Titan International, Inc. (TWI)
Transcript of Q3 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

Larry DeMaria - William Blair
Steve Feranzi - Sidoti & Company
Kirk Ludtke - Imperial Capital
DeForest Hinman - Walthausen & Co.

Presentation

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

Todd Shoot: Thank you, Nadia. Good morning, and welcome, everyone, to our third 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 yesterday, 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 in the 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. The Q3 earnings release is available on the company's website within the Investor Relations section under News and Events. 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 of our website. A copy of today's call transcript will also be made available on our site. In addition, our latest quarterly investor presentation will be available on our website after today's call. I would now like to turn the call over to Paul.

Paul G. Reitz: Thanks, Todd, and good morning, everyone. Titan definitely had a good quarter as our results exceeded expectations as we posted our strongest third quarter for revenue and profitability since 2013. We had adjusted EBITDA of $35.1 million this quarter on sales that were up 48% to $450 million. This quarter's adjusted EBITDA has been exceeded only twice in any quarter since 2014, and one of those occurred just last period when we posted $37 million of adjusted EBITDA. We are now expecting to see our full year adjusted EBITDA coming in above $130 million, which is our highest annual total since 2013. Our global team has been working very hard to produce these results and increase production levels to meet growing customer demand as we continue to drive forward to grow our production capabilities further in coming quarters.

It really is impressive to see our one Titan team continue to perform well, building on that strong foundation we've built in recent years, and I want to thank all of our Titan's employees around the world for doing a great job and their dedication to our company.

So looking at our segments, Titan, again, this quarter experienced strong sales growth in each of our segments, with agriculture leading the way with a 60% increase compared to last year. Our order books continue to strengthen, especially on the AG side, where commodity prices remained at good levels with corn above $5, soybean above $12 and cotton at record highs, thus ensuring another year of farmer incomes, strong farmer incomes for 2022. Yes, I realize that commodity prices have dipped from their peak levels earlier this year. And farmer sentiment has dipped as well. But let's not get caught in the trees and miss the abundant forest around us. Times are good. Farmer incomes are still at high levels again this year. There is pent-up demand sitting on order decks. There is an aged large AG fleet. There's historically low inventory levels at all our dealers, whether it's small AG, large AG or an aftermarket dealer and also throw into that equation that current sales levels in large AG are still well below historical average. And do not forget that large AG is Titan's long-term sweet spot. We believe this all adds up to a good tailwind for business that we see continuing throughout 2022.

So moving from AG over to Earthmoving and Construction. We have seen demand continue to be above our expectations that we had at the start of the year with sales growth of this quarter of 36% on a year-over-year basis. Our EMC segment continues to look increasingly promising as we round the corner to next year just like AG, our order books are strong, but we also see those infrastructure investments coming into many places.

And as we've stated before, we are a global business in our EMC segment and a large part of our business from that segment does come from our undercarriage division, ITM. ITM is a business that has a good global footprint. It has a strong OEM and aftermarket channel for distribution. And then we have a market-leading and almost unique; I think, I'm pretty sure it's unique. I'm going to use that word today. A foundry in Spain, and I mean unique for our undercarriage type operations, where we have our own foundry in Spain, that enables us to customize cast products that meet the specific needs of our customers. Again, just a strong business for us and a large part of where we get our EMC growth and performance from. David will spend some more time today talking about our financial results, but I do want to offer a couple of thoughts.

First, while our business operates in many different global geographies and produces three primary products, wheel, tires and undercarriage, which end up touching various end markets. We, again, this quarter, saw growth and improved financial performance in all of our business units; so good, solid, consistent growth.

Second, we have and continue to operate with a disciplined mindset to control our costs in SG&A and within our overall operational structure, and you see that reflected in our results. Next, we have invested our capex wisely and strategically in recent years to continue driving our innovative products into the marketplace and to increase capacity in our core businesses where the market needs it. We've also made the necessary investments into safety, environmental and maintenance, and we will continue to ensure that happens in the future. My point with all that is, while Titan has reduced our capex over the prior few years to ensure we protect our balance sheet, we have invested properly into our company and have not underinvested in recent years.

Lastly, we will continue to make the investments, incur the expenses into expanding our production capabilities and increasing our headcount in areas to meet demand. We are not simply going to sell our existing production capacity into the market, but rather take advantage of this existing opportunity to get more of our market-leading products into the hands of our customers.

So let me conclude by saying something that we all know. I mean, this is without a doubt, one of our most dynamic business environments, all of us in business have faced. Titan, in addition to our solid operation results again this quarter and really for all of 2021 for that matter, Titan has strengthened our financial position this year by refinancing our $400 million bonds. We've also, this year, further improved our liquidity with our recently announced ABL extension and upsizing. We believe that Titan is in a position of strength within our industries with our global production footprint that is second to none in our business and our plants that are well suited geographically, excuse me -- for our customers. We also have an expansive and innovative product portfolio with an arsenal of highly engineered tooling.

These attributes enable us to deliver a strong value proposition to our customers. And as a result, for Titan to continue to benefit from the current trends that are in today's markets. With that being said, our order books are strong, as we've seen really in years. There are continuing positive signs in our end markets, which puts Titan in a good position, as I stated earlier, to post adjusted 2021 adjusted EBITDA of over $130 million. And on top of that, we see a path to further growth for next year. Again, Titan is in a good position at this time to capitalize on our reinvigorated strength, which makes me think about a comment this week that I heard from our Audit Committee Chair, who happens to be a leader in the private equity space. The comment he made during our meeting this week was that Titan has reported strong results throughout 2021. We have fortified our balance sheet this year. And has all this positive going on, yet our stock is trading at only around 6.5 times current year adjusted EBITDA. He's a pretty smart guy, by the way. So with that, let's jump into the financials. And now I'd like to turn the call over to David now.

David A. Martin: Thanks, Paul, and good morning, everyone. I appreciate everyone joining us today. Well, the third quarter was just another significant step in the right direction for the company, and we were able to deliver a very strong result and build on the momentum that we've started more than a year ago. Our global management team has managed this concurrent environment very well, and we believe we have solid plans in place to continue to do that moving forward.

Well, let's start with some highlights for the quarter, and then I'll get into more details. Sales grew at a very nice clip at 48% this quarter. Again, a very, very strong results for our Q3. Our growth was led by the AG segment with a 60% increase from Q3 last year. And at the same time, the EMC segment was also very strong at a growth of 37%, and our growth in the consumer segment was nothing to sneeze at, with an increase of 32%.

Our gross profit increased by 93% in the quarter, and our margin improved to 13.4% compared to only 10.3% last year. Adjusted EBITDA for the quarter was $35 million, representing the strongest third quarter performance since 2013 that bears repeating. On a trailing 12-month basis, our adjusted EBITDA stands at $116 million as of this quarter, and we expect Q4 performance to be strong, improving that run rate to over $130 million for fiscal 2021. Our cash position remained stable again this quarter at $95 million despite some growth in working capital. We continue to do a very good job managing our inventory levels as well. With our improvement in profitability and our strong management of the balance sheet, our net debt leverage as of the end of Q3 stands at 3.3 times our trailing 12-month adjusted EBITDA. This is obviously a dramatic improvement from a year ago.

Now let's get into the more detail for the Q3 performance. Again, our sales levels for the third quarter were strong, and we saw another sequential increase of 2.5%, notwithstanding the normal seasonal variation from holidays and plant maintenance that reduces our production days. Sales increased relative to last year by $146 million and $104 million or 30% from the third quarter of 2019, a more normal third quarter period. Volume was up over 25% with all of our business units, except Australia, seeing significant double-digit percentage growth year-over-year. Gross profit for Q3 was $60 million versus only $31 million in adjusted gross profit in the third quarter of last year. Our gross profit margin in the third quarter, again, was very strong at 13.4%.

We believe our visibility is solid in terms of being able to know where our costs are and where we continue to see challenges in supply, and we intend to manage it in a very strong way, just as we've proven over and over again, and our track record is strong.

Now on to segment performance. Our AG segment net sales were $244 million, an increase of $91 million or 60% from third quarter last year, which makes it the strongest quarter for the segment in the last eight years, beating last quarter sales by 5.5%, reflecting strength in North America and Latin America. Volume in the segment was up 36% just like Q2. Again, this quarter, the principal driver of the volume increases related to the OE sales across the business, while aftermarket sales remained very solid. Every one of our business units saw increases year-over-year in the AG segment, and our order decks reflects strength across the globe for the AG demand for the foreseeable future. Our agricultural segment gross profit in the third quarter was $33 million, up from only $16 million last year, representing a 105% improvement.

Our gross margins in AG were 13.6%, which is another significant improvement from the margin produced last year of 10.6%. This is reflective of the increased volume and of the effect on efficiencies across our plants, along with continued strong cost control actions we have taken over the last couple of years. There are timing impacts related to pricing actions and alignment with our costs as they flow through production, as we know. Again, we've done a great job at this, a very effective job getting in front of these increases. And I expect that we can remain in very strong territory overall on our margins in the segment and as a whole.

Our Earthmoving and Construction segment experienced another strong quarter as well. Overall net sales for the EMC segment grew by $45 million or 37% from last year as well. The third quarter is traditionally the lowest as we experienced normal summer slowdowns with holidays across Europe and our customer schedules. This year was no different, and we saw a small sequential drop from Q2. This is not a statement on the overall demand in the sector, just the normal seasonal cycle that we have. All of the major geographies experienced year-over-year growth during the quarter with the largest growth coming from ITM, our undercarriage business, which grew 38% from third quarter last year. ITM's primary growth came from Latin America and Europe. Gross profit within our Earthmoving and Construction segment for the third quarter was $21 million, which represents an improvement of $9 million or 71% from gross profit last year. Gross profit margin in the EMC segment was 12.7% versus only 10.1% last year, a very healthy increase. Again, the largest driver of our increased profitability came from the increase in sales in ITM, while growth occurred across all of our businesses and geographies across the globe year-over-year.

The Consumer segment's Q3 net sales were up 32% or nine million compared to last year. The volume was up very nicely in the quarter, and currency was also a positive tailwind. As we discussed, our primary production priorities have been with our AG and the EMC segments and our customers, but we did see healthy increases related to our Latin American utility truck tire business and increased mixed stock rubber sales in the U.S.

The segment's gross profit for the third quarter was 5.8%, a very healthy improvement from last year as well. Gross margins were at 15%, which was an improvement from 9.5% last year, reflecting some positive mix and pricing improvements with our products. This is the best margin performance in this segment since Q2 2018.

Our SG&A and R&D expenses for the third quarter were $34.6 million, down about $0.5 million sequentially from the second quarter. Most importantly, SG&A and R&D expense was 7.7% of third quarter sales, a very nice improvement from a year ago. Third quarter SG&A and R&D increased from the prior year by about four million. As a reminder, we've taken strong spending control measures over the last few years. This year's expenses included some variable spending and compensation levels, reflecting the increase in sales and our profitability during the period.

During the third quarter, we recorded tax expense of $5.3 million, somewhat higher than in the quarter than originally expected, but reflective of increased profitability in certain high tax jurisdictions for Titan, including Latin America, Turkey, Germany and parts of Asia. Obviously, this is higher than what we stated in our guidance earlier in the year. And again, this is entirely due to increased profitability expected for the full year. I now expect taxes on the income to be about approximately $15 million for the year. And again, this approximates our expected cash tax payments for the year as well.

Now let's move over to cash flow. Our overall cash balances remained solid in the quarter at $95 million. Again, this is despite the sequential growth in sales and necessary continued investments in inventory to support and sustain our sales levels moving forward. Our operating cash flow for the quarter was positive at $15 million, and we generated positive free cash flow of over $5 million in the quarter. With strong growth in sales throughout 2021, we remain in slightly negative territory on cash flow overall. But when you look at all of our key metrics, including cash conversion cycle and working capital, as a percent of sales, we've made healthy improvements from a year ago through focus and control.

During the third quarter, inventory grew by approximately $28 million sequentially from Q2. Much like the rest of the year, almost half of this increase came on higher raw material costs and the other coming from volume, mix and other currency changes. As a percentage of the most recent quarterly sales, inventory stands at 20.7%. This compares favorably to over 23% from a year ago at this time. Again, this is, again, a very strong focus across the business from our management team.

Our overall DSOs in the business improved sequentially from Q2 by two days and now stands at 53 days compared to 55 in Q2 and 58 from this very time last year.

I continue to believe that we will maintain and improve our cash flow and working capital metrics as we head toward year-end. Traditionally, this is the time of the year where we build cash, particularly in the back half of Q4. We will not likely get back to breakeven free cash flow for the full year. I do expect Q4

to be in positive territory like Q3, which brings us much closer to that goal. And our teams are very focused on driving a strong balance between production efficiency and working capital management.

Capex for the quarter was up sequentially at $9.6 million as expected. We have been making strategic decisions as to the investments to increase capacity, reduce costs and improve plant efficiency, along with putting tooling in place to drive production related to new product innovations. As of the first nine months, capex stands at $24 million. Based on our latest forecast, I expect full year 2021 capital investments of around $35 million at the low end of the previous estimate for the year. As Paul discussed earlier, we are targeted and measured in the investments we're making in the business for the long term.

As we disclosed last Thursday, we took another positive step for the business in renewing our domestic ABL credit line. The credit facility was increased to $125 million and is extended until October of 2026. It still has the option to expand by another $50 million through an accordion provision. The amended agreement is substantially similar to the previous agreement, while we attained improved terms surrounding pricing and other enhancements to improve the availability within the borrowing base. I'm very pleased to be able to get this in place for the next five years and to provide stability for our liquidity on top of our healthy cash position across the globe.

Our overall debt level at quarter end decreased by five million from June. All of the decrease came on paydowns on the international borrowings. Our borrowings on the ABL stands at $30 million, roughly in line with last quarter. I continue to expect there won't be any significant cash requirements related to debt in the near term, and it remains substantially at our discretion to pay down.

Overall, net debt decreased in the quarter to $387 million, down $4 million from last quarter. Again, I expect to trim that number over time as cash flow increases, and we are able to pay down on the revolving credit loans. I stated it earlier, but it bears repeating that our debt leverage at the end of September based on trailing 12 months adjusted EBITDA has decreased to 3.3 times, which is right in the target range that we have been discussing. Our balance sheet is in solid position now, which allows us much more flexibility to manage the business for growth.

Now let me wrap up with a few thoughts on the remainder of the year and some concluding remarks. We stated it earlier in the earnings release, but we now anticipate full year adjusted EBITDA of over $130 million. As everyone should know, the fourth quarter of our year brings with it a number of normal disruptions due to holidays and year-end maintenance in order to be prepared for the first quarter, which

is expected to be strong. Our fourth quarter performance is expected to be at a continued high level and steady with what we've been experiencing so far in 2021 in terms of customer demand.

We've come a long way in the last year with the business. And because of the effective decisions we made during tougher times and our ability to improve our liquidity, our situation has normalized and strengthened. Even in the dynamic environment that we are in, we continue to fight hard every day, and it is making a difference in the trajectory for our business performance. The future is bright for us. And we are, as a leadership team, remain highly focused on managing the opportunities in front of us. That's our story for now. I'd like to turn it back over to the operator for any questions you have.

Question-and-Answer Session

Operator: Of course, we will now begin the question-answer session. [Operator Instructions] Our first question today comes from Larry De Maria of William Blair. Larry, please go ahead. Your line is open.

Larry DeMaria: Okay. Nice job today. Question on the outlook, first of all, the over $130 million adjusted EBITDA. Just curious how we have sensitized that to the -- obviously, the strike situation and the possibility of plus down or indifferent to that based on what's going on, obviously, for a large customer.

Paul Reitz: Yes. No, I mean, look, Deere like you said, Larry, is a large customer. They're a great customer for us. They're very important. They're a great company as well. For us, the comments we made this morning, it implies the -- that there are actions that could continue with -- for Deere in their strike situation. And with that, we understand that our numbers are still going to be quite solid for the fourth quarter, and we can adjust our production as needed based upon what may or may not happen with the situation with Deere. So definitely in the comments we made this morning, it implies with full knowledge of the situation with Deere that it could go in a number of different directions.

Larry DeMaria: Okay. And then staying there, kind of curious about how easily you can shift capacity and you can move your tires from going OE to the aftermarket or to another OE and probably a little bit easier on tires. And then also wheels, which are more of an OE product, how important are the wheels to the overall numbers being held together this year or even into next year, if the strike continues, can we just shift more capacity to tires, different OEMS? Or how can you manage that given those two important components of your business?

Paul Reitz: Right, right. No, look, we've spent a lot of time talking about it. We dedicated a lot of time just yesterday to kind of looking at the different scenarios. And in reality, from a financial perspective, the products can be adjusted easily. But from a production perspective, there are -- there's some decisions we've got to make. There are some things we have to do. You have to change some tooling. You have to be prepared to -- at the front of the line, run different -- the rims may be the same, but the discs need to be stamped differently. So you have some -- again, some adjustments you have to make with your equipment to modify that. So in a big picture, it all can be handled quite easily. But you got to be prepared for it. And you have to have some planning and you have to be aligned with your operational team to make those adjustments. So we are discussing it, and we are prepared to do -- take care of our leading customer, but also do what's best for Titan, and we'll see how that plays out.

Larry DeMaria: Perfect. Last question. You guys talked about your own inventory. Did you mention -- maybe I missed it, channel inventory of tires in the aftermarket, which obviously can maybe absorb some excess tire production if that end is happening?

Paul Reitz: Yes. We haven't made any specific comments about that, but it's a good question, Larry. The last couple of months, I've gone around with our VP of Sales, and we visited quite a few of our large aftermarket dealers. And what I've seen -- again, I don't have any quantification to this, I'm just telling you what I saw with my eyes is that dealer inventory levels are low. And clearly, we're hearing that from them as well. We're seeing that reflected in our order books. And so we see this pent-up demand that exists not just for Q4, but carries us into next year. So you got the harvest cycle. Then next thing you know you're going to be back into planting. So there's some inventory levels that need to be replenished, not to mention that you got to continue to produce product just to meet existing demand -- existing retail demand. So definitely, what I've seen over the last couple of months is that inventory levels are not just low at the OEMS, but they're low in the replacement side as well.

Larry DeMaria: Okay. Thanks and goodluck.

Paul Reitz: Thanks.

Operator: Thank you. Our next question today comes from Steve Ferazani of Sidoti. Steve, please go ahead. Your line is open.

Steve Ferazani: Good morning everyone. Just wanted to get your thoughts on, obviously, supply chain issues are becoming a much bigger part of this quarter's cost, throughout companies that weren't having problems now are. A couple of questions about whether you've still managed. And then in terms of your customers that may be running into more of the supply chain challenges, even if you're OK, are you expecting any kind of slowdown from them as they run into production problems?

David Martin: Yes. Good question. We face it all around us, but our teams have done a very effective job at managing any of those challenges on a daily basis. It's part of our DNA. We're always very flexible with how we manage and plan ahead and make sure that we have taken care of it. There's a lot of work that goes on every single day across the many operations we have globally. A lot of strong coordination with our teams. And we've done a very good job managing through that. We do it -- like I said, every single day, there's things that come at you, and we overcome it, and we've been able to manage it very well to date. Now with respect to what our -- some of our customers are dealing with, there, obviously, there's -- there have been a lot of things that have been going on across the globe. But again, we are able to calibrate our production to make sure that we're staying in step with our -- the expectations from customers. And the diversity of our customer base helps us do that. While some are moving in one direction, some maybe be moving another direction and we can pivot where we need to. And we've done -- again, everybody has done a very nice job with that to date. And we have good plans in place for the fourth quarter and beyond.

Steve Ferazani: Have you seen any slowdown as the year has gone on in terms of order books? I know you have a significant backlog. But in terms of order books, given your customers' supply chain issues? Or do you have a wide enough customer base that you just aren't seeing it?

David Martin: We certainly see pivots one way and I can't -- there's definitely customers that take weeks or days out of production, and we deal with that. But again, we have a good diversity of our customer base to manage that. So we've been able to manage it very well.

Steve Ferazani: In terms of earlier in the year, you -- and every company was having issues with workforce, hiring and retention, where would you say you are on that?

David Martin: Well, globally, year-to-date, we've increased our labor force by almost 12%. And so I think we've done an effective job with that. It's the -- it's dynamic out there very much. They're very dynamic out there. But again, we -- it's like everything else. You have to manage and calibrate according to where the customer demand was and we've done -- we've had to reinvigorate a lot of things. We're

continuing to invigorate in our onboarding, our training and in making sure that we have good retention plans in place for our employees. And it's a very dynamic market. There's all the things around us. But again, we've been able to do that very effectively today.

Steve Ferazani: Would you say you where you need to be given demand? And also, I know in past quarters, you've indicated, as you've got through the new workers sort of trained and on boarded, you expect greater efficiency next year through those efforts, would you say that still holds?

David Martin: I definitely believe that to be true is that we've done a lot of work this year to get the staffing levels at the right spots, and they will always improve as time goes on. So we can always be better. But we've -- I feel like we've been very -- again, I use the word effective to date, but it's a relative term, and we can always see improvement.

Steve Ferazani: In terms of material costs, are you seeing -- are you getting any kind of confidence that we're seeing some stabilization, which could theoretically with your -- the price increases through the year provide a benefit in future quarters?

David Martin: Stabilization of pricing. Our raw material costs --

Steve Ferazani: The costs.

David Martin: Yes. I mean, we are seeing some places where it started to stabilize, if not plateau, in some cases, it's coming down. And again, we have to do a very, very strong job of seeing that, where it's at today and where it's going to be in the future and manage pricing accordingly. But again, as you can see through our results, we've been able to manage our margins very well. And that full expectation is that, that will be the case as we move forward as well.

Steve Ferazani: And last one for me. You certainly have addressed it through the call. I just want to get some clarification in terms of your view on [Indecipherable] on us entering a multiyear replacement cycle in terms of both your segments. Is that your position right now, and you've seen no reason to change it despite the pullback in crop prices?

Paul Reitz: Right. No, that is definitely our view. We see demand strong throughout 2022. And that's based upon a number of indicators. And like I said in my comments, you got to look beyond just the dip in the commodity prices and farmer sentiment. It's where we see demand being driven is a lot deeper than that. I've spent a lot of time with our customers at the OEM level and the replacement side of the business as well. And the message I keep hearing is consistent. There's strong orders that have a lot of pent-up

demand sitting there for the short term. And then when you look at the long-term, farmer incomes and construction-related incomes are very good. There's a lot of projects in the pipeline for the construction side.

The farmer income levels, as we've mentioned many times, are still very robust. And then you combine all that together and look at the dealer channels are light on inventory. So you have an inventory replenishment cycle. You have retail driven demand and kind of what you and David were just talking about. You also have production levels that are somewhat constrained either by labor or supply chains or whatever forces may be there. I think that the way I see it, and I think the way we see it at Titan and many others as well is that puts demand very strong. 2022 looks really good.

Operator: Our next question today comes from Kirk Ludtke of Imperial Capital. Kirk, please go ahead. Your line is open.

Kirk Ludtke: Good morning, guys.

David Martin: Good morning.

Kirk Ludtke: Well, congratulations on the quarter really accomplished a lot. Got -- I'd like to maybe follow-up on three topics. One is 2022. Another is capital allocation. And then the third would be steel prices. With respect to 2022, you mentioned that the orders are strong, and it looks like you're off -- your -- 2022, at least the early part of 2022 looks to be strong. Can you give us a sense for how much visibility you have? Are you sold out through a certain date? Are you taking orders for a certain month in 2022? Can you just give us a little bit more color on that?

Paul Reitz: Yes. And that varies. I mean, our products have different lead times and they go to different channels. And so the question can't be answered from a simple quantification level. But I will say the order books, compared to our production levels, are very strong. So we can look into the future next year and have a pretty good idea of exactly what we need to produce. And then on top of that, we know that consistently, you're going to get additional levels or additional orders that need to match with the production levels at our customers. So there's a number of different factors you look at, Kirk, for one, you got to look at what your order books are, where they're compared to historical levels, which we said in our comments are at extremely high levels compared to historical. But also, we want to make sure our order books are in line with what our customers' production capabilities are.

And so when you look at those different factors, you can look well into next year and go, OK, we feel very, very confident that the demand is going to be strong for 2022. And I'm not even really starting to address the inventory replenishment that needs to take place. If you look at one of our primary customers, I was -- I was at their national dealer meeting recently. I mean, their inventory levels at the beginning of the year were historical lows, and they've dropped further. And again, this is their dealers. And so I see demand just being robust at the retail level based upon our order books. And then again, you throw in the inventory replenishment that needs to take place, and I think that pretty well takes you through 2022**.**

Kirk Ludtke: Fantastic. I know you're not providing specific guidance, earnings guidance yet, but can you give us a sense for cash requirements next year, maybe capex? Any other -- obviously, I'm thinking about what free cash flow might be next year. Any unusual cash requirements?

David Martin: I would say there aren't any unusual cash requirements. From a debt perspective, there's very little that's required in terms of current maturities, it's normal stuff related to credit lines outside of the U.S. and we will pay down as cash flow dictates. But to the broader question about capital expenditures and investments in the business is that we've been maintaining with a decent range as a percentage of sales, and we will continue to do that. I would expect to see we're predicting $35 million in capital expenditures this year. It will be increased a bit next year. But again, as a percentage of the sales, it will remain in a very healthy band for us to be able to manage our cash flow. Obviously, with robust profitability, means that we will have positive free cash flow. That's my expectation for next year.

So as far as giving strict predictions on what that number is, I'm not prepared to do so yet because we're still going through all of our planning for next year. But we're going to continue to invest in the business in a healthy way. And I think from a broader capital allocation perspective, we're going to continue to invest in the business to try to drive innovation on the products that we are producing and making sure that we have the efficient plants that are producing products that we need for the future. So we're going to continue to invest in a very similar pattern to what we have been doing this year, particularly.

Kirk Ludtke: That's helpful. Thank you. Do you have a -- we used to talk about four times, I think, as a net leverage target. Have you updated that number?

David Martin: No haven't updated it. Obviously, we're at 3.3 times. I said it earlier. I expect us to be in that kind of territory for the reasonable future. There's no reason to be any different. Our EBITDA is at a very robust level and will continue to be so. And debt is stable.

Kirk Ludtke: That's great. Thank you. And then lastly, on steel prices, hot-rolled has come off just a little bit, but it's still a multiple of historical average pricing. And you managed the spike in the steel prices very well? How would a collapse in steel prices impact your results?

David Martin: Well, I'll say a couple of things is that we obviously have to manage the cost of those materials and know-how that's going to flow through our production. The good news is we don't maintain as a high level of inventory than where we used to be. And so the cycle time is faster. With respect to how steel flows through our production. So we kind of model that, and we know that, and we manage our pricing with our customers as well because there's mechanisms within that process. And we were very clear to our customers that there are lead times and lag times, if you will, with respect to when that material flows. So again, you can see through our results again this year that it's been managed in a pretty healthy way with our margin improvements. And I fully expect if there's a significant drop in steel, we'll be able to manage it on the way down like we managed it going up.

Kirk Ludtke: Awesome. Thank you. And then just one follow-up on the capital structure. Now that liquidity is so much stronger than it has been, leverage is down how much cash do you need to run the business? I know there's always been a lot of cash overseas, but to -- as a -- to supplement your working capital requirements. But does that -- what kind of cash requirements would you say you need to have to run?

David Martin: Well, I can go back to where it was two years ago, and we managed at lower levels than what we have today. And so we can manage it in a little bit lower. But I feel like where we're at right now, we're able to manage that pretty effectively. And this is kind of where we like to be. And obviously, it's going to go up. And when we have the opportunity to see continued cash -- nice overall cash flow, it enables us to make more strategic decisions about the future in terms of things are ways to be able to invest in the business for long-term growth.

Kirk Ludtke: Great. Thank you for taking my question. Great job.

David Martin: Yes. Thanks, Kirk.

Operator: Our next question comes from DeForest Hinman of Walthausen & Co. DeForest please go ahead. Your line is open.

DeForest Hinman: Hi. Thanks for taking my question. Kind of a newer shareholder they would have watched the stock for quite a number of years back when Morry was CEO. I agree the stock is extremely undervalued. I think as a shareholder, one of the ways you can help people think about why the stock is undervalued. And it's some of the things that you guys have been doing to improve things. It might be a good time to talk about what you're seeing on the productivity side with the employees that you've hired. It's important to understand your hired employees. You've discussed that. But as a shareholder, when you think about the backlog and the order book that you've laid out, any color that you can provide in terms of line rate productivity, revenue per employee, that would be very helpful for shareholders to kind of understand the opportunity in front of you and why the stocks are undervalued. And any comments you can give in terms of what you use entirely as it relates to incremental margins on sales, would be very helpful. I think you're seeing it over the last two quarters. But if you could definitively talk about some of those metrics and how higher revenue outlook flows through to the bottom line for shareholders. I think it's be very beneficial to people's understanding and what the upside opportunity is. I will pause there, and I have other questions as well.

Paul Reitz: Yes. Your comments are certainly valid and important. I think our results, though this year do support some of the comments you made, and maybe they're not spelled out exactly with the metrics and the indicators that you highlighted. But as David mentioned, our headcount is up over 12% since last year at this time. That's our global headcount. And we're doing that in a very dynamic, challenging environment. And so that's clearly pointing to a high degree of success that Titan has as a company to recruit and retain people. On top of that, our volumes have grown quite significantly this year. And so we're doing that with a team of people around the world that are working extremely hard and effectively. And so our comments about the -- actually, our Audit Committee shares about our stock trading at 6.5 times. You got to look at where you're at today by looking also at where you've been. And you look at this Titan team that in this dynamic environment, the accomplishments we had this year, you go back a couple of years ago, this was a stock that was trading very low. Our bonds were trading well under par. We put together a strategy to emphasize some things as a company that weren't necessarily that exciting, but they were stuff that we knew we had to get done, which was protecting our balance sheet. And this is going back pre pandemic, and you see what we've done this year to protect our balance sheet, as both David and I have mentioned, that's huge. All our bondholders got paid back at 100% and then some.

We've driven our stock up from that point. And then the pandemic hits us. And throughout the pandemic, all our plants were declared critical infrastructure of the governments and of their respective countries. And so this team kept our plants operational throughout the pandemic. We got hit in the hot spots of the globe. We got four plants in Central Italy. We have a plant in Spain, right outside Madrid. We've always -- through this whole time, we've always kept operational. And so our team has done a tremendous job. And then you look at our results this year, what we've been able to accomplish. And you see the growth on the top line, but you also see it flowing through to EBITDA and the rest of the business. So while we haven't spelled that out in exact metrics, as you highlighted, the results speak for themselves. And more importantly, what I'm really highlighting is it's the foundation that we've built with this team and how hard we've worked through these different battles and challenges that we've encountered. We -- again, we've restructured the balance sheet. We've gotten through the pandemic operationally, taking care of our customers. And now as our customers have grown their demand, we've continued to grow with them to meet more of their demand. And what we intend on doing going forward is more of that. And I'm really proud of what the Titan team has done. As I said in my opening comments, I thank them for all their efforts that they've had, not just this quarter, but what we've had throughout the last few years. And so for me, that goes way deeper than any metrics we could provide for you. But certainly understand your comments, they are valid and something that David, Todd and I need to talk about further.

DeForest Hinman: Yes. I would encourage you to think about that. And then just on the comments as relates to order book, and there is a very dynamic environment as it relates to raw materials, which you've touched on to some extent. But I believe there are some past comments that were made when there was a very dynamic move higher in some of the input costs that we actually went to the order book and repriced some of the order book to ensure that we had good margins. Can you help the investors understand how the order book is structured? Is it tied to committed volumes with committed price? Or is it more along the lines of the customers are looking for volume, but pricing is contingent upon where those raw materials are at any point in time when production starts? Or can you just help us understand some of those dynamics as it relates to pricing inside the backlog.

David Martin: Well, I would tell you that it's fairly calibrated with where our expected production costs and material costs are. We have -- you have firm order decks within a given period of time. It does vary across the business. And then there's forecasts that are out, and they can be repriced, particularly with where the aftermarket is. And in some cases, you price protect certain things. But in most of the case, it is -- it does move with where -- how our production costs are going to flow. And we plan for that, and we

communicated with our customers regularly about where that's at. And in the environment that we've seen in the last year with the spike in raw materials, that's been very dynamic, and our customers understand. And we've been working with it. It's going to work the same way as it went when it went up as it goes down or at least plateaus at least for now. So again, you can't just make a generic statement as to that. It's a lot of -- on the OE side, it's customer by customer. And we do -- I think our teams do a great job making sure that our customers are aligned with where our costs are. And so we can make sure that we're both -- they're getting products, and we're making the right margin that we need to.

DeForest Hinman: Okay. I understand. And then on low sidewall tires, I think we've spent years trying to educate the AG community in terms of the benefits of those tires, compression of the soil. And then there was some period of time, we talked about fuel savings over time. We're seeing a pretty high spike in the price of diesel fuel. Does it make the sales pitch for low side wall tires even better than it's been over the last few years? And then just from a very high level, if we're selling more low side wall tires from a mix perspective, is that beneficial to gross margin performance? And then I have one question after that.

Paul Reitz: Yes. I mean the low sidewall product has really developed a strong reputation through the years. But to your comment and question, I mean, the rapid rise in energy prices certainly helps the cause for low sidewall. But to be honest with you, we feel very strong about the way that product is already positioned in the market. It's proven itself consistently time after time. And again, I think that energy situation will only help that sales pitch. But we don't necessarily need that to have a good sales pitch is basically what I'm saying. So we are very impressed with the performance, of low sidewall as far as the low sidewall product as far as what it means to our financial results, it is a premium product. It's priced in a way that's beneficial to the company, but it's also a win-win for the end users. It makes their equipment perform better. So really, ultimately, it's to the satisfaction of end-user that's going to drive the financial performance of LSW and so far for the end users and for Titan. It's been a tremendous product and a tremendous platform for our company. And certainly, we see that continuing to build into the future.

DeForest Hinman: Okay. Thank you. And then just can you clearly lay out what the capital allocation priorities are? And the reason I'm asking that is, you have done a very good job improving profitability and the debt metrics have definitely moved in the right direction. You have made a bond transaction to term out your debt, there doesn't really seem to be a big urgency to lower debt, but I don't want to put words in your mouth, but you're coming into a situation where high level problem, lots of free cash flow, you kind of laid out a capex story for next year. You start to dot the I's and cross the T's. There's a lot of

free cash flow. So as a shareholder, can you explain to me what your -- what you plan to use it for going forward.

David Martin: Yes. It's obviously a deep question. We have had a lot of discussion at the Board level strategically about where we can go in the future. And there definitely could be some opportunities on how we can grow for the long-term and invest. And those discussions are ongoing. Again, we very quickly come from a tough situation to a very good situation. And so it's all still very fresh. We obviously can't just sit still and think about, OK, we've done a good job. What do we do now. But -- so it has been ongoing. Again, it's going to be about investing for growth in the future. And that could come in the form of a number of different things, which could include acquisitions as well. We can't deny that, and we want to be very focused on what could be something that's very, very central to the core business that we have.

And I think that's where we're going to focus. As far as debt goes, yes, we'll be able to take advantage of some of this free cash flow to pay down some of the, call it, the lines or the term debt that we have outside of the United States. We still have about $30 million outstanding on the ABL, and we'll do that as well. I do feel like we want to -- I mean, at the same time, this debt is also very cheap. I'll just say that. And so we will play that out and determine what's best for us and where to use that cash most beneficially in the business. But again, it's all about investing into the core business that we have.

DeForest Hinman: Okay. Thank you for taking my question.

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

Paul Reitz: Yes. Thank you, everybody, for your time and your attention today. Certainly, we're proud of our accomplishments, our performance this quarter and really throughout 2021 for that matter. I look forward to touching base with you all soon. Take care. Have a good day. Thank you.

Operator: [Operator Closing Remarks]