, because it encompasses PTC, but also other capabilities, it encompasses other subsystems, it encompasses project-based revenues. So, pure PTC information is based on hardware, deliverables, yes. Obviously, we are very close to finishing out the delivery of all PTC hardware onboard computers.

But in terms of signaling, we still believe that we’re able to grow that business. So, I think, we've done a good job of demonstrating that this year. There was concern and anxiety out there that we would not be able to do that this year, but we’re on track to have pretty significant growth in signaling area this year. So, we're pretty happy with where we’re positioned.

Matt Elkott  
*Analyst, Cowen & Co. LLC*

Great. Thank you very much.

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

Thank you.
Operator: The next question we have will come from Jason Rodgers of Great Lakes Review.

Jason A. Rodgers  
Analyst, Great Lakes Review

Yes. If I could just follow-up on that PTC line of questioning. Would you provide the figures for the quarter of the PTC revenue and signaling? And if you're still forecasting that area to be up 10% for the year?

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

Yes. Timmy, you want to do that?

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

Yeah, I've got them. So, the PTC for the quarter was $81 million; signaling was $27 million, so the total is $108 million. And we did about $322 million last year – and yeah, so we're expecting 10% to 15% growth this year.

Jason A. Rodgers  
Analyst, Great Lakes Review

And how should we be thinking about margins in Transit over the next few quarters? Maybe if you could just review the timing of the largest of these low-margin UK contracts, when those will be done, and when you would expect that segment margin to turn positive year-over-year on an adjusted basis.

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

So, just to be careful, we typically don't give any kind of guidance or any kind of forward view of the margins for segments. And there's just a lot of discrete items that tend to go in and out of these segment disclosures, but our goal obviously is to continue improvements on a quarter-to-quarter.

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

Sure, Ray. I think, well, I described a couple of the key action that we are taking; a much more rigorous bidding process, better, stronger project management. One of the key elements which has been a drag on our profitability has been this UK refurbishment project, where hopefully it's [ph] armful of project (43:25) and we are getting at the end of the engineering phase of the project, meaning that we are starting to push trains out and we have a much more stable configuration as we had a quarter ago.

As we are finishing up this project, we are going to [indiscernible] (43:47) and actually, we are taking actions to restructure the business, lower our cost and project our deliveries in a much more stable manner than what we had before. So, if we assume that we will achieve this target, we should be well placed to increase our margin on – by one point, actually, on the yearly basis as we have committed to our board recently.
Jason A. Rodgers  
*Analyst, Great Lakes Review*

Okay. That's helpful. And just finally, companywide, wonder if you could talk about the impact that you're seeing in raw material and employee-related costs and your expectations there going forward.

Stéphane Rambaud-Measson  
*Chief Operating Officer and Director, Westinghouse Air Brake Technologies Corp.*

Overall, we don't see much impact. Well, there's been, of course, the tariff impact that we've been discussing. It has been — that's caused a drag on our numbers, but we have pocket of areas where we have a little stretch on resources, such as, for example, Eastern Europe, which is where the economy is very active right now, but we don't see a big increase of wages. We are helped by some currency changes. Also in China, I mean, the money has been slightly devaluated compared to the U.S. dollar, so it is compensating for some wage increases. So, overall, we don't see big changes. Pat, maybe you want to comment?

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

No, I would say overall, I think our – the numbers would indicate that we have – margins are pretty fairly consistent and we're executing where we think we need to be with some of these discrete items obviously impacting.

Jason A. Rodgers  
*Analyst, Great Lakes Review*

Okay. Thank you.

**Operator:** And next we have Matt Brooklier of Buckingham Research. Please go ahead.

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

Hey, thanks and good morning.

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

Hey.

So, a question, I think you talked a little bit to it, but the revenue guidance for the year was taken up. I was just hoping for maybe a little bit more color in terms of what's contributing to that. Is it more Freight? Is it also Transit? Just trying to get a sense for what's picking up from a momentum perspective.

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

Yeah, I think it's both, Matt. We're in a nice position that we have almost record backlogs in both segments. And as Stéphane says, we deliver, for instance, these trains out of the UK, that's the revenue recognition milestone allows you to book revenue for those projects. So, those on a Transit side, as we start to implement the projects
and move more into manufacturing delivery, revenues pick up. And on the Freight side, it's more short-term 6-
month, 9-month type of turnaround, and with the increased demand, we're seeing some increased revenue
opportunities.

Matthew Brooklier  
Analyst, The Buckingham Research Group, Inc.

Okay. Helpful. And then can you remind me on within your OE business for railcars, specifically in supply and
components. Does it matter what type of car is getting built, i.e. tank versus freight cars? Do you have about the
same amount of content on each? Or is there a difference?

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

If you look on a broad-basis across the industry, it really doesn't matter. We're pretty agnostic. We do have a
couple of specialty areas like the hatch and gate business that we bought from ATP. From ATP, we can supply
hatches and gates, which is an incremental add to grain cars for instance. So, frac cars for sand and things like
that. But in general, the average is about the same across the industry. So, we're just happy with the pickup.

Matthew Brooklier  
Analyst, The Buckingham Research Group, Inc.

Okay. That's what I thought; just wanted to confirm. And then, last one for me, there's talk of – or announcements
around precision railroading efforts more of the Class 1 rails are looking to undergo and go through this process.
I'm just curious to hear your thoughts on, is this a potential headwind this cycle, is it more of a headwind, on – if
so, on the locomotive side versus the freight car side? How are you thinking about these initiatives that the Class
1 rails have announced?

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

Yeah. So, thanks for asking the question, Matt, because I think if nobody asked that, I'd have been very
disappointed. There's so much talk about precision railroading, precision scheduling. Our view is this: we're in
place fundamentally to serve our customers and any improvements, just like for PTC, just like down the road for
semi-automation, automation, any efficiency improvements that result in a rail network are good for us. It
increases the capability for the Class 1s to improve their throughput that hopefully increases the opportunity to
serve their customers.

So, I think the discussion is ongoing, it means different things to different people. I think the Class 1s are trying to
sort it out, what it means for them, specifically case-by-case. But, we're obviously watching. We're listening. We're
trying to interact as much as possible with our customers to understand where and how we can serve them and fit
into that ultimate solution to provide better throughput and better productivity and efficiency.

And I see it as a good thing in the industry. So, I think it's not different for that matter on the Transit side, where
you can increase overall efficiency in a Transit operation like New York City Transit. There's been so much
discussion from the Governor on down, any opportunity to increase performance of a rail system is good for us.

Matthew Brooklier  
Analyst, The Buckingham Research Group, Inc.

Okay. Good to hear. Appreciate the time.
Raymond T. Betler  
President, Chief Executive Officer & Director, Westinghouse Air Brake Technologies Corp.

Thank you.

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Scott H. Group  
Analyst, Wolfe Research LLC

Hey, thanks. Morning guys.

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

Hi, Scott.

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

Hi.

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Scott H. Group  
Analyst, Wolfe Research LLC

So, I wanted to just go back to the margin guidance, it's just not entirely clear to me. So, going from 12.6% in the third to give or take 14% in the fourth to get to the 13% for the year. How – is the big delta just that these contract issues are now behind us? Are they partially behind us in the fourth? Are they fully behind us in the fourth? I just want to try and get a sense of, if they're fully behind us, is 14% in the fourth quarter, a good run rate for 2019? Maybe they're only partially behind us, so maybe the real run rate for 2019 is even better than 14%. I'm just trying to get a little bit better understanding here.

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

All right. So, just speaking only to Q4, I mean, I think you're right on the issue is that – is as you have these contracts are partially behind us, they're starting to come out and then we'll have a more – we think we'll have a more typical fourth quarter results, spares orders and other – in other business product mix that will improve that margin. So, in terms of 2019, really don't want to talk too much about that we – it's not our time to talk about guidance right now.

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Scott H. Group  
Analyst, Wolfe Research LLC

Sure. Perfect.

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

The fourth quarter is a good indication of the run rate.

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Scott H. Group  
Analyst, Wolfe Research LLC


Okay. Helpful. And then, as we think about the backlog, so it came down a little bit more on the one-year backlog than the multi-year backlog, if I look third quarter versus second quarter? Is there one that's a better want to look at? Is there one that tends to lead the other, the one year versus the multi-year? I'm just trying to understand, which is the better one to look at?

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

The one year is – you can get some discrete items that can really make that number move and the Freight business, which is a very short-cycle like backlog, it’s not the long multi-year large contract value type order process like you have in Transit. You just don't have it in Freight. And so, quarter-to-quarter, I think, you can have some variability, but I think it's still kind of historically high compared to the last few – the last three quarters in the last year.

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

Scott, this is Tim. Just one more comment on backlog in general, remember, that we don't put anything in backlog until we have a signed contract. So, we're winning orders, we're being selected for orders, we're being awarded all the time. But the timing of when we actually put something in backlog is determined by when we sign the contract, which can be months and quarters, sometimes between when we win a project and when we actually book it.

Stéphane Rambaud-Measson  
Chief Operating Officer and Director, Westinghouse Air Brake Technologies Corp.

And we have won a number of signed contracts, which are not bookable, which will have – they will have call-offs, but we have won the contract already, so we are securing the volume for the long-term, but it's not yet in the backlog.

To get the release. Yeah.

Scott H. Group  
Analyst, Wolfe Research LLC

Okay. Very helpful. And just one just last real quick thing to clarify. When you guys give the breakdown of PTC and then signaling. The PTC number, the $80 million, give or take in the third quarter, that includes both installation and aftermarket, correct? It's not just the installation, is that right?

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

Right.

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

Yeah. It's anything associated with PTC per se, Scott.

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

Okay. That's what I was thinking about. So, it's not just the installation, but the installation and aftermarket, correct?
Okay. Helping. Thank you, guys.

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

Thank you.

Operator: The next question we have will come from Willard Milby of Seaport Global Securities.

Willard Milby
Analyst, Seaport Global Securities LLC

Hey, good morning, everybody. If we could continue the conversation on margin, not to beat a dead horse here, but as I look at the long-term outlook, since the Analyst Day and in every iteration of the proxy, we’ve seen the core Wabtec business that planned improvement in the margin call it 100 bps, 110 bps. What gives you confidence that that’s still a good improvement target when you look at maybe headwinds from tariffs or other issues? When you talk to the board, what are you telling them, is it planned improvements on the cost side? Is it better business with a better margin coming through in the next year, couple years? Can you talk a little bit about that in the longer-term outlook?

Stéphane Rambaud-Measson
Chief Operating Officer and Director, Westinghouse Air Brake Technologies Corp.

I think it’s a little bit of everything. I think a lot of effort are made on the cost side, we have a number of restructuring projects, which are ongoing, specifically in the UK. We also are controlling the bid process and looking at the risk profile of projects that we win in a very cautious manner. And we are reducing our exposure to certain types of projects, such as the refurbishment project, specifically the UK project are larger train refurbishment projects, where the risk profile is higher than the normal Transit business, where we are doing equipment supply.

And today, in our backlog, actually we have reduced the number of these projects and we plan to flush out of the backlog several of these projects in the coming months and quarters. So, that’s one of the driving force to the improvement in margin.

Willard Milby
Analyst, Seaport Global Securities LLC

Okay. And as I think about the impacts on the tariff side, trying to recoup any kind of cost headwinds there. Have customer conversations gotten more difficult? Or customers are a little more understanding of what’s going on and maybe those conversations, maybe you think you can recoup those cost entirely? Can you talk a little bit about what’s going on there from a customer point of view?

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

Yeah. The customers normally aren’t too approachable relative to recouping cost, but we also pay attention to customer pricing policies and practices. So, we try to mirror those folks in their approach where we can...
Willard Milby  
Analyst, Seaport Global Securities LLC

Okay. I appreciate the time. Thanks.

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

Thank you.

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

Thank you.

Operator: And next we have Steve Barger of KeyBanc Capital Markets. Please go ahead.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Hey, good morning. Thanks for getting me in.

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

Hey, Steve.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Ray, hey, since you wanted to talk about precision railroading, and I don't cover the Class Is, I'll follow-up on your comment that an increase in rail performance is good for WAB. Can you tell me specifically how it's good, because presumably it means less new equipment, so what is the positive offset that allows Wabtec to benefit?

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

Yeah. So, it may mean less new equipment over a long-haul, Steve, but if you look what's going on today, there's a lot of, first of all, infrastructure adjustments that have to be made. As you know, we're in the infrastructure business, there's a lot of adjustments that have to be made to equipment. Do you overhaul? Do you buy new? Do you specialize in certain types of equipment? Who picks up the – what's not changing is the overall demand.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Yeah.

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

So, as long as the demand is going up and our ability is because of our position in technology and that’s really the key for us is we’re technology providers. So to the extent that we can more effectively develop technology to assist the railroads, to be able to support the demand, basically there are opportunities to take freight out of trucks.
Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Yeah.

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

So, I think there's a lot of upside for us in a short, medium and long-term.

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

Yeah. I think Ray has answered the question extremely well, because number one what's good for the industry is good for Wabtec, that's number one; number two, in order to really do precision railroading, it's going to require technology, in our opinion and we are the answer to technology, not only in the Freight, but also in the Transit rail businesses.

So, a lot of our focus has always been on the safety, efficiency and the productivity in the railroads. And that's exactly what they're trying to improve. It's not about just taking their capital expense down, it's more than that. It's really being able to compete with trucks and other industries to increase the business over time. And like I said, what's good for the railroads is good for Wabtec.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Understood. So, technology presumably would be good for mix as well?

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

That's right.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

And last one for me, industry orders for railcars up a lot year-over-year, which is obviously good for visibility. And when railcar OEMs take orders, they're typically non-cancelable. Even though at times we see them get delayed or modified? My question is on the locomotive business, are those contracts non-cancelable in the same way that we think about railcar orders?

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

I think, Steve, from our due diligence, each contract is different, so there's options associated with some of the GE contracts that are basically call options. So, they're not – the customer, obviously, is in force to exercise those options. So, I haven't seen any contracts for base orders that are cancelable. So, there could be, but we haven't seen.

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

And we're really not sure.
Patrick David Dugan  
Chief Financial Officer & Executive Vice President, Westinghouse Air Brake Technologies Corp.

Yeah. We haven't seen their contracts that's in the backlog, I don't know exactly what they say at this point.

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

Well, what we do know is they're way ahead of expectations on new orders. So, I think they're doing pretty well there, in terms of the pickup in their business. It's going to be seen in revenue next year.

Steve Barger  
Analyst, KeyBanc Capital Markets, Inc.

Understood. Thank you.

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

Thanks, Steve.

**Operator:** [Operator Instructions] Next, we have Tim Curro of Value Holdings. Please go ahead.

Timothy Curro  
Managing Member of G.P., Value Holdings, L.P.

Hi. Will you please talk about the financial risk that we face as a result of losing the challenge related to the Siemens PTC patent? Have they sued for a certain amount?

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

Yeah, we really don't comment on litigation at all and so we hate – just don't have a comment on litigation.

Timothy Curro  
Managing Member of G.P., Value Holdings, L.P.

Got it. Thank you.

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

Thank you.

**Operator:** I'm showing no further questions at this time. We'll go ahead and conclude today's question-and-answer session. I would now like to turn the conference call back to Mr. Tim Wesley for any closing remarks. Sir?

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

Okay. Thanks, Mike, and thanks everybody for joining us on the call. We look forward to talking to you again soon or perhaps seeing you at a conference. Take care. Have a good day. Thank you.
Operator: And we thank you also, sir and to the rest of the management team for your time also. Again, the conference call is now concluded. We thank you all for attending today's presentation. At this time, you may disconnect your lines. Thank you, take care and have a great day, everyone.