

# **Westinghouse Air Brake Technologies Corporation (WAB) Q1 2024 Earnings Call Transcript**

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**Body**

Westinghouse Air Brake Technologies Corporation [WAB]

Q1 2024 Earnings Conference Call

April 24, 2024, 8:30 a.m. ET

Company Participants

Rafael Santana - President & CEO Officer

John Olin - CFO

John Mastalerz - SVP, Finance

Kyra Yates - VP, IR

Conference Call Participants

Justin Long - Stephens, Inc.

Bascome Majors - Susquehanna

Angel Castillo - Morgan Stanley

Ivan Yi - Wolfe Research

Matt Elkott - TD Cowen

Clay Williams - Goldman Sachs

James Heaney - Jefferies

Adam Roszkowski - Bank of America

Steve Barger - KeyBanc Capital Markets

Presentation

Operator

Good day, and welcome to the Wabtec First Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note, today's 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

Thank you, operator. Good morning, everyone, and welcome to Wabtec's first quarter 2024 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 on wabteccorp.com.

Some statements we are making are forward-looking and based on our best view of the world and 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 Santana

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. Last quarter when we met, we talked about the strong momentum that we had when we exited 2023. Well, that momentum continues. Sales were $2.5 billion, which was up 13.8% versus prior year. Revenue growth was driven by strong performance, largely from the trade segment. And adjusted EPS was up 47.7% from the year ago quarter, driven by increased sales and margin expansion. Total cash flow from operations for the quarter was $334 million. The 12-month backlog was $7.7 billion, up 11%, signifying continued momentum and visibility across the business. And total multi-year backlog was $22 billion. Overall, we had a strong start to the year. The underlying strength and momentum across the business is evident. We remain confident in our ability to execute, to deliver for our customers, and to continue to make progress against our long-term growth strategies.

Shifting our focus to Slide 5, let's talk about 2024 and market expectations in more details. While key metrics across our freight business remain mixed, we are encouraged by the strength of our business, the strength of our international markets, and our robust pipeline of opportunities across geographies. North America carloads were up 1.8% in the quarter. Despite this carload growth, the industry's active locomotive fleet was down when compared to last year's first quarter, while Wabtec's active fleet was higher. 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 invest in solutions that continue to drive reliability, productivity, safety, and fuel efficiency. Looking at the North American railcar builds, last quarter we discussed the industry outlook for 2024 to be about 38,000 cars to be delivered, which has now been lowered by the industry sources to reflect an expected 36,000 cars. Internationally, activity is strong across most of our core markets. Significant investments to expand upgrade infrastructure are supporting a robust international orders pipeline. In mining, commodity prices and an aging fleet are supporting activity to refresh and upgrade the truck fleet. Finally, moving to the transit sector, the mega trends of urbanization and decarbonization remain in place, driving the need for clean, safe, and efficient transportation solutions around the globe.

Next, let's turn to Slide 6 to discuss a few business highlights. Late in Q1, we signed a $270 million strategic order for new locomotives with a large mining customer in Africa. This, coupled with a recent service order in the region for $64 million, highlights the significant opportunity that we believe exists in Africa. Within mining, we're seeing continued strength in the business, in particular aftermarket, and the team has signed orders totaling over $250 million in the quarter. In Indonesia, we won a long-term parts agreement with PTK. And finally, our maintenance away team launched its Shuttlewagon Commander, NXT, the next-generation of railcar movers. The new model was specifically designed for the needs of the customers to optimize tractive effort, reduce wheel slipping, and extend tire life. All of this demonstrates the continued momentum across the business, the team's relentless focus on execution, the strong pipeline of opportunities we continue to deliver on. Wabtec is well positioned to capture profitable growth with innovative and scalable technologies that address our customers' most pressing needs.

Moving to Slide 7, before turning it over to John, I want to briefly discuss our progress that we are making against one of our company's key strategies, which is to lead the decarbonization of rail. Our highly capable team, our install base of locomotives, and our advanced locomotive technologies, puts Wabtec in a unique position to lead the industry on fuel efficiency and to reduce carbon emissions. With this in mind, we're driving progress on two fronts. First is to enable our customers to transition to near-zero emissions using their current install base of locomotives. Our focus here leverages our customers' existing fleets and wayside infrastructure. Our customers can improve fuel efficiency and carbon emission by up to 18% through replacing the older fleets with our tier four and modernized locomotives, along with realizing improved durability, haulage ability, reliability, and fuel efficiency. We're also enabling our existing locomotive portfolio to be capable of reductions of up to 60% in carbon through the use of bio and renewable fuels, and when farther mixed with hydrogen in the locomotive's internal combustion engine, up to 80% total carbon reduction. In addition, we believe we have a competitive advantage given the fact that our locomotives are more fuel-efficient and our four-stroke engine architecture facilitates the use of hydrogen in our internal combustion engines. And the best part of this approach is that it provides significant optionality for our customers, and this approach is completely reversible back to diesel if supplies of alternative fuels are not available or not economical. On our second path to decarbonization, we're developing zero-emissions technology and equipment. As you are aware, we recently introduced the world's first heavy haul battery electric locomotive to a mining customer in Australia. Given the customer's application, they plan to operate this locomotive, relying on regenerative braking to charge the batteries. And later this month, we will ship our first battery hybrid locomotive. Finally, we are investing and partnering with government agencies to develop heavy haul locomotives powered by hydrogen fuel cells. We believe that the commercialization of hydrogen fuel cells for heavy haul locomotives is farther down the road. Consequently, we are pacing our investments with our customers' readiness to adopt the technology.

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

John Olin

Thanks, Rafael, and hello, everyone. Turning to Slide 8, I will review our first quarter results in more detail. In the first quarter, we continued to see the underlying momentum that we experienced as we exited last year. As expected, both revenue growth and operating margin growth were overshared in Q1 versus our expectations for full-year growth. As we discussed in the last quarter call, we expected both revenue and margin growth to be higher in the first half versus the second half. While we continue to expect growth in the second half, we expect it to be at a much more tempered pace than the first half. Sales for the first quarter were $2.5 billion, which reflects a 13.8% increase versus the prior year. Sales growth in the quarter was driven by the freight segment, especially in our equipment and services groups. For the quarter, GAAP operating income was $412 million, driven by higher sales, improved gross margin, and focused cost management. Adjusted operating margin in Q1 was 19.8%, up 3.4 percentage points versus the prior year. This increase was driven by improved gross margin of 2.4 percentage points, and driven by operating expenses, which grew at a slower rate than revenue, increasing our Q1 margin by an additional 1.0 percentage points. GAAP earnings per diluted share were $1.53, which was up 64.5% versus the first quarter a year ago. During the quarter, we had pre-tax charges of $10 million for restructuring, which were primarily related to our integration 2.0 and our portfolio optimization initiative to further integrate and streamline Wabtec's operations. As you may recall, integration 2.0 is expected to drive $75 million to $90 million of run rate savings by 2025, and our portfolio optimization initiative will eliminate roughly $110 million of low margin non-strategic revenue, while reducing manufacturing complexity. In the quarter, adjusted earnings per diluted share was $1.89, up 47.7% versus prior year. Overall, Wabtec delivered another solid quarter, demonstrating the underlying strength of the business.

Turning to Slide 9, let's review our product lines in more detail. First quarter consolidated sales were up 13.8%. Equipment sales were up 30.2% from last year's first quarter, driven by robust sales of mining equipment and higher deliveries of new locomotives. Component sales were up 13.6% versus last year, driven by increased sales of industrial products, higher international sales, and the acquisition of L&M in late Q2 of 2023, partially offset by lower North American railcar build. Digital intelligence sales were down 5.9% from last year, where we continue to experience lower revenues in our North American market, but we do see growth in our next-generation onboard locomotive products and digital mining. Our services sales grew 17.3%. Services growth was driven by significantly higher year-over-year deliveries of mods, increased overhauls, and parts sales. Our customers continue to recognize the superior performance, reliability, and availability of our fleet. Across our transit segment, sales increased 5.5%, behind growth in our products and services businesses. The momentum in the transit segment remains positive as secular drivers such as urbanization and decarbonization, accelerate the need for investments in sustainable infrastructure.

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Now, moving to Slide 10, both GAAP and adjusted gross margin were up 2.4 percentage points during the quarter. In addition to higher sales, gross margin benefited from improved pricing and favorable mix between segments. Mix within the freight segment was also favorable despite significantly higher new local and mod deliveries in the quarter. During the quarter, we also benefited from favorable fixed cost absorption and benefits from integration 2.0, as well as comparing against higher next-generation digital development costs in the first quarter of 2023. Our team continues to execute well to mitigate the impact of continued cost pressures by driving operational productivity and lean initiatives.

Turning to Slide 11, for the first quarter, GAAP operating margin was 16.5%, which was up 3.9 percentage points versus last year. Adjusted operating margin improved 3.4 percentage points to 19.8%. GAAP and adjusted SG&A expenses were down as a percentage of revenues, as we leveraged higher sales with a strong focus on managing costs. Engineering expense was $48 million, modestly lower than Q1 last year. We continue to invest engineering resources and current business opportunities, but more importantly, we are investing in our future as an industry leader in decarbonization and digital technologies that improve our customers' productivity, capacity utilization, and safety.

Now, let's take a look at the segment results on Slide 12, starting with the freight segment. As I already discussed, freight segment sales were up 17.2% during the quarter. GAAP segment operating income was $368 million, for an operating margin of 20.2%, up 5.7 percentage points versus last year. GAAP operating income includes $3 million of restructuring costs, primarily related to integration 2.0, and portfolio optimization costs. Adjusted operating income for the freight segment was $439 million, up 48.3% versus the prior year. Adjusted operating margin in the freight segment was 24.1%, up 5.1 percentage points from prior year. The increase was driven by improved gross margin behind strong operational execution, favorable mix, improved pricing, integration 2.0 savings, and as we lap last year's investment in our next-generation digital development costs. At the same time, SG&A and engineering expenses were lower as a percentage of revenue. Finally, segment 12-month backlog was $5.67 billion, up 14.5% from the same period a year ago. The multi-year backlog was $17.9 billion, down 2.3% from the prior year. Both our 12-month and multi-year backlogs demonstrate good visibility in 2024 and beyond.

Turning to Slide 13, transit segment sales were up 5.5% to $673 million. When adjusting for foreign currency, transit sales were up 4.9%. GAAP operating income was $74 million. Restructuring costs related to integration 2.0 were $7 million in Q1. Adjusted segment operating income was $86 million. Adjusted operating margin as a percent of revenue was 12.7%, down 0.2 percentage points from last year, driven by unfavorable mix and higher input costs, partially offset by integration 2.0 savings. Finally, transit segment 12-month backlog for the quarter was $2.04 billion, up 3.3% versus a year ago. The multi-year backlog was also up 4.2% to $4.19 billion.

Now, let's turn to our financial position on Slide 14. First quarter cashflow was $334 million. During the quarter, cashflow benefited from higher earnings, improved working capital, and increased securitization funding. We continue to expect greater than 90% cash conversion for the full year. Our balance sheet and financial position continued to be strong. We ended the quarter with liquidity of $2.13 billion, and our net debt leverage ratio was 1.7x at the end of the first quarter, which was favorable versus the same quarter a year ago at 2.3x debt leverage. We continue to allocate capital in a disciplined and balanced way to maximize returns for our shareholders. During the quarter, we repurchased $175 million of our shares, and paid $36 million in dividends, which was recently increased by our board of directors, up 17.6% per share versus prior year.

With that, I'd like to turn the call back over to Rafael to talk about our 2024 financial guidance.

Rafael Santana

Thanks, John. Now, let's turn to Slide 15 to discuss our 2024 updated full-year guidance. As you've heard today, our team delivered a very strong start to the year. We believe that the underlying customer demand for our products and solutions continues across our business. Our orders pipeline and 12-month backlog continue to be strong, providing visibility for the profitable growth ahead. With these factors in mind, we are increasing our previous guidance. We now expect 2024 sales of $10.4 billion at the mid-point, up 7.5% from last year, and adjusted EPS to be between $7 and $7.40 per share, up about 21.5% at the mid-point. Finally, we continue to expect cash flow conversion to be greater than 90%. Looking ahead, I am confident that Wabtec is well positioned to drive profitable growth in 2024 and beyond.

Now, let's wrap up on Slide 16. As you've heard today, our team continues to deliver value for our stakeholders, thanks in large part to our resilient install base, world-class team, innovative technologies, and our continued focus on our customers. Overall, we believe we have an opportunity to continue building significant long-term momentum, with growth in modernizations, in new locomotive sales, in digital solutions, and in transit systems. With solid underlying demand across the portfolio, increased visibility through our backlog, and intense focus on continuous improvement and cost management, Wabtec is well positioned to drive profitable long-term growth and maximize shareholder returns.

With that, I want to thank you for your 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

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. And if you have additional questions, please rejoin the queue. Operator, we are now ready for our first question.

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Question-and-Answer Session

Operator

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

Justin Long

Thanks, and good morning. So, I think the most surprising part of this quarter was the big sequential improvement in freight margins, and I wanted to ask if there was anything unique to this quarter that drove that improvement, or does this just speak to the operating leverage in the business as equipment revenue ramps? And John, if there's anything you can share on how freight margins are expected to progress over the rest of the year, what's baked in the guidance versus what we just saw in the fourth quarter, the 24%.

John Olin

Great. Justin, when we look at the freight margins up 5.1 percentage points, we do not expect to end the year up 5.1 percentage points. There are a few things in there that are going to bring it down over the course of the back half. But overall, our margins are building from our guidance - from the last guidance to this guidance. We feel very good about the way the year's going. But specifically, Justin, on freight margins, let's talk about a couple of those pieces. One, there was great operational execution that led the increased productivity. That, we would expect would continue. When we look at a couple other things, one, mix was very favorable, and we expect mix to be favorable in the first half, but we do expect mix to turn unfavorable in the back half. So, that'll be a drag on freight margins a bit in the back half of the year. The second piece is that there was a fair amount of absorption in the quarter, given the 13.8 - or the 17.2% growth of the freight segment. We don't expect the back half of the year to have such rich revenue growth, and therefore we would expect that be more neutral in the back half. And then finally, during the quarter, Justin, we lapped a one-time - an investment that we made in the year ago period, if you remember, for our next-generation digital development of a PDS software. And as lapping that in the first quarter of this year, that's adding about a third of the overall margin benefit to the enterprise overall. So, a little bit more in the freight group. So, we don't expect that to repeat, but again, as we look to the back half of the year in freight, we expect on margins to be up, but just not the same extent as you're seeing in the first quarter.

Justin Long

Okay, got it. Thanks. And I guess secondly, we have the proposed locomotive regulations from CARB. I know the public comments around that were due to the EPA earlier this week, but do you have any color around the timing of a final decision on that front? And if the current proposal does pass, any initial thoughts on how quickly this could impact your business, based on some of the recent conversations you've had with customers?

Rafael Santana

So, Justin, you're right there. I mean, the public comment period was due last Monday. They had a public hearing. I think the outcome here of the rule remains, I'd say quite fluid. So, what I'll tell you is, we're technically very well positioned here to support customers for all outcomes. We've got the best-in-class products. We've got the lowest emissions, the lowest fuel consumption, best reliability, ultimately best availability, and value for customers there. One thing that I would want to highlight is, the EPA also recently finalized the new standards for highway vehicles, which requires manufacturers to reduce greenhouse gas by 25% for the heavy truck fleet. And the EPA also defined through that, that liquid hydrogen for internal combustion engines would be classified as zero emissions, despite of using some oil. And this is important as it allows first for our install base, the internal combustion engines, to use hydrogen, which can be a transition to fuel cells ultimately. But I call this out because this definition of zero emissions I think plays well into our plans to help railroads transition to near zero emissions with really a reversible solution here through that period.

Justin Long

Okay. Thanks for the time and congrats on the quarter.

Operator

Okay, the next question comes from Bascome Majors with Susquehanna. Please go ahead.

Bascome Majors

Thanks for taking my questions. Just to follow up on that, John or Rafael, less about this year, but more long-term, can you go a little bit deeper into the favorability of mix, given the growth and some of the sub-segments, be it equipment or the modification side of services that you've typically talked about as being a little bit lower mix in some of your businesses, and how that was able to drive such meaningful gross profit expansion, not just the fixed cost absorption, and just how you view that in a longer term context relative to your long-term incremental margin guidance of the 25% to 30%. Thank you.

Rafael Santana

Bascome, let me start here because number one, we're confident on the fundamentals of the business. I mean, we've had a strong performance over the last years and now this quarter, and hopefully comes through here, the team's commitment and the robustness of the strategy. I think we're continuously innovating. I think that's being a key piece. Even if you think about mods or new locos, we're continuously adapting to some of these market changes to ensure we remain in the growth trajectory. We've been actively managing our pipeline to really convert some of these opportunities into tangible results. I think we've also continued to take proactive steps when challenges arise in this process. I think it's important to highlight that you're going to continue to see variation on quarters, yearly results. But we're confident here in our ability to continue to drive profitable growth over time in the business. I'll let John comment on the specifics of the quarter and the half.

John Olin

Yes. Bascome, and when we look at locos and mods over the long term, we would expect it to provide a headwind on overall mix. And again, we talked about this, there's good mix and bad mix, and this is a really good mix because it puts an asset out there that we're going to make money off of for decades to come. But if we look more narrower in, when we look at the - in the first quarter as well as the first half, we are actually getting some mix favorability from locos and mods because of what we're comparing to in the year ago period. If you remember, in the year ago period, we had talked about an international order that was - that we delivered over four quarters, the back half of '22, and the front half of '23, that was very low margin as we moved into a market. So, that's providing some of the mix that you're seeing, and that all just being the first half. And again, as I mentioned to Justin, will start to reverse in the back half. I think, Bascome, the other thing I'd like to point out, as we look at the overall cadence of the year, we talked about this last quarter, but we do expect the significant majority of our revenue growth and our profit growth to be in the first half of the year. And this is really due to the production of those locos and mods. As we came out of last year and the strike, we had the production or deliveries of our locos and mods being significantly lower in the first half of the year versus the back half of the year. And our aim this year is to more level-load our quarters and net production. So, with that, we expect locos and mods to be up about 30% in terms of deliveries in the first half of the year, and down slightly in the back half. And what that's going to do is ship a fair amount of revenue into the first half. And with that, will come that absorption that we talked about. And again, the mix is favorable in the first half, and a little bit unfavorable in the back half. When we look at the back half, we expect it to be favorable on a year-over-year basis, both for revenue growth and for margin growth, but at a much more tempered level than we see in the first half, overall leading to the guidance that we delivered, which is an improvement in revenue growth as well as more profit margin growth.

Bascome Majors

Thank you.

Operator

The next question comes from Angel Castillo with Morgan Stanley. Please go ahead.

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Angel Castillo

Hi, thanks for taking my question, and congrats on the solid quarter. Just wanted to talk about your decarbonization slide, very strong performance there and just the second half deliveries in terms of your targets for some of the alternative fuels is very impressive. So, just curious, as you think about or you have conversations with customers, what are you hearing in terms of the benefits of some of these improvements that you're making in enabling your engines to deliver some of these savings? How is that impacting overall kind of discussions, order patterns and kind of expectations as we think about second half and then flowing into 2025?

Rafael Santana

Yes, so a couple of comments there. Number one, this has been really part of a long-term strategy on making sure that we have the most really fuel-efficient and fuel is a significant part of the expenses for our customers. So, we continue those investments there. I think there's continued opportunity to take advantage of both the tier fours and the mods, and I do believe we have some of the best products there in the market. We see that playing, not just in North America. We see that playing internationally as well. We really like the opportunity here, and I think customers welcome the ability to transition from a known core product and be able to really take advantage of that to significantly reduce carbon emissions. And our engines, I'd say are well prepared to take on both renewable and biofuels, and we're progressing here on really making sure hydrogen is also part of that solution. So, with that, I think we're very well positioned to support customers through that transition. But we're also working on what I call zero emissions technologies, which start with some of the elements of the hybrid units that we're delivering this quarter to New York. And we're also delivering later this year the first really the heavy haul battery electric locomotive that's going to Australia, which one we unveiled last year. So, I think we're, with that, continuing to pace some of our investments here in the light of adoption, but we feel we are very well positioned in that regard, and we really try to make sure we make our engines as agnostic as we can to make sure that we provide that reversibility for customers through transition.

Angel Castillo

Very helpful. Thank you. And then shifting over to capital allocation, just strong performance in the first quarter, strong performance around kind of the cash cost management, but as you think about the strong balance sheet that you have and ability to return cash to shareholders, should we expect that there's potential for bigger buybacks and or deploying more capital to shareholders? Or how are you kind of seeing - you talked about the raise of the dividend, but kind of the other outlets of cash, how should we kind of think about that for the full year?

John Olin

Yes, Angel, number one is we expect a fair amount of free cash for the year, but we've got the balance sheet where we want it. And when I say that, it's in that zone of 2x to 2.5x net debt leverage ratio, right? We're toward the low end of that and we feel comfortable with that at this point as well. Having said that, the cash that we generate, we will prioritize, or the free cash, we will prioritize, first M&A, if we can - if we find good accretive strategic M&A. And then if not, we'll return the excess cash to our shareholders in the form of share repurchases, and feel good about the start to the year in terms of share repurchases, with 175 million purchased. But we're looking to return all of our excess cash to our shareholders throughout the year.

Angel Castillo

Very helpful. Thank you.

Operator

Our next question comes from Scott Group with Wolfe Research. Please go ahead.

Ivan Yi

Good morning. This is Ivan Yi on for Scott Group. Wanted to touch on pricing here, and I know you guys don't really give out any core pricing numbers, but can you directionally talk about how the pricing trends are kind of going, and what are your expectations for pricing sort of the rest of this year? Thank you.

John Olin

Hi, Ivan. when we look at overall pricing in the quarter, pricing was up slightly and our costs were slightly favorable. And so, that helped provided a little bit of margin improvement in the quarter.

Operator

The next question comes from Matt Elkott with TD Cowen. Please go ahead.

Matt Elkott

Good morning. Thank you. Rafael, I think you mentioned industry locomotive fleet in North America was down, but Wabtec was up. Is this just a matter of what we already know, the railroads are coalescing behind Wabtec locomotives increasingly? How much is trip optimizer a factor in that? And any other thoughts on that would be helpful.

Rafael Santana

So, I think first, Matt, I think there's certainly an element of, I'll call it overall lifecycle cost that those units provide, and that's how you've got to keep that in mind. And those are investments that have been done over time that have really positioned our fleets to number one, be the most efficient fleets at an engine level. So, it starts there. It's continuous if you think about our ability to provide service and support to those fleets. So, our customers ultimately get not just the fuel efficiency, but they get the reliability and availability of those units, and that goes with significant investments we've made over time on an engineering team that are able to really drive what I call continuous improvement to those fleets over time, and really the service network that we've gotten and our ability to support customers across the globe on that. On top of that, you include some of the elements of really the digital investments we've made, and we continue to make to help customers improve not just fuel efficiency, but to improve safety and to improve the various elements that they need. So, I think this is really a validation of the investments we continue to make and the differentiation we continue to create in the product.

Matt Elkott

Got it. That's very helpful. And just one follow-up question. I think, John, back in February at the plan tour, you mentioned $110 million of revenue this year that could be discontinued to optimize margins. Could you provide an update on that?

John Olin

Yes, we're moving forward with the exit of what we call low margin revenue from the business, right? So, Matt, when we look at that midpoint of our new guidance at 7.5%, it actually is higher than that, given the fact that we're taking out that $110 million. The majority of that will come out this year, but some of it will move into next year are we're working through exit strategies for different product lines.

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Matt Elkott

Great. Thanks, John. Thanks, Rafael.

Operator

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

Clay Williams

Hi, this is Clay on for Jerry. Quick question on the transit segment. You've had steady margin improvement in transit over the last couple of years. Do you view the bulk of the operational improvement in the business is now complete?

Rafael Santana

No, we don't. In fact, I think there's continued opportunity here to drive profitable growth in the business. First, some comments in the quarter. I think they were very much in line with the expectations we had, and those were some of them tied to the higher OE growth. We had high input costs and some of that was offset by integration 2.0 savings. But in one end, while we're pleased with the overall progress that the business has had, we are continuing significant work there to simplify the footprint, to farther improve and sustain margins. So, I think you're going to continue to see that variation quarter to quarter, but the team here is very much committed to continue expanding margins, taking action to drive profitable growth and being more selective too in terms of the opportunities we tackle, in terms of the differentiation we're able to provide in the products that we have.

Clay Williams

Thanks. And along the same lines, in transit on topline, you've had solid book-to-bill for a while now. Based on your out-coming bids, what level of sales growth is sustainable for the segment over the next couple of years?

Rafael Santana

As we look at longer term and over time, it's probably a range of 3% to 5%. It's probably a range that we should keep it in mind, but we continue to see favorable book-to-bill there, and I just would emphasize the first comment I made in terms of us being more and more selective about the opportunities that are out there.

Clay Williams

Thanks. I'll pass it on.

Operator

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

James Heaney

Good morning, this is James on for Saree. Thanks for taking questions. So, I wanted to go back on alternative fuels here. So, I think rails are - I mean, while rails are focused on reducing CO2 emissions, I think fuel cost and efficiency also play a critical role here. So, can you kind of talk about the economics of using alternative fuels such as biodiesel and renewables?

Rafael Santana

They vary really across the globe, depending on both the availability and the elements of, I'll call subsidies, that could play out there. And I think that's really been a key piece of our strategy, which is ultimately making sure that we've got that flexibility to support customers. So, you might have a renewable diesel available in a certain part of the country. You might not have it in all parts of the country. How you make sure you ultimately have an engine that's agnostic to that. And playing right into it, we're seeing also government support in terms of creating potentially some areas where you might have hydrogen. That might play a role. And we look at this being again how you help our customers transition as some of that, I'll call plates over time with reversible technology. And I think that's a key piece, without really making sure you don't lose sight of the development of what I call zero emission technologies, which plays into the battery electric. It plays ultimately into utilizing higher and higher hydrogen mix, which could lead to fuel cell. But some of those are much farther out in terms of the opportunity to adopt, in terms of the maturity of the technology. and in terms of the economics that it needs to get to.

James Heaney

Got it. Thanks for the color. And as a follow up, I kind of wanted to go back on the margins again. So, back in Investor Day, you kind of talked about expanding margin by 250 to 300 bps in the next five years, but given such a strong margin performance in first quarter 2024, despite like more temporary expectation for the back half, are you kind of thinking differently about the long-term margin target, or are you still kind of like looking for 250 to 300 bps margin expansion? Thank you.

John Olin

Yes, James, as we look forward in the business, we believe we see the mid-single digits on the revenue side and the double digits on the EPS side. Nothing has changed based on our performance of this year or last year in terms of our longer-term view of the industry and our performance within that industry.

Rafael Santana

I think we continue to see opportunities to drive a profitable growth ahead. I think that's important. And at the same note, you're going to have, again, variation. What if it's quarter to quarter, half over half, but there's strong momentum here in both the pipeline, and both North America and internationally. And I think the other piece we sometimes don't talk enough is just the ongoing lean initiatives, the progress on integration 2.0, the portfolio optimization efforts. I mean, those two things combined really provide us an opportunity here for both margin and revenue expansion.

James Heaney

Great. Thank you.

Operator

The next question comes from Adam Roszkowski with Bank of America. Please go ahead.

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Adam Roszkowski

Hi, it's Adam Roszkowski on for Ken Hoexter. Question for John, could you provide an update on the $75 million to $90 million run rate cost savings by 2025 and where you are now?

John Olin

Yes, Adam. We are - when we look at the cost from a cost standpoint, we are about $125 million down the runway of what we were expecting of $135 million to $165 million, and that's kind of realized in the first two years. And from a standpoint of savings, we were on a run rate savings base at $22 million a year as we exited 2023. And with that, Adam, we are ramping up to that $75 million to $90 million that you mentioned as we exit 2025. So, we would expect an escalation of the 60, midpoint, 60 65, wherever the midpoint is, over the next couple years, and would expect that to be somewhat linear. But most of the projects have all been approved and are in different phases of execution, and some are actually completing as well. And so, we would expect those savings to ramp pretty quickly over the next two years.

Adam Roszkowski

Helpful. Thank you. And then you've given some good kind of one, half second half margin and profit commentary. Given the sort of elevated impact from last year, you called out about a third of the game was due to that one-time item. Should we expect the same magnitude of freight margin kind of year-over-year expansion to continue into the second quarter? Should that drop off a bit? Any color you could give us there? Thanks.

John Olin

Yes. Well, when we look at, from a growth perspective, margin growth perspective, we would expect the preponderance of that growth to be in the first half. We do expect growth, Adam, in the back half, but not nearly at the level that we're seeing in the first half. And again, the first half is aided by the fact that revenue is going to be significantly - the significant majority of revenue will be in the first half. And therefore, the P&L leverage will follow that. And as we've talked about, mix is going to be favorable in the first half and the second half. So, we will see a step down in the revenue growth. It will grow, and we'll see a step down in the margin growth. But on a full year basis, we'll exit at our revised guidance, and we feel good about that. When we look at the second quarter, we expect the second quarter to be a strong quarter, again based on the production shifts that we've made, as well as the mix that we've talked about. I don't think it'll be at the same level of revenue growth or margin growth, but it'll be certainly a good quarter. And then again, back half will be more tempered growth.

Adam Roszkowski

Thank you.

Operator

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

Steve Barger

Thanks. If we do get an accelerated domestic locomotive cycle driven by regulatory changes, would you anticipate change orders and cancellations for mods, or would you think that would all be additive to the backlog?

Rafael Santana

There's certainly a choice to be made, but it's really very customer-specific. So, I wouldn't say there would be necessarily a complete reversal of that. And I do not expect cancellations in that regard, but there would certainly be an element of more thoughts towards really moving forward with the newer technology, especially as we include in that technology, the ability to take on those alternative fuels, take that, really provides the customer here what I'll call the safe net to transition over time with the reversibility they need.

Steve Barger

Understood. Thanks. And Rafael, following up on the hydrogen conversation, you said Wabtec is pacing investment to market adoption rates, but it's also come up several times on this call. Do you expect to see hydrogen equipment on track within the next, say, five years? Or is that mainline hydrogen equipment more 2030 and beyond? Just to kind of level set expectations.

Rafael Santana

So, two comments. I do expect hydrogen to be, I'm going to call, both tested, and there could be an element here if government potentially steps in to create some corridors where you might be able to introduce that as an alternative fuel into the internal combustion engine. If your question is more around 100% hydrogen utilization, that's later down the road, and that goes with fuel cells. That goes with irreversible technology. So, that's going to take a bit more time on that. So, that's not in the near or mid-term.

Steve Barger

Yes, I wasn't even thinking about 100% adoption. I was just thinking about the idea that you can have a legitimate freight-hauling piece of equipment on the track in say, five years. Is the technology there?

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Rafael Santana

So, we do that - similarly, we do that today with LNG. We have a tech cart that ultimately you have an engine that's able to mix up to 78% of LNG. So, you should think along the same lines. At the same time, if there's any issues as you're running, or the availability of fuel is not there, you're still able to complete the mission with the current engine that you have on. So, I think you could expect to see some experimentation there. There could even be some corridors, but I think still going to be a niche application.

Steve Barger

Understood. Thanks.

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

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

Operator

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

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