

## Q1 – 2014 EARNINGS RELEASE April 25, 2014



**JACQUES ESCULIER**  
Chairman & Chief Executive Officer

**JASON CAMPBELL**  
CFO (acting), Vice-President Controller

# Forward Looking Statements

Comments in this document contain certain forward-looking statements, which are based on management's good faith expectations and beliefs concerning future developments. Actual results may differ materially from these expectations as a result of many factors. These factors include, but are not limited to, the risks and uncertainties described in the "Risk Factors" section and the "Forward Looking Statements" section of WABCO's Form 10-K, as well as in the "Management's Discussion and Analysis of Financial Condition and Results of Operations - Information Concerning Forward Looking Statements" section of WABCO's Form 10-Q Quarterly Reports. WABCO does not undertake any obligation to update such forward-looking statements. All market and industry data are based on Company estimates.

This presentation contains certain non-GAAP financial measures as that term is defined by the SEC. EBIT and sales excluding the effects of foreign exchange are non-GAAP financial measures. Additionally, gross profit, gross profit margin, operating income, operating income margin, EBIT, EBIT margin, net income attributable to company and net income attributable to company per diluted share on a "performance basis" are non-GAAP financial measures that exclude separation and streamlining items, the European Commission fine reimbursement, acquisition related expenses and one-time and discrete tax items, as applicable. Free cash flow presents our net cash provided by operating activities less net purchases of property, plant, equipment and computer software. These measures should be considered in addition to, not as a substitute for, GAAP measures. Management believes that presenting these non-GAAP measures is useful to shareholders because it enhances their understanding of how management assesses the operating performance of the Company's business. Certain non-GAAP measures may be used, in part, to determine incentive compensation for current employees. Reconciliations of the non-GAAP financial measures to the most comparable GAAP measures are available in WABCO's quarterly results presentations posted on the company's website.

# Q1 2014 Performance Summary

- First Quarter Sales of \$729.5 Million; up 12.7% in local currencies and up 13.2% Reported
- Performance Gross Profit Margin<sup>(1)</sup> at 30.3% vs. 31.1% in Q1 '13; Reported Gross Profit Margin of 29.9% vs. 30.7% in Q1 '13
- Performance Operating Income<sup>(1)</sup> of \$89.8 Million vs. \$87.6 Million in Q1 '13; Reported Operating Income of \$84.2 Million vs. \$81.7 Million in Q1 '13
- Performance EPS<sup>(2)</sup> \$1.28 vs. \$1.17 in Q1 '13, Reported EPS \$1.12 vs. \$1.15 in Q1 '13
- Free Cash Flow<sup>(3)</sup> of \$27.9 Million, excluding payments associated with streamlining, separation and acquisition activities in the quarter
- Returned \$100 Million cash to shareholders; repurchased 978k shares
- Acquired 97% shares of Transics
- Reiterates Full Year 2014 Guidance

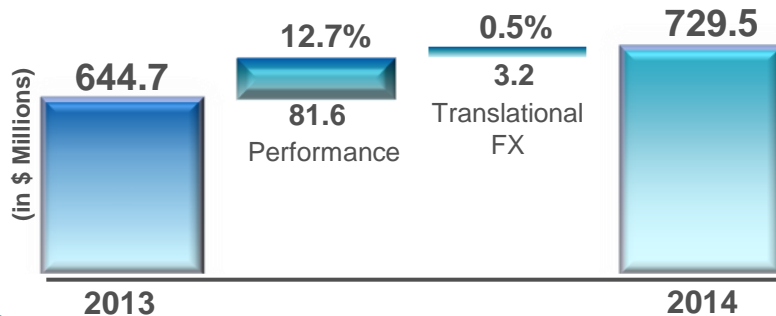
Refer to Slide #13 for Footnotes

**Strongly outperforms a continued volatile market**

**WABCO**

# Q1 '14 Sales Performance & Market Trends

## Q1'14 Sales Bridge



## Q1'14 YoY Sales Growth <sup>(4)</sup> By Channel

Channel	YoY Sales Growth	Comments
OE	13%	• Increased content per vehicle
Aftermarket	8%	• End of ADB field campaign impacts by (4%) • Transics contribution ~4%
Sales to JVs	28%	• Higher T&B and Trailer content per vehicle

## Q1 '14 YoY T&B Sales Growth <sup>(4)</sup> vs. Estimated Production Growth By Region

Region	WABCO	Estimated Production	Comments
Europe	5%	(2%)	•Europe: Increased SOM and penetration
North America	38%	15%	•N. America: Higher content per vehicle (OnGuard™ and AMT)
South America	9%	(2%)	•Brazil: Full introduction of ABS mandate in 2014
Japan/Korea	23%	5%	•Korea: Favorable vehicle mix and higher hydraulic ABS content
China	31%	13%	•China: SOM increase and positive vehicle model mix
India	3%	(6%)	•India: ABS share increase and positive vehicle mix

Refer to Slide #13 for Footnotes

**10% outperformance with contribution from every region**

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# Financial Performance Q1 2014

(in \$ Millions except per share data)

## Profit and Loss Statement Highlights

	Q1 Reported	(1),(2) Q1 Performance	(5) Performance vs 2013 in local curr.	Performance Drivers
Sales	\$729.5	\$729.5	12.7%	<ul style="list-style-type: none"> <li>+1.1% vs. Q4 '13, \$1.4B order book +10% vs. Dec'13</li> <li>Price: (\$9.1) or (1.2%)</li> </ul>
Gross Profit	217.9 29.9%	221.1 30.3%	8.6% -112bps	<ul style="list-style-type: none"> <li>Volume, mix and absorption: \$20.1</li> <li>Materials productivity: \$14.5 (5.8% gross, 5.6% net)</li> <li>Conversion productivity: \$6.9 (6.3%)</li> </ul>
OPEX & Other	(133.7) (18.3%)	(131.3) (18.0%)	13.5% -14 bps	<ul style="list-style-type: none"> <li>Labor inflation: (\$6.6)</li> <li>Opex investments (\$3.7) and Transics Opex (\$5.2)</li> <li>Re-assessment of certain payroll taxes (\$3.4)</li> <li>Transactional FX negatively impacts margin by \$6.5 year-over-year</li> </ul>
Operating Income	84.2 11.5%	89.8 12.3%	2.2% -126 bps	
Equity Income Non-controlling Int. Exp	5.7 (2.5)	5.7 (2.5)		<ul style="list-style-type: none"> <li>Equity Income up \$2.8 from Q1 '13</li> <li>Non-controlling Int. up from (\$2.3) in Q1'13</li> </ul>
EBIT	\$85.1 11.7%	\$93.1 12.8%		<ul style="list-style-type: none"> <li>Streamlining (\$3.7) vs. (\$5.2) in '13</li> <li>Separation &amp; other perf. adj. (\$4.3) vs. (\$1.0) in '13</li> </ul>
Taxes	(15.8)	(13.9)		<ul style="list-style-type: none"> <li>Q1 Perf. Tax rate ~15%</li> </ul>
Net Income*	\$69.4	\$79.3		<ul style="list-style-type: none"> <li>Perf. Net Income up from \$74.9 in '13</li> </ul>
EPS	\$1.12	\$1.28		<ul style="list-style-type: none"> <li>Versus '13 Performance of \$1.17 and Reported of \$1.15</li> </ul>

Refer to Slide #13 for Footnotes

Profitability affected by transactional FX as expected

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# Cash Flow Summary Q1 2014

(in \$ Millions)

## Free Cash Flow

### Cash Provided by Operating Activities:

• Net Income including non-controlling interest	71.9
• Depreciation & amortization	24.4
• Working capital	(44.5)
• Changes in other assets & liabilities	(5.9)

**Net Cash Provided by Operating Activities 45.9**

Purchases of PP&E, Tooling & Computer Software (23.2)

Free Cash Flow<sup>(3)</sup> 22.7

• Streamlining & separation payments	4.7
• Transics acquisition-related costs	0.5

**Free Cash Flow<sup>(3)</sup> excl. streamlining, separation & acquisition payments 27.9**

- Increased March vs. Dec'13 business activity drives Working Capital up
- Yearly payment of Incentive Compensation
- Repurchased 978k shares in Q1 at a cost of ~\$100M
- Net \$124.6 million cash impact of Transics acquisition

Refer to Slide #13 for Footnotes

**Reiterating full year guidance of 80-90% conversion rate**

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# Market Dynamics

% of WABCO Sales

Q1 '14 Global T&B Production




62% 59% **16%**

**Europe** 


- New registrations of heavy trucks YoY up 14% Feb YTD but down 39% vs. Q4 '13 average
- Q1 T&B production down 2% versus 2013 and down 23% vs. Q4 '13
- 2014 new registrations expected to be down 2% with Q1 being lowest
- **2014 T&B production outlook: flat to -5% with Q2 still impacted by pre-buy**

10% 13% **15%**

**North America** 


- Production up 15% in Q1 vs. 2013 and up 2% vs. Q4
- **2014 T&B production outlook: up 7 to 12% of which class 8 expected to grow stronger**

7% 8% **44%**

**China** 

- Q1'14 production up 13% YoY and up 2% vs. Q4'13
- **2014 T&B production outlook: -2 to +3% with H1 stronger than H2 driven by pre-buy**

5% 4% **9%**

**India** 

- Q1 '14 T&B production down 6% YoY or up 51% vs. Q4'13 due to additional demand beyond seasonal effect
- **2014 T&B production outlook: up 5 to 10%**

Downgrading Europe while upgrading other geographies

**WABCO**

# Market Dynamics

% of WABCO Sales

Q1 '14 Global T&B Production



## Japan & Korea

6% 6%

9%



- Q1 '14 T&B production up 5% YoY and up 1% vs. Q4'13
- Full year production expected to erode in Japan and grow in Korea
- **2014 T&B production outlook: down -3% to flat**

## Brazil

8% 7%

7%



- Q1 '14 T&B production down 2% YoY but up 6% vs. Q4'13
- Q1 inventory of finished trucks up 10% of production levels leading to lower forecast in Q2 production
- **2014 T&B production outlook: down -10 to -20% due to weak economy**

## Aftermarket

27% 25%



- Record level of sales despite very soft winter in Europe & geo-political headwinds
- YoY impacted by service campaign in Q1'13 (4% negative impact)
- **2014 outlook maintained up ~15% including acquisition**

## Trailer

9% 10%



- Q1 '14 global production up 6% YoY or up 9% versus Q4'13; driven by WE up 10%, NAFTA up 11% and Brazil down 12%.
- **2014 global production outlook: flat to +5% with major positive impact from North America**

Uncertainty in markets prevails

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# Focusing on Core Strategies

## Globalization

- **New Factory in Rayong, Thailand, Ramps Up Volume:** WABCO's newest of 21 manufacturing sites in 11 countries supports new Asia truck platform of a major customer operating in Southeast Asia. A second customer has also awarded a new long-term contract for braking products.
- **WABCO Gains Further Recognition in China:** WABCO President, Asia, named among "top 100 new leaders" in China's economy in 2013 by *China Economic News*, a leading business magazine.

## New Technologies & Products

- **WABCO and SmartDrive Form Strategic Alliance – and Launch ProView™ – for Fleets in North America:** SmartDrive Systems, a leader in performance management solutions, helps fleets to reduce collisions and lower fuel use, enhancing vehicle safety and operational efficiency.
- **Tata Motors Recognizes WABCO as Braking Technology Partner at India's First-Ever Truck Racing Championship:** Demonstrates advanced safety technologies under extreme conditions.
- **North America's First Fuel-Saving Electronic Air Processing Technology for Trucks:** Introduced System Saver™ 1200 Plus air dryer linked with electronics in anti-lock braking system.

## Execution

- **WABCO CEO Ranks Among "Top 3" in *Institutional Investor Magazine's* 2014 All-America Executive Team Survey:** Investment community recognized WABCO in "Best CEO" category for second year in a row. Roughly 1,400 buy-side and 1,200 sell-side analysts were surveyed.
- **WABCO Operating System Continues to Deliver Strong Results in Q1 2014:**
  - Generated productivity gain of \$21.4 million, an all-time quarterly record amount
  - Generated gross materials productivity of 5.8%, another ongoing achievement
  - Generated conversion productivity of 6.3%, a continued robust result

Continued success in executing core strategies

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# FY 2014 Guidance

(\$ Millions, except per share data)

Guidance	
Sales Growth <sup>(4)</sup>	6% - 11% (in local currencies)
Reported Sales	\$2,920 - \$3,055 1 Euro = 1.36 USD
Performance Op Margin <sup>(1)</sup>	12.8% - 13.6%
Performance EPS <sup>(2)</sup>	\$5.30 - \$5.80
Free Cash Flow Conversion <sup>(3)</sup>	80% - 90% (excl. Stream. & Separation)

## Key Inputs

- Includes contribution from new acquisition
- Improved outperformance view to compensate for market degradation
- Annual price erosion: 1.0% to 1.5%
- Raw material inflation: ~0.5% of material costs
- Productivity levels in line with past performance
- Transactional FX at 2013YE rates adversely affecting profits by ~\$9M YoY
- Performance tax rate ~15%
- Average diluted shares ~61M

Refer to Slide #13 for Footnotes

**Reiterating full year guidance; gradual step-up throughout the year**

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# Summary

- Strong outperformance of global commercial vehicle market
- Quarterly Performance EPS <sup>(2)</sup> of \$1.28 adversely impacted by transactional FX
- Markets remain hard to predict; flattish global production forecast for full year
- Reiterating Full Year 2014 guidance
- Share buy-back program ongoing

Refer to Slide #13 for Footnotes

**Continuing to generate and return strong value to shareholders**

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# **APPENDIX**

## **RECONCILIATIONS OF NON-GAAP MEASURES TO GAAP MEASURES**

# Footnotes, Tables & Definitions

## Footnotes

1. Adjusted for streamlining and separation costs reimbursement and acquisition related expenses
2. Adjusted for streamlining, separation, one-time tax & discrete tax items and '13 EC fine reimbursement and acquisition related expenses
3. Net cash provided by operating activities less net purchases of property, plant, equipment and computer software
4. Adjusted for currency translation
5. Adjusted for currency translation, streamlining and separation costs
6. Adjusted for currency translation, transactional FX and streamlining and separation costs

## Tables

The tables that follow provide the reconciliations of the non-GAAP financial measures to the most comparable US GAAP measures.

## Definitions

- **Separation costs** include all the incremental costs to establish WABCO as a stand-alone separate independent company. It also includes the costs associated with certain liabilities, including contingent liabilities, that have been assumed by WABCO from Trane, formerly American Standard, in the separation but are not related to the Vehicle Controls Business. These costs would include the (i) periodic adjustments to the carrying values of the liability, (ii) interest on certain liabilities and (iii) costs to defend certain of these assumed liabilities.
- **Streamlining costs** are those costs that help adjust the company's workforce and other resources to changing market requirements.
- **Acquisition related expenses:** covers costs related to acquiring a business and non-cash expenses associated with purchase accounting including amortization of identifiable intangible assets

**WABCO HOLDINGS INC.**  
**Q1 2014 Data Supplement Sheet (Unaudited)**

(Amounts in millions, except per share data)

	Quarter Ended March 31,					
	2014	% of Sales/ Adj Sales	2013	% of Sales/ Adj Sales	Chg vs. 2013	% Chg vs. 2013
<b>Sales</b>						
Reported	\$ 729.5		\$ 644.7		\$ 84.8	13.2%
Foreign exchange translational effects	(3.2)		-		(3.2)	
<b>Adjusted Sales</b>	<b>\$ 726.3</b>		<b>\$ 644.7</b>		<b>\$ 81.6</b>	<b>12.7%</b>
<b>Gross Profit</b>						
Reported	\$ 217.9	29.9%	\$ 197.7	30.7%	\$ 20.2	10.2%
Streamlining costs	3.1		2.9		0.2	
Separation costs	0.1		0.2		(0.1)	
<b>Performance Gross Profit</b>	<b>\$ 221.1</b>	<b>30.3%</b>	<b>\$ 200.8</b>	<b>31.1%</b>	<b>\$ 20.3</b>	<b>10.1%</b>
Foreign exchange translational effects	(3.0)		-		(3.0)	
<b>Adjusted Gross Profit</b>	<b>\$ 218.1</b>	<b>30.0%</b>	<b>\$ 200.8</b>	<b>31.1%</b>	<b>\$ 17.3</b>	<b>8.6%</b>
<b><u>Selling, Administrative, Product Engineering Expenses and Other</u></b>						
Reported	\$ 133.7	18.3%	\$ 116.0	18.0%	\$ 17.7	15.3%
Streamlining costs	(0.6)		(2.3)		1.7	
Separation costs	(1.8)		(0.5)		(1.4)	
<b>Performance Selling, Administrative, Product Engineering Expenses and Other</b>	<b>\$ 131.3</b>	<b>18.0%</b>	<b>\$ 113.2</b>	<b>17.6%</b>	<b>\$ 18.0</b>	<b>15.9%</b>
Foreign exchange translational effects	(2.7)		-		(2.7)	
<b>Adjusted Selling, Administrative, Product Engineering Expenses and Other</b>	<b>\$ 128.6</b>	<b>17.7%</b>	<b>\$ 113.2</b>	<b>17.6%</b>	<b>\$ 15.3</b>	<b>13.5%</b>
<b><u>Operating Income</u></b>						
Reported	\$ 84.2	11.5%	\$ 81.7	12.7%	\$ 2.5	3.1%
Streamlining costs	3.7		5.2		(1.5)	
Separation and performance adjustments	1.9		0.7		1.2	
<b>Performance Operating Income</b>	<b>\$ 89.8</b>	<b>12.3%</b>	<b>\$ 87.6</b>	<b>13.6%</b>	<b>2.2</b>	<b>2.5%</b>
Foreign exchange translational effects	(0.3)		-		(0.3)	
<b>Adjusted Operating Income</b>	<b>\$ 89.5</b>	<b>12.3%</b>	<b>\$ 87.6</b>	<b>13.6%</b>	<b>\$ 1.9</b>	<b>2.2%</b>

**WABCO HOLDINGS INC.**  
**Q1 2014 Data Supplement Sheet (Unaudited)**

(Amounts in millions, except per share data)

	2014	% of Sales/ Adj Sales	Quarter Ended March 31, 2013	% of Sales/ Adj Sales	Chg vs. 2013	% Chg vs. 2013
<b><u>EBIT (Earnings Before Interest and Taxes)</u></b>						
Reported Operating Income/(Loss)	\$ 84.2		\$ 81.7		\$ 2.5	
Equity in Income of Unconsolidated Joint Venture	5.7		2.9		2.8	
Other non-operating expense, net	(2.3)		(0.1)		(2.2)	
Net income attributable to noncontrolling interest	(2.5)		(2.3)		(0.2)	
<b>EBIT</b>	<b>\$ 85.1</b>	<b>11.7%</b>	<b>\$ 82.2</b>	<b>12.8%</b>	<b>\$ 2.9</b>	<b>3.5%</b>
Streamlining costs	3.7		5.2		(1.5)	
Separation and performance adjustments	4.3		1.0		3.3	
<b>Performance EBIT (Earnings Before Interest and Taxes)</b>	<b>\$ 93.1</b>	<b>12.8%</b>	<b>\$ 88.4</b>	<b>13.7%</b>	<b>\$ 4.7</b>	<b>5.3%</b>
Foreign exchange translational effects	(0.4)		-		(0.4)	
<b>Adjusted EBIT (Earnings Before Interest and Taxes)</b>	<b>\$ 92.7</b>	<b>12.8%</b>	<b>\$ 88.4</b>	<b>13.7%</b>	<b>\$ 4.3</b>	<b>4.9%</b>
<b><u>Pre-Tax Income</u></b>						
EBIT	\$ 85.1		\$ 82.2		\$ 2.9	
Interest (expense)/income, net	0.1		(0.3)		0.4	
<b>Pre-Tax Income</b>	<b>\$ 85.2</b>		<b>\$ 81.9</b>		<b>\$ 3.3</b>	
Streamlining costs	3.7		5.2		(1.5)	
Separation and performance adjustments	4.3		1.0		3.3	
<b>Performance Pre-Tax Income</b>	<b>\$ 93.2</b>		<b>\$ 88.1</b>		<b>\$ 5.1</b>	
Tax rate on a performance basis	14.9%		15.0%			
<b><u>Net Income Attributable to Company</u></b>						
Reported Net Income Attributable to Company	\$ 69.4		\$ 73.7		\$ (4.3)	
Streamlining cost, net of tax	2.5		4.3		(1.8)	
Tax items	4.0		(3.9)		7.9	
Separation and performance adjustments, net of tax and separation related taxes	3.4		0.8		2.6	
<b>Performance Net Income Attributable to Company</b>	<b>\$ 79.3</b>		<b>\$ 74.9</b>		<b>\$ 4.4</b>	
<b>Performance Net Income Attributable to Company per Diluted Common Share</b>	<b>\$ 1.28</b>		<b>\$ 1.17</b>			
<b>Common Shares Outstanding - Diluted</b>	<b>62.0</b>		<b>64.1</b>			
<b><u>Incremental Gross Profit and Operating Income Margin</u></b>						
Increase in adjusted sales from '13	81.6		81.6			
Increase in adjusted income from '13	17.3		1.9			
<b>Incremental Income as a % of Sales</b>	<b>21.2%</b>		<b>2.3%</b>			
YoY Transactional Foreign Exchange (FX) Impact			6.3			
<b>Increase in adjusted income from '13 excluding transactional FX impact</b>			<b>8.2</b>			
<b>Incremental income excluding transactional FX as a % of Sales</b>			<b>10.0%</b>			

Note: The presentation of the performance measures above are not in conformity with generally accepted accounting principles (GAAP). These measures may not be comparable to similar measures of other companies as not all companies calculate these measures in the same manner.

**WABCO HOLDINGS INC.**  
**Reconciliation of Net Cash Provided**  
**By Operating Activities to Free Cash Flow**  
**(Unaudited)**

(Amounts in millions)

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Net Cash Provided by Operating Activities</b>	\$ 45.9	\$ 64.0
<b>Deductions or Additions to Reconcile to Free Cash Flow:</b>		
Net purchases of property, plant, equipment and computer software	(23.2)	(20.4)
<b>Free Cash Flow</b>	\$ 22.7	\$ 43.6
<b>Less: Streamlining, separation &amp; acquisition related payments</b>	(5.2)	(5.8)
<b>Free Cash Flow excluding streamlining, separation &amp; acquisition related payments</b>	\$ 27.9	\$ 49.4

Note: This statement reconciles net cash provided by operating activities to free cash flow. Management uses free cash flow and free cash flow excluding streamlining and separation payments, which are not defined by US GAAP, to measure the Company's operating performance. Free cash flow excluding streamlining and separation payments is also one of the several measures used to determine incentive compensation for certain employees.



**Reconciliation of GAAP to Non-GAAP Financial Measures for Full Year 2014 Guidance  
(Unaudited)**

(Amounts in millions, except per share data)

	<b>Full Year 2014 Guidance</b>
<b><u>Operating Income</u></b>	
Reported Operating Income Margin	12.4% - 13.2%
Streamlining cost, impact to margin	▼ 0.2%
Separation costs, impact to margin	▼ 0.2%
<b>Performance Operating Income Margin</b>	<b>12.8% - 13.6%</b>
<b><u>Net Income Attributable to Company</u></b>	
Reported Net Income Attributable to Company	\$291.5 - \$322.0
Streamlining cost, net of tax	12.8
Tax items	18.0
Separation costs, net of tax and separation related taxes	1.0
<b>Performance Net Income Attributable to Company</b>	<b>\$323.3 - \$353.8</b>
<b>Reported Net Income Attributable to Company per Diluted Common Share</b>	<b>\$4.78 - \$5.28</b>
<b>Performance Net Income Attributable to Company per Diluted Common Share</b>	<b>\$5.30 - \$5.80</b>
Diluted common shares outstanding	~61

Note: The presentation of performance net income and performance net income per diluted common share is not in conformity with generally accepted accounting principles (GAAP). These measures may not be comparable to similar measures of other companies as not all companies calculate these measures in the same manner.



# A WORLD OF DIFFERENCE

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