Titan International, Inc. (TWI)
Transcript of Q2 2020 Earnings Call and Webcast
Thursday, August 6, 2020 9:00AM ET

Company Participants

Maurice Taylor - Chairman
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
Lawrence De Maria - William Blair

Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the Titan International, Inc. Second Quarter 2020 Earnings Conference Call. At this time all participants have been placed on a listen-only mode and we will open the floor for your questions and comments after the presentation. [Operator Instructions]

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, Marianna. Good morning, and welcome, everyone, to our second quarter 2020 earnings call. On the call with me today, I have Titan's Chairman, Morry Taylor; our President and CEO, Paul Reitz; and David Martin, Senior Vice President and CFO.

I will begin with the reminder that the results we are about to review were presented in the earnings release issued this morning, along with our Form 10-Q, 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 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 included 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 forms 10-Q, all of which have been filed with the SEC.

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 as discussed today, as well as, a 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. 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: Thank you, Todd. I hope all of you and your families are staying safe and healthy. I want to start by expressing my appreciation to our global One Titan team for their tremendous efforts and successes during the second quarter. I'm going to start today by going through some business updates from Q2, and then I'll have our Chairman, Morry Taylor, share his thoughts from the Board's perspective. And then we'll follow-up and wrap things up with David going through the financial results.

It may have seemed like an eternity ago, sitting here today, but Titan started dealing heavily with the COVID-19 around five months ago, with our plants in Italy and China, and what then may have looked like a 200-yard dash has now clearly turned into a global marathon. From the start of COVID, we've been heavily focused on the safety of our people, while proudly serving our customers and to this day, we continue to do a good job in both of these crucial areas.

Similar to many companies in the industrial space, as we entered this quarter, we expected to encounter challenges unlike anything we've experienced before, and we most certainly did. Our sales levels and order flow patterns were heavily impacted by COVID this quarter as we experienced a revenue decrease of 27%, but we were able to navigate successfully through this top line volatility to achieve adjusted EBITDA over $13 million. This exceeded levels sequentially from the first quarter of 2020 and year-over-year from the second quarter of 2019. Most importantly, our second quarter free cash flow exceeded expectations, coming in around $7 million, and we also increased our cash levels by nearly $20 million from last quarter. Our gross profit is only down $8 million, which resulted in gross profit margins increasing to 10.4% from 9.8% last year. We also applied diligent efforts towards controlling corporate costs and were able to reduce SG&A by over $7 million this quarter compared to last year. Again, all together, this means on $100 million drop in sales, we were able to not only keep EBITDA in the ballpark of 2019 but actually grew it a bit to $13.3 million from $12.8 million last year.

Across all of our business units, we did a really good job in tackling this difficult situation head on and taking swift, decisive actions to accomplish what we did this period operationally and also with the balance sheet.

We're still clearly in the midst of a difficult COVID pandemic environment - impacted environment. As we all know, this virus has no boundaries, no time limits. Therefore, it's difficult to predict expectations for the second half of this year. Our customers are providing limited visibility to future orders as they quite simply just don't know exactly what's coming down the pipeline. As we scan the limited horizon that we have of our businesses, we are seeing nice improvements coming out of the Brazil to start Q3 as compared to the activity from the first half of the year. Looking at the European AG market in the early part of the second quarter, we really saw customers in parts in Europe, especially Turkey, for example, that had forecasted huge declines in orders. And then throughout Q2, we saw these order decks improve. Therefore, relatively speaking, we feel that Europe is performing better than expected and has become fairly stabilized as we entered the second half, but it's still at levels lower than prior year. In the US, low horsepower continues to be the headline and lead the charge in North America. This is a good business for us. We certainly do benefit from that. But large AG, which is a major sweet spot for our wheel division continues to be hampered by soft commodity prices that have trended lower as of late. The continuing challenges from farm economics combined with the uncertainty from the pandemic is weighing on commodity prices. It continues to make forecasting in North America AG difficult. One thing we still do believe in, as I think most others do, is that pent-up demand in large AG remains sidelined for the time being. But there will become a point where that pent-up demand does get released into the marketplace. One point I want to add specific to Titan, though, as large AG fleets continue to age out, this is a very good situation for our LSW solutions that quite simply can provide a significant upgrade to the performance of a 10-year old tractor. So overall for AG, we expect our normal seasonality to impact us in the second half, and this is due to plant maintenance, again, normal scheduled plant maintenance and then also the holidays that occur in the second half of the year, and then along with the continued uncertainty from the OEMs. So again, the second half of the year is difficult at this time to predict across most of the AG space.

Looking at the earthmoving/construction segment, where our volumes were down 37%. We saw weakness nearly everywhere this quarter, except for roadbuilding and our European foundry cast product business. As much as we would like to get more volume into our undercarriage plants, which is primarily earthmoving and construction-driven for us, we just don't believe there's volume out there to chase at this time, and we've been holding our line on pricing.

Therefore, we have and we will remain keenly focused on managing costs in this segment, along with headcount, while demand remains depressed in the earthmoving, construction segment at this time.

To wrap things up, our job at Titan and again, in many companies in the industrial space, is to keep your company positioned to navigate a volatile COVID-induced environment.

In our end markets, the rest of 2020 is clearly difficult to predict with the impact and duration of the pandemic remaining highly uncertain, as well as, the potential government actions that would impact the market. I think we do all believe there are government actions that will come into place that will support the market, but again, that still remains highly uncertain. So as we sit here today, we continue to see an unusually high level of drop-in orders. We must remain nimble and flexible to respond to meet these customer needs as we have been doing. Along with managing the operational aspects of the business to handle this volatility, we will remain committed to managing our balance sheet to not only get through the crisis, but position ourselves for future growth. We are doing that successfully through a determined focus on working capital, controlling costs and generating cash from non-core and underperforming assets. Looking beyond 2020, we believe that the positive changes made within our company this year and in prior years will have a lasting impact and we also strongly believe in the long-term fundamentals of our end markets, as demand will return in due course.

I just want to close by stating again my appreciation to the One Titan team and our thousands of employees every day that are - around the world working hard to manufacture our products.

I'd now like to turn the call over to Morry for his comments.

Maurice Taylor: Thank you, Paul. Good morning, everyone. If you are wondering why this old man is on the call, well, this has been a very unique quarter for Titan. Titan has a lot of assets that have values much greater than what they show on the book. Titan acquired some stock in a company called Wheels India when we acquired Titan Europe. I tried to get agreement to sell Titan's ownership back then, but we needed approval from Wheels India's largest shareholder who would not give it to us. And I was trying to sell it for around $10 million, and they wanted to only make it so that we would have only gotten $7 million. So we never sold it.

This past quarter, Titan International sold its final interest in Wheels India and received the final payment. The total Titan received over the past approximately 9 months comes to around $50 million. Titan's Board and myself wish to congratulate our CEO, Paul Reitz on a great job. And it sounds simple, but it took a lot of time over the last few years of going to India to get this done.

Titan has other non-core assets that we'll sell at a fair price and the largest non-wheel tire asset is, of course, as Paul just mentioned, our track wheel business at ITM. We believe over the next 18 months; Titan will have the opportunity to either sell or to spin off ITM.

We have spent time in the last two years building ITM's business up, especially into the aftermarket. And now everything, of course, with the situation with the COVID-19 worldwide has knocked everything down.

But we believe what's going to happen is that the infrastructure, both in Europe and in the US, will come to start moving right after the election, no matter who the heck wins the damn thing. We expect this business to grow, both in the sales of the OEs and our aftermarket business.

We believe that we'll increase its revenue up to around $500 million. Before this period and the shutdown, it was bouncing right around the $400-plus million. We believe that will bring to Titan between a total value of $300 million to $400 million.

So we're in really pretty good shape, and Titan has the world's greatest capacity in farm wheels and tires. And we also, as Paul just mentioned, we believe in the future. And we think it's very bright for what we have.

And we also believe that our CEO and President, Paul, and his team are the right ones to lead us in the coming years. Real leadership comes in tough times and Titan has had its share from the outside forces but we think that's going to change and that this next year, big time.

I want to thank all of you for your patience in that and I'll turn it back to you, Paul.

Paul Reitz: Thank you Morry, really appreciate your comments for everyone this morning. With that, now we'll turn the call over to David for the financial review.

David Martin: Thanks, Paul, and good morning, everyone. I want to start by echoing Paul's and Morry's comments regarding our Titan team and the exceptional leadership that was shown across the organization during these very unprecedented times. Strong and swift actions were taken by - to protect our employees, and adjustments were made to production levels to meet very, very unpredictable demand. And finally, the team managed to even improve liquidity during the quarter in spite of all the forces that were going against us. The second half of the year will continue to be a significant challenge for us. And in fact, it could be more challenging in some ways. Notwithstanding this, we are in a strong position now to manage.

That said, let's get into the numbers.

Net sales for the second quarter were down 27%, it was $104 million less than the second quarter last year and $55 million less than the first quarter of this year, reflecting the impacts of COVID-19 and the sluggish markets across the world, most notably, construction. We estimate the direct impact of COVID-19 effects on net sales was $31 million in the second quarter, meaning the impact from closures and disrupted markets in Europe, Asia and Latin America. On a constant currency basis, revenues would have been down roughly 22% from the second quarter last year or $85 million. The negative currency impact was nearly $20 million or 5%, with much of the impact coming in Latin America and Europe.

Again, this quarter, the largest impact on sales was in earthmoving and construction, where sales declined by $72 million from last year. The drivers of the decline in EMC were across the board and the biggest impacts coming from undercarriage. The remaining declines were primarily in the US, UK and Australia. Our agricultural net sales were down $17 million or 10%, with $11 million coming from the negative currency impacts, which is a testament to the resiliency of the AG market. The consumer segment experienced a decline of $15 million in the quarter, reflecting continued sluggishness in the utility truck tire sector in Latin America, along with North American sales related partially to deemphasized product lines on top of the impacts from the pandemic.

Our North American wheel sales were down 27%, mostly due to volume on the OE - from our OE customers. Our North American tire sales were down 19% again mostly OEM volume. Our aftermarket tire sales were only down 8% relative to the prior year. And year-to-date, we are very close to 2019 levels after a very strong Q1 start.

Our Latin America sales were down 37% from the second quarter last year, with half of it coming from lower currency translation effects and the other half coming on volume.

Australian sales were down almost $10 million with the decline all coming in EMC as mining replacement activity remains slower. But as we discussed, we've also deemphasized tire distribution and tire servicing since the first quarter of last year, including the sale and closure of some unprofitable branches. AG sales in Australia are actually up modestly in the second quarter, as the overall market conditions are improving.

Similar to Q1, Russia was in line with last year's sales despite currency headwinds of approximately 13%. Overall market conditions remain very challenging there with significantly depressed economic conditions in the region. However, AG dealers did increase volume year-over-year somewhat.

Our overall sales volume on a consolidated basis was down, lower by 24% from last year. Price and mix in the second quarter was positive for us at 2.4%. Our reported gross profit for the second quarter was $30 million versus $38 million last year. In the second quarter of 2020, we recorded a $1 million asset impairment charge related to the inventory in our North American wheel operations, which came on the closure of our Saltville, Virginia production facility. Our reported gross profit margin for the second quarter was 10.4% versus 9.8% last year. This also compares favorably to the reported gross margin in the first quarter of 8%. Without the impairment charge, the gross profit margin would have been 10.8%, which is a strong result, obviously, considering the significant decline in sales.

Tailwinds on our raw materials were among the factors which led to the increase in margins and while our operating teams also managed the workforce, production schedules and strongly controlled factory overhead costs in response to the pandemic and the need to adjust to the market demand that we faced.

Now I'll touch on some segment numbers for the quarter.

Our agricultural segment net sales were down $17 million or 10% on a year-over-year basis. Lower currency translation affected sales by roughly 7% this quarter. Volume was down 8.4%, while we had pick-ups in pricing and mix of 4.9%, similar to Q1, which was somewhat reflective of aftermarket sales holding up with some selective price increases. AG sales in North America were down 5% as OE customers kept production levels down. Our OE wheel sales in North America were down in the second quarter, as I stated earlier, entirely on lower volume as pricing and mix was slightly favorable this quarter. Russian sales in the AG segment were up 13%, while European AG sales were down 18%. Our Latin American AG sales were down more than 32% from the last year, with 75% of that decline coming on in currency.

Our agriculture segment gross profit for the second quarter was $15.6 million, up $14.2 million - up from $14.2 million last year. Gross margins in the second quarter for AG were 10.6%, which was an improvement from the margin produced in Q2 last year of 8.7% and 8.1% for the first quarter. Improvements in plant efficiencies with strong management actions, along with lower raw material costs, enabled this improvement. It's important to note that the North American wheel operations delivered stronger results for the second quarter as we continue to improve our operations after significant headwinds that existed in 2019 surrounding raw material and inventory management, which led to operational leadership changes we made last year.

Our earthmoving construction segment experienced a decrease in sales of 39% or $72 million. On a constant currency basis, net sales would have decreased 36% versus one year ago. And the direct impact from COVID-19 on sales was $26 million in the quarter. Volume was down by 37.5% in the EMC segment, while price and mix was slightly favorable at 1.5%. ITM's undercarriage business was the largest portion of the decrease in the quarter as construction OEMs accelerated their sharp decline as a result of the compounding effect of COVID-19 on already anemic demand. We saw the biggest impacts in Europe and China again this quarter. Keep in mind, the construction industry only started to see contraction towards the middle part of last year. And really, it was in the second half of the year, so Q2 2019 sales still reflected a reasonably healthy construction market. Our European wheel business also saw a decline of 55% in the quarter due to the construction market essentially shutting down in the U.K. due to the pandemic. Australia and EMC sales dropped 65% as we closed some branches during 2019 and continue to pivot from mining tire distribution. Our volumes in North America were down 34% this year, primarily on weaker construction markets again on the OE side. The decline mostly came on the tire side of the business this quarter.

So gross profit in the earthmoving/construction segment in the quarter was $11.6 million, which represented an $8 million decline year-over-year. This includes a $1 million asset impairment charge. Without the charge, the gross profit would have been 12.6% - $12.6 million. The gross margin in the EMC segment without the impairment charge was 11.2% versus 10.7%. Obviously, the largest driver of the decline in gross profit was due to lower volume and the impact on fixed cost absorption. But considering the dramatic decline in sales, the business performed well, with improvements in efficiency and improved pricing occurring in a number of our facilities as a countermeasure to depressed sales. In addition, raw material costs are down relative to the prior year.

Finally, with the consumer segment, the second quarter net sales were down 36% from the second quarter last year. Negative impact from currency translation was 6.9%, and volume decreased by 25.7%, while mix and pricing was negative at 3.8%. The most significant impact on volume related to lower demand in the Latin America utility truck segment, which is very low during the first two months of the quarter from the impact of COVID-19. And then sales in North America were also down significantly as we have deemphasized certain product lines, such as specialty products and our ATV tires.

This segment's gross profit for the second quarter was $2.6 million, similar to the first quarter result, but was down $1.7 million from 1 year ago. Gross margins were 10%, which was a decline from 10.5% last year. Again, margins held up as we took actions to manage our plant costs, which carried into this segment.

Now selling, general and administrative and R&D expenses for the second quarter were $30.6 million, which is well below the first quarter of 2020 and down 20% from last year. The decline came as a result of concerted efforts across the business to control our costs. The largest areas of decline came on lower employee-related costs, including travel as we cut across the organization. We also continue to reduce our sales and marketing costs, and we've experienced much lower IT support costs versus one year ago. We made demonstrable progress that I discussed - that I've been discussing over the last few quarters. Because of the pandemic, we accelerated our efforts, which is what shows up this quarter. The second quarter operating costs also included $400,000 of restructuring costs, primarily from actions taken at the corporate level to reduce our costs more permanently and to consolidate certain functions, most notably in information technology and finance.

We are now on pace to see full year SG&A and R&D costs at approximately $130 million to $135 million, which is lower than the target I outlined last quarter.

We experienced recovery in the foreign currencies in the second quarter, and as a result, there was a foreign exchange gain of almost $9 million. As a reminder, there was foreign exchange loss in the first quarter of $17.2 million. In the second quarter of 2019, there was a foreign exchange loss of $1.2 million, so bringing a big difference year-over-year of $10 million to the positive.

In the second quarter, as we've discussed earlier, we completed the sale of our remaining shares in Wheels India, and we recorded a $2 million loss in other expense. The net proceeds from the transactions year-to-date from Wheels India shares were $31.2 million. And since we started selling our shares in late 2019, we generated $50.3 million in net proceeds. Approximately $18 million in net proceeds were received after the second quarter ended in early July. We used the net proceeds to pay down debt in the US.

We recorded tax expense in the quarter of $2 million on a pretax loss of $2.7 million during the quarter. Normally, we have tax expense in the region of $2.5 to $3 million per quarter to reflect normalized cash taxes we pay in foreign jurisdictions. So this isn't out of line, but there were some noise in the system this quarter with some reserve adjustments offset by capital gains taxes on the sale of the Wheels India shares.

Now moving over to Q2 cash flow. As we prominently noted at the beginning, our balance sheet improved this quarter on a number of fronts, and I will describe the actions that have been taken relative to liquidity in the remainder of my comments this morning.

I'll start with the fact that cash ended the quarter at $80 million, up $20 million from the first quarter. There's really no impact from currency changes on cash during the second quarter. We generated approximately $1 million in operating cash flow, and we generated a $5 million positive cash flow for the year so far versus a negative $10 million in the first half last year. This is despite significant negative impact from lower earnings for the first half, as we continue to drive more efficiencies in working capital and selling non-core assets. The impact of non-core assets and related transactions of nearly $8 million in the quarter, so we generated free cash flow in the second quarter of $7 million. Again, this does not include the proceeds from the sale of shares on Wheels India in June, which was ultimately received in early July.

Our receivables decreased by almost $20 million in the second quarter from March as we experienced a $55 million decline in net sales in the first quarter - from the first quarter to the second quarter. Our DSOs did tick up a little bit this quarter at 61 days. We did experience pockets of extended payments from certain customers as a result of the pandemic. But we don't currently have any significant concerns relative to credit risk of customers, and we watch these exposures very carefully every day. Our ending inventory at the end of June declined by $11.5 million from the end of March, and it declined by $39 million since December. Our accounts payable balances dropped at a very high pace this quarter as our supplier payments came due on higher volume from the first quarter.

I continue to have confidence in our ability to generate cash from improvements in working capital of approximately $25 million for fiscal 2020, and that will come from continued improvements in inventory management across the business. I'll state it again as it is important, but we have strong focus within our operating teams to manage inventory very closely. And we collectively know there's a balance between managing long-term visibility with customer demand. When recovery happens, we will need to ensure that we can meet customer expectations continually. We've done that throughout the second quarter despite decreasing our inventory. This has been the legacy of Titan's performance and our mission to serve customers well. And so it will remain so.

Capital expenditures for the first half of 2020 were $8 million versus almost $17 million last year in the first half. We've taken necessary steps to manage our capital spending programs and to invest where it's important to manage production, safety, environmental and so forth. And we continue to invest in product development as well to bring innovative products to the market and be competitive and to maintain our market leadership. We will continue to balance our priorities in the near term. And while I anticipate that our capital spending for 2020 will be close to $20 million, well below what our original targets were in the prior year as well.

Our overall net debt level for the second quarter did increase as we took measures to increase liquidity in our European operations. I'll talk more about that in a moment. As of June 30, $28 million was outstanding on our domestic ABL line, down from $30 million from the end of March. With the completion of the final tranche of the sale of shares in Wheels India in July, coupled with excess domestic cash flow during the month, we paid down another $22 million in the month of July, and the balance today is only $6 million. Short-term debt at the end of July was $41 million, which is down over $20 million since year end and $5 million from March. This decline is primarily due to repayments on normal maturities of loan arrangements in certain foreign operation, primarily Russia and Europe. A portion of this decline also relates to extending loans in Latin America for 1 year in response to liquidity initiatives in late March. On our first quarter call, we described our actions to work with our banking partners in Europe to give us additional credit capability in Europe. In May and June, we completed arrangements to draw down on select long-term credit facilities of approximately $20 million, with favorable market terms for Titan. The maturities on these credit arrangements are approximately 2 years with options to prepay after 1 year. The annual interest rates range from 1% to 4%, while the majority is under 2%, again, favorable for Titan in the midst of the pandemic. This is among the many steps that we are taking to ensure that we have a stable and flexible structure to manage in these volatile times.

With significant reductions on borrowings from our domestic ABL credit facility over the last several quarters, we now have more flexibility to manage our U.S. and corporate operations when recovery occurs. Remember, just 10 short months ago, we had outstanding borrowings on this facility of $59 million. Our intent for this facility going forward will be to keep borrowings very low, if not 0, and to manage our working capital as markets return with some semblance of normalcy. This has been a very important target for us, and we are now close to that achievement.

The sale of the Wheels India shares were a big part of our non-core asset sale initiative over the last several quarters. While we still have a few discrete items that remain outstanding, and I anticipate completing transactions over the second half of the year that could deliver up to $20 million more in proceeds.

Now as evidenced in the results and our current improved financial position, we have navigated well in very challenging circumstances. Unfortunately, this crazy world we're living in is going to continue, requiring all of us to continue to devise plans to adjust and be in a position to respond to whatever we face. We remain steadfast and are resolved to do so. And there is still much work to be done to position Titan for the long-term future, and we remain committed to that.

That said, I'll turn it back over, the call to the operator for any questions you have this morning.

Question-and-Answer Session

Operator: [Operator Instructions]

Operator: Your first question comes from Joseph Mondillo with Sidoti & Co. Your line is open.

Joseph Mondillo: Hi. Good morning, everyone.

Paul Reitz: Good morning, Joe.

Joseph Mondillo: So I wanted to sort of just talk a little bit about or ask you about sort of some of the brief comments that you made on your outlook for the back half of the year. And I understand visibility is limited. And of course, with the pandemic, no one can really sort of certainly guess what's going to happen with that.

But you sort of made a couple brief comments that you anticipate the back half of the year to be light. And I know seasonality usually plays to that. I thought, potentially, given that you had such a significant amount of plant closures and just with overall economies shut down for a period of time in the second quarter, I thought potentially second quarter could be a bar that you could still meet in the third or fourth quarter.

Could you just address sort of your comments for the back half of the year in - relative to your sort of typical seasonality? Are you expecting typical seasonality in the third quarter and fourth quarter? Thanks.

Paul Reitz: Yes. No, Joe, it's a good question. It's one that we spend a lot of time here, as well, trying to forecast what's coming down the road, and it's an ongoing challenge. And so there's two ways to look at it. And I'll let David add his comments on the financial side. I mean, obviously, there's the financial side of trying to predict what your results are going to be. But I'm going to comment from the operational perspective.

We have to remain nimble and flexible in our business, quite frankly, like nothing we've seen before. Our order deck and the flow of the order deck is changing rapidly. So if we had prepared a forecast at the beginning of the second quarter, it would have looked much and it did look much different than what the actual results were.

And so as we sit here today, we only know what we know now, and we know that we're going to get impacted by our own plant shutdowns and our customers' plant shutdowns, and that's the normal seasonality that we keep referencing, along with a higher level of vacation holidays that take place in the US this time of the year before school starts, and then obviously, in Europe, where they take heavier time off in late July and August. And so that is the normal part of our business where we see those swings in the back half of the year.

From there, we just continue to, again, just remain flexible. We're constantly in communication with all of our business leaders' multiple times a week, trying to compare notes and trying to find some sort of baseline that we can use to put into a financial forecast. And to be honest with you, it's difficult. We just don't know right now. And so again, our focus is on the operational side.

And what we have seen, what I will say, in the back half of the second quarter, what we have seen is that we have consistently exceeded our forecast because of the drop-in orders that have come in. Can I sit here today and guarantee that, that will continue every single month, the rest of 2020? I just don't know. But I do think that there is a pattern that we've seen that there are more orders that come in, in certain markets.

This isn't across the board. It's a very - I'm making a very general comment, but it's very specific how I would have to answer it across every single product line and across the different geographies, but we are seeing certain products in certain geographies. We have seen a trend that incoming orders that are more - I'm using the word drop-in. It's kind of a loose term, but let's call it just later than normal orders have come in on a consistent pattern in the back half of the second quarter.

We certainly are hopeful that will continue for the rest of the year. But sitting in my shoes today, our job is operationally, we've just got to remain flexible, and our teams are doing that. We will continue to do that. We will keep headcount where they need to be, while keeping our trained skilled force available that when the market turns because it's not an if, it's when, the market will turn. We've also got to be prepared for that. So anything you want to add on that, David?

David Martin: Yeah. I can't say a whole lot more than that other than the visibility that we get from our customers in terms of long-term projections or even beyond what the initial orders that they give us, we're not seeing that beyond the quarter, to be honest with you.

So Q4 is a real wild card, from my perspective. So understanding how Q4 is going to be, but normal seasonality would suggest that you can be pretty busy through a portion of the quarter, then your holiday period interferes with that and you take your production levels down. That's just the way it has been. But without that visibility and our ability to forecast with any part of precision is very challenging.

Yes, we do see normal patterns and seasonality. That's not - we're not seeing it any different because of the pandemic. It's - nothing's changing with regard to our customers' buying behaviors at this point.

It's not changing as a result of pent-up demand or anything like that. So it's important that we maintain our flexibility, like Paul said. And - but giving any reliable forecast at this point is very challenging, and it changes every week for us.

Joseph Mondillo: I totally appreciate that and very much appreciate the color. I know you guys don't have a lot of visibility. So I definitely appreciate that. How about on the cost side of things? Where are we regarding raw materials and the inventory that you have? I know, I think the first half of the year, certainly saw a pretty big year-over-year benefit there. So how does that look for the back half of the year?

And then just in general, cost structure, how does that change going into the back half of the year? Do you see any temporary costs coming back online from second quarter? Just give us a sense of how that should maybe be a positive or negative issue for the back half.

David Martin: Yes. I'll start with the backdrop of the raw material markets. The raw material prices remain relatively low comparatively. And so that has been a benefit in the first half of the year, and we anticipate that it will remain, call it stable for the back half. But obviously, those things do change - can change rapidly.

As demand comes back, prices will come back too, and so you have to watch that. But right now, it's - I would just call it stable with respect to how it was in Q2, but relatively low comparatively year-over-year. We are - it's over the - all over the map between synthetic rubber, natural rubber, steel and all those things. But all said, as a benchmark and a pretty good territory for us to manage.

And as far as our overall cost structure, we have taken a lot of the costs out of our facilities to reflect the current demand. We have received some support in some of our foreign markets regarding support for payroll. We expect that to continue maybe a little bit into Q3, but it's uncertain as to whether they extend those kinds of opportunities for companies like us.

So again, I don't want to say it's been a strong, big benefit to us. It is offsetting our cost, if you will, and we have had increased costs related to our factories and our sanitization efforts and also just trying to manage our shifts and so forth. And so it's not come without a cost, and these support programs do help us to offset that. We do expect it to continue in the short term, but I don't anticipate it to be a long-term thing.

And then relative to SG&A, we've taken our costs down. You saw it this quarter. I think we're relatively in a good territory. I don't anticipate any further decreases from here because we've taken the actions we feel like we need to. So I think I would call that, again, stable at this point.

Paul Reitz: Yes. And the support we get is in our European operations, primarily. Where we operate in Italy, we're getting the benefits in the UK. North America, we don't get any support. And so again, some of these questions are hard to answer without getting specific location by location.

But to David's point, I mean, the costs of COVID are not being covered by the government. That helps offset and keep some people on the payroll, like you've seen in the U.S. with the PPP, which we don't qualify for. It keeps people on the payroll and going through the pandemic.

But again, if the programs are there, we will take advantage of them. If they're not, then we will reduce our cost structure accordingly. That's - the European programs have just been better at doing that for companies like Titan. In the US, companies like Titan get nothing. We're too big to matter and we're too small to be big enough to matter. So we're caught in no man's land.

Joseph Mondillo: All right. And just to clarify on the raw materials side, just the year-over-year - are you saying the year-over-year benefit in 2Q will be similar to the year-over-year benefit in the second half? Or are you saying the benefit just on an absolute basis in 2Q will be similar, the prices will be sort of similar in the back half?

David Martin: Absolute basis, if you will, to what we saw in Q2. We see, we did - Joe, and just sorry to interrupt you. In the second half, we did start to see some of those declines, particularly in steel. So year-over-year comparisons are relatively the same.

Joseph Mondillo: All right. And I guess just also lastly, just to follow up, and I'll hand it off to someone else. Regarding sort of structural changes, consolidation, footprint consolidation, just more heavy lifting type structural changes, where are we there? Is that still an ongoing process? Help us understand where you are with the structure of the company overall.

Paul Reitz: Yes. I think the structural changes are ongoing. From my perspective, we certainly have had very good discussions at the Board level. And I believe that the management team has the full support of the Board to structure the company accordingly for where we need to be positioned for the future

And so those are good ongoing healthy discussions between management and the Board, and I certainly feel good that - where those discussions are leading for the future and we'll continue to - with our ongoing efforts to again position the company the right way for the long term and certainly provide updates as we're going through that process.

Joseph Mondillo: And can - just on that note, can you say that there's definite opportunity? Or is this sort of still going through the analysis and we'll wait and see kind of a thing?

Paul Reitz: Well, I think there's definitely opportunity. If you look at some of our utilization levels, they're not where we need them to be for the long term. And so there's different ways you can restructure. It's not always necessarily just black and white. There's only one option. And so what we're doing with the Board is discussing those various options and taking actions to see which options may play out going in certain directions. And I think we're on a good healthy path with that. But it's definitely not black and white. So it's not something where we can say, yes, here's the issue, and this is exactly what we're going to do. But again, I think those discussions for the recent time period definitely have been very healthy between the Board.

I think we all see eye to eye, and we realize that there are structural changes that need to take place. But again, they have various options and different facets to them. And we are certainly going down those paths, and I think long term, they will turn out successful for the company.

Joseph Mondillo: All right. Well, thanks for taking my questions and good luck for the rest of the year.

Paul Reitz: Thanks, Joe.

David Martin: Thanks, Joe.

Operator: [Operator Instructions]

Operator: Your next question comes from Lawrence de Maria with William Blair. Your line is open.

Lawrence De Maria: Hi. Good morning, everybody. Nice to hear Morry's voice for a change. Sounds like you're doing well, Hi Morry. One of the things in your recent announcement and then you mentioned briefly, LSW, have you - it sounds like you've got the price down to be competitive with duals and it's on to AR now. Is this kind of the maybe potentially the tipping point for LSW? Or is it just one more step function towards greater adoption there?

Paul Reitz: Well, it's - LSW is not about price. LSW is about the value it brings to the end user. We positioned it that way from the beginning. It's a product where farmers, when they look at the value proposition - and they do. As we all know, farmers are very good at running their business. They've seen from the very beginning that there is tremendous value in LSW.

So it has nothing to do with price. Really, what you're seeing from the OEMs and with that recent announcement regarding the 8-Series at Deere, which was a very strong announcement for the company, but also for Deere.

We've been going to the end market and being very successful connecting to the end users with LSW. So I don't look at this announcement coming years down the road as all of a sudden, it's a tipping point for LSW. LSW has continued to grow by double digits year-over-year. It attracts a strong value to the end customer, and we position it accordingly in the market.

So it has nothing to do with price. We don't need to change the price to sell LSW. We're going to continue on the path we are. It's been successful from the beginning. So there is not - there's not going to be that tipping point moment, and the announcement doesn't reflect that. Our position with LSW is we've got to benefit the end user, and that's what we've been very successful at. So I think what that announcement does, it says we will continue on a very strong path forward. And that value from LSW will continue to be realized in the market for both Titan and the ultimate end user of the LSW solutions.

Lawrence De Maria: Okay. Thanks. And then obviously, historically, you guys have had nice incremental margins when volumes drop, obviously. How do you think about, given the cost you've taken out for some temporary and some more permanent, how do we think about incremental margins? Hopefully, obviously, next year, above historical levels. What kind of magnitude? And I'm just trying to understand the temporary cuts versus more permanent cost and how that plays in.

David Martin: So it's a very challenging question to answer, Larry, in terms of - I don't know how quickly the recovery happens. You have to be agile at every point in time you see recovery. I would say that within our overall production facilities, a lot of the costs you take out are more on the temporary side as you're just taking out the labor. And there are some overhead opportunities that we have done on the more permanent side of things, and we're going to be very, very careful as we go back up in managing those costs. But I feel pretty strongly that our incremental margins are going to be really solid next year when we start to see some sales impact.

I think we're - just similar to how it's been in the past. You go back to 2018 and look at the incremental margins we got that year with growth in sales that we saw, I think it could be better. It's going to depend upon which part of the business sees the most recovery in the time frame.

Paul Reitz: Yes, I think there's a couple of things that we know for certain that next year, as volumes improve, you will get better cost absorption. So you'll get that natural benefit to your incremental margin just with your existing capacity levels being are what they are today.

But I think the other part I would add is, and this is true I think for a lot of business leaders right now, is that for every dollar that's coming out in 2020 and 2021, there's not $1 or $1.10 going back in. There's going to be some factor less, $0.80, $0.90 on the dollar. I guess, at this point, we don't know.

But I'm confident that our business is, the restructuring and the changes that we've made now, just the processes we've gone through in doing it, not just in the last few months, but the changes we've made as a management team. David made a comment in his remarks about North America wheel. We've been able to accomplish a number of things this quarter by actions that we took in prior years.

And so that's where I get the confidence on next year, we will reap big benefits from what we're going through now. And again, it's not just the changes in the last few months, it's the changes in prior years. Our team is making better decisions today because of what we did in the past.

And I'm very confident that in the future, we will continue to make even better decisions by what we learned from what we're going through during COVID. So for every dollar that came out, I can guarantee you we're not putting another dollar back in come 2021.

Lawrence De Maria: Okay. That's sort of where I was kind of leading. And then specifically in the quarter, was there an effect of temporary furloughs that was a big benefit that, that sort of reverses? And was incentive comp a headwind, tailwind or neutral?

David Martin: No, I would say no.

Lawrence De Maria: Okay. So no furlough benefit and incentive comp is neutral?

David Martin: Nothing significant when you consider everything else that was going on with cost structure and everything else.

Lawrence De Maria: Okay. And last question, and I'll pass this on. Where do we see the tire reclamation business? Is that in maybe some of the R&D factories down south? Is that where we're thinking about the last $20 million come from? Or is that something, tire reclamation, different?

Paul Reitz: Well, I mean, in tire reclamation, we've gone through a lot with the fire that took place a few years ago. There's been a tremendous amount of effort just on handling the insurance claim. It's unfortunate that with the type of operation like that, the insurance companies are not easy to deal with. David and his team have done a good job of nearly finalizing that claim. We're not quite there on all pieces of it. But on the VI side, we've settled the property.

Where that goes in the future is we are in discussions with other partners of how we can grow that business. I don't see that as a core business that Titan should invest in. I think there's a lot of potential in it with what we're doing in the concept of recycled components getting into the marketplace and what you can do.

But with our balance sheet, where it's at today, we're going to invest in our core businesses, and we're going to grow and be successful in the future with them. And I don't see TTRC as a business - and TTRC needs investment to really get to the scale it needs for the future, and we're looking for partners that could do that. And so there's - again, it's one of those areas, I would say, we're having healthy discussions with the Board on what those options are, and we're pursuing different paths. But from a balance sheet perspective, this is not something that we're going to invest CapEx in.

We need to run it as is. We're doing a good job with that. We're taking care of our partners with the oil companies up there, Suncor primarily, since obviously, we're on their property. So we've got to do that for contracts. But from a business standpoint, we're going to protect our balance sheet to invest in our core businesses.

David Martin: The only thing I'd add, Larry, is if you talk about the $20 million that I alluded to earlier, we're only talking about the VI claim as part of that. The longer-term solutions for TTRC are not included in there.

Lawrence De Maria: Got you. Okay, thanks. Good luck, guys.

Paul Reitz: Thanks, Larry.

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 appreciate everybody's participation in today's call and wish you all stay safe and healthy. Take care.

Operator: Ladies and gentlemen, this concludes today's conference call. Please note that the 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.