Titan International, Inc. (TWI)
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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
Kirk Ludtke - Imperial Capital
Larry DeMaria – William Blair

Presentation

Operator - Good morning, ladies and gentlemen, and welcome to the Titan International, Inc. First Quarter 2023 Earnings Conference Call. [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, Matt. Good morning. I'd like to welcome everybody to Titan's first quarter 2023 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-Q, 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 risks, 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 Q1 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. Over the last few years, we have spoken extensively about the strengths, execution and impressive performance of our 7,000-plus One Titan global team. Titan's entrepreneurial spirit guides our vision, strategy and culture, which leads us to a strong technical connection with our end users of off-road equipment. That transforms itself into significant value for our customers as we consistently engineer and manufacture market-leading products that make off-road equipment perform better. Our financial results for 2021, '22 and the first quarter of '23 illustrate the strength of our One Titan core values and how we have operated effectively in challenging times to meet the needs of our customers to drive strong financial performance.

Myself, our board, our employees have always believed that the foundation of our plants, people, products and entrepreneurial can-do culture is strong at Titan. But if you look back a few years ago, our financial performance and balance sheet were not where they needed to be. At that time, we developed and then implemented a strategic plan to drive growth via product development, improve our portfolio through divestments and by reorganizing several of our businesses and plans to improve profitability and to fortify and reposition our balance sheet. Flash forward now to 2023, we have executed successfully upon each and every one of these initiatives and have even surpassed many of them.

I'd like to take a few minutes and add a little more color to each one of those thoughts. First, we haven't just strengthened our balance sheet, we've transformed it. We did this by significantly reducing net debt, effectively managing working capital and generating strong cash flow. Our balance sheet has shifted from being a drag to an asset, an asset we believe that can be leveraged to support future growth.

We have driven growth over the past few years by introducing numerous innovative products into the marketplace, which we regularly highlight on our annual reports and on our website to showcase how we help our end users' equipment perform better, because they choose to use Titan, Goodyear or ITM branded products. Our market-leading LSW wheel/tire assemblies continue to increase in popularity and our patented Waffle Wheel is growing at a rapid pace in Europe. Our continuing commitment to innovation shows the connection and trust we've developed with our customers, and this will be critical in supporting our future organic growth initiatives.

If you look around, we've also divested and restructured underperforming businesses and plans to improve our profitability. For example, we've improved our Australian tire and wheel business. First, we improved its profitability, and then we were able to divest it for $20 million. We have shuttered an unprofitable OTR wheel plant. We've reorganized products and operations of our U.S. OTR tire plant to restore it to profitability and success. And we've improved our TTRC operations to make that an attractive asset in the marketplace.

These strategic initiatives helped us successfully tackle the unique challenges of the past few years with the pandemic and supply chains. As we all know, many of these are truly unique events and circumstances we couldn't have planned for, but it's the execution against our plan that allowed us to deliver on our commitments, meet the intense demands of our global customers and rise above the headwinds.

But most importantly, during this period, we have enhanced our competitive position. We've grown market share. We've set new heights for financial performance, and we've repositioned the business for long-term success.

Despite all these significant improvements to Titan's fundamentals, our stock continues to lag our performance and trade is now at around 3.5x trailing 12 months adjusted EBITDA. I fully realize as everybody else on this call does that stock values are based upon future performance and cash flows. However, it is clear based on the new heights and performance we achieved that Titan has built a stronger company for the future. We are going to spend a lot more time talking about this going forward, and I believe it will resonate with you as well.

Moving over to our first quarter results now, I am pleased to report that our adjusted EBITDA was $68 million on healthy sales of $549 million. This is up approximately 2% that excludes FX in our Australian divestiture that I mentioned earlier. Our gross profit performance was also very good. We managed SG&A effectively, and this led to a strong adjusted EBITDA performance. Our free cash flow was elevated again at $12 million for this quarter. Working capital continues to be well managed at an impressive level of 20% of sales. That has been our long-term target set by our Board a number of years ago. And all of this drove our net debt down to $273 million this quarter. Quite simply, our financial performance was excellent again this quarter. Our balance sheet further strengthened, and let us not forget that was on top of very strong 2021 and 2022 performance. Our One Titan team continues to execute well, and I want to thank them for their hard work and commitment.

So if you look, we've clearly gotten off to a strong start for this year. Like I said last quarter, and I'll say it again this quarter, it's reasonable to say the overall business climate continues to kick out a fair amount of noise. You look at the macro level, you're getting hit with inflation, consumer confidence, supply chains, geopolitics and on and on. The biggest factor we face is how our customers are dealing with managing their supply chain inventory, and we are seeing them take actions to reduce levels. This will impact our production levels for a part of 2023. But let us not take our eyes off the bigger picture. The large AG segment is still standing on firm ground with stronger farm income, low grain stocks, there's equipment that's needed to meet new demand, along with that, there's equipment that's needed to fill used and new dealer inventory. ITM, our undercarriage business had its best year in its long history in 2022, and we're seeing the Earthmoving and Construction segment continue to have a strong favorable backdrop, along with a good start in Q1, we're seeing Earthmoving and Construction in a good position for the rest of '23. Mining aftermarket is poised for growth, non-residential construction market is in a good place, and it always has the backdrop of infrastructure support behind it.

Moving beyond the short term, I do want to provide some framework and context around, who we are, what we've done and where we're going in the future as, I feel this is extremely important to understand. Titan continues to have numerous opportunities to drive growth. The core of which is our ability to win via product development and innovation. We are confident and remain passionately committed to continuing to innovate and bring new products to the market that exceed the demanding expectations of our customers and, of course, the end users. The products we manufacture are essential to the industry and customers that we serve. We have definitely seen that over the last few years. Titan has and does continue to demonstrate its ability to serve as a reliable supplier that can mitigate the risk of supply chains around the world, and we do that despite the ongoing dynamic operating conditions that exist. This strong combination of product innovation, operational agility and a well-positioned global production footprint positions Titan well for the future so that we can continue to evolve and grow with our customers' needs. I'm going to give just a brief example of what that looks like; the evolution in Turkey. I think a lot of people may forget that's the world's 5th largest agriculture market. We have launched the Goodyear Farm Tire brand there. It's into that marketplace in a successful manner. And you combine that with the strength of our existing wheel plant in Turkey. It enables us to grow even further because now we can do what Titan does very well, we can deliver wheel tire assemblies to the OEMs.

Here at Titan, we have spent decades building a strong collection of brands to support our high-quality wheel tires and undercarriage products. We view our brands as the heartbeat of our company, and we work diligently ensuring that they endure a healthy position into the future. For example, we have improved our cost of quality in North America in our tire business by over 60% over the last 4 years from 2019 to 2023 versus the period of 2010 to 2015. This meaningful improvement supports exactly what I just said. It has strengthened our Goodyear and Titan Tire brands. It's improved our plant operating costs. It's reduced wasted raw materials. And of course, that's helped from an ESG perspective as well.

So let me wrap things up here. In recent years, as I've said many times, our One Titan team has done an exceptional job. We have reached our stated goals. We have tackled challenges to serve our customers, and we have driven improved financial performance. I already stated that I believe our financial performance justifies a trading multiple higher than where we are today. But I also want to emphasize that we believe the floor on our financial performance during the next cyclical downturn is higher than what our historical financial performance would suggest. We have fundamentally changed the business, our competitive position and our balance sheet, all of which makes us a much more resilient and opportunistic company during short-term down cycles. We will update our investor materials to reflect that and the message is to continue to amplify the message I am delivering today to illustrate the positive changes and actions that have taken place at Titan to drive long-term value for our customers and shareholders.

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

David Martin - Thank you, Paul, and good morning, and thank you for everyone joining us today.

I'm pleased to report another quarter of strong financials as we continue to benefit from the collective contributions from our One Titan team to advance our performance. I talked about this last quarter, but it is worth repeating, our team has established new standards for operations planning, financial forecasting and most importantly, discipline and focus. In the midst of volatility, that has created a stronger foundation for us as we move forward.

Now let's review the key highlights for the first quarter compared to the same period last year. Sales remained at a high level at $549 million. We achieved continued improvement in profitability with gross margins of 17.4%, an increase of 180 basis points. Net income increased by 36% to $33 million, and we reported EPS of $0.50 and adjusted EPS of $0.53, increases of 35% and 20%, respectively. Adjusted EBITDA of $68 million increased 19% and was our highest first quarter performance since 2013. We continue to strengthen the balance sheet with $12 million of free cash flow, which increased our cash balances to $164 million. Notably, this was the first time since 2014 that Titan generated positive cash flow in the first quarter. Additionally, we further reduced our net debt leverage to 1x.

Now let's talk about the performance at the segment level, starting with agriculture. AG segment net sales were $306 million, which was near what we achieved last year in Q1. When you exclude the impact of unfavorable currency translation and the effect of price mix related to the steel market and freight declines that we passed to customers, we experienced slight growth from volume. We continue to see solid demand in the segment from the continued robust farming market backdrop. Our European sales were particularly strong in the segment this quarter.

The Agricultural segment gross profit for the first quarter was $49 million, an increase of $1.3 million compared to the first quarter a year ago, and the gross margin increased to 16.1% versus 15.5% last year. The improvement in gross profit and the margin was due to cost reduction and productivity initiatives across our global production facilities as well as lower input costs. Again, we have expanded margins from year-to-year.

Earthmoving and Construction net sales were comparable with prior year and at a very robust level. The slight decrease in net sales was partially offset by favorable sales volume and price and product mix across the segment. The sales volume increases were primarily in Europe, North America and Latin America and were mainly due to recovery in the construction markets and strong mining commodity prices. Excluding the FX impact and the disposition of the Australian wheel business, EMC sales grew by 5%. Our ITM business had a very strong quarter and one of its best quarters in history coming from robust market conditions globally.

Our gross profit in the EMC segment for the first quarter was $37 million, which represents an improvement of $6 million compared to first quarter last year. What's more important is our gross margin reached 18.6%, which is a very strong quarter of performance for this segment. The increase in gross profit and the margin was primarily driven by continued improvement in production efficiencies from the strong actions we took to improve long-term profitability levels across the business, and this came from all of our regional businesses, but most notably, ITM in Europe and Latin America.

Consumer segment net sales in Q1 were slightly lower than last year. The decrease came due to the lower sales volume, mainly in Latin America and Russia. More specifically, in Latin America, demand for light utility truck tires was lower in the quarter while declines in other geographies were related to the shift in focus to AG and EMC. Our third-party specialty custom mixing operations in the U.S. performed very well with growth of 20% year-over-year.

Consumer segment gross profit for the first quarter was $9 million, an increase of 22%. Gross profit margin expanded to almost 21% compared to 16.5% last year, driven by positive product mix, most notably the custom mix in the U.S., which carries stronger margins.

Our SG&A and R&D expenses in the first quarter were $37.5 million compared to $39 million last year. That represents 6.8% of sales, and that's lower than where we were a year ago. This decrease was primarily driven by the disposition of the Australian wheel business in the first quarter of last year and strong cost control by our business.

Income tax expense for the quarter was $14 million compared to $9 million last year due to higher pretax income in the countries with higher tax rates, resulted in an increase in our effective rate to almost 30% compared to 26% last year.

Our strong earnings performance continues to translate to free positive cash flow. Free cash flow in the quarter was $12 million, which was our strongest first quarter free cash flow generation since 2012. The total cash grew by approximately 4 million to 164 million, while we also paid down $11 million of debt and repurchased $1.3 million of common stock during the quarter. CapEx for the first quarter was around $12 million compared to almost $8 million last year. CapEx will support our multiyear capital programs in place to manage maintenance in an organized way and to improve efficiencies with selective capacities, expansion in our global production facilities and continued tooling improvements from our product

development efforts. We are on track with our full-year guidance of 55 million to 60 million in capital expenditures.

As I mentioned earlier, our net debt leverage at the end of March improved to 1x trailing 12 months adjusted EBITDA, down from 1.1x from the end of last year and down from 2.6x a year ago at this time. This is an incredibly important as we pursue future growth and improved returns with a stronger balance sheet.

We continue to expect our financial performance to remain at a high level in 2023 due to the healthy market conditions globally across the markets we serve, particularly in large AG. Additionally, we remain keenly focused on navigating the near-term impact stemming from the inventory adjustments within our customer base and mitigating these effects by temporarily adjusting our production schedules to align with our customers' needs. I expect that the improvements in how we manage the business will translate in continued strong performance going forward. We'll provide updated information about our forecasted performance as the inventory situation normalizes throughout the year.

We also affect free cash flow to continue at a high level based on the continued expectations of strong EBITDA performance and stable working capital.

Year-to-date, as of April 14, we opportunistically repurchased 310,000 shares for approximately $3.3 million under the $50 million authorization. We firmly believe our share price is deeply undervalued and does not reflect the transformative actions that we have taken significantly to increase the profitability profile of Titan and our capabilities for the future. We expect to be more aggressive with repurchases in the next quarter as cash flow remains strong, and we firmly believe in our prospects and our stock is a good investment for the company.

For 2023, we anticipate continued cash growth with strong profitability and solid working capital management, as I've already mentioned. The question I get most often is what we expect to do with it. First, we will utilize cash for stock repurchases. There are no significant pieces of debt that we need or want to pay down this year, so we will have cash and credit availability to accomplish our growth plans, either through acquisitions, joint ventures, or internal capital investments.

Now to wrap up, Paul talked about this, but I just want to reinforce that our long-term demand drivers remain positive, supported by strong sector trends and key macro indicators, and we remain encouraged by the solid underlying fundamentals in our markets that we serve.

So thank you for your attention today. And now I'd like to turn the call back over to Matt, our operator, for the Q&A session.

Question-and-Answer Session

Operator - [Operator Instructions] The first question comes from Steve Ferazani with Sidoti & Company.

Steve Ferazani – Good Morning Paul, David, appreciate the commentary this morning. Obviously, the surprising numbers to us with the really strong margins in EMC and consumer given that you're not getting significant growth there, it just seems obviously surprising that the margins improved as much as

they did, particularly on consumer. If you can just kind of walk us through what you did there and the sustainability of those type margins?

David Martin - Yes, it's a great question. Start with consumer and then I'll hit EMC. Consumer is affected by a little bit of product mix. One of the key things is this custom mix that I mentioned in the U.S. grew 20% year-over-year, and that had a more significant component in the earnings for this quarter. So it will move around a little bit, but I do believe that you will continue to see strong margins in the segment. And moving forward, that's going to be a good -- it's a strategic initiative for us, and we're seeing nice opportunities in the market for us and to grow it in the future.

Looking at EMC, ITM is continuing on a really nice path. The momentum has continued as we saw in the second half last year, and we continue to see that in Q1. We see lower input costs to a certain extent, but we also have been able to improve our profitability through productivity improvements in our plants in good mix with the products that we're selling as well. So this is a very strong quarter for us that exceeded our expectations. But I think you'll see margins continue on a good clip this year comparatively in the segment.

Steve Ferazani - So do you think you can get margin improvement even if it's kind of a flattish revenue year potentially? And I know you're not guiding --

David Martin - There's always going to be give and take with respect to input costs and pricing and so forth. But ultimately, yes, it's pretty sustainable at these levels.

Steve Ferazani - Can I ask about cash flow. I mean, typically, Q1 is the weak one. We can go back for years and see its timing on receivables, but obviously, cash flow compared to the outflow last year, how are you thinking about cash conversion this year? I mean it should be much better in the remaining 3 quarters, fair, I mean based on previous seasonality.

David Martin - Yes, I think it will be pretty good. Obviously, in first quarter, we're typically building stronger -- sales were fairly flat, so we were able to maintain stable working capital. It did have an increase in AR this quarter, and that will be bode well for us in Q2 and stable inventory should be good for us. So you can convert a significant amount of EBITDA when you do that. So, we're going to be watching our inventory very carefully and we'll manage appropriately. So it should be pretty good. As we talked about last year, we grew cash despite pretty significant working capital growth from the growth we saw in sales. So when you see stable working capital, it should be a pretty good conversion.

Steve Ferazani - Have you ever had net leverage this low of 1x?

David Martin - Well, I haven't been here that long, but I think we have -- it's pretty good, yes. It puts us in a strong position to look at growth in the future and not have to play defense like we had to in the last 4 years, so --

Steve Ferazani - Absolutely. Update on the inventory adjustments, I know that's a concern given supply constraints that the OEMs have had, though, hopefully, that seems to be easing. We didn't see any impact or I can't see the impact in the revenue lines in terms of any significant inventory adjustments, but you're still not guiding. Are you still seeing significant risk there in the near term?

Paul Reitz - Yes. There's couple of angles to look at. I mean like you said, I mean, the markets are good. We're seeing that in our performance. Titan has and will remain close to our customers, and that's an advantage that I believe we have because we touch a wide range of customers across different spectrums around the world, different applications. And so with the tightened changes that we've made with our operational agility that David and I have highlighted today and we've been highlighting over the last few years, gives us the ability to react to whatever takes place in the market, but we are seeing a different situation customer by customer, Steve.

It's difficult to say what -- if there's one blanket statement that would answer that. So we are seeing customers that -- for a number of different reasons. And I would say the simplest way to look at it is their supply chain was ordering based upon our production schedule and customers were not hitting their production schedules. And I think that took place a lot in parts of last year. So from here going forward, we know how to adjust. We've been through situations not like this, but similar and will remain nimble, and we do see any type of inventory situation as a near-term issue, and we'll adjust and react accordingly.

But overall, the markets are still good. I mean, again, I think like you said, Steve, with your question, I mean, you look at the Q1 results, the markets are good, but there is going to be an inventory adjustment or drawdown that's going to take place that will impact our production schedules just in the short term.

Steve Ferazani - I mean, the reality is this just pushes along or extends the tractor replacement cycle, right, if they can't get parts and we're just pushing well into '24?

Paul Reitz - Exactly. I think our experience has been these cycles can be violent up or down. So having a more moderated pattern, which we've already seen and we're continuing to see, it is definitely a win in the long run.

Operator - The next question comes from the line of Kirk Ludtke with Imperial Capital.

Kirk Ludtke - Hello Paul, David, congratulations on another really, really strong performance. Paul, I think in your comments, you mentioned that you've put in place some structural improvements and that in a normal environment, earnings would be higher than they would have been all else being equal. Is there a way to quantify that, like go back to 2019, I think you generated $1.45 billion of sales and $38 million of adjusted EBITDA. What would that have been if these changes had been placed? I know it's a tough question, but --

Paul Reitz - Yes. Well, it's an important question. I'm glad you asked it. I spent a lot of time talking about it on the call today because it's something that I think is very meaningful, and we're going to spend a significant amount of time addressing that question going forward. What we're working on is being able to articulate a response to the question you asked and get that into our investor material so that it's easier for investors to comprehend the structural and significant changes that have taken place, because we do believe and we have support for that, that if you look back at our historical performance during a down cycle is obviously put stress on the stock price on the balance sheet, et cetera, all those things that we really spent a lot of time addressing earlier in our comments. So we -- right now, at this moment, it's not something that I can articulate verbally, but we are working and we will put material out there that will allow you and other investors to more easily comprehend the response to that question because, again, we do think the improvements that have taken place at the company are significant enough, and we'll warrant a better performance in cycles going forward into the future.

Kirk Ludtke - Got it, great. I think that will be very helpful. You mentioned very strong performance at both ITM and TTRC, both were --

Paul Reitz - Yes, strong performance at ITM. We've improved the operations at TTRC, so 2 different things. ITM is driving strong performance, a significant part of our earthmoving construction business. TTRC was a drag on the business that we've made some structural improvements to not have it be a drag and be more of an attractive asset versus a drag on the P&L.

Kirk Ludtke - Got it. Okay. So that's helpful to clarify that. I must have misheard that. But they were both divestiture candidates not that long ago. So I'm just curious, and I know you guys were in a much different situation back then. So are they both now core businesses?

Paul Reitz - TTRC is still a divestiture candidate. That is not a core business. And so that is an asset that we have, we will continue to look at that as a divestiture non-core business. ITM, that's different. ITM is performing exceptionally well. And you heard it in David's response to the first question in our comments today, they had the best year in the history of their long history. They make products that are important to the marketplace. It's a significant part of our Earthmoving/Construction business. To your point, it has been something that we've been approached for divestiture in the past. And as a public company, it was worthy of looking into that as a divestiture candidate. Clearly, the decision was made by the Board of Directors that it's a core business, and we're going to continue to invest and grow and expand with ITM, and that's exactly what we've done over the last few years.

So it's part of our core business. We invest in it, like we've been talking about on the call today for product development, for plant efficiencies, ITM is really in a good position in the marketplace and poised for future growth. So -- but again, as a public company, if somebody approaches us for a divestiture target, that's -- we're just being transparent with the shareholders to let them know that was going on. And you're right, our balance sheet was at a different point at that moment in time. So I really can't speak on behalf of the Board of Directors, if somebody approached us today, would we pursue to divest or not, I don't know. It's a hypothetical that the circumstances have changed since the last time that happened. But I can guarantee you that since that time, we have invested in and performed very strongly at ITM and we view that entire business and really that whole management team as a core part of Titan.

Kirk Ludtke - And then last topic, capital allocation. You mentioned that [you're going to] likely ramp up the share repurchases. Should we take away that cash balances above current levels or excess above $165 million?

Paul Reitz - You always got to be careful, we want to manage for the future and looking at the opportunities that we have. But with solid cash flow that we've seen over the last few quarters, particularly, we believe we have excess cash to invest in the business, including stock repurchases and being opportunistic there.

Kirk Ludtke - Got it. So the last topic, the guidance or the 2023 outlook, I guess, would you describe -- can you describe it directionally or a cadence or is there anything that you can say about '23 or can you summarize your thoughts on '23?

David Martin - Yes. Obviously, don't -- you can't pay a lot of attention to what we did in Q2 last year, but I think you need to look at sequentially, we've talked about the inventory drawdown, so there is impact from that. We're not prepared to give a very strong guidance in that regard, but that's certainly

something qualitatively that you should think about. And -- but I think we'll -- well, I don't think -- I know we will continue to have a strong margin performance as we move forward, while we look at this quarter, particularly with a strong view on adjusting our production schedules to match the -- what we're seeing. So I think again, we have good customer visibility from them about what we're going to do in the next -- this quarter, next quarter, and we'll continue to adjust accordingly.

Paul Reitz - And the markets are good. I mean, you look at the fundamental commodity markets, you look at the age of equipment, you look at income levels in the farming sector, you look at dealer inventory that's needed for new, you look at used that needs to get replaced. I mean, there's a lot of favorable things especially in large AG. And large AG is a good part of our business, always has been. And so you look at Earthmoving/Construction, we got the mining sectors in a good position where activity is strong. We have a nice business with that in Europe, where we're able to customize parts out of our foundry that can meet the needs of the aftermarket in mining. I think the construction sector has got a good backdrop. Non-residential is in good order. Infrastructure is going to have to kick in and money is going to have to be spent in their area.

So I think overall, you look at 2022 is really a good year -- I'm talking about the sector, all the sectors we serve, I should say. And things are looking pretty good in comparisons to 2022. So we just got to work our way through what's going on with some of the inventory levels at our customers.

Operator - The next question is from the line of Larry De Maria with William Blair.

Larry De Maria - I guess first question, just a clarification more than anything. The inventory destocking that you obviously started to talk about last quarter and are referencing now, as I understood it was mostly -- it was exclusively small AG. Is it also large AG inventory destocking as well or is it -- are we talking only that small AG at this point?

Paul Reitz - No. I would say it's agriculture in general. I think what you're seeing with small AG is more specific to inventory levels coming down at the dealer, but I think you're seeing supply chains getting in balance with their production schedules is really what's taking place and that's a broad comment. And so in doing so, they're drawing down some of their internal inventory. I think for the most part, large AG still needs to get more inventory onto the lots for both new and then replenishment into the used sector as well. So what you're seeing in large AG is just inventory drawdown and internal inventory, again, getting supply chain and production schedules in balance. But they will need to continue to --

Larry De Maria - Okay. And is that --

Paul Reitz - They need to put inventory onto the lots for large AG. Now small AG, I think you're seeing the levels normalize. So you're not seeing -- you're not having the need for small AG inventory to get to the dealer lots and the same thing is taking place. They're trying to get their supply chain and their production schedules in balance. The 2 different scenarios, but it's going on within the AG umbrella.

Larry De Maria - Okay. And when did the -- did they happen at the same time? Or as I understand, it's small AG first. And I'm just trying to understand the time and magnitude of the change in the large AG. And I would tend to agree that large AG is in a good spot, but I'm just surprised to hear that order patterns have changed there.

Paul Reitz - It's just -- it's all agriculture -- it's just supply chain. Let's look at it this way. It's the supply chains of an agriculture equipment company in relation to their production schedules. So there are 2 different scenarios that really aren't necessarily correlated. So what you're talking about, Larry, is the inventory on the dealer lots for small AG and the inventory on the dealer lots for large AG. What's driving it is just the internal supply chains of the equipment manufacturers compared to their production schedules. And what you're seeing in is just a balancing of that internally with some excess inventory they had within their supply chains.

Again, large inventory from the dealer perspective needs to continue to grow. It's got to get replenished. The fleet is aging out. So the overall macro perspectives of large AG are still very strong. But it's really uncorrelated to what -- so what you're looking at is just the dealer inventory and that's what catches the headlines, that's what people are focused on. What we're seeing is adjustments in the forecast related, again, just on supply chains and internal production schedules. It's short term, eventually, obviously, they're going to get balanced out, and we'll all be talking about the same thing at the same time. It's a short-term correction that needs to take place.

Larry De Maria - So as supply chains sort of open up a little bit, production gets better, there's less, let's say, hoarding and need to have too much inventory, especially wheel and tires, you can work that down on the large AG as things normalize and demand is still good, as I understand in the large AG, if I'm getting that properly.

Paul Reitz - Yes, Agree to that, Larry.

Larry De Maria - I guess the second part, capital allocation. You get the buyback. It sounds like you'll be more aggressive. Are we going to do? I think you leave 47% or something or I can't remember exactly the number, but should we expect that you'll do the whole thing this year? And the flip side of that is what's the M&A pipeline like at this point?

David Martin - I'll address the stock repurchase. I don't know if it's going to mean that we're going to get that aggressive and use up our authorization. Obviously, we have to be opportunistic and based on where the stock price is and so forth. So we'll talk more about that as we go through the year. But just know that we're going to be a little bit more aggressive than what we were in the first quarter, given where the stock has continued to be.

Paul Reitz - And the M&A pipeline, I mean, we've done a good job positioning the company for growth and expansion, but we don't want to overreact and go jump on M&A just for the sake of M&A. And so I think we're being -- We have been and we will continue to be strategic and patient with our approach to it. But I clearly think that growth is available for Titan. We have the balance sheet. We have the foundation with the company and the strength of our team and our production footprint and our brands that putting an acquisition into Titan, I think would serve the shareholders very well. Again, our key thing is to be patient with that process and wait for the right time to do that.

Larry De Maria - And then last question, with respect to second quarter after pretty good first quarter. Usually, we have a sequential uptick in seasonal sales, right? Given what's going on with the inventory you're referencing, safe to assume 2Q bunks the seasonal trend and is down sequentially, but margins hang in there. Is that the message? And then therefore, 2Q could be the bottom-line performance for the year? Is that how to think about it?

David Martin - Well, certainly -- obviously, we didn't give any specific guidance on it. But sequentially, yes, sales would be typically up, but they won't be this quarter. And we are saying that margins will continue to hold pretty strongly. So I'll just leave it at that.

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 - Well, I just want to say thank you, everybody, for your attention and attendance this morning. I wish you all a good day, and talk to you next quarter. Thank you.

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