

Titan International, Inc. (TWI)
Transcript of Q1 2021 Earnings Call and Webcast
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Company Participants

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

Conference Call Participants

Steve Feranzi - Sidoti & Company
Larry De Maria – William Blair
Alex Blanton – Clear Harbor Asset Management

Presentation

Operator: Good morning, ladies and gentlemen and welcome to the Titan International, Inc. First Quarter 2021 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded. 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, Betsy. Good morning and welcome everyone to our first quarter 2021 earnings call. On the call with me today, we have Titan's President and CEO, Paul Reitz and Titan's Senior Vice President and CFO, David Martin.

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-Q, which has also been filed with the Securities and Exchange Commission this morning. As a reminder, during this call, we will be discussing certain forward-looking information, including the company's plans and projections for the future that involve risk, uncertainties and assumptions that could cause our actual result to differ materially from the forward-looking information. Additional information concerning these factors that either individually or in the aggregate, could cause actual results to differ materially from these forward-looking statements can be found within 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 to today's remarks, we 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 the News and Events tab. Please note today's call is being recorded. A replay of this presentation will be available soon after the call within the Investor Relations section on Titan's website. In addition, 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. Good morning, everyone. Since our last earnings release in early March, Titan has really continued to move further in a positive direction, which I feel is definitely reflected in our solid first quarter financial results. On a currency-adjusted basis, we had our strongest quarter since the first half of 2018, with our sales up over 18% to \$403 million and adjusted EBITDA coming in at \$26 million. Along with that, we had a return to profitability this quarter. Those results are all on the high end of our outlook that we have provided for the first quarter. We were also able to leverage that growth into a 450 basis point gain in gross margin to a more reasonable level of 13.2% this period. This is definitely a good start to the year as all of our business units posted sales gains. And again, overall, this quarter was our best since the first half of 2018.

So, let's start by taking a look at where this growth came from. The strong recovery that we began to see in AG earlier this year has only accelerated further as our Q1 sales are up over 20% in the segment. The drivers behind the growth in AG do not appear to be short term in duration and are showing increasingly positive signs to support the strength of the market. For example, let's take a look at inventory levels with both new and used equipment, which is clearly a strong indicator of where things are going. The prices in the used market have continued to rise to their highest level since 2012. This will help keep the new market turning as well with the higher trading values. We also need to combine those facts on inventory with the positive aspect that the large AG fleet age is on the high side in most large grain countries. And so you take those elements, you combine it with the commodity prices, which has skyrocketed from what were already in good levels a couple of months ago where corn was around \$5.50, soybean is around \$14 already. As concerns have popped up around whether in both North and South America, this will propel corn now to the \$6.50 range and soybeans to \$15. Farmers' income and balance sheets were already strong after the 2020 subsidies from the government. So with these higher commodity prices this year, along with land values that are continuing to climb, farmer's sentiment should remain at very strong levels. Also, I think these noted positive market trends are being balanced in a good way by the slower production levels at many OEMs as this helps avoid the euphoria that can run into the AG market and

then that leads to longer term market distortions that you have to deal with. Look, all of us in this industry have been waiting a long time, a number of years, for this upswing in AG. So it's definitely good to see things off and running in an excellent direction to start 2021. And it does seem that the market upturn we are experiencing should have some laden on it as well.

Shifting directions, the AG market is clearly going strong, but we have also seen demand with our earthmoving and construction businesses exceed our expectations as we reported sales growth over 20% this quarter, with volume gains exceeding 19% in this segment. As we have stated before, a large percentage of our EMC sales come from our undercarriage division, ITM. Back in December, we had forecasted a good year of growth for ITM, but we did expect it to be more towards the back half of the year. Therefore, it's been really good to see the order books start the year strong. This has led to solid growth this quarter in construction revenues from both the OEM and aftermarket side of the business, and this has primarily been coming out of Europe and the Far East. Also, as ITM has seen significant sales gains in Latin America, which is coming from the AG segment, as I just discussed previously. As we have noted on prior calls, our ITM business in recent years has increased its diversification across our customers and our channels. And overall, I do want to comment that this is a well-managed business that has adapted well to changing marketing conditions over the past few years. We have been increasing our undercarriage capacity in China, Spain and Brazil where we have continued to see higher utilization levels. And then we already have sufficient capacity throughout other parts of our main production facilities with undercarriage that can support future growth in the marketplace.

So turning down to South America and Brazil, our demand down there has exploded since late last year as the strong AG market condition in the large grain and sugar countries, obviously Brazil, but also including Argentina. We've also seen good strong export demand out of our Brazilian plant, which certainly comes with a good margin profile with that. Favorable currency and aging fleet, good farmer income in Brazil really are supporting what appears to be a strong market that will continue through – all indications are at least through 2022. I want to note though when it comes to Titan Brazil it will require further investments from us in 2021 to meet this expected market growth and really to protect our share of the market. I do want to kind of spend a second here and just reiterate that since we acquired Titan Brazil in 2011, we have consistently been investing in increasing our large radial AG and OTR capacity, which at the time when we made the acquisition was really only a small part of the product portfolio. These investments we've been making over the past decade have already been successful as we've grown our output in AG and OTR. But most importantly, we've expanded our market share. So we expect to

continue on a favorable path with these investments that we will continue to make into Titan Brazil production capabilities.

These days, it doesn't seem like you can turn on CNBC, Wall Street Journal or any type of financial news without noticing that costs are rising across the spectrum. I noticed even Warren Buffet railed about it in some of his comments at the Berkshire annual meeting this past weekend. We, like everybody else, are experiencing an increase in many costs of our business, including raw materials, which steel is now floating around \$1,500, which is just crazy to say out loud. The Polar Vortex that everybody saw had a pretty big significant impact across production plants in parts of the country. For us, that did have an impact on synthetic rubber, nylon fabric, some of the chemicals in our tire business. As a result, we've seen these commodities go up in price. Titan continues to believe that we have the ability to pass-through the increase in costs. And we remain committed as a management team to do so. I think our first quarter results also support that our actions are doing that as well. In this current market, we should not be selling products to customers that refuse to take price increases related to raw material costs. I do want to remind folks however though that we do have some contracts that create a lag and timing related to the price versus raw material costs that could show up in our results. At this point though, we have not had to hold any shipments due to pricing disputes. We certainly feel – on the bigger picture, we certainly feel that Titan produces valuable products with strong production capabilities and really make us a valuable partner to our customers, especially in times like this. Therefore, we believe that as the market continues to progressively improve, we should see an opportunity to approach pricing with more leverage than what we've had in recent years.

Well, before the pandemic started, which is hard to think back after what was going on over the last 14, 15 months, but in the third quarter of 2019, Titan's management team had outlined, both internally and externally our strategic goal to protect our balance sheet, which was really in order to position ourselves to refinance our 2023 bonds. This critical strategic initiative, clearly not as glamorous as developing new products or growing the business, was of the utmost importance to protect our balance sheet and really attempt to protect the heartbeat of the company. I can't say enough about how well our management team has responded. David Martin, our CFO; Todd Shoot, our Treasurer, we have all done an excellent job over the past 18 months to make consistent progress on improving our balance sheet. We have been highlighting the external markets on that progress throughout 2020 and really excited that based upon these efforts and the improving market conditions last month, we found a good opportunity to approach

the market to refinance our 2023 bond. And really, our entire executive team, our Board, are pleased that our efforts resulted with the successful refinance of our \$400 million 2023 bond to a 2028 maturity date.

So, let me conclude here today by stating some things about Titan to start with. First, I mean Titan has a long history of being flexible to adjust to market volatility. We have tremendous and robust production capabilities around the world that are designed to meet the needs of our customers. These are definitely difficult times we are currently operating in. I want to give credit to our Titan team that is working hard to adjust to the current surge in demand and really be in a good position to serve as a long-term business partner to our customers. Our solid first quarter results clearly support the end markets and Titan are moving in a favorable direction. As I noted earlier, there are numerous positive indicators that provide support towards the broader strength of our end markets, especially when you look at AG. However, Titan supplies to many companies dealing with various supply chain and labor challenges as business ramps up, while we're also dealing with some impacts of the pandemic. Titan is world class in our industry with production and tooling capabilities to handle growth. We intend to be in position to do so with our labor capacity increases. At this point, we are effectively dealing with these challenges, whether it's related to supply chain or labor, and we continue to believe we can effectively manage through these challenges. This year is off to a strong start. Orders are good. Our operations are performing well and there are positive signs in our end markets. But we feel the range of possible outcomes continues to be too wide to provide guidance today for the remainder of 2021.

So with that, I'd now like to turn the call over to David Martin.

David Martin: Thanks, Paul and good morning to everyone. Thank you for joining the call today. Well, the first quarter was a wild ride, but we managed this very strongly through it all and we successfully delivered the results that we anticipated.

Now before I get into the details of the results, I want to highlight some of the more important takeaways for the quarter. Again, sales grew by 18% and without the negative currency impact sales were up right at 20% for the quarter. The last time we had sales over \$400 million in the quarter was in Q1 of 2019, before all the world disruption, including the tariffs, the global construction slump and the pandemic. Our growth between AG and EMC was very balanced. AG sales grew by 21%. EMC grew by 20%. The consumer segment reported a decline of 5%, but that was entirely due to currency devaluation. Without that, consumer segment sales would have been up by 2.4%. The point is we would have had growth in all 3 segments for the quarter. Our gross profit level was impressive at \$53 million with a margin of 13.2%,

which shows the power of our leverage on our cost positions within our operations. Despite the rapid rise in sales from Q4 to Q1, our cash position at \$96 million was resilient due to the continued strong discipline across the business on the working capital management.

Now let's get into the details for the quarter's performance. As I just mentioned, net sales were up 18% over Q1 2020. Sales in Q1 also exceeded fourth quarter '20 sales by 23.4%. We continue the recent sales momentum as we progress through the quarter and our March sales exceeded \$150 million. This was the strongest month in sales we've had since March of 2019. The currency negatively affected sales for the quarter by approximately \$6 million or 1.7%. The result is interesting as we saw continuous currency degradation in Latin America along with Russia, but there were strength in the euro, the British pound and the Australian dollar, which offset almost all of that loss. As a reminder, we saw a direct impact in first quarter 2020 sales of \$14 million related to COVID-19 plant closures and disruptions.

Alright, our overall sales volume for the quarter on a consolidated basis was up by 15% from last year. Price and mix for the first quarter was also up by 4.8%, reflecting higher prices to offset increased raw material costs, logistics and other production costs.

Consolidated net sales in the AG segment improved by 20.7% in the first quarter. On a constant currency basis, AG sales would have been up almost 25% in the first quarter, led by North America, Europe and Latin America.

We mentioned that we started to see early signs of recovery in the construction markets on our last call and the results proved it. During the first quarter, EMC sales grew by 20.4% on a reported basis and on a constant currency basis, it grew by 17%. The largest driver of this rebound came from ITM, our undercarriage business, as construction markets in Asia and parts of Europe began to wake up from the effects of the pandemic. ITM's business grew by over 35% in the EMC from the first quarter last year, which is also reflecting of weak sales experienced last year due to the early impacts of the pandemic. The order deck for the business remains strong coming out of the quarter and we believe that we will continue to see growth extending through the year.

Our overall North American AG sales were up 13% relative to last year. The OE world has truly come to life in recent months and our aftermarket business continues to be very strong. The expectation is that this will continue through the year with the order deck up significantly at the end of Q1 and it even grew through April.

Our European wheel business experienced significant growth in the quarter as well, again, reflecting a strong recovery by our OE customers on the continent.

Continuing this trend from the fourth quarter, our Latin American operations saw growth of 18% in the first quarter versus 1 year ago and more importantly though the sales would have been up by 42%, excluding the negative currency translation effects in the quarter. Latin America experienced growth across all three segments in the quarter.

Our gross margin performance again was another significant highlight for the first quarter. Gross profit for Q1 was \$53 million versus \$29 million in adjusted gross profit in the first quarter of 2020, representing a 79% improvement. Our gross profit margin for the first quarter was 13.2% versus only 8.7% last year after adjusting for the impairment.

We continue to manage our production costs aggressively during the first quarter. We have taken up our production levels during the quarter, which reflected moves to hire and train staff to meet demand coming at us. We will continue to do this in the second quarter as demand levels continue to rise. As so many are experiencing, raw material and logistics costs are rising rapidly across all market sectors and we are putting through appropriate price increases to customers to manage the situation. In some cases, timing of the impact of these costs will differ from the price changes, but the expectation is to align from a timing perspective as closely as possible. There will be timing differences on financial performance over time. We also have been managing supply chain shortages across the world from steel to fabric to polymers. And we believe our supply chain leaders have done a really, really nice job, keeping our factories flowing continuously.

Now let's get into the segment performance. Our agricultural segment net sales were \$36 million or 20.7% in the first quarter. Translation effects were still meaningful in the quarter, about 4.5%, again the primary driver being Brazil and other Latin American currencies along with Russia. The volume in this segment was up 15%, and we had an increase in price and mix of 10% in the quarter. We are again relating primarily to the turnaround in raw materials and other costs and the need to increase pricing. Our aftermarket sales have been continued to be solid, but the key driver was improvement in OE sales across the business. Each of our regional AG businesses are showing strength for the full year. And in most cases, we have visibility for strength in 2022 from certain customers. The challenge will continue to be managing our cost to get through this period of significant volatility and have done a nice job so far.

The agricultural segment gross profit in the first quarter was \$30 million, up \$14 million from last year, representing a 112% improvement. The gross margins in Q1 were 14.3% for AG, which is a significant improvement from the margin from Q1 of only 8%. We continue to show the fruits of the improvements in plant efficiencies from our strong actions taken over the last several years. We are just beginning to see the effects of the higher material costs in the quarter, while we – again, we have taken the pricing actions to manage this situation. That said, we saw improvements across all geographic operations in agriculture due to the sales increases and margin expansion. Again, most notably, is our North American wheel business, which we’ve been continuing to see improvements.

Our earthmoving and construction segment performed very well in the first quarter. And we started to see nice recovery in the markets that had seen challenges from the global construction slowdown that accelerated through the early days of the pandemic last year. Overall net sales in the EMC segment grew by \$28 million or 20% from last year. On a currency basis, net sales rose 17% versus a year ago, where the euro turned around in Q1 and was a tailwind for growth. Volume in the EMC segment was up by 19%, while the impact of price and mix was negative at 1.9%. This reflected a lag on the raw material costs due to lead times in steel in Europe and Asia. This will change as we move forward and we have already had pricing actions moving across the business. North America experienced a small decline in Q1, reflecting slower market recovery with the types of products that we produce. The largest driver of growth for the segment again was ITM’s undercarriage business, which grew 35%, excluding FX from the first quarter. In the first quarter of 2020, we experienced direct impact of the pandemic of \$12 million on sales as we experienced plant shutdowns and disruptions throughout Europe and Asia.

We were really still in the early days of recovery in the construction markets, but we’re encouraged by these results that we saw in Q1 and we expect more of the same in the next couple of quarters at least in the key components of the EMC business, notably ITM.

Gross profit in EMC segment for the first quarter was \$20 million, represented a \$9 million or 84% improvement versus Q1 2020. As a reminder, we took a small impairment of \$2.6 million last year. Gross profit margin in the EMC segment was 12% versus an adjusted gross margin for last year of 9.7%. Again, the biggest driver of this increase in profitability came from ITM, while there were increases in gross profit across all geographies in our wheel and tire manufacturing operations during the quarter, including areas where there were small declines in sales.

The consumer segment's Q1 net sales were down 5.3% from last year. Once again, the story is really the negative impact of currency translation of 7.7% for the quarter. The volume decreased by a small amount and mix and pricing were up 4%. The pricing and mix impact was mainly due to rising raw materials and other cost increases. Light utility truck tire sales in Latin America actually saw a rise in volume of 17% during the quarter, again, reflecting a nice rebound in the market.

This segment's gross profit for the first quarter was \$3.7 million, again a healthy improvement from Q1 last year. Gross margins were at 12.5%, which was an improvement from 7.8% last year, again reflecting production efficiencies from increased volume, primarily in Latin America.

SG&A and our R&D costs for the first quarter were \$36.6 million. This has trended higher in the first quarter as we continued our investment to improve our supply chain and logistics processes in North America. This consultative portion of the initiative is substantially complete now and we anticipate the recurring annualized savings from this initiative to be significantly in excess of our investments, which approximated \$3 million over the fourth quarter and the first quarter of '21. First quarter SG&A and R&D costs also included some variable compensation costs, reflecting the increase in sales and profitability during the period.

Foreign currency revaluation was a gain in the first quarter of \$9.5 million, with approximately half coming from the closeout of intercompany loans and the revaluation related to that coming on the liquidation of certain holding companies during the first quarter. This is a result of our ongoing initiatives to reduce cost in the organization with a legal entity in the intercompany capital structure rationalization.

We recorded tax expense of \$2.6 million on pre-tax income of \$15.8 million during the first quarter, which was in line with our expectations. This reflects taxes on increased income from certain foreign jurisdictions, including Latin America, Turkey and Asia.

Now, let's move to cash flow for the quarter. Coming off a strong 2020 in terms of cash flow, we started the year in a strong cash position to manage the increase in the activity ahead. Cash was down for the quarter to \$96 million, but that was anticipated due to the strong increase in sales during the first quarter. Our operating cash flow was negative at \$16 million, while \$9 million was related to the payment of a long-standing litigation matter that we've described in previous reports. Excluding the litigation settlement, the operating cash flow would have been only \$7 million negative in the quarter, where sales increased by \$77 million sequentially. One quick note, operating cash flow in the month of March was positive at \$16 million, with a strong recovery coming from cash collections late in the quarter.

As I have noted on many calls before, we remain very focused on managing working capital through the business cycle. It was a strong benefit to us last year when the business was lighter, but it is of paramount importance as we manage through the strong uptick in business. We continue to work closely with our leadership teams across the globe in managing our inventory levels. During the first quarter, inventory rose by \$20 million. But in terms of days on hand, we actually saw a decline of 15 days. Our inventory levels will need to increase in certain areas and we will have to manage strategically to meet our customers' expectations. We have been managing better with improvements in our demand planning analysis and improved processes, and it will be an important aspect of how we manage through this year and beyond. I continue to believe that cash flow will recover through the year and without regard to the specific cost of the refinancing, approximately \$20 million. We can get to breakeven to positive in free cash flow, as I indicated last quarter.

Capital expenditures for the first quarter were close to \$9 million, which is more in line with our quarterly historical levels for capital spending and similar to Q4 last year. We continue to invest in our production facilities to make them more efficient. We're also investing in product line innovation across the company as well. I continue to anticipate spending to be in the range of \$35 million to \$40 million this year, and we will carefully calibrate these investments to work closely with our cash flow from operations as we progress through the year. It is important to note that in our outlook on CapEx for the year, it does include the investments to increase capacity in Brazil, as Paul indicated earlier.

Our overall debt level at quarter end was in a stable position relative to the end of last year, up only \$7 million. Short-term debt at the end of March was also stable at \$31 million. Again, as a reminder, the vast majority of our current maturities at the end of the period relate to foreign credit facilities and term loans, which should be rolled over and extended as needed in the coming year.

And to reiterate, the company did take a very large step forward with the refinancing of our \$400 million bonds, which were set to mature in 2023. With the improvement in our financial position and our strong prospects over the last year and going into the period ahead, it was definitely time to secure the long-term stability of our financial future by refinancing these bonds. We are able to secure 7% on the bonds, which now mature in 2028. This was a significant achievement for the company, especially given the challenges that we saw over the last several years. We closed the new bonds on April 22 and anticipate completing the redemption of the old bonds on May 7. Cash cost related to the financing will hit in May approximating \$19 million which comprise of the advisory and legal costs, along with the call premium.

As we move forward, we expect 2021 to be a very strong year for Titan and it's just a building block for what we expect in the years to come. There is a lot to manage. And in many cases, this will be a more challenging year than what 2020 brought to our management team. At the same time, we have proven how strong we are through the last year and we are up to the task. We look forward to sharing our progress as the year progresses.

And that concludes my remarks. And so, I will turn over the call back to the operator for any questions you have.

Question-and-Answer Session

Operator: Operator

We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Steve Ferazani with Sidoti. Please go ahead.

Steve Ferazani: Good morning, everyone. Wanted to ask a little bit more about the supply chain issues. Obviously, as we have been going through earnings season, we have certainly heard from other companies where the disruptions significantly affected volume and margins. It didn't seem to be the case for Titan. One, I guess, how you manage through it? And then the outlook for many seems to be that maybe the disruptions are easing with uncertainty ahead and see if you would characterize it similarly?

Paul Reitz: Yes. The way I look at it from Titan's perspective, and both David and I commented on it. I mean we put a lot of effort in our supply chain management. As David alluded, we made some investments starting last year into this quarter as well. We feel that the team has done a great job in working our way through it. There are challenges out there, as you noted in your question and we've all been reading elsewhere from other public comments. One of the things I will say that's different about Titan compare to some of the other comments you're seeing. We don't build 500 horsepower tractors and we don't build bulldozers and large loaders. And so when they see supply chain disruptions, they are talking about dealing with thousands of components that they are coming in and trying to assemble. We take raw materials and we convert them into a finished product. So you're dealing with primarily steel paint, natural synthetic rubbers and fabric, a few chemicals and some nylon. And so we've seen some issues with pricing. We've seen some issues with deliveries showing up, maybe not on time. But as a company, at this point, we have not had issues that have disrupted our supply chain and our operations to any significant level. And we put a lot of effort into being able to say that comment. That one sentence

takes a lot of effort to be able to – for me to be able to say that to you today. And I think our first quarter results are good evidence of that. And so far, what we've seen in April – in dealing with our operations, our challenges around the world, what we've seen in April is consistent as well as with what we reported for the first quarter.

Steve Ferazani: Great. That's helpful. Just also wanted to circle around on – you had talked on the last conference call about needing to ramp up labor to meet increasing demand and not only to add labor but to train labor, which can often pressure margins a bit. Just trying to – if you can walk through sort of your ability to add that labor, train them, continue with the strong margins. And if you're at the headcount you think you need to be now.

Paul Reitz: Yes. We are continuing the hiring and training process. We are not at the headcount that we desire to be at, both short-term and long-term. So we will continue to hire. There are some disruptions to our margins because of the training liability incurred. The one thing I want to mention is a built a tire is not just a rubber that's put into a mold. There is a tremendous amount of skill and building that goes into a tire – different stages of putting together the tire. And there is a skilled labor force that's required to do that. So you're looking at about a 12-week process to get somebody up to speed. So walking around one of our tire plants earlier this week, what you see a lot of is what would be a one-person operation, you now have two people there, one being trained and another person doing the training. So, that's the type of disruptions that we see to our – really to our efficiencies. And so as those two people who are now working on one piece of equipment, they break off and they start to work independently again, that's where we will get the return back to efficiency levels that we know we're capable of historically. Again, that's on the tire side. We are hiring. We are getting the people in place, and we will continue to do that. On the wheel side of our business, when you're dealing with heavy steel and tremendously powerful equipment, it's maybe not the same skill as how you build the product, but the amount of safety and the amount of training we have to put in place is still extremely significant. And so we take our time. We train our people properly. We do not shortcut the training process just to get more labor output as we prioritize safety of all our people ahead of that. And so we will continue to incur that liability. We will continue to hire as we have been throughout the first quarter in April and into May. I don't see that slowing down. And all projections are for our business that we need to continue to bring that more labor. And we are getting the people and we are doing that.

Steve Ferazani: That's helpful. I have a couple of more, but let me get back in the queue and turn it over, let some other people take some questions. Thanks.

Paul Reitz: Okay. Thanks, Steve.

Operator: [Operator Instructions] Our next question comes from Larry De Maria with William Blair. Please go ahead.

Larry De Maria: Thanks. Good morning everybody.

Paul Reitz: Good morning, Larry.

Larry De Maria: Nice to see the turn. So, I guess Maurice's comments in the release noted by Paul, your efforts to sign up customers to LTAs. How is this different than in the past? And have we gotten away from that practice in recent years? So just kind of – we're curious – a little more curious about that because I thought a lot of the larger customers would have been on LTAs already?

Paul Reitz: I think the market dynamics over the last few years was steering things away from LTAs. As you noted, there were some comments in our press release about that. We view the signing of LTA as a good positive indicator for Titan. It allows us to secure more consistent volume, kind of going back into the previous question on labor. We're able to schedule our plants more effectively. We're able to run our plants more efficiently. So we certainly view the LTAs as a sign of strength in the marketplace and a sign of strength in Titan's capabilities. And I think what we've seen over the last let's call it, 5 years when the AG market, in particular, was soft. The prevalence of LTA had declined. And we certainly had some in place. And what we're talking about, what Maurice's comments in the press release are alluding to, is we are looking to secure that volume, and our customers are looking to secure that volume and the LTA is the way you do that. And that's something that we are in discussions. We've had some discussions that have resulted in LTAs, and we will continue to further explore that. And the customers that don't have LTA, that's how we use – if you have a contract that obviously influences how you schedule your operations.

Larry De Maria: Yes, sure. Thanks.

Paul Reitz: It really is a win-win for both sides. But yes, I think the fact that we're getting more LTAs, Larry, is a good indication of the marketplace.

Larry De Maria: Yes. No, it sounds like it. And also, it was noted that you have capacity to meet demand. But obviously, there are some labor issues and ramping issues because we all know what's going on in the world. So I guess what I'm trying to understand here, do you guys have the ability to meet the demand that's out there this year for wheel and tires? I mean, most of the companies, except maybe one, have given guidance for this year. There is a plan out there. There is an industry expectation on the amount of equipment that's going to be filled this year. Can you guys – knowing what's out there, do you feel like you can keep up with that demand?

Paul Reitz: We certainly do, and I'll kind of break it apart into different geographies. Looking at North America, our wheel and tire capabilities in AG, especially when you start looking at the tooling that's required to produce our products on the wheel side, it's been one of the biggest hidden values we have as a company is the tooling that we have in the wheel industry. That's not something that you just can replicate. It's years of investments in knowledge that are sitting there within that our tooling war room. And so we certainly believe that based upon our tooling and our production footprint in North America, we have the ability to meet the demand of the marketplace. And in my opinion, I think that's why tying back into your previous question, we are a really good long-term partner for these OEMs that are looking to secure a relationship with type and the LTA is a great way to do that. We have the capacity and the capabilities. When you look at Brazil, as both David and I talked about, it is a little different scenario. We've tremendously increased our capacity. We've seen our market share grow and our output grow, especially when you get into the large radio AGs. As the market has continued to shift to higher horsepower equipment, we will need to invest. As David said, that's already included in our forecast for the year, but we will need to invest to continue to increase our capacity. And so, it's a different set of challenges in Brazil where the marketplace is really ramped up extremely fast. And so we are – in 2021, we are basically on allocation and sold out and Titan Brazil. And so we will grow our capacity and output for '22 and certainly provide you guys guidance on our information on that as we get into what that looks like as far as the increases in output. So Brazil, I would call, sold out, whereas North America is more but as we add the labor, we will continue to meet the increasing demand of the marketplace. As you alluded to, Larry, we see the forecasts that are out there that are going up and we are definitely preparing ourselves to meet that demand.

Larry De Maria: Okay. Thank you very much. Good luck.

Operator: Our next question comes from Alex Blanton with Clear Harbor Asset Management. Please go ahead.

Alex Blanton: Hi, good morning.

Paul Reitz: Good morning, Alex.

David Martin: Good morning, Alex.

Alex Blanton: Could you characterize if you can what your market share is relative to last year? For example, during downturns, stronger companies typically pick up share from weaker companies who can't cope with the downturn as well. And I'm wondering if there was any of that included in your increase in sales?

Paul Reitz: Well, Alex, I mean, we certainly believe that we're a strong company and our tremendous production capabilities would enable us to grow share. Really, in our industry, unfortunately, there is not good market share information that we can rely on, especially in North America. It's just not available. We are one of – we're really the only stand-alone publicly traded company. And what we've seen through the years that the information is just not reliable. So we do not participate in any market share information that you may read as we have found it to be completely unreliable. So I can't answer that question specifically. Now in South America, where we are able to use government information to help back into what we believe are accurate market share reports, we have seen our market share increase in South America. Hence, some of the comments we made earlier about the investments we've made over the last decade in Brazil and so I think your question, I would say, in Brazil, is true that the strength of who we are, with our capabilities in Brazil has enabled us to continue to grow market share. And again, we've kind of used our government data to provide some information. I would say that's definitely the case. I mean I know our market share with the OEMs from when we did the acquisition in 2011 to where we are in 2021, has increased significantly and as has our overall market share. So in Brazil, I got a little more information that I would say, yes, Alex, what you asked is correct. In North America, I don't have any information, where I could even begin to answer that question for you.

Alex Blanton: Okay, thank you. You haven't said much about the aftermarket today. Could you give us a little more on that, how that's doing? Farmers are in better shape, should be doing at some replacement?

Paul Reitz: You got it. No, the aftermarket has been tremendous. And you're right, in kind of our comments, we addressed the OEMs because that's a lot of what's out in the public space. But from an aftermarket perspective, we have invested tremendously and building in good distribution channel with the aftermarket. When you look at our tire business in both North and South America, when you look at ITM, our investments in building a stronger aftermarket distribution channel over the last few years has resulted in growth there as well. The aftermarket in North America is doing tremendous. And really for us, Alex, right now is trying to produce as much product as we can to serve the aftermarket. And that's exactly what we're doing with increasing our outlook capabilities but we see – to your comment, our order books for aftermarket are up significantly now compared to where they were last year at this time. I don't see that slowing down. To your point, the farmers – they are out in the field. They have strong balance sheets, a lot of income came in over the last 12 months, and they are looking to upgrade equipment. So our aftermarket is good. The one comment I will make on top of it is that's where our LSW performs well in times like this, where farmers are looking to make investments to increase the capabilities, their equipment. LSW is a tremendous fit for that. And that is sold primarily through the aftermarket channels. And so our LSW sales continue to benefit through the aftermarket channels at times like this as well, Alex.

Alex Blanton: Why don't the OEMs adopt the LSW? Does it mean they have to redesign their tractors? Or what is your problem there?

Paul Reitz: They do. They have it in their books. And so we feel good about the relationship with the OEMs on the placements of LSW, and they do have it as available as an option to their customers. But what we have seen is our tire dealers and our aftermarket channels have really embraced LSW products. They hold inventory, Alex. I think that's a big component of it is when farmers want something, we have some incredibly strong dealers that have held the inventory on LSW, they have the availability. The other thing is they have the service. In LSW AG tires, it's 5 feet wide, so you've got to have the service equipment to be able to handle it as well. So we've been really, really strong, and quite frankly, really satisfied with what our aftermarket dealers have done to hold the inventory, have the service capabilities for LSW. So I wouldn't say it's a negative against OEMs in any way. It's just a different way of how you get into the marketplace. And so they do it through a book where it's an option. Our tire dealers are out there pushing in the market. They are providing the service. They are connecting with the end users, and it's been really effective for us.

Alex Blanton: Yes. I have another question on Russia, but I want to find out, is there anyone else waiting in the queue because I could let them in, but if they are not in, I might as well keep asking some questions.

David Martin: Alex, go ahead and ask the question.

Todd Shoot: Yes. You are fine, Alex. Go ahead.

Alex Blanton: Okay. Well, Russia, you haven't said much about that. What's the situation there?

David Martin: I'll tell you, obviously, over the last several years, the AG markets have been struggling, obviously, throughout the CIS. And – but our business has continued to improve. We've – it doesn't show up because of the Russian ruble in terms of how that performance looks. But I would tell you that we've continued to make improvements over the last 3 years in the business. We've introduced new product lines across the business to get even better market share in certain aspects of it. And so we feel like there has been great progress and they are a positive contribution to Titan.

Operator: Our next question is a follow-up from Steve Ferazani with Sidoti. Please go ahead.

Steve Ferazani: Yes. Thanks for taking a couple more questions. In terms of the SG&A line, I know – I think you cited the rise at least in some part due to increased sourcing costs. Do you have an idea of sort of run rate, are we going to be at a slightly higher level, obviously, with higher sales than might be expected?

David Martin: Yes. I would tell you that, again, it was a little high this quarter. I would expect this to moderate in the \$34 million to \$35 million per quarter range. And so it will be marginally up from where we were a year ago. But taking into account some of the costs associated with the initiative, it's a little bit part of it, but some of it is variable compensation costs related to sales and profitability. So – but that's really it. We've really controlled our costs across the business and don't expect to see any significant rise from here.

Steve Ferazani: I wanted to ask more on construction. I know to some degree you don't necessarily have visibility on the end use. Do you have a sense? Was – did you see a real spike in terms of mining and that you have reflected, but the fact that ITM was so strong this quarter with expectations, construction maybe picks up further out or would that not be the sense?

Paul Reitz: No. I think I would agree with your comments. I mean, we did see the mining segment pickup. We did see parts of construction as well, especially in the Far East and parts of Europe. I would say this, I mean the order books are really strong to start the year. There is a lot of strength in the second quarter into the third quarter. I think the differences with construction right now is there is a lot of leading indicators that you can look at an AG, and you can see longer and further into the future where AG is going. Whereas right now with construction, there is good visibility through the next couple of quarters, but there is some more attributes out there that kind of see where they go, what our governments are going to do, how are projects going to pick up. So a little bit more of wait and see on what 2022 brings, but certainly, a great start to the year. We kind of expected this pickup in our earth moving and our construction segment to be more in the back half of the year, and it's great to see it start the year off strong. And again, that robust order book is there that will get us through the second quarter, third quarter. But again, kind of looking to see how things building and look for continuing growth into next year. Where as AG – again, I think all the attributes are there and all the indicators are that the level of strength is really, really strong in AG.

Steve Ferazani: And then I did want to circle back a bit on capital structure. I know you did complete the refinancing that gets you out to 2028. Clearly leverage is going to come down a lot just on rising EBITDA over the next couple of – few quarters. But how are you thinking about optimal capital structure now?

David Martin: Well, we obviously, our profitability is going to be such they were we back in a range of, call it, 4x in terms of leverage. And we feel that that's a much more comfortable place for the company to operate and with improving cash flow, it gives us other opportunities. We may take that down a little bit here and there as we need to across the international operations. But obviously, with the growth in cash too, we can do other things with – obviously, keep that cash in play or use that for further investments in the business as we move forward. So with \$400 million being a pretty stable capital, that's going to be there for a while, obviously. There is – again, we have a lot more flexibility.

Steve Ferazani: And so on that, you didn't raise your CapEx guidance as far as I can tell today. Given the opportunities and the demand out there, are there some other opportunities you might be thinking about in terms of investment though I know you had the capacity?

David Martin: I would tell you that we obviously are looking at things that we can do to continue to invest in the business, and we're going to be opportunistic to do that. Given – I have pretty good visibility into the programs that we need to do within those markets. And as we alluded to earlier on the Latin America side, we have stepped up our capital expenditures this year with relative to there. And there are some of the things we do are going in North America as well. So – but over the next couple of years, there are some things that will be put in play. But I don't expect it to be significantly in excess of where we are today. But that's where we are.

Paul Reitz: I think David has a great job outlining a really strong CapEx plan. And you're right it's similar to the level that we spent in previous years, but where David has done a great job at the business leaders, making sure that we have the right investment to handle the growth. And so in Brazil, it requires some deeper investments on the equipment and the fixture side, whereas in other locations, we will make all the investments that are required on the tooling and to make sure that we have the capability to meet that demand. So, with our production footprint that we already we have, the CapEx needs are not that significant and we will – if we have to go up a couple of million dollars to get additional tooling, we will do that. And David, has got that all aligned with our business leaders. And so I think it's a sign of strength that Titan is able to meet the growth of the marketplace with the CapEx plan that David has outlined. So I think we're in really good shape to meet growth and really not have to break the bank in order to do it.

Steve Ferazani: Great. That's helpful. Thanks so much. Have a great day.

Paul Reitz: Thanks, Steve.

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

Paul Reitz: Great. Thanks everybody for your participation today and really excited about where 2021 is headed. So look forward to talking to you in the near future. Thank you.

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