Titan International, Inc. (TWI)
Transcript of Q2 2021 Earnings Call and Webcast
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Company Participants

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

Conference Call Participants

Steve Feranzi - Sidoti & Company
Kirk Ludtke – Imperial Capital
Alex Blanton – Clear Harbor Asset Management
Brian DiRubbio – Baird

Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the Titan International, Inc. Second Quarter 2021 Earnings Conference Call. [Operator Instructions] It is now my pleasure to turn the floor over to Mr. Todd Shoot, Senior Vice President, Investor Relations and Treasurer for Titan. Mr. Shoot, the floor is yours.

Todd Shoot: Thank you, Grant. Good morning, and welcome, everyone, to our second quarter 2021 earnings call. On the call today, we also 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 the 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 results to differ materially from the forward-looking information.

Additional information concerning factors that either individually or in the aggregate could cause actual results to differ materially from these forward-looking statements can be found within the safe harbor statement included within 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 to be 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 and Events. [Operator Instructions]

A replay of this presentation will be available soon after the call within the Investor Relations section on the company's website. A copy of today's call transcript will be made available on our investor website soon after the call.

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

Paul G. Reitz: Thanks, Todd, and good morning. We saw this year get off to a good start in the first quarter. And at that time, we felt conventionally that our business was moving in a positive direction in a number of ways. Our second quarter results illustrate that not only have we seen those trends continue this quarter, they have improved. Coming off a good Q1, our second quarter sales grew quarter-over-quarter 9% to $438 million, and our adjusted EBITDA reached $37 million this period as compared to $26 million in Q1. Along with that, our adjusted EPS increased to $0.22 per share from $0.07 in Q1. Overall, our second quarter performance was one of our strongest in a number of years as we did a really good job battling through the heavy noise that exists in today's operating environment that really is challenging for many, if not all industrial companies. Just think that we've been able to produce an additional $215 million worth of products in the first half of this year for our customers, demonstrating our ability to adjust quickly to meet the growing needs of our important customers.

Our strong Q2 results grew on the momentum from Q1, and now at the midyear point has put us in position for 2021 adjusted EBITDA to be north of $120 million. So diving further into our performance, both our AG and our earthmoving/construction segments experienced strong sales volume growth in the second quarter. Our end markets continue to look very good, and we expect the strong demand levels we have seen in the last couple of periods to continue into the back half of this year and then really into -- beyond into next year as well. We feel that AG continues to show good positive signs of current and longer-term strength. What is important for us is that the primary important drivers behind the growth in AG continue to show signals of solid support. For example, the continuing tight inventory levels in both new and used equipment has brought large AG equipment prices to very high levels, if not record levels. In Titan's North America business, we are seeing growing momentum in large AG where orders have increased throughout the quarter, and we believe that this trend should keep moving in the further positive direction as fleets are aged and the large AG equipment market is still roughly 25% below long-term averages.

Our smaller AG customer base has been really good the past few years. And so far in 2021, many of those customers have seen their inventory levels depleted to low -- really low levels, again, if not record low levels. This means these dealers will need to rebuild their inventory, which is going to increase our production demand above retail sales levels for 2022 and should keep the momentum in going again in small AG as we look into the future. Again, these are just a few from a number of indicators that illustrate the core strength in the current AG market and support the case that AG will have solid longer-term growth. So moving from AG and looking at our earthmoving and construction segment, we have seen demand continue to be above initial expectations with sales growth over 57% year-over-year and an increase of 7% compared to our first quarter, which again we felt was a good quarter to start the year. As we have stated before, a large percent of -- excuse me, a large percentage of our EMC sales came -- comes from our undercarriage division, ITM.

ITM has a good balance exposure to global markets and really something that we have worked hard through the years to build. We saw solid growth this quarter in construction revenues from both OEMs and aftermarket, and this is coming primarily from Europe and the Far East in our business. The word of the month seems to be transitory as the debate rages on, if inflation is transitory or not. A quarter ago, we thought it was crazy that steel was around $1,500. Well, guess what, it is now floating around $1,800 and appears to be going even higher. This is just an example of the facts of operating in today's post pandemic world where costs are rising and everything from raw materials to labor and logistics. Overall this quarter, Titan was able to balance our pricing with these rising costs. And we continue to believe that we have the ability to pass through the increase in costs. I do want to add another comment specific to Titan that we have a long, strong history of being very good at managing costs, and you see that in our reported SG&A costs.

However, going a step further, we also have a strong culture around managing our operational costs. And we will continue as a management team to work hard to manage our overall cost structure, which is definitely a benefit in times like we're in right now. David will spend some time going through the financials with you, but wrapping things up in conclusion today, I'd like to state a few things regarding the actions we have taken to improve our balance sheet, which includes our important long-term debt refinancing that took place in April. These actions have put us in a good position to manage the current and future growth of our company. These are certainly challenging times that we're operating in, but we see in front of us a market with robust and strong broad-based demand, really bodes well for this year and clearly beyond in the next. We believe Titan is in a good position with our global production capabilities and our strong product portfolio to deliver superior value proposition to our customers, and we will be able to benefit from these stronger markets.

We are committed as a company to increasing our capacity in key locations, and we continue to drive our product innovation to be a strong partner to our customers. Our Titan team is working hard and continues to work hard to effectively deal with the supply chain and labor challenges. And at the midway point of the year, our business is performing very well with our Q2 results really shining bright. Our order books are solid and there are continuing positive signs in our end markets, and this puts Titan in a good position to post 2021 adjusted EBITDA north of $120 million. And on top of that, we see a path forward to future growth for next year.

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

David A. Martin: Thanks, Paul, and good morning. I appreciate everybody joining us today. Well, the second quarter continued to show the power of the changes that we have made at Titan and how we can accelerate our financial performance improvements with sales growth. Before I get into the details, I want to highlight the most important aspects from this quarter's performance. First, sales grew over 53% for the quarter from last year in Q2. Of course, this growth is inflated somewhat as we were deep in the initial throes of the pandemic last year in the second quarter. If you go back to the second quarter of 2019, we grew a healthy 12% or 19% if you exclude the impact of currency fluctuations. All of our regional operations across the segments experienced significant growth in the quarter, leading to the strongest sales quarter since Q2 of 2014. The sales for the first half were up 34% from the first half last year and up 5% from the first half of 2019. Again, 12% growth if you exclude the impact of currency. Again, this quarter, our growth between AG and the earthmoving and construction segment was very balanced, both grew 57%.

The consumer segment reported an increase of 15%. Our gross profit level was significantly improved at $61 million with a margin of 14%, up from 10.4% last year, and it increased sequentially from the first quarter margin of 13.2%. Excluding the impact of the bond refinancing costs and FX losses in the second quarter of $16.8 million, net income for the quarter was $14 million, and our diluted earnings per share was $0.22. Adjusted EBITDA for the quarter was $37 million, representing the strongest quarterly performance for us since 2013. On a trailing 12-month basis, adjusted EBITDA stands at $95 million as of this quarter. Finally, our cash position remained stable again this quarter at $96 million, very healthy level for us, despite the continuing investments in working capital, while we have been very measured in our inventory management to date.

Now I'll get into the more of the detail for the quarter. The sales growth for the quarter versus last year stands out as a highlight. But it's also important to note that sales for Q2 jumped nearly 9% sequentially from the first quarter this year. Continuing increases in demand across all of our markets. Currency was a boost to sales this quarter of approximately $8 million or close to 3% versus a year ago, with the strength in the euro and the pound driving the majority of the increases.

Volume was up year-over-year by 33%, and we also had favorable pricing mix of more than 17% as the cost of materials have risen during the period requiring customer pricing actions. Gross profit for Q2 was $61.5 million versus $31 million in adjusted gross profit in the second quarter of 2020, representing a 99% improvement. Our gross profit margin for the second quarter was 14% versus only 10.8% at last year after adjusting for an asset impairment.

Just a quick report on our progress this quarter in terms of production and cost. We continue to take up our production levels during the quarter, which reflected moves to higher and trained staff to meet the demand that's coming at us. Again, we are working really hard to calibrate production levels to the demands that we see coming. Raw material and logistic costs would continue to rise across all market sectors. And as you can see in the numbers, we're putting through appropriate price increases to customers to manage the situation. I said it last quarter, but the timing of impacts related to procurement and ultimately, the flow-through to production can differ from the price changes that we're making with customers. Obviously, the objective is to align everything from a timing perspective as closely as possible over time. There can be quarterly variations, however.

Also, while we see our gross margin dollars protection -- protected, our margin percentages can vary. We also continue to fight hard to ensure production remains smooth, given the supply chain shortages that we're seeing from steel to fabric to polymers. Our supply chain leaders have done a fantastic job to date, and they will obviously continue this -- their relentless exercise of keeping us moving efficiently.

Now to our segment performance. Our agricultural segment net sales were up $84 million or 57% from the second quarter last year, which makes it the strongest quarter for the segment in the last eight years. Currency impacts were almost negligible in this segment with only 0.4% negative impact. Volume in the segment was up 36%, and we had an increase in price and mix of 22%, again, relating primarily to the turnaround in raw material costs and other costs associated with production and the need to increase customer pricing accordingly. The key driver to the volume increase related to OE sales across the business, while aftermarket sales remained very solid. The agricultural segment gross profit in the second quarter was $35.3 million, up from $15.6 million in the prior year, representing a 126% improvement.

The gross margins in Q2 were 15% for AG, which was a significant improvement from the margin produced last year of only 10.6%. Again, this is reflective of the volume and the effect on our efficiencies in our plants, along with the continued strong cost actions that we have taken over the last year. We're definitely seeing the effects of higher raw material costs in the second quarter, while we were able to manage the overall effect on our profitability in dollars through our pricing actions. Much like our first quarter result, we saw significant performance improvements across all of our geographic operations across this segment.

Our earthmoving/construction segment exceeded expectations for the quarter as the construction markets experienced accelerated recovery after the challenges that were taking place in the global construction markets. Again, that was primarily due to the early days of the pandemic last year. Overall net sales for the EMC segment grew by $64 million or 57% from last year. On a constant currency basis, net sales would have risen 50% for the quarter versus a year ago, again, as the euro and the British pound currency strengthens and gets to the U.S. dollar. Volume was up in the EMC segment by 38%, while the price impact of price and mix was positive at 11%. While that's impactful than in the AG segment, rising raw material and logistics costs were combated by pricing actions.

All geographies experienced year-over-year growth during the quarter with the largest growth coming from ITM's undercarriage business, which grew 55%, excluding FX impacts from the second quarter of last year. ITM's primary growth came in Europe, Asia and Latin America. Gross profit in the earthmoving and construction segment for the second quarter was $22 million, representing an improvement of almost $10 million or 77% from the adjusted gross profit in Q2 2020. As a reminder, we took a small impairment of $1 million in the second quarter last year in this segment. Gross profit margin in the E&C segment was 12.6% versus an adjusted gross profit last year of 11.2%. Again, the largest driver of our increased profitability came from the increase in sales in ITM's undercarriage business.

Moving over to consumer. The segment's Q2 net sales were up 15% compared to last year. For the first time in a while, currency was a non-factor with a positive tailwind of 1.2% in the quarter. Pricing and mix impact was a positive factor of 17%, reflecting our ongoing raw material and other cost increases.

Volume was down in the quarter by about 3%. As our focus has been on our key AG and EMC customers, we have shifted some production from the consumer products during the period. The segment's gross profit for the second quarter was $3.9 million, a healthy improvement from Q2 -- Q1 2020 -- Q2 2020, sorry.

Gross margins were also healthy at 12.7%, which was an improvement from 10% last year, reflecting some positive mix changes in the products that we sold.

SG&A and our R&D expenses for the second quarter were $35.1 million, down $1.5 million from last quarter. Second quarter SG&A and R&D costs increased from a year ago about $4.5 million. Again, due to the pandemic last year, we had taken some very strong spending control measures in the quarter last year. This year's expenses included some variable compensation costs, reflecting the increase in sales and profitability during the quarter. Most importantly, SG&A and R&D expenses as a percent of sales declined to 8% versus 10.7% last year in Q2. First half SG&A expenses are 8.5% of sales. We recorded tax expense of $2 million during the second quarter in line with our expectations. This reflects taxes on increased income from certain foreign jurisdictions, including Latin America, Turkey and Asia. We remain on track to see between $8 million and $10 million in tax expense for the full year.

All right. So let's move on to cash flow. Our overall cash balances remained steady this quarter at $96 million. Despite this sequential growth in sales, as our profitability increased significantly, and we needed to invest in inventory to support our second half expectations for sales. Our operating cash flow for the quarter was almost breakeven at an outflow of $1.5 million.

Our operational teams were very effective in managing working capital this quarter. Our accounts receivable and accounts payable growth effectively offset each other again this quarter. We had growth in the inventory in the quarter of approximately $32 million. About half of this increase in the quarter came on higher raw material costs, with the other half coming in volume mix and currency changes. When you boil it all down, the overall growth in the inventory during the quarter was 9.2% with less than 5% coming from volume, which shows the effectiveness of our working capital management discipline. With continued solid focus, I believe the cash flow will increase through the year, and we can get the breakeven to positive and free cash flow for the full year. Of course, this will be somewhat dependent on how we view our needs for inventory as we head toward 2022. In any event, any inventory investments will be strategically focused as well plan for business growth.

Capital expenditures for the second quarter were $5.8 million, which was in line with quarterly historical levels for capex spending. As of this year, we stand at $14.6 million in total capex. Capex spending will be higher in the second half as we have a number of ongoing projects that are focused on facilitating more efficient operations and reduced costs.

We have some investments, particularly in Brazil that are needed to expand our production capacity to meet the demands of our customers. We also continue to focus on product line innovation which requires some tooling investments as well. I continue to anticipate this spending for the full year to be about around $35 million to $40 million.

We talked about the bond refinancing that took place in April. So that is not new news. But it is worth mentioning as it was a very significant step forward for Titan. It's very important for us to take advantage of the opportunity to refinance and secure our financial stability for years to come. So on April 22, we were able to close the new 7% months, which will now mature in 2028. Overall, debt level at quarter end increased from March by $15 million. All of this increase came on revolver borrowings related to the refinancing cost of the bonds. We borrowed approximately $19 million to pay the fees and the call premium at closing. Short-term debt at the end of June was up slightly to $34 million. Most of our current maturities at the end of the period relate to foreign credit facilities and term loans, which can be rolled over and extended, if needed in the coming year.

Therefore, I don't anticipate any significant cash requirements relating to debt in the near term. Our current domestic $100 million ABL credit facility is also secure with a maturity of 2023. At quarter end, we had borrowings of $29 million. None of the current borrowings relate to any working capital or needs in the business. With positive operating cash flow expectations in the near term, we should be able to pay down these borrowings over time. That said, at the end of Q2, we had headroom in the capacity on the facility of $59 million after you deduct current borrowings and outstanding letters of credit. We also have sufficient revolver capacity in Europe. This gives us tremendous flexibility to run the business. Overall, net debt increased in the quarter to $391 million. Again, I expect to trim that number through the year as cash flow increases, and we're able to pay down the revolving credit lines. It is important to note that our debt leverage at the end of June based on trailing 12 months adjusted EBITDA has decreased to 4.1 times, which is nearing our target leverage of less than 4 times EBITDA.

Let me wrap up with a few thoughts on the second half of the year and some concluding remarks. First, our view on demand is very strong, as Paul indicated earlier. At the same time, we have certain seasonality and variation in our business where traditional summer holidays and vacations throughout Europe and the traditional November and December holidays that we have. And that has some impact on our production schedules and our performance. Those factors will be present in the second half of 2021, notwithstanding our continued strong sales expectations. The future remains bright for us. And our leadership team is very focused on managing the opportunities and the challenges that are in front of us. The first half performance demonstrates that commitment. We have a lot of work ahead of us as the landscape remains volatile. And I look forward to sharing our continued progress again next quarter. So that sums it up.

So I'll turn off the call back to Grant for any questions you have.

Question-and-Answer Session

Operator: [Operator Instructions] Our first question today will come from Steve Ferazani with Sidoti. Please go ahead.

Steve Ferazani: Good morning everyone.

David A. Martin: Good morning.

Steve Ferazani: Just wanted -- Paul, twice you said you're on pace for north of $120 million in EBITDA, which to some degree would seem to conflict with David's comments about typical second half seasonality. And I'm just trying to get an expect -- an idea of, were you simply doubling the first half number? Or is that your actual expectation, north of $120 million in EBITDA?

Paul G. Reitz: Yes. I mean, first off, I mean, David and I are both aligned on the positive outlook that we have for the company for the rest of this year. My comments about being north of $120 million really reflect the confidence we have in our end markets and the strong position we have with our order books. We certainly feel good about the results we have through the midyear, especially the performance in the second quarter. And as we look forward to the back half of the year, I got a high degree of confidence that -- both David and I mentioned, our Titan team is going to work hard, has been working hard and is good at dealing with challenges. And so as we look into the back half of the year, you are correct, Steve, with your comment. We do have seasonality. There is plant maintenance. There's vacation. There's holidays. There's typical issues that will impact our production days in the back half of the year. We are working, and we will mitigate the plant shutdowns to the greatest extent we can, so we can continue to produce as much product as possible for our customers. So really, it's -- I think where we're at, to be able to say today that we look like we'll be above north of $120 million just expresses the confidence we have in our business overall. So I think both Dave and I are in alignment on that, so --

David A. Martin: The only thing I'd add is that, that is based on real forecasts that we're operating within the company, not just a doubling of the first half performance.

Steve Ferazani: Yes. That's fair. So how much of that because certainly, we've talked a lot about -- and you've commented a lot about the challenge you had was recruiting, training and then retaining labor. And clearly, you've done a great job on that so far. Where would you say you are with that? Do you think there's more to come? Do you think you could be doing more volume in a quarter if you had more labor? And how -- can you give us sort of outlook on the labor side?

Paul G. Reitz: That -- I mean, look, it's not as simple as putting a help wanted sign out and if you can walk through your door. I think we've done, and the results support that a really good job. I mean if you look at our domestic hiring -- David, you can confirm this, I think we're up like 14% for the year.

David A. Martin: That's right.

Paul G. Reitz: Overall, as a company, we're up somewhere around 11%, 12%. I mean, I think in today's challenging labor market, as you highlighted, I think we're doing a really good job. We're making the investments to recruit people. We're really committed as a management team to deal with the challenges of retaining people. And I think those numbers supported. It's not just our sales, but again, you look at our headcount levels in this type of market to be up 14% domestically is strong. And we're seeing bright lights that certainly support that we can continue to grow well beyond that. And as labor markets see the wage support that has existed from the government side kind of start to pull back, we believe that our ability to continue to recruit and retain people will only get stronger as we finish out this year and look to next year to continue to hire.

Steve Ferazani: Great. And if I could just get a one more in. Obviously, capex this year, you need to invest in the plants. I'm just trying to think about longer term. What your thoughts are on cash flow and debt repayments?

David A. Martin: Yes. Also keep in mind, a lot of our debt is -- relates to term loans as well as the credit facilities outside of the United States. So we are committed to paying down on the ABL facility in the U.S. and moderating our debt levels within the international operations. So we will continue to do that with cash flow. But it's obviously not a very significant number in the first place. The majority of our debt is obviously with the bonds themselves. So it won't be necessarily big numbers when you see pay down of debt, but it will -- you will start to see that as we go through this year and next year. And I just want to add one thing. You talked about capex just a minute ago, and I think that might be -- we'll play into that to a certain extent. We will continue to invest in the operations. I said $35 million -- $35 million to $40 million of total capex this year. Now I think as a percent of sales, that's going to -- in a pretty good place. And I think as we continue to see growth, I think we'll stay as a percentage of sales pretty close to this. But we will moderate up to a certain extent, if we need to, based on where we see the needs to expand capacity or just keep our plants running more efficiently.

Steve Ferazani: Thank you.

Operator: Our next question will come from Kirk Ludtke with Imperial Capital. Please go ahead.

Kirk Ludtke: Good morning guys. Can you hear me?

David A. Martin: Yes.

Kirk Ludtke: Congratulations on the very strong execution in the environment. Couple of questions. Big picture. Does this environment give you an opportunity to make some strategic moves on the M&A front to boost capacity or simplify the product offering? On the capital structure side, does it give you an opportunity to issue some shares, maybe term out some foreign maturities?

Paul G. Reitz: Man, you're getting to the heavy questions there, Kirk. Certainly, on M&A front, it's difficult to predict where that future looks. I mean, we -- and I believe, I'm speaking on behalf of the board as well, do see a future where there is some opportunities out there. That would be good for Titan, but it's difficult to predict exactly where that goes in the future. I will say this. Out capital structure, the overall with what we've completed in April and how well we've managed the balance sheet and working capital as David has highlighted, puts us in a very good position to handle growth for the future and make the key investments where we need to in capex to do it strategically to increase capacity in those target markets where we see growing demand, and we see the importance of what we do being critical through our customer base. We are committed to doing that. We have a plan to do that. We will continue to invest aggressively in product innovation. Whatever investments are needed there on the engineering front, the tooling front, we feel that that's a strength that tightens that we will continue to invest in for the future. So as I look at our capital structure, I feel very good about where it positions us regardless of M&A, for who we are as a company to continue to meet the growing needs of our customers and do it most importantly, on a local and a regional basis where we can give them a supply chain that they can feel confident in.

Kirk Ludtke: That's helpful. Thank you. On a prior call, you mentioned that you were asking customers to sign long-term agreements? How is that going? And can you elaborate on what the benefits of that -- those agreements to the extent you can get customers signed up to a long-term agreement? What the benefits might be in terms of minimum volumes?

Paul G. Reitz: Yes. I think what I would say is, I mean, the response from our customer, our key customers has been very good. It shows the importance of the products that we produce to their supply chain, to their end users. And I think the response we've got from the marketplace has been something that we feel as a team, broadly speaking, around the world, very good about. We will continue to pursue further discussions with customers because, in my opinion, the long-term agreements really solidify the relationship between our customers and Titan. That's important. I'm going to go beyond just the volumes and maybe some of the simple things, but it really says to each other that we're committed to them as a supplier to deliver good high-quality products on time at a very competitive landscape for them to be able to meet the needs of their customer base. And so I look at it as, when we sign that long-term agreement, it means we are going to work together for a number of years to -- again, we share an end desire that our products go and meet the needs of the same end users, the farmers, construction operators, mine operators around the world. And I think that long-term agreement just says, hey, we're both in this together. So from a volume perspective, I mean, yes, it helps us with our scheduling and our planning to know that we have secure volume. I certainly can't say there is a negative to that at all. I mean the more we can secure the volume and understand what that schedule looks like, the more efficient we can operate our business. And so I do look forward to having continuing discussions with our customers to have more long-term agreements.

Kirk Ludtke: That's helpful. Thank you. Conversely, are your vendors asking you for long-term agreements?

Paul G. Reitz: Yes. If you're going to do something like an LTA, it's got to be a mutual relationship. So yes, it's a two way street.

Kirk Ludtke: Great. And then lastly, I know you refreshed your ratings before you did your bond deal, but that Moody's rating is looking a little stale. Is there any chance of getting them revisit?

David A. Martin: Well, this is David. I will tell you that we have ongoing dialogue with all of the rating agencies every quarter. So we'll obviously refresh our financials and have discussions with them. Obviously, it's up to them to decide on that risk and that credit risk associated with it, but now that we are proactive with that.

Kirk Ludtke: Thank you and great quarter guys.

David A. Martin: Thanks Kirk.

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

Alex Blanton: Good morning. Before I ask my question, I just want to mention that Seeking Alpha just reported your number at 6:21 a.m. saying that it was -- the non-GAAP earnings were $0.29. That's, of course, your six months number. They reported it as a quarter, said of $0.22.

Paul G. Reitz: We don't have a lot of power on what they report.

Alex Blanton: Right. They haven't corrected it yet. Is that the only guidance you're giving for the quarter? The -- I mean, for the year, the EBITDA?

David A. Martin: That's correct.

Alex Blanton: Yes. So we have to go for them. To what extent were the -- there were headwinds you've said on labor? Were they really affecting your production rates?

Paul G. Reitz: Well, I've got -- our order books are very strong, Alex. To the extent that we can hire people, we're going to put them to work and meet the growing needs of our customers. I would look at it this way, kind of going back to what we talked about earlier. I mean, I think we've been very effective in hiring. When you look at domestically which you read in the headlines about the challenge with the labor market, I mean, we're up 14% in our headcount year-over-year. So we've been very good at recruiting and retaining people. And what we are doing for our customer base is making those investments and the commitments to do that. To go into the market, it's -- again, it's not as easy as just saying you need people, you got to really got to recruit them into the business. And so I think we're doing a good job. We will continue to do that, and we'll probably be talking about hiring and labor for the next 12 months, and that's a really good sign. It tells you that our order books are full, and we need to build more products.

Alex Blanton: Well, I guess my question was, could you have sold more, had you had more -- been able to hire more? Was that the headwinds in the quarter?

Paul G. Reitz: Yes. The answer is yes.

Alex Blanton: Okay. Any idea how much?

David A. Martin: No, that's real. That's a very challenging to say. I mean that's a big what-if. Yes.

Alex Blanton: Yes. Okay. The same question on the materials side.

David A. Martin: Yes. Certainly, there are some constraints with respect to the supply chain. But I would tell you, during the quarter, it probably was not as much as -- it wouldn't have been anything that really truly put us back. Things that are in the second half of the year will be more challenging. And so we're going to be fighting hard through it just as we did in the second quarter. The goal is obviously to keep things flowing efficiently, but you can never guarantee that.

Paul G. Reitz: Man, Alex, we're just too busy to play what if. I mean, we are -- we got our heads down. We're showing to work every day and put in the overtime and doing -- building as much as we possibly can these days. And I think we see that continuing for a number of periods ahead of us.

Alex Blanton: Could you give us a quick rundown on foreign business, specifically Europe, South America and Russia? How are they doing?

David A. Martin: I would tell you that if you look at comparative performance, all of them are up very, very significantly. To the levels in Europe, there are -- our European wheel operations grew 100% this quarter. In Russia, it grew quite nicely, again, double-digit growth. And Latin America grew close to 100% as well.

Alex Blanton: That's in so -- in what metric, 100% gross?

David A. Martin: Sale, in sales.

Alex Blanton: Yes. Sales, OK. And then in Russia, you were planning to sell Goodyear tires made in Russia into Europe. Are you able to do that?

Paul G. Reitz: Well, our Russian plant has been doing a really good job taking Titan branded tires into the local CIS market there. We've expanded on just the local brand that had been in the marketplace for a number of years and really have added the Titan brand into the market. We are exporting some Titan branded products out of there. To be honest with you though right now, I mean, the market is really good over there, and we have not needed or have the necessarily the capabilities right now to expand beyond the local market. We're doing everything we can to meet the needs there. So what we're doing to meet the needs in Europe is bringing up products from other suppliers. Some of it is off take out of other countries. Some of it is coming from North America. Some of it comes from Brazil. So we are working on expanding the Goodyear brand in Europe to answer your question. It's coming from multiple outlets. Again, some Titan manufactured, some non-Titan manufacturer. We have some really good partners that we're working with on that. But when we look at the Russian plant these days, it's doing a great job servicing the markets we need in the service in that region.

Alex Blanton: Okay. And finally, could you characterize the state of the aftermarket sales there?

Paul G. Reitz: The aftermarket is really good. I think it's one of Titan's strengths over the last five years in some tough OEM conditions. We have a very strong distribution base dealers that we've really built a strong, solid relationship around serving mutual customers. And we continue to see the demand for our products within the aftermarket space continue to grow. As we've been talking about, we are going to continue to increase our production base and really meet the needs of our aftermarket customers is certainly a big part of that.

Alex Blanton: Okay. Thank you.

Paul G. Reitz: Thanks Alex.

David A. Martin: Thanks Alex.

Operator: Our last question will come from Brian DiRubbio with Baird. Please go ahead.

Brian DiRubbio: Good morning gentleman. Few questions here. Can you give me any sense, and this has been touched on a little bit. Could you give me any sense of what your current capacity utilization is in your plants?

David A. Martin: Well, it's going to obviously vary by plant. But I would say from a practical capacity standpoint, very high numbers at this point. Labor is more of a constraint than really physical, mechanical. So again, I'd have to go through a litany of different things, but it's -- I would say that it's at very high levels at this point.

Brian DiRubbio: I guess maybe put that another way, how much more volume room do you have before you are start running into capacity constraints? If you had labor was sort of fixed?

Paul G. Reitz: Again, the answer to that is going to vary by product and by region. It's difficult with the manufacturing base that we have across multiple platforms. We certainly believe -- not believe, that's a wrong way to put it. We know that we have the ability to continue to grow quite extensively beyond where we're at today. So as we continue to add labor, we are doing it in markets right now where we are not constrained from a production capacity perspective.

Brian DiRubbio: Okay. Very good there. Switching gears on raw materials. It appears as if many words have just been sort of one way. But as you know, and it's not impacting you yet, but there have been rapid reversals in certain awarded commodity streams. How should we think about -- how well is the company protected, if let's say just for argument's sake, there's a short correction in steel cost?

David A. Martin: You mean if steel starts to drop?

Brian DiRubbio: Correct.

David A. Martin: Yes. Yes. So we have a lead time with the types of steel that we buy. And we're managing that very carefully, and just trying to recognize where steel could go. We look at those features every single day. And so -- and we manage the amount of steel that we actually procure over a period of time. We're not 100% protected. We're never going to be 100% protected, but I think we've hedged the best of the best we can during this very rapid increase in demand. So we're moving -- we're -- I'd love to actually have more steel in the plant to operate, but we're operating at very right at the right level that we need to manage this situation in the second half of the year and as well as what we expect for the first quarter of 2022 at this point.

Brian DiRubbio: Okay. That's helpful. And then you mentioned that you're approaching your goal of under four times leverage. I guess 2-part question there. How does your capital allocation thoughts has changed or you get below four times? And given sort of the strength in the equity markets, how are you thinking about ITM?

David A. Martin: Well, first of all, capital allocation at this point is obviously continuing to service debt due to the investments that we have to in our plants. It's not significantly different than what we have been doing over the last two years. I think given the types of debt that we have, it's kind of easy to move that along, if we need to. I'll defer to Paul on any discussion about ITM. But I think, ultimately, you're not going to see a dramatic change in how we've allocated capital outside of being opportunistic in the M&A market and taking care of things that could be strategic for the future of timing.

Paul G. Reitz: Yes. I mean, how I see ITM today is the demand is really good. The business is performing well. We got to continue to increase our capacity in some key locations there around production, some production investments we're making. We're continuing to hire in markets where their demand is strong. And ITM is a business that we put a lot into through the years. We talked about it before, where we've expanded the aftermarket presence made the business more balanced around the world, more balanced by customer base. And I feel pretty good about where it's at today. From an ITM perspective regarding capital allocation, again, we'll see what the board thinks of what we can do in the future. But right now, I think the present is really where we're focused and things are performing very well. And we got a lot of customer demand out there that we got to work every day to go meet.

Brian DiRubbio: So we should be thinking about ITM going forward as sort of part of Titan? And for the time being, I know you need to qualify -- but for the time being, probably not looking to divest that business or IPO it or whatever?

Paul G. Reitz: I mean at the time being, we got to build as much product as we can for our customers, and that's really where our focus is at. ITM is, again, it's a good, strong performing business. And how others may look at it, that's up to them. But from a capital allocation, from a board perspective, we're not in a position that we need to do anything different with ITM than to continue to invest it in, continue to make it stronger to meet the needs of our customers.

Operator: Ladies and gentlemen, this will conclude our question-and-answer session. I'd like to turn the conference back over to Mr. Reitz for any closing remarks.

Paul G. Reitz: Well, I just want to say thank you to everybody. Appreciate your time and your attention this morning and look forward to talking to you at the end of the Q3. Thank you. Have a good day.

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