Titan International, Inc. (TWI)
Transcript of Q4 2019 Earnings Call and Webcast
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Company Participants

Paul Reitz – President and Chief Executive Officer
David Martin – Senior Vice President and Chief Financial Officer
Todd Shoot – Senior Vice President, Investor Relations and Treasurer

Conference Call Participants

Joseph Mondillo – Sidoti & Company
Komal Patel – Goldman Sachs
Larry De Maria – William Blair
Keith Hogan – Amundi Pioneer

Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the Titan International Inc. Fourth Quarter 2019 Earnings Conference Call. At this time, all participants have been on placed on a listen-only mode and we will open the floor for your questions and comments after the presentation. If you should need assistance, please dial *0 and an operator will assist you.

It is now my pleasure to turn the floor over to Todd Shoot, Senior Vice President, Investor Relations and Treasurer for Titan. Mr. Shoot, the floor is yours.

Todd Shoot: Thank you, Andrew. Good morning, and welcome, everyone, to our fourth quarter 2019 earnings call. On the call with me today, I have Titan's President and CEO, Paul Reitz; and David Martin, Senior Vice President and CFO.

I will begin with a reminder that the results we are about to review were presented in the earnings release issued this morning, along with our Form 10-K, which was also filed with the Securities and Exchange Commission this morning.

As a reminder, during the call, we will be discussing certain forward-looking information, including the company's plans and projections for the future that involve risks, uncertainties and assumptions that could cause our actual results to differ materially from the forward-looking information. Additional information concerning factors that either individually or in the aggregate could cause actual results to differ materially from these forward-looking statements can be found in the Safe Harbor statement, including in today's earnings release attached to the company's Form 8-K filed earlier today as well as our latest Form 10-K and Form 10-Q, all of which have been filed with the Securities and Exchange Commission.

In addition, today's remarks may refer to non-GAAP financial measures, which are intended to supplement but not be a substitute for the most directly comparable GAAP measures. The earnings release which accompanies today's call contains financial and other quantitative

information to be discussed today as well as the reconciliation of the non-GAAP measures to the most comparable GAAP measures.

Today's earnings release is available on the company's website within the Investor Relations section under News & Events. Please note, today's call is being recorded, and a copy of today's call transcript will be made available on our website.

I would now like to turn the call over to Paul.

Paul Reitz: Thanks, Todd. Good morning, and appreciate you joining our call. 2019 was certainly a challenging year for Titan and our industry. Looking back a year ago, we viewed 2019 as a year of continuing growth, coming off of a really strong 2018 that had our sales increased 9% to $1.6 billion, with adjusted EBITDA gain of 64% to $119 million. Instead of the further gains we expected and prepared for, 2019 brought uncertainty and volatility with the China-U.S. trade war; North America farming concerns driven by weather; Brexit; Trump tariff battles; a crazy U.S. steel market; and then all of that spilling over in Q4, when OEMs produced well below retail sales levels. That list wasn't meant to sound like Billy Joel's song, We Didn't Start the Fire, but merely a reflection of the realities of 2019.

These compounding matters unfortunately have heavily impacted our financial results where we encountered a challenging pricing and volume environment in nearly all aspects of our business, along with the issues we had noted in Q3 related to our North America steel purchasing and cost. Our fourth quarter is a period that normally has maintenance shutdowns and holidays. And then when combined with the falloff at the OEMs, it triggered a Q4 sales decline of 17% to $302 million. Again, a prime factor driving the sales decline was the major OEMs destocking their inventory channels in both large ag and construction. Looking outside our OEM business, I want to note that our undercarriage aftermarket sales that are primarily focused on mining and our North American tire aftermarket sales were at a much better level than what we experienced with the OEMs. With overall Q4 volumes down 19%, we reached a level of this period where our plant efficiencies and overall cost absorption took a large hit, especially in North America and Europe. I'll let David dive deeper into the financial results.

I now want to shift gears and spend some time looking forward by also breaking down Titan's businesses a bit deeper in doing so. We're obviously already marching forward into 2020. And look, we know that we must have a much better financial performance than 2019. And we have numerous internal initiatives intended to improve our results. A 2.6% EBITDA margin is not acceptable, and we are not going to simply lay rest to wait for the market conditions to improve. We had a 7.4% EBITDA margin in 2018. And let's keep in mind, 2018 is recent history. So this is not some hidden number of a dark cabin of the past. Plus, 2018 was not a particularly strong large ag market, which is a major part of our business. So we fully believe it's within our reach to get back to our 2018 performance levels in fairly short order, and we are taking action to do that.

We've noted throughout 2019 that we had $30 million to $50 million of noncore assets that can be used to generate cash and further protect our balance sheet. David and I have stated that these are asset sales that would not have a significant impact on our P&L. I think it's important today

to understand Titan more effectively that I'll spend a few minutes breaking things down a bit further between core and underperforming, potentially noncore businesses. On today's call, I'm not going to sit here and spell out exactly which of our businesses are looked at as underperforming. However, David, our General Counsel and our Board fully understand this classification in how they view our company. So if you look back at 2018, we did $1.6 billion in sales and $119 million in adjusted EBITDA, as I stated earlier. That year, our underperforming businesses reduced our EBITDA by nearly $20 million on sales of $170 million. That means without these businesses, we would have posted a solid 9.7% EBITDA margin. In recent years, we have put a lot of effort into improving the operations of our underperforming businesses, but we've reached a point with many, not all of them, that the additional investment of resources isn't going to result in a significant improvement to the bottom line. Therefore, we are working on alternative solutions, including divestitures, as noted on prior calls. I'm not coming on here today and announcing that this is something new. We are already working on that, and these are definitely ways that we can improve our business in a fairly short order. These underperforming operations are not included in the $30 million to $50 million that we've noted on our noncore asset sales, but I do want to add, they have a net book value in the $80 million to $90 million range. So there's additional cash that could be generated that goes beyond the positive impact to our financial results from these moves.

Now let's dive into our actions for 2020. First, our operational cost structure actions will drive $10 million to $12 million of improvements this year. Next, the 80/20 initiative in North America that we've been talking extensively about will continue to improve our performance and expected to deliver another $5 million in 2020. And I should also mention that we've decreased tire inventory by just under $20 million through these actions already in 2019. With this realigned 80/20 product portfolio, we'll have further opportunities to improve margins in both our tire and wheel division through improve pricing on the bottom 20% or what we would call our lower volume B products. The last couple quarters, we pointed out an issue related steel costs that impacted Titan in our North American wheel business. North American wheel will perform significantly better this year as we have now gained better control of our steel purchasing that negatively impacted us this year. And with other business improvements there brought about through operational changes, we expect an incremental gain of at least $15 million in North America Wheel in 2020.

Look, as a company, we have historically had a lean operating structure, and we will continue to do so. But we have to deal with the reality of a decentralized framework with our heavy manufacturing operations. We still have set a goal in 2020, where we expect to reduce our SG&A and R&D costs by over 5% to approximately $140 million through a vigilant focus at each business unit to further take-out costs.

As a company, we have reduced head count during 2019, but our Q4 sales levels, especially the back half of Q4, in the moderate 2020 forecast to start the year for certain segments and geographies where we operate has required us to take further actions in the first quarter of this year. I've stated this before, Titan has been through many cycles. And our management team is experienced at taking quick actions in difficult situations to adjust to these shifting market trends, and we will continue to do that.

So let's not forget through all of the noise, that we build good products that are important to our customers. It's a simple statement with a lot of meaning that gives us a lever to drive improvement in our margins through targeted strategic pricing. As I've noted in prior periods at North American tire in our aftermarket business, we have invested a significant amount of resourcing effort to improve our market intelligence and our pricing models, which have been very good at combating the pressure from the imports and a stagnant market. I have reason to believe that our market intelligence and pricing capabilities are the best in that industry.
We continue to see the positive impact from those actions. And in 2020, we are going to bring that same approach of strategic pricing to other parts of our business, even ones that primarily sell to OEMs. It doesn't hurt that in today's world, OEMs have to be more cognizant of a supply chain that is too reliant on China and India. Local or regionally produced products are a really good thing to have in today's risky world.

Last quarter, I spoke about product development being the heartbeat of our company. And I want to reiterate some success that we've been having and we continue to have with LSWs in the aftermarket. But I really want to point out a new R14 tire/wheel assembly that is jumping into the OEM sector through our relationship with Kubota. These new products are crucial in North America as we deal with the tough conditions.

And I got to say, in 2019, we've done a good job managing that as evidenced in the fact that our North American tire sales are only down mid-single digits in this tough market. We will continue to lead the way with new product development, and it will be the heartbeat of our company that propels us into the future. As we are well into the new year, it does appear that ag customers in North America are stabilizing production with farmer and dealer sentiment improving. This has resulted in more normalized sales in relation to production levels at the OEMs, and we are seeing better Q1 volumes compared to Q4. I do believe there are triggers in place with the potential to drive demand improvements throughout the year. Regardless of the concerns facing the world, people will continue to eat protein-based diets, and populations will continue to grow.

So with all that being said, through our internal actions and what we see in market conditions, we have presented a plan to our Board that has 2020 EBITDA at $75 million, excluding currency impacts on relatively flat sales of $1.45 billion. In fact, our management bonus structure is tied to that level. So we're putting our money where our mouths are at. In addition to the expected financial improvements that I've noted, we have the support of our Board to review all of our noncore and underperforming assets as a means to further optimize our financial performance. There continues to be uncertainty in the global economic markets. And with the coronavirus, it's creating a patch of uncertain headwinds in our undercarriage business. We believe that visibility will improve in coming months, and we anticipate to be able to provide an update when the picture gets clearer. But I do want to point out that we have presented a plan to the Board that gets us back up to $75 million in EBITDA. And again, that's where we are putting our money where our mouths is and how our management bonus structure is tied. So we're not putting out a normal outlook that we do at this time of the year, but we do plan to provide an update as the year progresses.

Now switching gears, an important area of focus for our management team is to protect our balance sheet, which includes eliminating the debt that we took on this past year to settle the Russian put option. During the year, we generated operating cash flow in excess of $45 million and paid off $36 million of the Russian put option. We have made it abundantly clear to our global management team that working capital management is a priority and expect 2020 to generate another $25 million of working capital improvements.

We have also noted in previous calls the ability to generate $30 million to $50 million from noncore transactions. We've told you before that we sold 10% of wheels of India for $19 million. I also want to announce that we sold another 3.5% for $7 million in February. We also recently reached a settlement for $5 million on the property component of the TTRC Canada fire, and we are working towards settling the business interruption piece. We have more to accomplish within our underperforming assets, as I noted earlier, and we will continue to do so to protect our balance sheet and improve our financial results.

So to wrap up, as seen in our 2019 results, as evident, we have been and continue to operate within a competitive and evolving landscape. And prior to the radical market volatility we experienced in 2019, we were quite proud of the achievements in recent years to improve our financial results in Titan overall. The events in 2019 were a curveball that doesn't take away from the gains that have been made at Titan. In 2019, we maintained and, in many cases, strengthened our leadership position in our primary markets through improved customer positioning through our market-leading innovative products, which again is critically important to our long-term success and will reap future dividends.

We remain cautiously optimistic that our markets will stabilize and perhaps improve in 2020. But we are not going to sit back and let it come to us as we will continue to take actions to improve our performance. With 2018 as a barometer for our financial performance, we see a path to return to these levels and beyond. This will be a significant year of change for Titan.

I'd now like to turn the call over to David.

David Martin: Thanks, Paul, and good morning. This morning, I'll go through some of the more important items from the fourth quarter 2019 performance and discuss current and ongoing actions to manage our financial position, which includes working capital management, but also the noncore asset sales.

As I noted – as noted, there was – this was one of the most challenging quarters in some time for the business and with a strong decline in customer demand into what can only be described as a major destocking event for the industry for both ag and construction.

Net sales for the fourth quarter of 2019 were $302 million, representing a $62 million decline of 17% from the prior year. The first part of the quarter was much more reasonable, but the last two month's sales were among the lowest we've seen in the last five years, with December sales being the lowest since December of 2015. On a constant currency basis, revenues would have been down 15% from the fourth quarter of 2018 or $55 million. The negative currency impact of

$6 million or 1.8% came primarily from Europe and Latin America. While ag sales lagged the prior year by 6.6%, the biggest impact on sales this quarter was in our earthmoving/construction segment, where sales declined by $42 million from last year. The drivers were all around the globe and all the business units, but the largest impact was felt in ITM's undercarriage business, with a decline of $21 million year-over-year in the EMC segment. The remaining declines were primarily in North America, the UK and Australia. The consumer segment experienced a decline of nearly $10 million in the quarter, reflecting the continued sluggishness in the utility truck sector in Latin America along with North America.

ITM's construction sales experienced another sharp decline in Q4 on lower OEM demand in all geographic areas, but primarily Europe and Asia, resulting from the global construction slowdown. Our North American wheel volume was down 16%, and our North American tire sales were also down 15%, with the biggest driver being OEM sales as customers lowered production. Latin America was down 12% from Q4 2018, with all segments showing weakness in the quarter due to the same reasons mentioned previously.

Our overall sales volume on a consolidated basis was down by 19% from last year, with the largest declines being in undercarriage in North America, Australia and Latin America. Russia was slightly ahead of last year with price and mix and currency more than making up just a slight volume decline. Overall, market conditions have improved somewhat in Russia.

Price and mix in the quarter was mixed between geographies and businesses with an overall slight positive impact on sales of over 3%. I'd like to say that it's mostly mix of products that were the primary drivers for this improvement, while there were pockets of price increases related to higher raw material costs.

The reported gross profit for the fourth quarter was only $18 million versus $37 million in the fourth quarter of 2018. Our gross profit margin for the third quarter was 6.1% versus 10.1% last year.

As Paul described earlier, we normally have a dip in margin in Q4 related to drops to volume from our peak quarters, but this was an extraordinary one. We saw a 400 basis point drop from Q4 2018 to Q4 2019. This drop was substantially due to a lack of labor and overhead absorption across the business. In other words, with a $62 million drop in sales, we would have needed to lower labor and overhead by $25 million. And we were only able to reduce labor and overhead by $11 million in the quarter due to the high level of fixed costs in our plants, leaving $14 million of stranded costs and thereby, hitting our margin. We had some other variances in the quarter but this was the principal driver for the margin degradation in Q4, simply put. We have spoken over for the last two quarters about the impact of steel purchasing on the results on our North American wheel business and there was some residual impact in Q4, but it was significantly less than what we experienced in Q2 and Q3.

Now I'll spend a few minutes on segment performance. Our agricultural segment sales were $140 million, down 6.6% on a year-over-year basis. Currency negatively impacted sales by only 2% this quarter. Volume in the segment was down 15% and we had a favorable price and mix of

10.3%. Ag sales in North American tire were down 6% for the quarter due customers slowing production as we've talked about previously. There were also inventory reduction programs going on across the industry. Our Russian and European Ag sales were essentially flat to last year, while our Latin American Ag sales were down 12% from last year in the fourth quarter, with equal amounts of decline coming from currency devaluation and volume.

Our agriculture segment gross profit for the fourth quarter was $9.2 million, down from $17 million in the comparable prior period. A portion of this decline relates to sales across North America and Latin America, but the largest driver of lower performance relates to the degradation in gross margins from lower labor and overhead absorption that I mentioned earlier.

Now continuing on to the earthmoving/construction segment. Our earthmoving/construction segment experienced a decrease in net sales of $42 million or 24%. On a constant currency basis, net sales would have decreased by 23% versus a year ago. Volume was down in the segment by 23%, and while price and mix were negligible. ITM's undercarriage business was the largest impact in the quarter as construction OEMs accelerated their sharp decline in demand. We saw the biggest impacts in Europe and China, but all geographic areas suffered. Our volumes in North America were down 19% in the fourth quarter compared to last year due to a variety of volume and mix. We saw a decline in Europe wheel due to slowness in construction in the UK. And finally, our Australian sales in the EMC dropped by $5 million as we have closed some branches and continue to pivot from mining tire distribution.

Gross profit within our earthmoving/construction segment for the fourth quarter was only $6.9 million compared to $8.6 million decline from a year ago. The biggest driver of the decline related to lower volume and negative currency impacts on the ITM's business, with the largest omponent – being the largest component of the segment. Again, fixed cost absorption was the biggest driver of margin degradation.

Now to wrap up with the consumer segment. The fourth quarter sales were $30 million compared to fourth quarter 2018 sales of $40 million. The negative impact from currency was about 2.3% in the quarter and volume decreased by 11%, with our mix being another 10.2%. This had little to do with real price degradation. The most significant impact was really related to volume in Latin America in the utility truck segment, which has been the market trend all year.

The segment's gross profit in the fourth quarter was $2 million, which was down $1.8 million from a year ago. Our gross margin was 7.5% representing a decline of 10% from the fourth quarter last year. Again, this is reflective of lower sales volume and the impact on our fixed cost absorption primarily in Latin America.

Now turning over to operating expenses. SG&A and R&D expenses for the fourth quarter were $33.5 million, lower than the level we saw in the fourth quarter of 2019 and also 5% lower than a year ago. During the fourth quarter, we incurred another $421,000 of the costs associated with the proposed European IPO for ITM. And without these costs, we would have improved even more from last year, about $2.3 million or 6.6%. We have substantially completed our ERP stabilization efforts in the first phases of our implementation that we had earlier in the year,

which is approximately a $500,000 decline year-over-year in IT costs. This demonstrates progress towards our efforts to lower SG&A costs across the business. We were able to get full year SG&A and R&D to $147.6 million compared to our original target of $150 million for the year, including the nonrecurring costs. We recorded tax expense of $2.7 million on pretax loss of $23 million during the fourth quarter. I've described this issue in previous quarters, but we incurred tax expense as we can't record current year tax benefits on losses in the United States, Europe, Russia and Australia due to the significant cumulative losses in these jurisdictions.

You'll note that there are no increases in the redeemable non-controlling interest in the fourth quarter. The impacts from the Russian put option are behind us. The only item remaining is the issuance of the restricted stock of the $25 million related to RDIF, which still needs to clear regulatory hurdles. At this point in time, we do not intend to redeem the RDIF shares with cash.

Now let's move over to our financial condition and highlight a few key balance sheet, liquidity and capital items. Despite the $25 million net loss in the fourth quarter, we were able to generate positive operating cash flow of $14 million. For the year, we generated $45 million in operating cash flow, and we generated free cash flow of $8 million on a $50 million loss. Of course, this comes on the liquidation of working capital during the second half of the year. Our overall cash balance declined by $12 million from last quarter as we lowered debt by $31 million. Our receivables declined by $36 million from the third quarter, and it has declined by $57 million from a year ago. Of course, this is principally due to sharp drop in sales. However, we have improved DSOs by two days this quarter from September and five days from the end of last year, reflecting focus from our collection teams. Our ending inventory at the end of December declined by $18.5 million from the end of September and $62 million, below fourth quarter 2018 levels. Our operating leadership and procurement teams made strong progress to gain focus on inventory management across the business. That said, there is room for improvement across parts of the business worldwide, and I do expect to see further improvements in 2020. Overall, we're targeting another $25 million of working capital reduction this year, not taking into effect any top line growth, which we hope would only be a modest impact on working capital.

Capital expenditures for 2019 were $36 million versus $39 million in 2018. Given the continued challenging market conditions, we're going to hold our capital for 2020 to roughly $35 million or slightly less.

Now I'll wrap up a little bit with our discussion on debt and what we're doing to manage our cash and debt levels in the near-term. As I stated earlier, our debt level declined during the fourth quarter. As of December 31, $36 million was outstanding on our domestic ABL line, down from $59 million at the end of last quarter, with the completion of the sale of shares in India in October. We paid down $19 million on the line and we also used excess U.S. cash flow to pay down another $4 million during the quarter. In February, we've been able to pay another $12 million on the ABL line, relating to additional shares of Wheels India sold into the market. And we also received $5 million from the insurance recovery related to the casualty claim in our Canadian tire recycling operation.

I'd like to address the status of the program to generate cash flow from noncore asset sales that we've been describing for some time. With the most recent transactions in February, we had now at $31 million from noncore asset sales and other similar transactions. We still have a few near-term transactions we expect to occur in the first half of 2020, which will take us slightly above the overall target of $50 million. In other words, we're on track so far on this.

I will restate that what I previously said, given our current and anticipated near-term cash levels and our credit capacity on a global basis, we have adequate liquidity to manage the business in a healthy way on a daily basis. We have navigated a supremely challenging market in the past year. And through all this volatility, we've stabilized our position. We are also taking strong actions to strengthen our market positioning and investing properly in the business to set it up for the long-term. Paul described the strategic actions that are underway, and each of these are designed to not only help us continue to stabilize but ultimately push us to thrive for the years to come.

Now I'm going to conclude with tidying up our overall guidance discussion that Paul talked about earlier, through our business planning process as we started the year with an expectation that we would see flat to slightly improved sales for 2020. As everyone knows, the world has seen even more volatility and uncertainty over the course of the last few months, making it very challenging to project expectations beyond the immediate term. That said, the best estimates we have at this moment would suggest flat sales. At the same time, we have enacted appropriate steps to improve profitability in the business, which, if realized, would deliver significantly improved profitability in the current year. And these actions include:

First, we expect to see improvements from stabilized raw material purchasing and production control processes in our North American wheel business, which would be approximately $15 million in improvements to gross profit in 2020.

Second, we've taken actions across business over the course of the last two quarters to reduce staffing in our production areas, along with other cost reductions in some noncore businesses, which would drive an approximately $10 million to $12 million of annualized costs out of the business and improve gross profit.

Third, our 80/20 initiatives in our North American tire business is designed to improve efficiencies in our production that should deliver $5 million of improvements to our gross margins.

And lastly, we target the reductions of $7 million or 5% of our total SG&A for 2020.

These four items amount to roughly $37 million to $39 million of expected improvement in profitability without any meaningful growth in sales for the year. We will maintain diligence on these initiatives during the year, and we also remain vigilant in our planning if we see significant impacts in the market, up or down, to adjust appropriately. The $75 million of EBITDA as a target is obviously a 2020 target, but this isn't our end game or benchmark for our success, as

Paul talked about earlier. And we'll be taking all the necessary steps to drive toward our longer-term goals

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Now I'd like to turn it back over to the operator for any questions you have.

Question-and-Answer Session

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Joseph Mondillo of Sidoti & Company. Please go ahead.

Joseph Mondillo: Hi, guys. Good morning.

David Martin: Good morning.

Todd Shoot: Hi, Joe.

Joseph Mondillo: Just a question on the guidance and sort of the expectation of flat revenue. I'm just wondering how you come to that conclusion, given the visibility that you have. And I know you don't have tremendous visibility. But one thing that we do know is that the OE production rates are going to be down anywhere from 5% to 15%. So if OE is down so much, how are you going to achieve flat revenue?

Paul Reitz: Well, I think, Joe, how we get to flat revenue, is through a multitude of different approaches. One, I mean, the aftermarket business, as I mentioned in some of my comments, is doing well. The replacement market, farmers are continuing to farm, operators are continuing to operate. And we have a strong aftermarket business that supports the sales that we projected for 2020. I would also say, when you look at the OEM forecast for the year, I think it's a little bit aggressive to characterize it that they're saying – down 5% to 15%. I think in certain geographies; they're saying it's going to be relatively flat. And I would say looking at the actions they took in the back half of Q4, really producing well under retail sales levels, that there are enough triggers in place that the market really is right to uptick beyond what they're forecasting now. And I think the comments from the OEMs would support that. Now they're cautious with what they're saying. But you look at the inventory channels, they're pretty clean. Dealer sentiments improving, farmer sentiments improving. And I know in today's world, we're extrapolating all the bad things that are going on and assuming that that's just going to continue. But I definitely think, as we get into the spring season, you're going to see a lot more planting going on in the U.S. with the first phase of the China deal signed. And I definitely think there's the opportunity to see the numbers uptick beyond again, kind of the flat to down 5% that they're projecting to get us back into that, at least a flat level, if not possibly into a little bit of growth in the back half of the year.

Joseph Mondillo: Okay. And can you remind us what the OE versus aftermarket is, the breakout amongst your – the two major segments, ag and earthmoving and construction?
Paul Reitz: Well, I can answer it from my perspective. It may be a little bit different than what Dave and Todd have kind of used to answer it. So if I’m off a little bit with what you guys have

said, please correct me. But anyways, I see the business this way. In tire, in the U.S., we're around 50/50 now between aftermarket and OEM. Our aftermarket strength is continuing to grow with the success of LSWs. We do see the R14 really improving our OEM volumes in 2020, especially with the way Kubota is embracing that. So if you look at the tire business, I see it generally as 50/50 in the U.S. Now if you go to South America, where we have the number one market share in the OEM businesses down there, we're tilted a little bit more heavily towards OEMs. So I call it more a 60-40 split with OEM aftermarket. In our wheel businesses, we're typically right around 90% OEM, 95% OEM in Europe. And then ITM has been continuing to develop their aftermarket channels, really successfully in the mining area over the last few years. And so they're around a 70-30 split between OEM and aftermarket space.

Joseph Mondillo: Okay. You don't have just a general – between – in the Ag segment, generalized OEs this, aftermarket is this, and the same thing with EMC?

David Martin: Well, I think you described all the businesses and how they operate. Obviously, in North America, we're primarily ag. And if you think about ITM being a bigger portion of the EMC business, you have a little bit of a different mix there.

Joseph Mondillo: Okay. Can you tell us what's going on with your pricing strategy? In the Ag segment, pricing was up 10%. Volume's off 15%, which really was a big inflection relative to the trends that we've seen. Are you changing strategy at all with your pricing?

Paul Reitz: We're just getting more intelligent and better at doing it. We build good important products to our customers. And I think over the last five years, we've seen a stagnant – relatively stagnant ag market, where everybody is chasing and trying to protect volumes. And so what we've done a really good job with through the 80/20 initiative as we've layered on a real strong depth of market intelligence to what pricing actions are going on within really almost every corner of the market. We started that a few years ago. And so quite frankly, when you come to the aftermarket tire business in the U.S., I mean, we're really good at what we're doing. So strategically, we're building a very important product to our customer. We're pricing it accordingly. And that can be a low-volume product, it could be a high-volume product, it really just depends. And what we're doing now in 2020, now that we've kind of built the strength of that intelligence and bringing 80/20 to other parts of our organization, we're also looking at doing that with businesses that are tied directly to OEMs, so that would really be our wheel businesses when I referenced that and following the same approach. It's not just about cleaning up the portfolio. It's about strategically looking at our pricing. Where's the value in that product that we're producing for our customers? And are we getting the right price for what we're doing. And again, we are important to our customers, and we need to develop a strategy around that. Joe, it's not an easy path, but I think we have the depth and the intelligence now to go do it and in more facets of our business than what we've done over the last couple of years.

Joseph Mondillo: Great. And just a follow-up to that. With the market off and your volumes off because of just the general market. And then you guys probably taking out some products with the 80/20 and then your pricing strategy probably adding to that, where are you on capacity

utilization? And do you anticipate more footprint or capacity being opened up? And what do you do with that? Is there any sort of consolidation plans at all as a result of all of this?

Paul Reitz: I'm going to answer that simply because that's about all I can do on that one, Joe, but it's a good question. Quite frankly, our capacity utilization is too low. And it's – when I talk about the actions where we're not aligned with the Board where we just can't sit still, that's definitely an area that we're looking at, and that can be a number of different steps that, in paths we could go down. And we're looking at all of them. But I will say our utilization is too low, and we're not just going to sit back in 2020 and let it stay where it's at. And we're aligned with the Board on the actions that we're undertaking. We're not announcing it today, meaning we're just starting that path. We're already looking at things. And as soon as we can update you further on that, we will.

Joseph Mondillo: Okay. And last question, I just wanted to clarify sort of your comments regarding noncore asset sales. It sounds like you still have the $30 million to $50 million roughly that you're still expecting. Is that correct?

David Martin: Well, we've had about $30 million of noncore asset sales, which we've used to decrease our debt. And roughly, we have another $20 million remaining.

Joseph Mondillo: Okay. And then regarding the underperforming assets, could you just repeat some of the metrics? I thought you said potentially sales of underperforming assets could attract $80 million to $90 million. Is that correct? And could you repeat what the underperforming businesses weighed on the 2018 results? I thought you said $20 million, but if you could repeat that.

Paul Reitz: Yes, absolutely. So if you look back to 2018, we did $119 million of EBITDA on $1.6 billion of sales. The underperforming businesses reduced our EBITDA by $20 million on sales of $170 million. And then if you look at the net book value of just those underperforming businesses that I included in that hit of $20 million to EBITDA, the net book value is $80 million to $90 million.

Joseph Mondillo: Okay.

Paul Reitz: But that's tied to the noncore assets that David's been mentioning, the $30 million to $50 million that don't impact operations. So the $30 million to $50 million is nonoperational. What I'm saying here is these are operational underperforming businesses and are being treated as such where we need to look at alternative solutions.

Joseph Mondillo: Great. And just a follow-up, I would assume – so if they were realizing a $20 million EBITDA loss in 2018, I would think that loss is even greater in 2019? Is that fair?

Paul Reitz: Not in all cases. We have mitigated that. In some cases, it kind of varies by each individual business unit. So what I'm trying to say is, look, our EBITDA margin was 7.4% in

2018, obviously, much better than it was in 2019. But really, that EBITDA in 2018 could have been 9.7% if we get this restructuring in place.

Joseph Mondillo: Okay. And just last question regarding this, are these businesses that you can – that are already set up where you can sell them today? Or are they intertwined within your facilities?

Paul Reitz: We've now structured them as such, where, in my opinion, they are not intertwined and they could be divested.

Joseph Mondillo: Okay. All right. I will hop back in queue. Thanks a lot.

Paul Reitz: Okay.

Operator: The next question comes from Komal Patel of Goldman Sachs. Please go ahead.

Komal Patel: Hi, good morning. Thanks for the time. A couple of follow-ups from us. On the point of liquidity and some of these noncore asset sales. Again, for liquidity, you said that you don't need to repatriate any of the cash given noncore asset sales and availability under the revolver. So I guess the first question is, is that up to the $50 million level that you called out that you expect for the first half? Or is it including this potential $80 million to $90 million?
And I guess just the second question, more broadly is, just your confidence in getting these asset sales done. What's the risk of them taking longer or not coming to fruition that could potentially hurt or jeopardize the liquidity position?

David Martin: Well, first of all, the first – in the $30 million to $50 million of asset sales, we've already done $30 million. And we have, again, like I said earlier, about another $20 million. None of it would need to be repatriated. So it's – and as far as the risk goes around it, we feel very confident about where we're headed with that. We're not expecting it to be – we do expect it to be a first half of the year. And – but if it does move a little bit, we're still okay.
We managed our ABL line down to roughly $20 million to $25 million level. And we still have capacity on that line as well if we ever needed it. But at this point in time, we don't think we're going to need any cash utilization on that. So we feel like we're in a reasonable position. But as far as the – that does not include anything that Paul talked about in terms of the $80 million, $90 million related to these other underperforming assets.

Komal Patel: Okay. Got it. Thanks.

David Martin: We'd further – our position – our liquidity position would be even improving more than that.

Komal Patel: Okay. Got it. Thank you. That's helpful clarification. And then second one, on the initiatives that you've outlined, the $37 million to $39 million. How can we think about the cadence of these benefits flowing through the year and beyond? Is it safe to assume that most of

this would be pretty much back half-loaded? Or how can we kind of think about it from a quarter-to-quarter basis?

David Martin: That's a good question. I would say that it would probably over Q2, Q3 and Q4 probably be fairly equal, but with the largest being the second half of the year.

Komal Patel: Okay. Got it. And then last one for me. It seems like weather is a big differentiator this year versus last year. Can you talk about the impact that you expect weather to have for the first half of the year? Any kind of read-throughs or data points that you might be seeing early on as you kind of – we're a couple of months into the year now, but anything that you'd want to call out, particularly on the weather front or differences this year versus last year?

Paul Reitz: Just – I think we're all hoping it's a lot better than last year, and I think we believe it will. I think last year was a complete anomaly. I think what you're seeing is that the snowfall levels have moderated. So I think there's definitely less risk going into the year, and I think you're seeing that in the farmer sentiment indexes that are quite hopeful for the planting cycle for this year. So I don't want to jinx things by getting ahead of ourselves by saying that we're okay on the weather, but it's definitely looking like it will be much better than last year. And I think farmers are excited to get in the field, again, especially with that Phase 1 of the China deal in place, I think get things in the ground and there's going to be a lot of demand for it.

Komal Patel: Understood. Thanks for the color.

David Martin: Thank you.

Operator: The next question comes from Larry De Maria of William Blair. Please go ahead.

Larry De Maria: Thanks. Good morning.

Paul Reitz: Good morning, Larry.

Larry De Maria: I'm just trying to think through a little bit about corona and also the destocking that obviously occurred last year and still continues now. Curious how your – first, I guess, your OEM order rates have changed, say, in the last six weeks. Has there been a noticeable change?

Paul Reitz: Yes. I think both David and I referenced that Q1, we've seen the order deck pickup with the OEMs, especially in our businesses that are tied to the OEMs, and I'm talking mainly on the Ag side and I say that. Construction has been a little bit more volatility, as they continue to destock, as you've mentioned. I think the corona impact is more severe in the construction side of the business that's more heavily reliant on a Chinese supply chain. The impact of corona is still yet to be determined for most companies. But I will say for Titan, our exposure to China is much, much less than many. We do have – our ITM business does have a plant there. It's a fairly small operation that does feed into other parts of our business that sell some product omestically. They, obviously, were shut down for their new year, extended that shutdown a period of time beyond that, but they've been back up and running. And there will be an impact that we

experienced in Q1. But again, our exposure to China is much less than others. So I guess, we got to kind of wait and see what the read-through is on the overall construction market.
But again, I think in election cycle in the U.S. and a lot of other economies around the world, you got to protect your GDP. So I don't see the construction cycle just falling off a cliff. It'd be political suicide for a lot of folks. And I think the farming sector has still got a lot of pent-up demand. I think if you look back at the end of 2018 going into 2019, that pent-up demand didn't go away. It's still there. And you layer in that the Chinese-U.S. trade situation is abating, I think especially on the farm side. Obviously, we all know what's going on with the swine flu over there in China. So I think there's positive triggers there and there's just a lot of negative ones that are in front of us today. But I think the OEMs have the ability with their retail channels now being more properly aligned with demand to see an uptick. So we saw a good start in our OEM business as far as the orders to the year and kind of wait to see how that plays out.

Larry De Maria: Okay. I guess maybe I would have thought that there'd be some incremental concerns over corona and the impact on the economy that would have potentially lower production. But I guess you're probably right that there is some pent-up demand out there, too, especially on the ag side. I guess, alternative to that is either you I guess you mentioned regionalization and production. Are you seeing – or is there an opportunity that you guys have to get bigger with your OEMs or even in the aftermarket channel because of your domestic production? Or is most of what's being sold and sourced at this point domestic at this point?

Paul Reitz: No. I think there's a really good opportunity there. And it's a great sales pitch for us when we walk in the door. They obviously already know it. We build good high-quality products. We've been a reliable partner to them for decades. And now you layer in the risk of having a supply chain that's connected to China and India and other far-reaching places around the world. The way Titan is set up, as I mentioned in my comments, it can be challenging from an SG&A perspective because we have a decentralized framework with heavy manufacturing that's regionally positioned around the world. When I look at what's going on with the corona, and don't mean to make light of it, but it definitely brings the reality to the forefront that there is a lot of risk in global supply chains. And a lot of our customers have been able to sit back and increase their margins and increase the risk of their supply chains and not really think about it too much. Now they got to think about it. And we are regionally positioned to be a fantastic partner to them. Wherever they're based, we can supply them with high-quality products, and we can de-risk their supply chain in a fairly significant way. And that's something we're definitely going to be pushing to the forefront with all our customers in 2020. And it should be at the front of their minds already.

Larry De Maria: Yes. Just a follow-up. When you mentioned better, I guess, order rates from OEMs through the first quarter here, are you referencing large ag or small ag, specifically?

Paul Reitz: I guess I didn't really – I can't really characterize that. I think definitely for us, small ag has been strong. That is definitely part of it, Larry, to answer your question. I think large ag is better than it was in Q4. So to answer your question, clearly, I think there's an uptick in both. But for us, the small ag business has definitely been a strong source for growth for us throughout 2019. In South America – South America finished 2019 pretty volatile. But again, I think they'll

pick things back up. They have and they will historically in the past. So again, to answer your question, I don't think – we can't really break down our Ag segment that carefully to say small or large ag and exactly which is going which direction, but definitely small ag is continuing in a very favorable trend at the beginning of the year.

Larry De Maria: Well, that's good. And I guess where this goes to is that are we seeing a seasonal uptick in ordering? Or is this above and beyond the change in order rates that what would have been expected at this time? I'm just trying to understand if there's an inflection or if this is a seasonal uptick that is normal.

Paul Reitz: No. It's going above and beyond that. But again, I think part of that is we're doing a really good job with some of our customers, the products we're introducing and the direction we're going. So I can't speak on behalf of everybody in our industry. But especially on the small ag, as I alluded to before with our product introductions, I mean, we are seeing an uptick. And what we're seeing to start this year, I'd characterize as being above and beyond just a seasonal uptick. Because small ag doesn't have that same seasonal cycle as large ag because you do have a lot of small ag equipment that ends up in the snow belt. You have a lot of small ag equipment ends up in the south. And then obviously, it's used as utility equipment throughout the Midwest. So it's not typically going to follow that same pattern as you see in large ag. So yes, I've been very pleased with where we're seeing small ag start the year. And again, I think large ag has got a ton of pent-up demand. Larry, you know it, we all know it, and I've spoken to the Chairman of a large ag company two years ago, and he said, just look at the trends, look at the 30-year trend lines. I mean large ag is well below the 30-year trend lines. At some point, it's going to get back up to those levels. And it seems like in 20 – definitely, the back half of 2019, that's all been forgotten. And I think there's going to be triggers out there in the future that are going to get us back moving towards that 30-year trend line. I can't sit here today and point out exactly when that is, but I think that whole historical trend of where large ag is has been totally pushed off into a corner. And again, I think we need to pull it out, look at it and realize that there's a lot of pent-up demand there that will get released into the market.

Larry De Maria: Right. And that's all very fair. It just sounds like the small ag increases are probably seem to be fairly Titan-specific because you guys have kind of a Kubota and introducing new products and stuff. I guess I'm understanding that correctly. And I'll leave it there, if you can confirm that or not. But it sounds like it's very Titan-specific that you guys are doing a good job in that segment and obviously, penetrating Kubota, et cetera.

Paul Reitz: Yes, we're very pleased.

Operator: The next question comes from Keith Hogan of Amundi Pioneer. Please go ahead.

Keith Hogan: Hi. Good morning. How are you?

David Martin: Good morning.

Keith Hogan: Good. A lot of my questions have been answered, so I don't have that many more. It shouldn't take too long. The R14 tire that you talked about with Kubota, I'm pretty sure you're highlighting that because that's an LSW tire wheel. Is that correct? Wheel tire?

Paul Reitz: It's both. It has an LSW – it can be an LSW tire, but it's also a redesign of really taking R-1 tire and R – you really take an ag tire or turf tire and construction tire and put them into one. And so a lot of small ag equipment operates in multiple conditions. And so if you have – if you need an aggressive tire, then you would have one design for that. And then if you need a less aggressive tire where you don't want to tear up the ground or you want to road it, then you would have to put on a separate set of tires. And so what we're giving our customers like Kubota and their end users the ability to do is to put on the R14 and be able to run through the entire season, whether you're dealing with turf ag, roading or even snow conditions, which a lot of customers with that utility equipment uses up in the snow belt, we're enabling them to do with one tire.

Keith Hogan: Okay. Great. So I guess two follow-ups to that. One is, so when you say it's kind of both, is the wheel component of it designed around an LSW tire, but then you can put a high side wall tire on that same wheel? Or is it just multiple configurations that get you to this? You're saying it's one tire.

Paul Reitz: As the equipment gets – as R14 goes on larger equipment, then it's an LSW. Now on some of the smaller equipment that the R14 is suitable for as well, that it's just going to be what we would call a standard-dimension tire. So that's where you end up with having both LSW, fitments and standards. So we don't want to – on a small tire, if you LSW it, you're going to have a sidewall that makes it impossible to mount. So you reach a point where you can't put an LSW. It's hard to put an LSW. You can LSW also you anything. But we don't want to make it to the point where it's too difficult for our end users to mount it. So we're able to offer both options. But definitely, as we get into the larger sizes, then that's when we bring in that LSW technology. And we do have a different-sized wheel that would go in that application along with the smaller sidewall tire.

Keith Hogan: Okay. And my second follow-up on that. The mechanics of this contract, are you guys the standard wheel tire package for this Kubota line? Or do they need to check a box to find themselves with an R14 tire package on their equipment?

Paul Reitz: Sure. They check a box.

Keith Hogan: Okay. And from your perspective, I mean, you talked pretty positive on it. Can you talk about percentage of the sales that they're checking the box on this? Is it a 5% hit rate? Is it a 20% hit rate?

Paul Reitz: Look, I'll let Kubota – Kubota has done a great job promoting it. Absolutely fantastic partner, has done a great job promoting it. I can't talk to – I'm not authorized to release those types of – that type of information on their behalf. I do know it, and I will say that the take

rates are beyond what I had expected. So I think Kubota has done a great job promoting them. And I think you can tell by their promotional material are well made.

Keith Hogan: Okay. Great. On the 20 – roughly $20 million that's left on the noncore asset sales, I know at this point, you did some tire India share sales in the fourth quarter. You also indicated you did some share sales in the first quarter, like – it sounds like $7 million. How is the $20 million that's left – is that fact – does that include the potential to sell more tire India? Or are you done there? And this is other noncore assets?

Paul Reitz: Go ahead, David.

David Martin: I'll go ahead. No, it would not include any additional shares sold at this point in time. And just to clarify, it's Wheels India, which is a public company in India, big wheel producer. So what we're talking about are just some other transactions that we're looking at primarily in the U.S., some low-hanging fruit on some assets that are just not productive today.

Keith Hogan: Okay. Great. You highlighted early on that the bonuses for this year are tied to that $75 million EBITDA target. What about – you also had highlighted a goal of $25 million of additional working capital improvement this year. Are the bonuses tied to that working capital goal as well?

Paul Reitz: Yes. That will be normally in the program, yes.

Keith Hogan: I'm sorry. sorry, you broke up a little.

David Martin: I'll answer it. It is a definite yes, it is part of our incentive program for this year.

Keith Hogan: Okay.

David Martin: And not just an overall perspective, but it will be within our operating units plans as well. Working capital management is a component of their plan.

Keith Hogan: Okay. Great. And just sort of working off of the whole working capital concept, in the fourth quarter, it looks like you've made a lot of really great progress on inventory from the third quarter, the fourth quarter, almost $20 million. So kind of when I look at the fourth quarter, you talk about your customers under produced to retail demand. And the fact that you reduced inventory by $20 million, it would argue that you also under produced to your customer, the OEs. If you hadn't sort of under produced to your customers' demand, or maybe I'm misreading this somehow, what would the EBITDA look like if you could produce to your customers' demand versus sort of under producing to focus on the working capital contribution?

David Martin: To be clear, we sold what we could sell to the customer. And obviously, we manage our inventory levels to manage to that demand specifically. So we're not going to produce – I mean, even if we had produced it, it would have stayed in inventory, it wouldn't have

been part of the sale anyway. So we couldn't – that this is exactly – we just met the demand of our customers. And that's what…

Keith Hogan: Well, if you had produced everything you could sell, then your inventory should have – what was left over, your inventory should have been flat. But didn't – wouldn't you say you under produced to the – what you could sell because your inventory was down by $20 million? So internally, you didn't produce as much as you could sell? You sold as much as you could sell, but you didn't produce as much as the same amount. So just to me, that would mean you're actually further underutilizing the production facilities in the fourth quarter, i.e. decremental contribution from reducing inventory. You wouldn't look at it that way?

David Martin: Yes. I would say that there is a portion of that. I don't – I can't argue that. As far as what that means in terms of EBITDA production, I'd have to think through that and analyze that a little bit to figure that out. But again, we try to manage our inventory levels to the demand that we had as well as expectations for Q1, okay? So we looked at our inventory levels to make sure that we could meet the increase in demand going forward in the early part of Q1.

Keith Hogan: Okay. Okay. No, that's fair. You don't want to be caught short going into the season either. I get that. And then the second part of my sort of working capital thought process here is, as it relates to that sort of $25 million goal for 2020 it can come from the accounts receivable, the inventory, the accounts payable. The biggest line item there is still, after all the progress you've made, the inventory line. But I don't want to make any assumptions. How should I look at how that $25 million comes out? Is it extending payables? Is it accounts receivable? Is it inventory?

David Martin: It's inventory.

Keith Hogan: Okay. Got it.

David Martin: And one thing I'd just – to be clear, some of the reasons why we can do that as we put – we're putting in or have put in better tools to help us manage lead times. We've also done things within – obviously, the 80/20 program will also help us reduce inventory as well, not having as many SKUs in hand to have as much in stock to manage demand. And we will continue to improve that through the year. And our procurement teams are doing a better job managing raw materials.

Keith Hogan: Great. Just one second. Okay. Yes. So the 80/20, I think all of us generally understand the whole concept of the 80/20, trying to take out inventories or SKUs that just don't move, that kind of thing. How do you – and I like the thought process and the logic behind it. How do you sort of manage that against – you specifically called out in the press release that, we are the only global company that can produce tens of thousands of unique wheels and thousands of different tires. So that's the exact opposite approach of sort of an 80/20 kind of let's get rid of all the lower-volume SKUs? How are you going to balance that?

Paul Reitz: It's actually the fact that we are the global leader and have the massive product portfolio that we do gives us the ability to really put in an effect of 80/20. So you're right, the simple 80/20 that everybody understands is you pare down your product portfolio. But what we're doing, because we have the ability to produce basically everything our customers need, both wheels and tires, we're looking at it as those customers and those products that are in the BB, look, we'll produce them, but we're going to charge the right price for them. And if our customers say they want them, we have the ability to do it. But what we're looking at as we go through 80/20 is that our portfolio – our pricing on our portfolio is not always matched to the right quadrant of where it should be in 80/20. So I think I would look at it as – if I had a limited portfolio, 80/20 would scare me because I'm basically taking away potential volume and just saying, what's more important is to manage the efficiency of my production. We're able to do both. We can manage efficiency of production. We can transition customers to an alternative product where they choose not to pay a more reasonable price for a lower volume product. Or if they choose to take that low volume product, they will pay the right price for it. So because of that large portfolio, I think 80/20 fits perfectly for us, where we can benefit on both sides, be more – get more margin out of the products we do produce but also get more efficient in the ones we eventually don't produce.

Keith Hogan: Got it. Okay. That's really helpful. I guess I was looking at the 80/20 much more from a SKU reduction perspective as opposed to there's multiple ways of looking at that 20%. So that makes a lot of sense. Thank you. That's it for me.

Paul Reitz: Thank you for the questions.

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

Paul Reitz: I just want to thank everybody for joining the call today and look forward to giving you an update at the end of the first quarter. Thank you.

Operator: Please note that a webcast replay of this presentation will be available soon within the Investor Relations section on our website under News & Events. Thank you for attending today's presentation. The conference call has now concluded.