Titan International, Inc. (TWI)
Transcript of Q4 2022 Earnings Call and Webcast
Tuesday, February 28, 2023 9:00AM ET

Company Participants

Alan Snyder – Vice President, Financial Planning and Analysis
Paul G. Reitz - President and Chief Executive Officer
David A. Martin - Senior Vice President and Chief Financial Officer

Conference Call Participants

Steve Ferazani - Sidoti & Company
Larry DeMaria – William Blair
Kirk Ludtke - Imperial Capital

Presentation

Operator - Good morning, ladies and gentlemen, and welcome to the Titan International Incorporated Fourth Quarter 2022 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation. [Operator Instructions]

It is now my pleasure to turn the floor over to Alan Snyder, Vice President, Financial Planning and Analysis for Titan. Mr. Snyder, the floor is yours.

Alan Snyder - Thank you, Forum. Good morning. I'd like to welcome everyone to Titan's fourth quarter 2022 earnings call. On the call with me today are Paul Reitz, Titan's President and CEO; and David Martin, Titan's Senior Vice President and CFO. I will begin with the reminder that the results we are about to review were presented in the earnings release issued yesterday, along with our Form 10-K, which was also filed with the Securities and Exchange Commission. As a reminder, during this call, we will be discussing certain forward-looking information, including the company's plans and projections for the future that involve risk, uncertainties and assumptions that could cause our actual 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, 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 the reconciliation of the non-GAAP measures to the most comparable GAAP measures.

The Q4 earnings release is available on the company's website, a replay of this presentation, a copy of today's transcript and the company's latest quarterly investor presentation will all be available soon after the call on Titan's website

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

Paul Reitz - Thanks, Alan, and good morning, everyone. The Titan team closed out 2022 in excellent fashion with fourth quarter results that push us up over the top for record performance in terms of sales, profitability, and cash flow. How'd we get to this point? It really comes from our global One Titan team that continues to be energized by working relentlessly to engineer and manufacture our market leading products that simply make off-road equipment perform better.

Really, our vision and strategy as a company is formed by that premise, and it serves as our guiding light throughout our organization. A core concept of achieving on our vision and meeting the needs of our customers is through our strong technical connection to end users of off-road equipment, especially in agriculture.

At Titan, we have a culture here that is centered around living and learning by playing in the sandbox with end users and really understanding their needs and then bringing that information back into our organization. With that important knowledge, we then let our product and technical engineers run fast, develop, and also our operational teams manufacture these market leading products, and that really creates a cool and exciting place to work. This entrepreneurial culture, that is at the root of our company's foundation and has been for decades. We combined with our strong technical and manufacturing knowhow this flows vigorously throughout our day-to-day activities and is the backbone of the company that we are today.

Moving over to our financial results. We simply had an exceptional year. Our revenue reached $2.17 billion, 22% higher than last year, but actually 27% higher if you exclude FX in our Australian divestiture. Along with strong demand in our end markets, this demonstrates our team's ability to recruit, train, and retain people to grow volumes in a difficult labor market. Our 2022 gross profit hit 16.6% that led to an adjusted EBITDA of $253 million, which is a record year for Titan. We manage our cost structure effectively as well with our SG&A coming in a little over 7% of sales and only $2.5 million higher than last year in this inflationary environment that we live in.

Looking at the fourth quarter, we closed the year out well with $510 million in revenue, that's up 4.5%, and also the first time we have ever surpassed $500 million in Q4. As a reminder, this quarter is a period that is always impacted by holidays and plant maintenance shutdowns, so it's good to see our team get through that noise effectively to record gross margin of 15%, which compares to 12.8% last year. That led to our Q4 EBITDA of $53 million, which is our best fourth quarter in history. So overall, from nearly every angle you can look at, all of our business units had an excellent 2022, and I would personally and sincerely like to thank our global team for their efforts in recent years to achieve these accomplishments that I just had the honor of a highlighting.

I want to move over to our balance sheet now and spend a few minutes on the critical progress we've made there. A few years ago, David and I spoke quite a bit that one of our top priorities was to fortify our balance sheet and the two of us and the rest of our team really did a good job getting our management team around the world focused on that objective and over the past few years, we've done what we set out to accomplish.

In 2022, Titan generated $114 million in free cash flow. That's enabled us to achieve net debt leverage of 1.1 times. If you look back a few years ago, our working capital was around 27% of sales. Our Board, I do recall those days where our Board put an objective in front of us to get below 20%, and we've done that for the past couple years now. Most importantly, over the past few years of fortifying our balance sheet, we never stopped investing in product development and innovation as I noted earlier. This is the heart of the culture that what makes us tick, and we do not take our foot off that pedal. Therefore, by being strategic with our investments exiting and improving unprofitable businesses, and by having a motivated workforce moving in the same direction over the past few years, we have executed at a high

level to take care of our customers during these challenging times, and we've propelled our financial results to new levels, and we've also accomplished our crucial goal of fortifying our balance sheet.

So now looking towards 2023, it is reasonable to say the overall business climate kicks out a fair amount of noise at the macro level these days. However, when you look at our primary end markets, we are encouraged and believed they're still standing on firmer ground, especially the large AG segment.

The recent USDA report illustrates that corn and soybean supply demand factors along with the low stocks will bring good pricing levels into 2024 at a minimum. That will play a positive role in farmer's decisions about purchasing equipment, especially when they're going to get their hands on the latest precision AG technologies and not to mention getting their hands on our LSWs. The strong farmer income for recent years combined with that pent-up large equipment demand that is really still lingering from that supply chain and labor disruptions over the past couple of years, this along with continuing low levels of available used equipment, all continues to bode very well for 2023 large AG demand.

Flipping over and looking at small AG, it appears that inventory is starting to normalize to pre-COVID levels, along with the effects of some inflation slowing down demand in smaller horsepower ranges. These factors along with OEMs drawing down their internal inventory leads us to seeing a tapering of small ag demand in 2023. But again, it's still a good strong segment for our company.

Moving over to Earthmoving and Construction. Our businesses in this segment finish the year really strong. In fact, ITM, our undercarriage business had the best quarter in its long history. We see Earthmoving and Construction in a good position to start 2023 with mining aftermarket poised for good growth with solid commodity prices in place and the construction market having the backdrop of some infrastructure support kicking in at points throughout this year. So we look at this as again a continuation of a strong 2022 to start off 2023. So if you circle back to again to 2022 as exceptional year for the Titan team and the customers we proudly serve. As we turn that page into this year, we expect our financial performance to remain at a high level based on the overall healthy market conditions in our end markets. Farmers will continue to be supported by strong income levels and they have cash to spend on equipment and tires.

Weather conditions have been unpredictable, and that bodes very well for our LSW that continue to be the perfect solution for farmers looking to battle through those tough conditions or simply looking to make their equipment perform better and more efficient. Therefore, we do see our aftermarket demand continuing to remain robust.

We also expect to see certain OEMs drawing down their internal inventory levels that will make for a bit of a wild ride. So coming off of record 2022, we see 2023 as another strong year for Titan. And as the year progresses, we're looking to provide more information about our forecast and performance, but we're not going to provide a broad range of expectations on today's call.

In closing, it's really cool to see the quality and innovative products we build around the world every day. It makes for a fun and exciting place to work and be as I mentioned earlier, we also really as a company strive and on the fact that our products play an important role in meeting the involving needs of our customers and more specifically the end users.

Along with that, we have a strong footprint of manufacturing locations that are able to mitigate the supply chain risks that exist in today's complicated world. We continue to believe the key elements are in place to drive continued positive momentum for Titan.

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

David Martin - Thank you, Paul, and good morning to everyone that's on the call with us today. While we're now closing the book on 2022, and it was quite the ride for Titan, it's truly gratifying to see the success after all the hard work our One Titan team has put into moving the company forward. Financial success is just one aspect of those accomplishments of 2022. Our team has established new standards for operations planning, financial forecasting, and the most importantly, discipline and focus in the midst of tremendous volatility over the last number of years.

Now, let's walk through some of the key highlights for Q4 and our 2022 full year performance. Q4 sales continued to expand with our organic growth of almost 10% from Q4 last year after excluding the FX and the sale of Australia, which occurred in the early part of 2022. Our full year organic growth, excluding those same factors was 27%. Q4 adjusted EBITDA grew by $17 million or 46% from Q4 last year, and it capped off a record year for our earnings as Paul said earlier. Our full year adjusted EBITDA was $253 million, representing growth of 87%. Our earnings per share growth was also very impressive on both reported and adjusted basis. Adjusted EPS jumped from $0.14 in Q4 2021 to $0.44 in Q4 2022, and went from $0.60 per share in the full year of 2021 to $2.20 per share for 2022. Our cash balances increased by $43 million from Q3 on the strength of these earnings and the solid working capital management. And last, we paid down debt by $36 million in 2022 and grew cash by $61 million driving down net debt to $286 million. Our debt leverage now stands at 1.1 times. In Q4, we experience more traditional ordering patterns and our plant maintenance by customers and fewer production hours for our plants, particularly in the AG segment. It's normal seasonality and it was in line with what we expected. At the same time, it is important to see the continued expansion of top and bottom line relative to last year in Q4, which was a solid result by the team.

Now let's look into the performance at the segment level starting with agriculture. Agricultural segment net sales were $275 million, an increase of $10 million or 4% from Q4 last year, excluding FX and the lack of Australian sales, this growth was 7%. Volume and mix were fairly stable when comparing to last year and pricing was a big part of the growth. This primarily stands from increased costs of raw materials and other inflationary factors present in 2022. Again, we saw a return to normal seasonality across this segment of the business, and we also took advantage to prepare our plants for the needed production levels as we see increased demand in the first part of 2023. Full year organic growth for AG in 2022 was 30% compared to the prior year. Agricultural segment gross profit for the fourth quarter was $38 million, which was level with the result that we saw last year, while there was some negative impact from FX and Australia. The gross margin continued to be solid at 14% similar to last year.

Our Earthmoving and Construction segment experienced a very strong quarter. Overall, net sales for the EMC segment grew by $12 million or 7% from Q4 last year. Excluding those same factors I've been describing from last year, we were just short of the growth of $30 million or 16%. The majority of the growth for the segment was driven by increased volume, while there was increased pricing relative to raw materials and other cost inflation, most notably, energy cost in Europe.

Our growth came from all aspects of the global business, while ITM had one of its strongest quarters ever in Q4. For the full year, organic sales growth in the EMC segment was 24%. Gross profit within the EMC segment for the fourth quarter was $33 million, which represents an improvement of almost $13 million or 62% from gross profit last year. The gross profit margin in the EMC segment was significantly better at 17% versus the prior year at just 11%. Again, the largest driver of our increased profitability came from the increase in sales in the ITM undercarriage business, while growth occurred across all of our businesses in the geographies from last year, reflecting stronger demand in the global construction markets and solid market conditions and mining.

The Consumer segment in Q4 net sales were slightly down in Q4 compared to last year. Sales from the Latin American utility truck tire sales were lower reflecting some tightening of customer inventories in

the quarter. Like the rest of the year, our specialty product growth initiatives in the U.S. are taking off, most notably, our custom mixing of rubber stock, which partially offsets some of this decline. For the full year, the consumer segment experienced organic growth of 24%. This segment's gross profit for the fourth quarter was solid at $5.8 million and gross margins were 15%, improving nicely from Q4 last year. This improvement in dollars and margin are primary reflective of positive mix of products, again, most notably growth from specialty products in the U.S.

Our SG&A and R&D expenses were $33 million in the Q4, which represented 6.5% on net sales in line with previous quarter's performance and the full year. For the full year, our SG&A and R&D cost rose less than 1% compared to the prior year. With our growth in sales, this provided very solid leverage on our overall improved profitability and our margin.

This was an interesting quarter for our reported taxes on income with a benefit of $16 million. During the fourth quarter, we were able to release valuation allowances of nearly $29 million for U.S. and federal state taxes related primarily to prior net operating losses. Due to the strong performance over the last several years and the company's projected performance ahead, we are now in position to utilize these net operating losses. When you exclude the impact of the valuation allowance release that we did in the fourth quarter, income taxes as a percent of pre-tax profits were 25.7%. Our cash taxes for 2022 were approximately $24 million for the full year.

While earnings has been spectacular, it has translated into exceptional cash flow performance. Free cash flow to up $44 million in Q4, and a tremendous number of $114 million for all of 2022, which is well above any year in our history. We also exceeded our previous guidance of $100 million coming from improved working capital management in the quarter. This drove our overall cash balance to $160 million at the end of the year. Our capital expenditures for 2022 were $47 million, and it was in the middle of our guidance range for the year. Our focus has been on ongoing maintenance in our various plants, along with investments to bring about increased efficiencies and selected capacity expansion. Along with tooling related to product innovation and other improvements, particularly in large AG. As I mentioned at the outset, our net debt leverage at the end of December improved to1.1 times trailing 12 months adjusted EBITDA down from 1.4 times at the end of Q3 and 2.9 times at the end of the year.

Now moving broadly to our outlook for fiscal 2023, we're coming off a record performance in 2022, and I truly believe that the underlying and mid and long-term demand drivers of our business remain very solid. As you heard today from Paul's comments, the business environment remains somewhat uneven in the near-term. We do expect our performance to remain at a high level supported by overall healthy market conditions in all of our end markets. We also expect to see stability in gross margins and we'll continue to control our operating costs. And that should translate into, again, very strong free cash flow performance for this year. Our working capital should also remain stable and our capital expenditures should be in the range of $55 million to $60 million. This increase in CapEx reflects multiyear capital programs in place to manage the maintenance, as I talked about earlier, in a very organized way, and to improve the efficiencies with continued selective capacity expansion of our global production facilities and continuing tooling of improvements from product development.

With this expectation for continued strong cash flow, we expect that our credit statistics to improve. We will be in strong position to enact our strategic initiatives for growth and improving returns. This will include potential stock repurchases, which will be focused on supporting the stock when we need to. It is also potentially could include focused core acquisitions and joint ventures as they present themselves. We will be proactive in this area while remaining focused on building on the strength that has been obtained with our performance.

Now I'd like to turn the call back over to Forum, our operator for the Q&A session.

Question-and-Answer Session

Operator - We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Steve Ferazani with Sidoti. Steve, your line is now open.

Steve Ferazani - Good morning, Paul. Good morning, David. Appreciate all the detail on the call. You cited seasonality typical maintenance work around some of your plants and typical holiday shutdowns. But EMC ran really hot this quarter. You can see, given that it was Europe, that it's – ITM was the factor. Why didn't we see any of that impact to that particular business? Is that just because it hasn't ramped up as fast so far?

David Martin - Yes. You'll note that during the year, it's continued to ramp, it's been a little bit different in the seasonality that the AG side of our business did. Earlier in the year, it was kind of – it was slower as we were coming out of the prior year it was a little bit weaker as well. So it's been a momentum thing for the business as well. And again, high level production really solid pricing in place to manage a lot of volatility. And so we not only see the top line growth, but we're seeing the margin expansion as well. AG has been running hot, as we know through 2021, and we saw it all the way through the first half of 2022. And you started to see a little more return on the seasonality front as we headed into the end of the year.

Paul Reitz - Yes. One thing keep in mind, Steve, I mean, during the pandemic, our ag related businesses were deemed critical infrastructure around the world. So North America, South America, we had to keep running hard, like David alluded to. And we'd reach a point operationally where we needed to pull some days out and get focused on some maintenance. So we would be prepared to start 2023 in a good position.

Steve Ferazani - Makes sense. When we heard from some of your large customers through this earnings season, they certainly noted continued supply chain issues, component shortages that you don't have. Are you running ahead of your customers? Is that turning into a bit of an issue as we see this cycle extend, but clearly some of your larger customers are continuing to have supply chain issues?

Paul Reitz - Yes. Steve, I mean that's – you kind of led into a pretty good explanation for why at this point, we feel that putting out a broad range of guidance just isn't the way to approach things. I mean, we have a strong internal forecast, like you said, the market has a great backdrop. The OEMs all confirmed that over the past couple weeks. But to your point, one of the things we're seeing is that their supply chains are starting to get caught up. So what does that mean for us? The OEMs have a lot of partially finished equipment that is on their lots in their inventory. And what I have heard and what we've seen is that Titan has done a very good job in 2022 and even going back before that, but specifically we've done a good job throughout 2022. That means that partially finished equipment already has wheels and tires on it. So as they work to get their supply chain caught up in other aspects of components that those deliveries are starting to come in, it's creating this murkiness in our forecast. I mean, we have customers and when I say, murkiness in our forecast, it's wheels and tires assemblies, it's North America, South America. So this is a broad range perspective. This is not a micro issue related to Titan.

This is bigger picture. What we're seeing is they got inventory that they need to move, they're going to move, it's already got wheels and tires. They got some inventories of wheels and tires, and they need to get the two more imbalanced. And so we're seeing some forecasts that are moving all the time. Again, this is broad, big picture North, South America. And we just need some time to work with our customers, get those forecasts in line, get them stabilized. We will be able to adjust our operations accordingly. But we are going through a number of revisions of those forecasts, and some of them just don't make sense, Steve. I mean, that's the hard part is we look to the second quarter, we're seeing some forecasts that just don't make sense and we're working with the customers that say, well, look, let's take a look at it and work together to moderate some of these fluctuations that you're building into your forecast. And so

literally every day, we're seeing changes to it. But a lot of it's driven by what you said. I mean, these supply chains are very complicated at the OEMs, as they've kind of turned the calendar into 2023. They've been focused on getting the supply chain caught up. They're focused on getting that partially built inventory off their lots, drawn down some of their inventory. And so you throw that all together. I mean, we believe 2023 is in a good position. It's starting to year off strong. But at this point, we're going to let the inventory situation settle down and then we'll provide some updated information as those customer forecasts become clear.

Steve Ferazani - Sure, that makes sense. That makes sense. Can you give us a peak on how Q1 is playing out since we're two months in?

David Martin - Yes, it's a pretty good start. We've had a very good January and February across the business. And so yes**,** I can't say, a whole lot more than that obviously at this point, but it's a very solid start.

Steve Ferazani - Okay. And then on another really strong free cash flow quarter you didn't pay down debt, obviously you have over $150 million on the balance sheet now CapEx up a little bit, but as you noted, you still should be looking at a pretty strong cash flow year. Anything you want to offer in terms of capital allocation?

David Martin - Well, what I said in my remarks earlier was that we would be looking at opportunistic acquisitions, joint ventures, things like that, things that can continue to grow our business and our core markets. Again, these things don't always come at the times that I can't really give you any strong forecast for exactly what that is. But being a market leader that we are, we have opportunities, and we will continue to pursue those things that make sense for us. We will be supportive of the stock on the stock repurchase program as we need to. It's not like we're going to be in the market every day buying stock, but as we need to support the stock, we will do so with that. And so we will continue to be building cash for in the meantime and be looking at ways to improve our returns very proactively.

Steve Ferazani - Okay, Paul, David, thanks for all the answers, responses.

David Martin - Thanks, Steve.

Operator - Our next question comes from the line of Larry DeMaria with William Blair. Larry, your line is now open.

Larry DeMaria - Hi, thanks. Good morning everybody. So first just follow – hey guys. Follow up on the last question. I mean, from where we stand now, two months through 1Q, will we anticipate 1Q to be up, down, flat from a sales and EBITDA perspective? I would imagine we have some visibility on that.

David Martin - Well, I will say that, know we still have March to go here, but we're off to a solid start comparatively to last year.

Larry DeMaria - Okay.

David Martin - We can't give you a specific number yet, but it is – from the – all the critical numbers we are continuing to grow.

Larry DeMaria - Okay, that's good to hear. Thank you. And secondly, I think you mentioned in prepared remarks, when talking about CapEx and capacity expansion, can you just maybe delve into that a little bit more, because obviously we're talking about some mixed signals in the market and then some global capacity expansion. So could you just sort of delve into that a little bit more?

David Martin - Yes. Larry, I'll take that and let Paul chime in if he needs to. But when we talk about selective capacity improvements, it's really surrounding large AG in large radial. And so we will focus our efforts on making sure that we have the capacity to run LSW, particularly here in the U.S. and Latin America. So we are very focused on that and because we see demand continuing to rise with respect to that sector of the market. And so over the last couple of years we've put in programs that have been in place and we continue to follow that program. So yeah, very simple.

Paul Reitz - And going back to some of the comments I made earlier, I mean, it's the culture of who we are as we're going to adjust to the changing needs of our customer base and we're good at understanding the needs of the end users that our customers serve. And we do not stop with product development. So some of that capacity increase is just really looking at our product portfolio and finding out where we can make that portfolio stronger. And we've consistently been doing that and we will continue to do that going further along with, like David said, expansion in large radial.

Larry DeMaria - Okay, makes sense. And then last thing, obviously, there's a – I just wanted to get your color on international broadly from your Russian business, maybe a reset on there and what's going on. And then secondly, how important is this release letter on the Indian imports and a Russian oil, obviously. Could you just give us some discussion around how important Indian imports have become? And then secondly, just an update on your own Russian business. Thank you.

Paul Reitz - Yes. I mean, the Indian imports is really the similar situation that we've been talking about in the marketplace to seen for a number of years. We go to Washington, D.C. this week and we have the Sunset Review on the case that we put in front of the ITC five, six years ago. We did get a positive confirmation from the ITC when this case was initially filed five years ago, and now it's up for that Sunset Review this week. And again, we feel that the facts and circumstances that we presented five years ago are very much still the case. Along with the additional information that we put out in the press release yesterday pertaining to the use of Russian petroleum products in tires that are produced in India that then are exported into the U.S. And so really what that, that letter that we released is addressing is a case again, Larry that's been out there for five years and goes back to the original filing that we made in front of the ITC. So it's not a new situation with India that's changed but again, I – as we stated in that press release, I mean they are taking Russian oil, which has been sanctioned by President Biden. They're buying it at a discount as their economic minister has stood in front of the entire world and said they're going to do what's best for their citizens. They do not care about any sanctions that are in place. And you look at the amount of oil they have been purchasing, it's gone up nearly 10 times in the past year. And as we all know, oil byproducts are a big part of what goes into a tire in the form of carbon, black and synthetic rubber. So therefore those tires, as they're converting those Russian oil byproducts into tires, they're importing them into the U.S.

And so again, it's a combination of the case that we've previously filed with the ITC regarding Indian imports, and we were victorious in that five years ago. And you combine that again with what we feel is complete bypassing and going around the presidential sanctions that have been put in place. And so nothing's really changed other than the fact that again, we got to go do that Sunset Review this week, and we feel that it's even more the case that they're operating unfairly with bypassing the presidential sanctions. And we do have the support, as you saw in the letter from the USW, I think that's the most important thing, Larry, that I want to hit on is that the folks that build our tires at Titan are represented by the USW, and then it's an exceptional group of people.

They're highly trained. They work their tail off and they're good at what they do. And so from our perspective, and the USWs, when you are bypassing the presidential sanctions, you're hurting American jobs. And if you go back two years ago, I mean, one of the big mantras of the current administration was that they were going to product industrial jobs in the unions. And so again, we have worked with the

union and the head of the union, and we feel that our message there is pretty clear. It's completely bypassing the presidential sanctions. So with that, our Russian operations, we do operate within all the sanctions that are put in place. We have been from the onset, we continue to do that. The plant is operational. We do not export from that plant. We do not into markets that are bypassing sanctions like I mentioned with India, we do not supply the military. There is no cash going in, no cash going out.

And at the same time that business serves a critical need of the global supply chain of food and agriculture. So really nothing has changed with that business, but we do continue to operate and follow all sanctions that are in place.

Larry DeMaria - Okay. Very clear. Thank you, Paul, and good luck this year.

Paul Reitz - Thanks, Larry.

David Martin - Thanks, Larry.

Operator - Our next question comes from the line of Kirk Ludtke with Imperial Capital. Kirk, your line is now open.

Kirk Ludtke - Hello, Paul. Hello, David.

David Martin - Hey, good morning.

Kirk Ludtke - Thank you. Thank you for the call. Just to follow-up on the Indian tire imports, do you know offhand how – what percentage of the U.S. market these Indian tire imports have?

Paul Reitz - Not off the top of my head, no. It's really hard to get that clear data. I know there's a publication – a industrial publication that puts out tire data. We have not participated in that since I think 2014. We found some inaccuracies in the data that was being compiled there. So no, I – we don't have accurate information on that. Other countries, I know in Europe and Brazil, you're able to kind of use some government statistics to pull that together, but in the U.S. not specifically able to give you an answer on that. If we come across it, maybe this week we might come across it with our ITC review. But I don't have it off the top of my head right now.

Kirk Ludtke - Okay. That's fine. Yes. I can imagine it can – tires can originate in India and go through any number of countries before they get here, so it's probably pretty tough to pin down. With respect to input costs, I noticed a pretty big spike in hot-rolled coil in the last week. And I know that over time, you've talked about your ability to pass through input cost increases onto customers, and that, that seems like you were making some progress there. Can you maybe talk a little bit about how your contract protection has changed if it has with respect to passing steel on – steel price increases on?

David Martin - Yes, Kirk, I'll take that into couple different angles. One is, we carry less inventory than we used to from a raw material perspective. We also have tightened up our contracts with our suppliers with respect to trying to make sure that we're not hitting spikes in peaks and valleys with respect to the steel because it's been very volatile over the last couple years.

And so first of all, we've tightened up the supply side so to prevent any major movement one way or another. And then that's enabled us to also to work with our customers to tighten it up on the pricing end so that we have again less volatility overall. And we do have contracts that are in place and we have them, they're changing typically either every 90 days or – and sometimes there's lags on how that index is used for purposes of pricing. So we got any number of ways to combat volatility. As we know, as we went through 2022, we were seeing a very strong drop in pricing on hot-rolled coils as well. So if you think

about that in the U.S., it's been pretty volatile and we were able to manage it through 2022. And we fully expect with the actions that we've taken that we'll be able to lessen the volatility with respect to how it flows through our production.

Kirk Ludtke - Okay. Thank you. I – so I guess input costs were a tailwind in 2022. Is that safe to say?

David Martin - Well, not on the tire side. We've had elevated costs throughout 2022 that we're able to manage, and you can see that our margins have been pretty solid with all that. And I would say right now it's become more stable as we enter 2023 than it was throughout 2022. In our assurance of supply is actually getting a little bit better as well. So I think as we look forward, I think we're in really good shape with how we're going to be able to manage those input costs. At the same time, we do face inflation on things such as labor and other areas as well that we're trying to manage as well. But as far as raw materials themselves, we think – again the actions we've taken to manage on both on the supply side and the pricing side have lessened our – the amount of volatility that we could see from that.

Kirk Ludtke - Got it. Thank you. And then lastly, on the capital, back to the capital allocation question, just for a second one follow-up. You mentioned opportunistic acquisitions or JVs – and/or JVs. Which side of the business are you – where are you seeing the opportunities?

Paul Reitz - I think we're in a good position where it could be in a number of different areas across the spectrum of customers and products that we produce AG mining or construction, but it will stay within our core. So we'll be able to leverage that in a way that will be beneficial. We are not looking to reach and expand in ways that, again, don't fit in from a – and it's not just in a cost synergy, but it's our ability to better serve the marketplace and take care of our customers. That's – those are the synergies that we would expect to get and where we're looking.

Kirk Ludtke - So it would be focused on improving the range of product.

Paul Reitz - Range of products and/or distribution, both of those products, correct.

Kirk Ludtke - Okay. Got it. I appreciate it. Thank you very much. Congratulations on a fantastic year.

David Martin - Yes. Thanks, Kirk.

Paul Reitz - Thank you.

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

Paul Reitz - I just want to thank everybody for your participation in today's call and really look forward to giving you an update at end of our first quarter results. Thank you. Have a good day.

Operator - Thank you for attending today's presentation. The conference call has now concluded.