Titan International, Inc. (TWI)
Transcript of Q2 2023 Earnings Call and Webcast
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Company Participants

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

Conference Call Participants

Stephen Ferazani - Sidoti & Company, LLC
Lawrence DeMaria – William Blair & Company L.L.C., Research Division
Kirk Ludtke - Imperial Capital, LLC, Research Division

Presentation

Operator:
Good morning, ladies and gentlemen, and welcome to the Titan International Inc. Second quarter 2023 Earnings Conference Call. [Operator Instructions] It is now my pleasure to turn the floor over to Alan Snyder, Vice President, Financial Planning & Analysis and Investor Relations for Titan. Mr. Snyder, the floor is yours.

Alan Snyder:
Thank you, Laura. Good morning. I'd like to welcome everyone to Titan's Second 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 a reminder that the results we're about to review, presented in the earnings release issued yesterday, along with our Form 10-Q, which was also filed with the Securities and Exchange Commission yesterday. 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 Q2 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. Our One Titan team delivered again this quarter with solid performance. I'm really pleased with our Q2 results as we executed effectively to take care of our customers, and with that delivered $59 million in adjusted EBITDA. We further strengthened our balance sheet with free cash flow of $49 million in the quarter. This capped off our highest first-half free cash flow in more than a decade and pushed our cash balance up to almost $200 million with EBITDA leverage at just 1 turn. The significantly improved strength of our balance sheet, along with a team delivering solid performance illustrates that Titan is in a good position for future growth opportunities.

Look, we had a good start to 2023. We've been working our way through the previously communicated inventory impact. It's primarily within our AG customer base and our guidance that we put out does illustrate that we expect to have an overall strong year that will rank as one of Titan's best years in our history.

Before diving into that, though, I want to like to really provide some context around how much we've accomplished as a company over the past 4 years. If you look our strong financial results from 2021, '22, and the first half of '23, demonstrate the strength of our One Titan core values and how we have operated effectively in challenging times to meet the needs of our customers and along with that drive strong financial performance. David and I have always believed that the foundation built around Titan's plants, people, products, and our entrepreneurial can-do culture is strong at Titan. But if you look back to 2019, our financial performance and our balance sheet were at a point where significant improvement was critical. At that time, we developed and communicated a strategic plan to shareholders that would drive growth via product development, the divestiture and reorganization of certain business units, and the closure of underperforming plants to improve profitability while we're also going to address the critical need to fortify our balance sheet.

If you now flash forward to today in 2023, we have executed successfully upon these initiatives, and we have accomplished much more. So exactly what have we done over the past 4 or 5 years? I will start with the accomplishments we have made to strengthen our balance sheet by significantly reducing net debt, managing working capital effectively, and generating strong cash flow. For example, we have reduced our net debt from $433 million at the end of 2019 to $234 million as we sit here today. This came from a solid combination of paying down debt and generating cash growth. That means in 3.5 years, we have nearly halved our net debt. Also during that period, we have invested significantly in our plants, products, systems, and people. Since 2019, we have invested over $125 million in product development, plant efficiencies, capacity growth while also embarking carefully on a global ERP implementation that is well underway. The strength in our balance sheet that we now have in place gives us the opportunity to develop a longer-term strategic plan for future growth and plant enhancements. We are working on that multi-year plan as we speak and are excited about the prospects for our customers and shareholders that will come from it.

Another example of what we've accomplished in recent years is the improvement in our working capital management. As a company, we historically were stuck at a level of networking capital, around 27% to 28% of sales. At the end of 2019, our working capital had crept up to nearly 30%. Our Board put a challenge in front of us to get this down in the 20% range. Our current working capital now sits currently at 22% and we were actually under 20% for most of the last year. Clearly, the Titan team has met the Board's challenging goal and along with that has driven improved cash flow to our business.

Another example I want to highlight this morning is back in 2018 and '19, David and I told investors we would improve our performance by restructuring and divesting in underperforming businesses that at that time, were sending us back about $40 million a year in operating losses. These are never easy processes. They require significant planning, communication, and effort to successfully execute. The Titan team over the past few years has accomplished our restructuring goals and therefore, has really improved our financial performance profile. Therefore, going forward, we will be a better-positioned company to withstand any cyclical market pressures and maintain a healthy balance sheet during those times. We have illustrated this in our updated IR presentation to help investors understand the benefits this brings to our company and our shareholders.

Additionally, and this is really an important one to us, innovation has inherently been part of our entrepreneurial culture, and really a core strength of Titan's founder, but it's a skill that requires significant attention and investment to keep strong. Over the past few years, I've been impressed with the amount of organic growth that we have driven at Titan by continually introducing innovative products into the marketplace, such as our market-leading LSW products, the R14, the AgraEDGE R1-W line, the Supreme line in Brazil, the single piece high-speed wheels in Europe and ITM's trust integrated undercarriage monitoring system just to name a few. I encourage all of you to go check out our website or YouTube page to see a bunch of our satisfied end-users they get to see their equipment perform better because they choose Titan, Goodyear, or ITM branded products. The bottom line is Titan's performance and our customers have benefited from Titan's innovative products through the years, and we intend to continue to do that.

So look, the past few years have been transformational for our company in a meaningful and positive way. It's evidenced in our financial results. Over the past 10 quarters, we have delivered over $514 million in adjusted EBITDA, along with $260 million of operating cash flow and $240 million of adjusted net income. The shareholders and bondholders 3 or 4 years ago that believed in the potential of a successful transformation at Titan have been well rewarded. Look, these highlights show where Titans come from, what the team is capable of, and where we are going.

Now turning to our 2023 guidance. We clearly have gotten off to a strong start to the year. From a macro perspective, demand in large AG remains strong. This is a major part of our business. The North American large AG segment is on firm ground with solid fundamentals that stem from strong farmer income, low grain stocks, and pent-up demand for equipment needed to fill used and new inventory. We have seen North America small AG volumes decrease throughout the year. That is more correlated to interest rates and consumer behavior. But I do want to point out that lower horsepower AG equipment is used significantly in commercial, agriculture, and municipal activities. So demand does not only come from hobby farmers. Therefore, a bounce back in demand in due course is a reasonable expectation.

Overall, the European AG market continues to be steady, and our business there has performed very well, with volume growth that has come from the solid AG market fundamentals, along with share gains. We have seen short-term AG demand in Brazil slip from prior year. There's been a lot going on there with uncertainty driven from the election. The government AG support has been going through some question marks here recently, but it does appear to be getting solidified in place going forward, and really just the interest rate environment there. So our Titan Brazil's Q2 in second half demand that has decreased due to OEM dealer inventory destocking along with some tire destocking at the OEM supply chains. And I will really talk about AG inventory more later.

Moving over to construction demand. It's really been supported by solid activity in infrastructure, nonresidential spending. Our undercarriage business had another strong quarter and overall, a tremendous first half. We have seen Brazil construction sales slowdown in the manner resembling what we are seeing in AG. As a reminder, though, I want to point out that Titan does produce construction tires in Brazil. But really, our main construction-related business in Brazil primarily comes from undercarriage.

That is an exceptional business that we have there. It's a business that we believe strongly in the long-term prospects and have been investing aggressively into it. So again, we look at what's going on in Brazil with the uncertainty really related more to some local issues there. In long term, the market in Brazil will still be very strong.

Earlier this year, we did not issue our guidance as our customers are unable to provide clarity with their forecast due to elevated wheel and tire inventory in their supply chains. We did say we would do that, and we would put out guidance midyear when we felt comfortable we had our arms around that issue. It does remain a challenging factor in our business operations, but we are seeing our customers take actions to reduce inventory levels. These actions do directly impact our production levels and will continue to do so for the remainder of '23. You'll see that reflected in our second-half guidance. I would also like to note that the inventory issue I am referencing is specific to off-road agricultural tires and wheels. So why is that? Look, there are a number of reasons that stem from or that are related to our industry and really stem from a fear that an OEM won't have a wheel or tire available to ship on equipment, that's also combined with the fact that the AG tire industry overall has a higher number of SKUs that are required for the varying sizes of equipment and different applications, but they are produced in much smaller production runs than that of an on-road tire.

Also, if the customer is waiting on other non-tire or wheel supply chain components, it helps to have wheels or tires on the AG equipment, so you can move it around the yard while you wait for those other incoming components. All that adds up to getting AG wheels and tires is a priority for OEMs, and we have heard that repeatedly that Titan has done a better job of getting tires and wheels to customers when compared to the suppliers of other components.

Now another factor has been that retail demand has far exceeded OEM production output in the agriculture sector. And that -- as they were experiencing constraints from labor and supply chains that means our OEM customers were sensitive to ensuring they had the correct wheels and tires on hand to ship. Again, I want to remind everybody, an agriculture wheel is specific to not just that brand of manufacture, but to that specific line within that manufacturer. So obviously, it's critical that you have the right wheels and tires on hand once the equipment has finished production.

So to sum it all up, OEMs had stockpiled wheels and tires in North and South America in 2022, and they have been unwinding the excess in '23. For example, with the recent results coming out from the large OEMs, in Brazil, we are seeing that our shipments to AG OEMs are below their reported sales figures and their expectations for the full year. And our Titan Brazil business has a very high market share, and we are seeing the OEMs being more transparent with us about the situation and that's really helping us manage our way through it. Based on direct conversations with customers, we believe that inventory reduction process will take to the end of the year, and we are expecting our demand to be more in line with retail demand in 2024.

And I want to add on another note that in North America, large AG OEMs are seeing dealer inventories are still below their targeted levels and expected to be that way through the end of '23, and that's going to provide a good starting point for 2024.

I do want to highlight one area in small AG again. We are seeing an environment where retail sales have slowed while production output got caught up, and we've seen dealer inventory in that sector go from a level of about 3 months to 8 to 9 months in pretty quick order. It's pretty well known that small AG retail demand has slowed in '23. Along with that correct inventory correction that is underway, we are seeing that demand have decrease in '23 for small AG. And again, this is reflected in our second-half guidance that we just issued. So I realize there are a lot of moving parts to what I just said. I think it's important to understand it, some of the specific inventory correction issues that we are dealing with in our industry. I think it's important that you understand our guidance, but the bottom line is that the macro environment is still strong. And 2023 is going to be a really good year for Titan.

We expect our revenue to be in the range of $1.85 billion to $1.9 billion, with adjusted EBITDA of $200 million to $210 million and once again generating strong free cash flow of $110 million to $120 million.

Clearly, I think a lot of what I said today demonstrates there's fundamental reasons to be positive about Titan as we look towards the future. Our customers in large AG are confident based on market fundamentals and a replacement cycle that's been curtailed by labor and supply chain issues that has really kept their production volumes at a lower level when you look at prior replacement period. So kind of taking that -- some of that cyclical volatility out of large AG that we've seen historically. Also for the new and used equipment inventory levels remain below target. The fleet has continued to age out for tractors and farmer income is still at a nice high elevated level. All this bodes well for large AG to continue at a positive pace for the near future. We have a strong customer base in small AG, and I keep referencing that sector. They will work their way through dealer inventory levels, and we are expecting they will perform better next year as those inventory issues are behind them.

The earthmoving and construction markets see solid support from infrastructure and nonresidential projects, along with solid mining capital and operational budgets. These fundamentals form the basis for our 2023 guidance. It reflects another strong year for Titan and really puts us in a strong position as we look to '24.

Wrapping things up this morning, our One Titan team has done an exceptional job reaching our stated goals, tackling challenges to serve customers, and really driving improved performance financially. We are confident that the transformational changes we have made to our business, including our strong One-Titan culture will enable us to navigate the dynamic conditions that I highlighted today, to once again this year delivered near historic highs and strong results into the future.

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

David Martin:
Thank you, Paul, and good morning, and thank you to everyone joining us today.

The results we achieved this quarter are very satisfying in a number of ways. We anticipated the more challenging environment in 2023 with our customers, and we were able to put together a good plan of action surrounding production, inventory control, and cost management, and you see that in the results that we reported yesterday.

Now let's have a few key financial highlights for the second quarter. Net sales were $481 million, and we delivered consistent profitability with net income of $32 million, GAAP EPS of $0.48 and adjusted EPS of $0.43, and adjusted EBITDA of $59 million. We continue to strengthen the balance sheet, as Paul said earlier, with $49 million of free cash flow, which increased our cash balance to $196 million.

Again, as Paul noted, free cash flow for the first half of $61 million was the highest first-half performance in more than a decade for the company. Additionally, we maintained our net debt to trailing 12-month EBITDA leverage at 1x. It's worth talking about the tax credits we received over the last year in Brazil. We recorded indirect tax credits another $3 million during the second quarter, and that relates to the indirect tax credits we received for the full year of $32 million. This has also been part of our ability to drive strong cash flow. In both cases, we've excluded it from adjusted EBITDA and adjusted net income.

Now let's talk a bit about the performance at the segment level, starting with agriculture. Agricultural net sales were $269 million compared to $319 million last year. The decrease was primarily due to overall lower sales volume in North America and Latin America. As a result of the elevated inventory levels with customers, most notably OEMs, as Paul discussed earlier. Also, the decrease in net sales was driven by negative price related to lower steel prices in the market and an unfavorable impact from currency translation.

The Agricultural segment gross profit for the second quarter was $49 million. This was down from the record last year in the second quarter when performance -- it's difficult to replicate in the current environment where excess inventory with our customers and their supply chains has been prevalent. The agricultural gross profit margin was strong at 18.1%. However, the decrease in gross profit and profit margin versus last year was primarily due to lower steel prices and sales volume, which resulted in lower fixed-cost leverage. It's important to note that the quarterly operating performance for the segment remains still one of the strongest on record for Titan.

Earthmoving and Construction net sales were $175 million, a decrease of 17% to last year. The decrease in EMC sales was primarily due to lower volume in the Americas caused by similar high inventory levels at select OEM customers, most notably Brazil. Sales in Europe and other parts of the world for the segment were steady, reflecting continued stronger construction and mining markets. Gross profit in our EMC segment for the second quarter was $29 million, and the gross margin remained strong at 16.7%. The decrease in gross profit dollars compared to last year was primarily due to lower sales volume, which resulted in a lower fixed-cost leverage similar to AG. Again, this quarter's performance was strong, considering the pressure on sales in the quarter, and that comes from pricing discipline and cost management, which have been paramount to our financial performance, and our global teams are focused on these initiatives across the business.

Consumer segment net sales in Q2 of $37 million were 15% lower than last year, primarily due to lower demand for light utility truck tires in Latin America relative to a strong demand period in Q2 last year. Consumer segment gross profit for the second quarter was $8 million and our gross profit margin was 21.6% for the second quarter. We were down compared to last year in this segment due to lower sales in the quarter due to the effect of cost leverage across the various production facilities. Remember, consumer sales are generated from the same facilities where we produce AG and EMC products. Overall, this result was still very strong, reflecting improved mix and our growth initiatives in the U.S. surrounding third-party custom rubber mixing.

Our SG&A expenses in the second quarter were right under $35 million, which compares favorably to where we were last year. We continue to focus on managing our operating costs and mitigating inflationary cost increases surrounding salaries across the business.

Our R&D costs were up $1 million in the current year versus last year due to increased investments in product development. Our income tax expense for the quarter was $9 million compared to $19 million last year due to lower pretax income. Our effective rate was relatively stable compared to the prior year at 22.8% compared to 21.6% last year in the second quarter.

Now let's move over to the balance sheet and our cash flow. Supportive demand levels and strong performance also translated into a continuation of our elevated free cash flow generation in the quarter. Free cash flow in the quarter was $49 million, which was the second strongest quarter of free cash flow that we've had in the past decade. Total cash grew by $32 million to $196.5 million, while we also paid down $10 million of debt and repurchased $6.4 million of common stock during the quarter.

We will continue to evaluate any debt payments opportunistically, reflecting judgment as to relative interest rates versus our cash investment rates. We're in a good position relative to debt levels currently. As I stated last quarter, we continue to believe that our share price does not fully reflect the transformative actions we've taken to significantly increase our profitability profile and our capabilities for the future, and we'll continue our share repurchase program in a similar fashion. As a reminder, we have a $50 million authorization from the Board.

Capital expenditures for Q2 2023 were approximately $16 million compared to $12 million in the prior period. CapEx will support our multiyear capital programs in place to manage maintenance in an organized way to improve efficiencies with the plan with selective capacity expansion in our global production facilities, and continued tooling improvements from product development. We are on track with our full year guidance of $55 to $60 million in capital expenditures.

As I mentioned earlier, our net debt leverage at the end of June remained at 1.0 times trailing twelve months adjusted EBITDA, which is the same level as the first quarter. I am proud of our net working capital management during the quarter, specifically lower working capital in dollar terms due to the decline in inventory levels, as our teams efficiently managed these levels to match current customer demand. We will continue this in the second half of the year, with a keen eye on where we believe future demand will be so we can be nimble and responsive to customers, as we have been. This requires tremendous resolve and constant analysis by our operating teams in the current environment.

For 2023, we anticipate solid profitability and good free cash flow generation, as indicated in our guidance. In terms of capital allocation priorities, we remain focused on maintaining our strong balance sheet and a low leverage level. We will also repurchase shares opportunistically, and we believe that our stock is a good long-term investment for the company. Further, the company will continue to evaluate our growth opportunities such as acquisitions, joint ventures, or internal capital investments in a strategic and a very disciplined fashion. Again, we look at these things with which we can create value and are within our core strengths as a company.

Paul touched on this earlier, but regarding our guidance for 2023, we continue to expect our financial performance to remain at a very solid level due to steady overall market conditions globally across the markets we serve, particularly in large AG, but reflective of the destocking that's taking place and will continue in the second half of the year. As we enter this period of time, we continue to handle our

customer demand levels and overall performance of the business.

As a reminder, the second half of the year also has approximately 10% fewer production days and with the traditional late-year holiday periods across the globe, which plays into the full-year guidance as well. Just to restate, we're providing full-year 2023 guidance of revenues to range between $1.85 billion to $1.9 billion, adjusted EBITDA to range between $200 million and $210 million, and free cash flow to range between $110 million to $120 million and CapEx to range between $55 million to $60 million, a very strong performance for the company.

Now to wrap up, Paul talked about this, but I will reinforce it that the medium and long-term demand drivers remain healthy, supported by strong sector trends in our key macro indicators, and we do remain very encouraged by the solid underlying fundamentals of the end markets we serve. Through these drivers and our transformed business, we will continue to deliver heightened value to all stakeholders.
And I thank you for your attention and sorry for the delay that we had, but I'd like to turn the call back over to Laura, our operator, for the Q&A session.

Question and Answer

Operator:
[Operator Instructions] Your first question comes from the line of Stephen Ferazani from Sidoti.

Stephen Ferazani:
Appreciate the detail on the call. I was having some technical difficulties early. So I might need some clarification on what I think is the crux of the call. Paul, it sounded like you said the destocking issue, the stockpiling that has now resulted in oversupply with wheels and tires with OEMs was exclusive to large AG. Did I mishear that? Because clearly, EMC was year-over-year just as weak.

Paul Reitz:
It's specific more to our industries was the point. So it's -- the point I wanted to drive today is because we are really the only stand-alone public company that serves the specific industries. So if you look at our competitors, they're divisions of larger companies, and they really don't have to get into the granular detail of really AG and construction the way we do. And then more specifically, with wheels and tires, the nature of our business is that we saw our customers stockpile inventory. And there's a number of reasons behind that. Part of it is just our tires are produced in a large number -- a large proliferation of SKUs with smaller production runs. So the nature of our industry is different than other tire businesses. And so there's a protective nature to that because if your tires are not being ran, especially when you're going through a period of a lot of volatility that has clearly been in the marketplace here recently, you get protective and you want to make sure you have those right tires and wheels on hand. The other thing is the equipment is large, I really should say its large equipment for large AG, but also small equipment, you need to move it around a yard while you're waiting for other components. And so our tire and wheel volume got ahead of other components required in their supply chain. So as they're getting their supply chain caught up, they already had the tires and wheels on hand, and we're seeing that impact play out in 2023. So the macro environment is still very good.

Overall, especially in large AG, construction, our primary segments are still performing at a high level. You heard that from the major OEM customers. And so really, what I needed to highlight today is the fact that there's some specific actions that are taking place that are really related just to our business.

And we --again, we are the only public company in this sector that has to talk about it. And so it gets confusing. And so really, what I'm trying to do is eliminate some of the confusion or really eliminate some of the uncertainty and be honest and frank with our shareholders to tell them what's going on related to our specific business.

David Martin:
Just to add on to that, Stephen, before we get into the next question is, as you alluded to, it does happen -- it is happening a little bit across AG and EMC, but primarily related to Brazil when it comes to EMC. So it's -- there's a variety of factors that are leading to the uncertainty in Brazil that's leading to people to make decisions about inventory and demand levels, overall demand levels because of uncertainty around the election and support for farmers and things like that. So there's a little bit more effect in Brazil. In North America, it's primarily our AG business.

Stephen Ferazani:
So does that mean that you would expect EMC to pick up faster, given you know this problem runs through AG, at least through the year, EMC could be a little bit -- play out a little bit differently.

David Martin:
I think in the second half, you'll continue to see the same trends across it because you tend to have the seasonality effect of EMC with the European-centric part of the business. So that's nothing different than last year per se, but the same effects the second half to first half.

Stephen Ferazani:
So the big question becomes how good of a handle do you have on how far ahead you got to your customers in terms of the -- and obviously, you were rolling from multiple quarters. You did not have the supply chain challenges, right? You didn't have the -- we didn't see the inflationary pressures. You've got ahead of pricing. I mean, you crushed it for multiple quarters. And now that's coming back to, unfortunately, you were too successful early. But the question is, how far ahead are you really -- do you have a handle on that? Is this a 2023 problem? Or do some of those large AG suppliers have enough wheels and tires to get them into at least part of 2024?

Paul Reitz:
And we've spent a lot of time on this. Myself and the team have been out in front of extensively really trying to get to the answer to your question. And what we're seeing, Steve, is that this is a situation that they want resolved by the end of 2023. They want to be able to give us forecasts that are more aligned with their retail demand, get our production levels back to a normalized level. They know that has created a disruption for us. And to your point, we've done a great job serving them over the last few years during very difficult times. And unfortunately, the penalty for doing a great job has been that we're out ahead of other parts of their supply chain. And it's just a reality we have to deal with and we have to work our way through. I would say when we started the year, we didn't know exactly the extent of it. That's why we made the determination to not put out guidance at the beginning of the year. It wasn't a demand issue. We felt very good about the markets. We still feel very good about the markets. We feel very good about our relationships with our customers. We feel extremely good about everything we've accomplished over the last few years. The reality is the situation was unknown at the beginning of the year. It's become more clear now. We feel comfortable, obviously, enough to put out the guidance that we did today. And again, we do see our customers wanting and working towards getting this issue resolved by the end of the year.

Stephen Ferazani:
So based on the information you have right now, you would think your real entire sales would closely track your customer deliveries in '24?

Paul Reitz:
That's what our customers and Titan are working towards, yes.

Stephen Ferazani:
Okay. And given that they're all still very positive with the order books into 2024. 2024 could be a significant rebound from the levels you're at right now?

Paul Reitz:
That's -- we definitely agree with the comments they're making that the markets are in a good position. And again, we're working through this issue that's specific to our industry. And again, we are the only public company that has to talk about this. So it's a challenging topic to try to explain, but I agree with how you framed it Steve.

Stephen Ferazani:
Okay. That's helpful. Would you talk about -- I mean, the one place where you're still performing well is in cash flow and you noted the working capital. I'm trying to think, you noted opportunistic stock buybacks and the fact that you didn't think the stock reflects the transformation you've been under. How do you evaluate when to buy back stock? Obviously, looking at the stock this morning. Is it on a price basis, or...?

David Martin:
Yes. I think it's when we see weakness, a decline for no reason. Obviously, a lower price, we'll get back in, obviously, after we get out of this frozen period or blackout period, so that would be the expectation is if the stock remains weak, we can be opportunistic.

Stephen Ferazani:
Okay. That's helpful. Just one last from me. It looked like EMC OpEx was up a bit. Is that -- are we going to be at an elevated level? Or was there anything specific this quarter?

David Martin:
That was more -- it was a hit more with a little bit of inflation. So I think we're generally in a pretty good area on that.

Operator:
Your next question comes from the line of Kirk Ludtke from Imperial Capital.

Kirk Ludtke:
Congratulations for another great quarter. I'm just curious, you mentioned the ERP and that it's been a long-term project. And I'm curious, that the -- how does the business change as that's implemented? And do you -- for instance, I suspect that working capital is one of the focus areas. You mentioned you're down to what, as a percentage of sales, 22%. Does that come down once you see further improvement in working capital turns as the ERP is implemented?

Paul Reitz:
Yes. Look, I think what I want to highlight with the ERP implementation and working capital is a great example. Look at what the Titan team has been able to do with working capital without the system support, a business that historically like I said, has been hovering in the upper 20s approaching 30%. And that's historically, we've been around a long time. We had driven a significant amount of cash flow, a significant benefit to our customers, our ability to serve them, a significant benefit to the streamlining our operations, and we've done that through people. I mentioned extensively the value of our Titan team. So just think about what we've done with working capital in a very complicated business with people. The ERP implementation is intended to give our people better tools. I believe strongly in the capabilities of what we've been able to do without tools that are market leading. And so we are going in a direction with an update to the ERP cloud. We are not going to risk the business stumbling in any way. We are taking it in a manner that we're very comfortable with to ensure that our customers are served and our shareholders don't pay the price because we're jumping into a new ERP system.

Now with the ERP system in place, because we have a strong balance sheet and we have the ability to invest, we plan on making continued investments into our plants and our people and our systems. So with that, as you get into AI, as you get into the ability to utilize data, use information to manage your plant operations. We are going to be in a much better position in the future than we are today. But let's not forget what we've accomplished getting to today. So -- and this is all accretive. This is good for the shareholders, but Titan systems are very antiquated and we've been able to do a hell of a lot with the people that we have. So personally, I can say we're very committed to only advancing forward in a meaningful way to take care of our shareholders and our customers and give our people tools to do a really good job in the future.

Kirk Ludtke:
Right. That's helpful. What -- is there -- are you sharing timing and what a working capital to sales target might be once it's done?

Paul Reitz:
We're building out a strategic plan with more information that will get into kind of what the future looks like. Again, I think we think that level of -- what the Board put in front of us that working capital level of around 20% was a very challenging goal and is a good place to be. I think our goal will be to keep it in that range and feel that we can comfortably take care of our customers while effectively managing cash flow in the balance sheet. So I think what the ERP system is going to do is really allow us to invest in the future in a meaningful way with technology, plant enhancements and again, better ability to take care of our customers. So I think working capital, answer your question, that target of 20% that the Board put in front of us is probably a good place to be.

Kirk Ludtke:
Got it. Okay. And then any other benefits you want to talk about when you get in in place?

Paul Reitz:
Well, again, benefits to our plants. Think of the technology that's going into plants these days. You got to have a good foundation with a good system. And so with that, we get the system in place. And then we have incredible people. Our technical engineers are brilliant. They know their way around the plant floor. Our plants are large, couple of million square foot facilities. These people are awesome. So again, we give them the best tools in the business. I'm really confident of what they can do. And so what I see is our plants only continue to enhance and get better, and we'll continue to build really high-quality products at

good prices that lead the market and innovation. So again, this ERP implementation is not meant to scare anybody. It's really truly meant to highlight the accretive nature of what we can continue to bring to the table in the future instead of just relying on the incredible people we have at Titan.

Kirk Ludtke:
Got it. Okay. And so 2021, a very good year, 2022, fantastic year 2023, another good year. It sounds like '24 is -- it's early, but shaping up to be another good year. Has the strength of this market changed the competitive dynamic? Do you see anybody -- any of your competitors making moves to add capacity or do anything different?

Paul Reitz:
Well, I think the strength of the market is going to come from the fact that what -- almost what you just said, that we haven't gone off the map in a crazy direction like you have seen in the past. So I think that's the benefit to keep the competitive dynamics in a very stable nature. What's happened in the past is you would see not just subsequent good years like you highlighted, you would see incredible years and then you would get these concerns about not having enough capacity in the industry and people would run off in different directions. So I think the nature of your question kind of helps answer the question that it's been very good to see the stability. And I've referenced it in my comments, it's very good to see the stability in the marketplace where there's unmet retail demand and production schedules have been constrained, whether it's labor or supply chains. It's kept things in a very balanced order. And so it's allowed the strength of the market to come through in a much more stable manner. So I think we see our competitors acting rationally in that regard. And I think, again, it's good -- very good overall for the industry, just again, the nature of your question, to have subsequent good years instead of having 1 or 2 incredible years.

Operator:
Your next question comes from the line of Larry De Maria from William Blair.

Lawrence De Maria:
First question, can you talk about just the cadence in the second half, really sales and EBITDA in 3Q versus 4Q?

David Martin:
Yes, that's a great question. I -- we only really put the full-year guidance out. But you'll see this typical seasonality come to play in Q3 with our European business. And then Q4, you got the holiday period here more in North America. As far as sales go, I don't want to expect it to be a totally different between Q3 and Q4. It's not going to be your traditional big step between the 2 quarters, to be honest, just because of the destocking that we believe will be more prevalent in Q3 and then less prevalent in Q4 and then you have your holiday period. So it's kind of even things out more importantly.

Lawrence De Maria:
Okay. And then probably a similar -- I guess your point is that probably a similar level of EBITDA to then if similar sales and you have the European headwind, 3Q and the North American 4Q, I guess, right? Okay.

David Martin:
Yes.

Lawrence De Maria:
Can you talk about, I guess, I guess, in the guidance, what are you embedding for OEM and aftermarket, I guess, volume? Because I would think that aftermarket should be strong and partially offsetting some of this, but just kind of curious how you're seeing aftermarket OEM volume in the year.

Paul Reitz:
Yes. I mean, you bring up a good point. I mean the aftermarket business has been more steady, less impacted by the inventory destocking that I mentioned. I mean there's a little bit of that going on just because of interest rates, but nothing to the extent that I was referencing earlier. And one of the things we've been talking about internally. In fact, I had somebody -- one of our plant leaders mentioned it to me yesterday, just the great job we've done with serving the aftermarket over the last 5 years has provided a level of stability that really -- they appreciate as a plant leader because of what it's meant to keep things, again, operating in a more efficient, effective way because of the aftermarket. So yes, that's something actually -- again, we talk about that internally. We're very grateful that we've built a strong aftermarket business. We continue to keep doing that. So more of what we're talking about, Larry, to answer your question, is driven by the fluctuations in the OEM demand as they work through the inventory.

Lawrence De Maria:
Okay. And then last question. I mean, obviously, it seems probably over earned last year and you're going to under-earn this year. And if we think about, maybe, say, next year is a flattish retail market, right, maybe construct EMCs up, maybe small AGs down a little and large AG is okay. I mean high level, do you think the best way to think about '24 is like an average of the 2 years? Or is it more likely to be flat with '23 -- or I'm just trying to kind of parse through the message of -- because we're under-earning this year, but we probably over in last year, you kind of maybe produce to retail sales next year, and there could be some catch-up. So maybe it's an average of the 2 years? Or I mean, how are you thinking about it?

Paul Reitz:
Yes. I mean we're looking at it more at a higher level than to answer your question that specifically. I mean, we're looking at the macro perspective right now. So using the assumption that the inventory issue gets resolved then you're operating more in line with retail sales levels. And so right now, at this point, Larry, to be honest with you, we haven't gotten into the granularity to kind of -- to see what that means. I mean I will look -- I will reference the comments that came out from -- you look at the large OEMs over the last week, they're very positive about where the markets are at and how they see 2024 starting. I know the early order books are off to a good start from everybody I talked to. So I think there's a lot of very positive signs that are specific and not just at the macro level, talking about fundamentals. And so I think there's a lot of good momentum starting '24. Now I've been able to articulate that into full year results, we're just not quite there yet. But I do think there's a high level of confidence that the year will -- the demand will carry over into '24 and the year will start off very well. So give us a little bit of time. Maybe next quarter, we can come back to you and talk a little bit more about the full year '24. But I certainly see again, the carryover effect from the strength in the markets in '23 starting off very well for '24.

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

Paul Reitz:
Yes. Look, I want to thank everybody for attending the call. I also want to let you know that we got a busy schedule coming up with -- in August and September with the conferences that we will be attending. I'd like to list those real quick. It would be great to get the opportunity to connect with investors or any folks there at these meetings. But listing them out here, the 3-part advisor events, it's their Midwest IDEAS conference. Then we'll also be attending the TD Cowen Annual Global Transportation Conference, the Barrington Fall Investment Conference followed up by the CL King, their Best Ideas Conference. We'll also be attending the Sidoti Small-Cap event and then wrapping up the cycle here in September at the D.A. Davidson Diversified Industrials Conference. So again, we'd love to be able to connect in person with anybody that will be attending these events. And I want to thank you again for participating in today's call.

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