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Westinghouse Air Brake Technologies Corp. (WAB)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Wabtec First Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

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

Thank you, operator. Good morning, everyone, and welcome to Wabtec's first quarter 2022 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 on our website earlier today and can be accessed on the Investor Relations tab on WabtecCorp.com.

Some statements we're 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 O. Santana

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

Thanks, Kristine, 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 on our long-term value framework. John will then cover the financials.

Overall, we achieved significant progress against our long-term strategies that we detailed at our Investor Day in March. We delivered a strong first quarter as shown by the 5% sales growth, adjusted operating margin expansion of 1.4 percentage points, and adjusted earnings per share growth of 27%. Total cash flow from operations was $161 million.

Finally, we ended the quarter with about $23 billion of multiyear backlog, which was up $1.1 billion from last year. Overall, our team overcame a volatile and disruptive environment and delivered a strong first quarter, despite challenges across the supply chain, higher costs and the impact from the conflict in Ukraine. We are monitoring the devastating situation in Ukraine. Our hearts go out to the people there. Their resilience and courage are truly inspirational.

For the year, we expected Russia to account for roughly 5% of our earnings. We do not expect our business in that market to return for the remainder of the year. Given the situation, our first priority is to continue to protect the safety of our employees in the region and abide by all sanctions.

On the positive side, we do believe that the rail industry and Wabtec are well poised to benefit from significantly higher energy prices and from the likelihood of shifting global commodity flows over the medium term. Rail's significant fuel advantage over truck is only widening with rising fuel prices, improving the value proposition for rail.

We are enhancing our customers' productivity, capacity utilization and safety through investments in decarbonization and digital technologies. The breadth of our portfolio, along with our unmatched technologies and deep expertise, means our order pipeline continues to strengthen, and our visibility beyond 2022 continues to increase. Our confidence in our company's future is reflected in our first quarter purchase of $296 million of Wabtec's stock and in the increase of our first quarter dividend by 25%.

Shifting our focus to slide 5, let's talk about end market conditions in more detail. As we look at key metrics across our Freight businesses, we are encouraged by the underlying momentum of our industry. Many key metrics are improving with the exception of North American carloads. Despite the slow start, we expect carloads to improve as the year progresses. Locomotive parkings continue to decline despite weaker freight traffic in the quarter.

We expect demand for reliability, productivity and fuel efficiency to continue to increase, placing our Services business and modernization portfolio in a position of strength. When it comes to the North American railcar build, demand for railcar is increasing from what we believe are trough levels. Railcars in storage are below pre-COVID levels with about 18% of the North American railcar fleet in storage.

As a result, industry orders for new railcars continue to improve. The industry outlook for 2022 is for over 40,000 cars to be delivered. Internationally, freight activity continued to show growth in the first quarter across many of our major markets, and our order pipeline remains strong. We expect long-term revenue growth in the majority of our end markets.

Transitioning to the Transit sector, ridership trends continue to be uneven in various markets. However, infrastructure spending for green initiatives continue to be a bright spot, especially as governments globally invest in rail for clean, safe and efficient transportation. Overall, the long-term market drivers for passenger transportation remain positive.

Next, let's turn to slide 6. When it comes to the long-term shareholder value, we are continuing to drive progress against our value creation framework, which is anchored around five key growth strategies. This includes accelerating the creation of innovative and scalable technologies and using these technologies to grow and refresh our expansive global installed base.

Leading the decarbonization of rail, expanding high-margin recurring revenue streams, which reduces our exposure to economic and industry cycles, and most importantly, driving continuous operational improvement, and we are making strong progress against this strategy.

In the first quarter, we won several strategic orders, including our largest digital order in India for online monitoring of rolling stock. This new automated system is part of Indian Railways' Smart Yard initiative and it will improve the availability of the railways' fleet of coaches, wagons and locomotives. We also won key digital orders with Class Is for our next-generation dispatch offering, as well as a fleet-wide PTC hardware upgrade. We also secured a strategic order for 330 locomotive modernizations with Norfolk Southern, and we've introduced a new locomotive model to Brazil's freight rail market with deliveries to Rumo, MRS and Suzano.

Finally, we launched our Integration 2.0 restructuring program which, as we outlined at our recent Investor Day, will drive continued footprint rationalization as well as manufacturing and engineering efficiencies across our operations. Through these efforts, we expect to deliver between $75 million to $90 million of additional run rate savings by 2025 and position Wabtec for continued growth.

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

John A. Olin

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

Thanks, Rafael, and good morning, everyone. Turning to slide 7, I will review our first quarter results in more detail. We had another good quarter of operational and financial performance, despite challenges in the supply chain, cost increases, and the impact of Russia. Sales for the first quarter were $1.93 billion, which reflects a 5.3% increase versus the prior year. Sales were positively impacted by the continued broad recovery in our Freight segment, higher pricing, and the acquisition of Nordco, partially offset by lower year-over-year sales in Transit, driven by unfavorable foreign currency exchange and supply chain disruptions.

We continue to experience adverse impacts to our sales results in both segments due to shortages across many component parts, including computer chips, which caused delays in production and customer delivery. For the quarter, adjusted operating income was $319 million, which was up 15.2% versus the prior year. We delivered strong margin expansion, up 1.4 percentage points on an adjusted basis. Margins were aided by mix favorability, increased pricing and improved productivity, driven by higher absorption of fixed manufacturing costs, partially offset by $45 million to $50 million of higher costs. The team achieved margin expansion even in the face of a highly disruptive supply chain and a challenging inflationary environment.

In the first quarter, adjusted earnings per diluted share were $1.13, up 27% versus prior year. GAAP earnings per diluted share were $0.80, which was up 35.6% versus first quarter a year ago. During the quarter, we had charges of $7 million for restructuring and other one-time charges, largely related to our Integration 2.0 initiative to further integrate Wabtec operations and to drive $75 million to $90 million of run rate savings by 2025.

As Rafael noted, we are pleased with our Q1 results, and particularly our sales growth in the face of supply chain disruptions and unfavorable currency exchange, and our margin growth in the face of continued cost increases. We remain diligent and proactive as we work to minimize these challenges.

Turning to slide 8, let's review our product lines in more detail. First quarter consolidated sales were up 5.3% versus last year, driven by higher sales in the Freight segment, partially offset by lower Transit segment sales. First quarter sales were adversely impacted by foreign currency exchange of 2 percentage points and continued supply disruptions. Equipment sales were up 4.6% year-over-year due to continued strong mining sales.

We remain encouraged by the improving trends in our Component business. Component sales continued to build momentum and were up 12.8% year-over-year, driven by higher OE, railcar build, lower number of railcars in storage, and a strengthening recovery in industrial end markets.

In line with an improving outlook for rail, our Services sales grew 18.5% versus last year. The year-over-year increase was largely driven from higher sales from modernizations, the unparking of locomotives and the acquisition of Nordco. The superior performance, reliability and availability of our fleet continues to drive customer demand, as railroads increasingly look for predictable outcomes across their fleets.

Excluding Nordco, organic sales for the first quarter were up 11.5%. Digital Electronics sales declined 1.9% versus prior year, driven primarily by ongoing shortages of chips. We continue to see improved demand for onboard locomotive products, and our backlog in digital continues to increase. And even more importantly, we continue to see a significant pipeline of opportunities in our Digital Electronics product line as customers globally focus on improved productivity, increased capacity utilization and safety.

Across our Transit segment, sales decreased 6.5% versus prior year to $605 million. Sales were down versus last year due to supply chain issues, lapping the exit of low-margin UK contracts, and the negative impacts of foreign currency exchange. Foreign currency exchange alone adversely impacted revenues by 5.1 percentage points. We believe the medium and long-term outlook for this segment remain positive, as infrastructure spending for green initiatives continue.

Moving to slide 9, our adjusted gross margin expanded 1.7 percentage points to 31.1%, driven by product mix, increased pricing and favorable manufacturing costs, partially offset by higher raw material costs and unfavorable foreign currency exchange. Mix and pricing positively impacted our margins. Mix benefited margins as Freight sales outpaced our Transit sales. Additionally, higher pricing was realized from price escalations incorporated into many of our long-term contracts, along with other price actions that were implemented to recover increased costs.

Raw material costs were, again, up significantly, led by increased metal costs, including steel, aluminum, copper and dramatically higher fuel costs. Foreign currency exchange adversely impacted revenues by 2.0% and adversely impacted first quarter gross profits by $10 million.

Finally, manufacturing costs were positively impacted by favorable absorption of fixed costs, partially offset by exponentially higher transportation and logistics costs. Current global container costs continue to be significantly higher than last year's average.

In aggregate, the continuing effects of the supply chain disruptions, higher materials, transportation and labor costs are estimated to be $45 million to $50 million higher than last year's first quarter. Our team continues to execute well to mitigate the impact of these cost pressures by triggering price escalation, implementing price surcharges and driving operational productivity and lean initiatives.

Turning to slide 10, for the first quarter, adjusted operating margin expanded 1.4 percentage points versus last year. Our margins benefited from higher adjusted gross margin, but were partially offset by higher engineering expenses from increased investment in future technologies. Adjusted SG&A was $236 million, which was up $13.0 million from the prior year due to in part the acquisition of Nordco.

Engineering expense increased from last year according to plan. We continue to invest engineering resources and current business opportunities, but more importantly, our investing in our future as an industry leader in the decarbonization and digital technologies that improve our customers' productivity, capacity utilization, and safety.

Now, let's take a look at segment results on slide 11, starting with the Freight segment. As I already discussed, Freight segment sales improved for the quarter and segment adjusted operating income was $259 million for an adjusted margin of 19.6%, up 1.5 percentage points versus the prior year. The benefits of higher sales, improved mix and increased pricing were partially offset by significantly higher input costs. Finally, segment backlog was $19.02 billion, up $1.02 billion from the end of the first quarter last year due to the broad multiyear order momentum that Rafael discussed earlier.

Turning to slide 12, Transit segment sales were down 6.5%, driven by the negative effects of foreign currency exchange and supply chain disruptions. Adjusted segment operating income decreased by $5 million to $74 million, which resulted in adjusted operating margin of 12.3%, up 0.1 percentage points versus the prior year.

Increased pricing and lower year-over-year SG&A were largely offset by significant increases in input costs and unfavorable foreign currency exchange. Across the segment, the team delivered a strong operational performance as we continue to focus on driving down costs, implementing lean and improving operational efficiencies despite the volatile environment. Finally, Transit segment backlog for the quarter was $3.74 billion, up slightly versus a year ago. Adjusting for the negative effect of foreign currency exchange, backlog would have been up roughly 5.5%.

Now, let's turn to our financial position on slide 13. During the quarter, we generated $161 million of operating cash flow resulting in a cash conversion of 59%. Our cash conversion rate in Q1 was below our full year target of being over 90%. Cash flow has historically been the lowest in Q1. This was compounded this quarter by proactively building inventories ahead of our strong growth expectations for the back half of the year and managing supply disruption of critical parts. Additionally, as expected, the payment of short-term incentives was considerably higher in Q1 of 2022 versus the COVID impacted Q1 2021 payment.

Looking forward, we are confident we will generate strong cash flow for the year. Our adjusted net leverage ratio at the end of the first quarter declined to 2.5 times and the liquidity is robust at $1.50 billion. Also, during the quarter, we returned more cash to our shareholders, repurchasing an additional $296 million of shares and paid dividends of $28 million, which was up 25% versus our prior-year dividend rate.

As you can see in these results, our financial position is strong, and we are confident that we can continue to drive solid cash generation, giving us the liquidity and flexibility to allocate capital toward the highest return opportunities and to grow shareholder value.

With that, I'd like to turn the call back to Rafael.

Rafael O. Santana

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

Thanks, John. Let's flip to slide 14 to discuss our 2022 financial guidance. Last quarter, we issued guidance with sales growth at the midpoint of 8% and EPS of $4.65 to $5.05, or up roughly 14% at the midpoint. Our guidance was based on improving industry momentum and strong underlying customer demand for our products.

Despite headwinds from supply chain disruptions, unfavorable mix, and a still challenging cost environment with higher investments in technology, we are continuing to take action to drive margin expansion and grow our business over time. With the first quarter behind us, we feel strong about our businesses and delivered against our original planned financials despite unplanned loss of business in Russia. I'm pleased with the strength and resilience of our business and more importantly, I'm extremely proud that our teams found a path to deliver to our plan despite an ever-changing and challenging environment.

The reality is that our business in Russia was expected to earn about $0.25 per share in 2022, which pressures the top end of our guidance range. However, despite this pressure and recognizing the strong underlying execution, the pipeline of opportunities in the business and the still volatile market conditions impacting 2022 and beyond, we are not changing our original guidance.

Now, let's turn to the next slide. Our team delivered a very strong start to the year despite a challenging and rapidly evolving environment. I'm proud of their efforts to deliver for our customers, drive strong financial results and further strengthen our financial position. As we look forward, the rail sector and Wabtec are well positioned to increase share and solve the critical issues facing the world's freight and logistics sector.

We will continue to lean in the strong fundamentals of the industry and our company to drive long-term profitable growth. Our long-term strategy continues to be built on our deep industry expertise grounded in innovation, breakthrough initiatives and scalable technologies that drive value for our customers. These efforts will continue to be accelerated by our lean continuous improvement culture and disciplined capital allocation.

As we've said before, Wabtec's mission holds a larger purpose, to move and improve the world. I am confident that this company will continue to deliver and lead the transition to a more sustainable future.

With that, I'll turn the call back over to Kristine to begin the Q&A portion of our discussion. Kristine?

Kristine Kubacki

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

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question will come from Justin Long with Stephens. Please go ahead.

Justin Long
Analyst, Stephens, Inc. Q

Thanks, and good morning.

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

Good morning, Justin.

Justin Long
Analyst, Stephens, Inc. Q

So, maybe to start on the guidance, Rafael, you mentioned that Russia was $0.25 of the original guidance for the full year. Just to be clear on that, are you now assuming that number is zero? And if so, with the guidance range unchanged, can you talk about what the positive offsets are to that headwind in Russia?

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

Yes. So, that's right. We are considering it zero for the year at this point. I think the offsets, Justin, I'll start with the first quarter. We're really tied to – well, first, I think the business is operating well. Our teams have done strong execution. We've also seen positive coming from the unparking of locomotives with demand on the Services business. We also have seen a stronger mining business than we have anticipated.

So, if you think about the year, I think it's continuing to work to find offsets, not just tied to the loss of the business in Russia, but headwinds of inflation and supply chain, transportation costs as well. I think with the first quarter behind us, I think the team continues to work on those offsets.

The other thing that I would add is, uncertainty have certainly increased since we last talked in February. But we have probably a stronger pipeline of opportunities in the business. And I think despite of the volatile market conditions, we felt really strong about maintaining guidance at this point.

Justin Long
Analyst, Stephens, Inc. Q

Okay. Great. And maybe following up on the pipeline, specifically on international locomotives, do you already have enough in the backlog at this point to say your deliveries will not only be up in 2022, but also in 2023 just from an international locomotive perspective? And are there any data points you can share on new contract wins that are in the market today that you're bidding on?

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

Yes, Justin. Number one, we have fundamentally in backlog again for what we need as far as new locomotives being delivered this year. And it's actually started – that gained momentum through the year. If you look at the second half of the year, we're going to actually be delivering more than 50% more locomotives than we did on the year before on the second half. So, I think that's one data point.

I think what was more exciting about the quarter was really the backlog. It was a positive, again, in the quarter. I think we see momentum in the order intake and growing backlog. The pipeline of deals has strengthened again. And this is probably the strongest pipeline of deals we've had over last five years. And our commercial team here continues to be focused on converting this pipeline. I think you saw some of that progress with – or the things we announced here in the first quarter.

The strength is also reflected on the 12-month backlog. This is certainly the highest we've had since the merger, and that's for both Freight and Transit. So, I think there's good momentum there and I think some of the things I described to you certainly help, I think, 2023, 2024 and beyond. So, multiyear orders that really help us to continue to build momentum. So, that was something very positive we saw in the quarter.

Justin Long Q
Analyst, Stephens, Inc.

Okay. Great to hear. I appreciate the time.

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

Thank you.

Operator: Our next question will come from Jerry Revich with Goldman Sachs. Please go ahead.

Jerry Revich Q
Analyst, Goldman Sachs & Co. LLC

Yes, hi, good morning, everyone.

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

Good morning, Jerry.

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

Good morning.

Jerry Revich Q
Analyst, Goldman Sachs & Co. LLC

Rafael, one of the interesting developments that we've seen in your business over the years has been just the growth in MODs and your strong MODs market share. Can you just update us on what MOD deliveries looked like year-over-year in the first quarter? And what's the cadence look like over the balance of the year in light of the recent order strength you've had for MODs specifically? Thanks.

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

A

So, Jerry, double-digit growth this year versus last year into the MODs business. When you look at across the year, I think there's a relative consistency. We could have variation just in terms of time of shipment, but double-digit growth. But I think what's more exciting is – I think I had mentioned that before on other calls. I think what we thought would have been a cap in terms of that volume in North America, we see the opportunity here to further expand that business. And internationally, I think some of the momentum continues. And so, we see that business with a strong opportunity here to continue to grow moving forward.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Okay, great. And then can you talk about the earnings cadence over the course of the year? When do you expect the revenue burn to accelerate given the moving pieces that you spoke about earlier?

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

A

Hi, Jerry, this is John. With regards to the earnings cadence, we came out last quarter and talked about, we expected the first half to be a little bit lighter in terms of revenue growth, but heavier in terms of earnings growth, and that would reverse in the back half. And the big difference between the two is what Rafael just talked about, as our equipment grows, it's going to gain momentum through the back half.

I think what we're seeing in the first quarter is very much in line with that overall sequence. And we had a revenue growth of 5.5% and margin growth of 1.4 percentage points. As we look to the back half, we would expect to see a significant revenue growth. However, our overall margin growth is going to be lower on a year-over-year basis than it is in the first half – I'm sorry, on a year-over-year basis. That's driven, Jerry, by three things: One is the mix shift because of shipping in a much higher percentage of equipment sales. The second is easier comps – or tougher comps in the back half by about 1.5 percentage points. And the other is just what Rafael mentioned as well, we'd expect more cost pressure in the back half because of the most recent cost surge that happened in Q1 with the invasion of Ukraine.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Okay. I appreciate the discussion. Thanks.

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

A

Thank you.

Operator: Our next question will come from Scott Group with Wolfe Research. Please go ahead.

Ivan Yi
Analyst, Wolfe Research LLC

Q

Yes, good morning. This is Ivan Yi on for Scott Group. First in Russia...

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

Good morning [indiscernible] (30:02).

Ivan Yi
Analyst, Wolfe Research LLC
Q

...I understand that – good morning – I understand you're expecting zero for Russia this year, but how are you treating this exposure in your multiyear backlog? Thanks.

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

So, with regards to: number one, the business in Russia, we are complying with all sanctions and legal requirements. We are committed, again, to the safe operations of equipment in the region. And we have, say, to some extent provided nominal support for this purpose. Given the uncertainty, given the conflict we have, removed Russia from our backlog.

Ivan Yi
Analyst, Wolfe Research LLC
Q

Thank you. And my follow-up, can you quantify the number or percentage of locomotive on parkings in 1Q? And what are your expectations for second quarter? Thank you.

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

What I'll tell you there is, we continue to see on parking. We're back to numbers that are comparable to the third quarter of 2019. So, that's, I think, a good and a positive for the business. Some of those fleets are on park, they've been parked for quite a bit of time, and they demand some level of investments. But I think most importantly, when you look at the fluidity, the velocity and the network, I think the demands for really reliable power and continued investment for our customers in order to continue to improve those metrics, I think that's something that we certainly have, I think, a lot of the solutions for it.

Ivan Yi
Analyst, Wolfe Research LLC
Q

Thank you.

Operator: Our next question will come from Courtney Yakavonis with Morgan Stanley. Please go ahead.

Courtney Yakavonis
Analyst, Morgan Stanley & Co. LLC
Q

Hi, good morning, guys. I hate to belabor Russia, but just a couple of quick follow-ups. I think you had mentioned at the Analyst Day that the majority of the impact was supposed to hit 1Q from Russia. So I just wanted to confirm that, and so the majority or the rest of the year will be less impacted from that headwind. And then secondly, if you could just comment at all on Freight versus Transit exposure? And I think you also mentioned that you had removed Russia from the backlog. So just any impact to those – to the segment level backlogs.

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

A

Hi, Courtney, this is John. Courtney, what we had talked about in Investor Day is that we would be a little bit over-shared in the first quarter in terms of earnings expectations. We did not say the majority of our earnings would be in the first quarter. On a full year basis, we had planned for $0.25. In the first quarter, we probably -$0.03 or $0.04 we shipped before the conflict began, but it was just a little bit over-weighted versus an even split across all quarters.

And the other piece is, yes, Russia is out of the backlog and we took that out during the quarter – this quarter.

Courtney Yakavonis
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got you. And then just on share repurchases, I think that was a little bit higher than we were expecting. I think you had a $750 million reauthorization that you had announced and now it's close to halfway done. So, just as we think about the pace for the rest of the year, any guidance you can give to that, and if that was a key offset as well in maintaining the guidance?

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

A

That was not a key offset to maintaining the guidance, but we're very pleased to have purchased $300 million. And largely, Courtney, it's going back. We came out of what we believe is the trough in 2021. We feel confident in the future. We want to get off to a good start to the year, and we're able to repurchase $300 million shares.

As we look forward, I think I would go back to what we had said at Investor Day with regards to capital allocation, that we are going to focus on making sure that we have a strong balance sheet. We invest in the business in terms of capital and technology spend, which you saw in the first quarter and the dividend and protecting the dividend. Then from there, we would prioritize and continue to prioritize acquisitions as long as they are strategic and accretive over share repurchases. And finally, barring that, any excess cash will come back to our shareholders in the form of share repurchases.

Courtney Yakavonis
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

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

A

Thank you.

Operator: Our next question will come from Chris Wetherbee with Citi. Please go ahead.

Eli Winski
Analyst, Citi

Q

Hi, thanks. Good morning, guys. Eli Winski on for Chris. Maybe we can start with the OEM side. We saw that revenues were higher in this quarter than the prior quarters in 2021 and 2020. Could you talk about what the cadence of the growth in that segment might look like given some of the congestion and some of the supply chain issues there?

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

A

Are you referring to the Transit segment?

Eli Winski
Analyst, Citi

Q

I am.

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

A

That's what – right. Well, what we're seeing as far as Transit is overall revenues were down 6.5%. As we had mentioned, 5.1 percentage points of that is due to currency. The other drag that we had with regards to revenue is about a – well, not about, a year ago, first quarter, we exited a lot of our UK operations on the service side, so in aftermarket, that was basically our brush product line. By the time we exited that business, it was the end of the third quarter. And right now, we're lapping those higher revenues from a year ago as we exit that business. And that's roughly about the same impact that currency had on our Transit business. The third element, obviously, is the supply disruptions continue to hit that business a little bit more than others. But excluding those, we would have seen good underlying growth in the Transit business.

Eli Winski
Analyst, Citi

Q

Got it. Thanks. And then maybe jumping up to Services and the acquisition of Nordco. How are the expenses coming out of that business now with some of the synergies from that acquisition? It's probably likely that you should be seeing that start to fade off here [ph] more now and some of the first quarter (36:17), correct?

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

A

Right. During the acquisition, we had looked to take $10 million of cost out of that business over the next couple of years, and we are tracking with that. I mean, that's coming out certainly in operational efficiencies that would hit gross margin, as well as a lot of duplicate SG&A expenses are coming out as well. This will be the last quarter that we're lapping that acquisition. And with that, we did see higher SG&A in the quarter, as you'd expect.

Eli Winski
Analyst, Citi

Q

Got it. Thank you.

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

A

Thank you.

Operator: Our next question will come from Rob Wertheimer with Melius Research. Please go ahead.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Yes, hi. Good morning, everybody.

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

Hi, Rob.

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

Hi, Rob.

Rob Wertheimer
Analyst, Melius Research LLC
Q

So, I had, I guess, two on Transit, one short and one long term. Just short term, just any comments on – it seems like backlog is progressing pretty well. But on Transit customer sentiment on uncertainty in Europe, if that affects anything, perhaps stuff has been delayed and it's pent-up. But just any comments on that short-term demand picture around the backlog.

And then second, just a more structural question, just as you've narrowed focus over the years on Transit, what is the feeling on wins, on market share, on just how the competitive balance is playing out? And I will stop. Thanks.

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

Yeah. I'd say, ridership trends to continue to be uneven across various markets there. We're not seeing any signs of slowdown of the market. And I think to some extent, the current crisis favors rail, the energy intensity of rail is a fraction of – if you were to compare to either passenger cars or, well, even trucking into the Freight segment. I think the other element I'd mention is certainly in Europe, but other parts of the world, the hybrid work model may also increase demand for intercity trains.

So, on one side, infrastructure spending continues to be a positive with governments investing in rail. So, you'll see that in the short term. We could continue to see some delay in project execution due to supply chain disruptions. But largely, the fundamentals of the business remain the same, remain strong, consistent of what you might have heard from auto customers and OEMs in that sector.

Rob Wertheimer
Analyst, Melius Research LLC
Q

Perfect. And then just any comment on competitive balance if your backlog is growing in line, market shares holding, growing, contracting?

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

I think we have largely been holding market share positions. It, of course, varies product line by product line. I think one of the things we made a clear upfront was really working towards the quality of the backlog, which has improved over the last couple of years. And that comes down to also making some of those choices and working in that direction. So, we're continuing to improve those numbers.

Rob Wertheimer
Analyst, Melius Research LLC
Q

All right. Thank you.

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

Thanks.

Operator: [Operator Instructions] Our next question will come from Allison Poliniak with Wells Fargo. Please go ahead.

Allison Poliniak-Cusic
Analyst, Wells Fargo
Q

Hi, good morning.

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

Good morning, Allison.

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

Good morning, Allison.

Allison Poliniak-Cusic
Analyst, Wells Fargo
Q

Just want to go to Digital Electronics. Obviously, the chip shortage is certainly impacting your growth there. Is there any way to quantify what that headwind to growth had been for Digital Electronics? And then as you look through, obviously, a volatile supply chain environment still, but do we expect those chip shortages start to ease, are you building inventory there, just any color that can help.

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

Yeah. So, Allison, two things. I think we've made some decisions last year in terms of while trying to anticipate some of this, but the lack of computer chips have had a significant impact for the business in the year. We still expect that business to grow. I think some of the good signs are tied to the double-digit order growth you saw last year. Some were really multiyear agreements. We saw, again, a strong book-to-bill in the first quarter, which was above 2 for the business. I think, again, a focus area for our team is to make sure that we continue to drive convertibility into 2022 with additional orders.

And I think the other comment I would make is, North America continues to be slow despite of some of the announcements here with May. But we're continuing to gain momentum internationally. I think there's some significant opportunities tied to PTC adoption internationally and some of the other technologies that we have.

Allison Poliniak-Cusic
Analyst, Wells Fargo
Q

Great. And then just a high-level question. One of the pushbacks we often get with this loco unparking and the storage number for the railcars coming in is that it's just being masked or – any improvements being masked by the rail service challenges, like that's why we're seeing those numbers. Just any high-level color from your perspective, what you're seeing? Is there real demand behind what's going on, or does this feel like a temporary surge at this point? Just any thoughts there.

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

Yeah. Let me start with what we're seeing, and this is broad and it's more than the North America market. If you think about freight internationally, I think across our key geographies, we see demands are really tied to commodities flow. So, think about volume dynamics are positive. If you look at some of the data that we shared in both Kazakhstan and India, I think we have inquiries for new equipment to be delivered in Africa. We have a number of projects under discussion in Australia, in Asia as well as a function of that. Even despite of the volume drop you saw in Brazil, I'd say trends are positive, tied to the mid, long term and new concessions.

You mentioned North America. I think we see sequential improvement of unparking of both freight cars and locomotives. I think the expectation there is that the investment will continue in terms of customers needing reliable and efficient power to solve through some of the things that we described. And we certainly expect carloads to continue to improve throughout the year. So, that's maybe just with regards to that part. I think I've made some of the comments on Transit. But this is broader than I think North America and I think that goes into some of the comments I made around really the momentum that we saw in the quarter, again, with regards to the growing backlog.

Allison Poliniak-Cusic
Analyst, Wells Fargo Q

Great. Thank you. Very helpful. I'll pass it along.

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

Thank you.

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

Matthew Elkott
Analyst, Cowen and Company, LLC Q

Good morning. Thank you. Rafael, I think the average content in locomotives – freight locomotives in North America prior to GE might have been around $100,000 range. Can you give us an update on where you see the content opportunity going once there are orders in North America, again, as it relates to diesel locomotives? And then also on the FLXdrive, can you remind us how much of the component content on the FLXdrive is actually from Wabtec legacy versus outside suppliers?

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

Yeah. So, I'll start with the FLXdrive, which I think as being a new product really provides data opportunity for us to bring the full integration of the suite of products we have and translate that to ultimately value for the customer. So, we have a very significant opportunity of expanding that number there. When you think about, I'll call our – I'm going to use the word legacy products, we have the opportunity to grow that as well. We've been doing that in the international markets. Some of that's going to be dependent on the sizes of fleets customers are looking at and really making sure that as you introduce some of these components, it comes with scale, it comes with, I'll call, the right support from a service capability behind it. But you'll see that ultimately reflected on digital opportunities, which will continue to grow here, and you've seen some of the numbers we've highlighted in terms of the momentum in orders for that business.

Matthew Elkott
Analyst, Cowen and Company, LLC

Q

Okay. That's helpful. And then one other question on the consolidation front. I think before GE, the rate was two – or one to three bolt-on acquisitions per year. Should we expect you guys to ease yourself back into that kind of pace eventually? And can you give us an update on any potential opportunities you're eyeing right now? Is there a pool of potential targets that you're examining? Just anything on the M&A front or the consolidation front would be helpful.

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

A

I'd say we're continuing to explore acquisitions. We're going to be opportunistic here. It's got to come with the right returns on investments. So, this is not about the number of acquisitions that we do. This is about really value creation and really very consistent with the capital allocation framework that we shared with you guys during Investor Day. Right?

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

A

Matt, I think we've got a very robust process looking at the opportunities. And again, it's not one to three or how many, it's the quality, how accretive they are and how on strategy they are. I think Nordco, which we did about a year ago at this time is a great example of the value that we can drive through our M&A activity. And more recently, we just had one with [indiscernible] (46:14) and certainly MASU at the end of the year. So, we feel very good about where we're at, as well as our pipeline as we look forward, and it certainly is a priority for the company to continue to do accretive M&A transactions.

Matthew Elkott
Analyst, Cowen and Company, LLC

Q

Is it safe to assume that freight is the priority when it comes to evaluating M&A?

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

A

I think the priority is to find good quality, accretive deals that we can grow beyond what the previous owner was able to do to drive overall value for the company.

Matthew Elkott
Analyst, Cowen and Company, LLC

Q

Thanks so much, guys. Appreciate it.

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

A

Thank you.

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

A

Thank you, Matt.

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

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

I'd like to thank everybody for your participation today and we look forward to speaking with you next quarter. Thank you. Goodbye.

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