Titan International, Inc. (TWI)
Transcript of Q4 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

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

Presentation

Operator: Good morning ladies and gentlemen and welcome to the Titan International, Inc. Fourth Quarter 2023 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode and we will open the floor for questions and comments after the presentation. [Operator Instructions] It is now my pleasure to turn the floor over to Alex Snyder, Vice President, Financial Planning and Investor Relations for Titan. Mr. Snyder, the floor is now yours.

Alan Snyder: Thank you, Jaquita. Good morning. I'd like to welcome everyone to Titan's fourth quarter 2023 earnings calls. 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 are about to review were presented in the earnings release issued this morning along with our Form 10-K, which was also filed with the Securities and Exchange Commission this morning.

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 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 to everyone. As all of you have hopefully seen by now, along with the announcement of our Q4 and year-end earnings this morning, we announced the acquisition of Carlstar. This is an accretive transformative transaction for us, that's a complicated word I tried to say. The addition of Carlstar will significantly expand our customer base and product portfolio, while also adding key manufacturing and distribution assets.

With that in mind, I'm not going to spend as much time as normal on our Q4 and year end results today as our business going forward will be substantially different. Instead, I will focus my remarks on the strategic rationale for our acquisition of Carlstar, along with a brief discussion of market conditions. Then David will provide comments on our reported results, the financial aspects of the Carlstar transaction, and then, of course, we'll have time for questions. Instead of call it a transformative transaction. I should have said we're really damn excited for the opportunity to make the Carlstar team part of the Titan family.

Similar to Titan, Carlstar is a global manufacturer of specialty wheels and tires. The primary end markets for the products are outdoor power equipment, powersports, high-speed trailers, and smaller agriculture equipment.

Powersports, trailers, and outdoor power equipment are verticals where Titan has not competed in recent years. So, adding Carlstar's product portfolio in those end markets will add some meaningful diversification to our business.

In addition, Carlstar maintains strong relationships with a number of key national retailers and Commercial Servicing dealers. Carlstar has built a one-stop shop and a connection to customers in their three key segments that is unparalleled.

Titan has done the same at our key segment, large ag, where we offer an unmatched arsenal of wheels and tires with a strong connection to our customers and end users. Titan and Carlstar are better together, and we're excited to add these new customer relationships and products into Titan's business.
It's no secret that agriculture and construction industries are cyclical. So, the addition of these more retail-centric categories is something we expect will benefit the consistency of our sales, margins, and profitability over time by rates reducing some of that cyclicality.

Carlstar has simply spent years, developing a secret sauce. I'm going to use the word one-stop-shop repeatedly because they have done a tremendous job in the three segments where they operate, again, building the secret sauce around this business model.

Part of that formation of that secret sauce is Carlstar has built a world-class portfolio and specialty areas such as outdoor power equipment, serve ATV and UTVs, powersports, and high-speed trailers, along with ag products, primarily for smaller equipment such as tractors, backhoes, and implements. This portfolio dovetails well with our existing Titan lineup.

Although we do have some products through these channels. Our bread and butter, Titan's bread and butter has really been innovating the larger wheels and tires that go on the biggest tractors and combines. Going forward, we really think our combined product line will feature the best-in-class offerings in these segments. We are pleased really pleased to be extending our market leadership there and to be able to offer the product portfolio that I just mentioned.

While we are excited for these top line opportunities with a broad product base, we are really excited about Carlstar's business model that connects their manufacturing and distribution assets with third-party producers in a very effective and efficient manner.

Carlstar has a plant strategically located in Beijing, China. It has a long history with an incredible knowledgeable workforce and access to lower-cost materials, Carlstar's three U.S. facilities, two in Tennessee and one in South Carolina, fit well with our existing production base, which are, which is located primarily throughout the Midwest.

The Carlstar locations in combination with Titan's, form a manufacturing base that can produce an extensive product portfolio that, as I mentioned earlier, is unmatched in our industry, while also providing value-added risk mitigation to our valued customers.

Complementing that manufacturing platform is Carlstar's one-stop shop operating approach. You're going to keep hearing that word a lot because from the very beginning, I've been impressed with learning more about their market approach and how they developed this connection to customers.
From the outside, I've been watching it for many years, but again, getting to know the team and the processes associated with this one-stop shop, it truly is their secret sauce. We're looking forward to the addition of the 12 distribution centers that are connected via an impressive sales inventory and operating planning process that allows them to deliver products to their customers in a timely manner regardless of source of origin.

Internally managed their DC locations are in key strategic areas, including the Central and Southern US, where their domestic manufacturing facilities are, as I had mentioned previously. And they also get a good penetration of that on the West Coast and up into Canada. Overseas, the acquisition adds a distribution center in Hungary, This is a good opportunity for Titan to expand our existing market penetration there. All-in, we like how well Carlstar is vertically integrated and look forward to having these operations in-house.

As I noted earlier, Carlstar's business is more retail-orientated than Titan's. Approximately 75% of Carlstar sales fit within Titan's consumer segment with the remaining 25% going to ag and construction. Retail and even some smaller ag is less correlated with commodities and as such, we expect to see our annual revenues going forward have less volatility than they had in the past.

As you can see from a strategic perspective, Carlstar is a strong fit with Titan, and we are really eager to start rolling up our sleeves to integrate the operations into our entertainment business, but really dive into the growth opportunities that exist for the Carlstar and Titan team as we move forward.
David will get into details a bit more in a moment, but I want to highlight the fact that we were able to do this deal at a fair valuation that is around four times adjusted EBITDA. It's accretive and it leaves our balance sheet in good shape.

Over the past couple of years, the Titan team has worked hard to reduce our leverage and between that and the modest use of our asset-backed revolver to help fund this acquisition, our post-deal leverage is still a very manageable 1.3 times, that’s based upon proforma combined company profitability.
Before handing it off to David, I do want to touch on market conditions. As many of you heard from the market leaders in the ag and construction equipment sectors, expectation for 2024 would be best described as conservative or softer. This is really being driven by the expected declines that are taking

place in farmer incomes, combined with global uncertainties from grain supply, government actions and really overall geopolitics, all that's just weighed on current demand.

At the same time, the destocking dynamic that impacted 2023 has run its course. So, we are starting this year with inventories in a more normal state. With that, we expect the ag market activity over the balance of the year will be down as driven by commodity prices.

Again, nothing new or earth shattering with that comment as really being driven by the impacts that we've seen in North America from farmer incomes. But we do see 2020 for having less impact from the headwind of lagging inventory that has been in the channels throughout 2023.

Let's not forget amidst the current market noise that North American farmer balance sheets and land values are still very strong. That bodes well for future prospects as compared to cycles from prior decades.

Wrap it up, 2023 was a solid year for Titan, and I'm proud of our ability to navigate challenges, serve our customers, and maintain our margins. The plan we put into place a number of years ago centered around our One Titan team has proven itself is gaining momentum with our dedication, commitment to each other, and relentless focus on serving our customers.

I want to thank the Titan team for all their efforts during due diligence to get the Carlstar transaction over the goal line all that hard work is making our flywheel turn and is showing in our financial performance and our ability to seek growth.

In closing, I would like to welcome the Carlstar team to the Titan organization. It's clear they are really good group of people have done an excellent job building Carlstar into the strong business that I talked about earlier. They're world-class in serving its customers and its end markets Titan and Carlstar are better together.

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

David Martin: Thank you, Paul, and good morning to everybody on the call, as Paul noted, the acquisition of Carlstar is a transformative deal as we say it. So, it is very important to say because I all the things it brings to Titan and more importantly, the people that come to Titan. So, we're very happy to have them as part of the Titan family.

Our operations and our financial results going forward will look different than they have up to now. And Paul said it now with the acquisition multiple was four times and we expect the deal to be immediately accretive, which is certainly something we're excited about.

Before I get into more details on that, I will touch on some summary highlights from our fourth quarter and fiscal year 2023 results. A primary theme to emphasize is that these results provide solid evidence that the work we've done to optimize our operations is driving a better durable gross margin profile. That positions us well to capture the improved profitability over the long-term.

Full year revenues came in at $1.8 billion for 2023 as compared to 2022 of over $2 billion and our adjusted EBITDA was $205 million. For the fourth quarter, our revenues were $390 million with adjusted EBITDA of $38 million.

Our full year gross margins improved 20 basis points from 16.6% to 16.8% in 2023, despite the sales being driven down year over year through the de-stocking and the other economic factors that have impacted our sales this last year.

Elaborating on that dynamic a bit further as one might expect our margins typically follow the ag cycle and our goal has always been to aggressively manage our input costs to the extent we can, while balancing our product pricing in a way that allows us to earn a fair return on our assets.
As a manufacturer, we are naturally impacted by raw material costs for our wheels and tires. With that in mind over the last several years, we have worked really hard to improve our production and our operations.

By controlling the things we can control, we have been able to make durable gains in our cost structure, and the result is a higher gross margin floor as our 2023 results show.

SG&A expense for the fourth quarter was $32 million compared to $30.5 million in the prior year, with the change due primarily to inflation pressures, especially in employee compensation. For the full year, these expenses totaled $135 million, up a modest 1.6% from $133 million in 2022. That is important given the world that we're living in with inflation, and we're able to really control our costs.

R&D expense was $3.1 million for the fourth quarter and $12.5 million for the full year. Those figures compared to $2.8 million and $10.4 million in 2022 and they reflect our continued emphasis on prioritizing our R&D investments. We are committing to maintain a best-in-class portfolio of products and with farmers increasingly making their decisions based on equipment ROI, our innovations are a significant differentiator for us. Our operating income was $20.7 million for the quarter and $149 million for the full year. Our operating cash flow for the year was $179 million, up 11.6% from the prior year.

We were very pleased to be able to improve our operating cash flow that given the top line headwinds that we experienced throughout the year. This shows the discipline by our global operating and finance teams and significant efforts to focus on working capital and all the things that go into driving cash flow. During the year, we had a couple of nonoperating events impact the income statement that I'd like to mention, there was an unusually high devaluation of the Argentinean peso relative to the U.S. dollar. As a result, we applied hyperinflation accounting rules to Argentina and Turkey, which had both been designated as hyperinflationary economies in prior years. We did recognize $21 million in foreign exchange losses for the year.

We also approved a restructuring plan at one of our European businesses to adjust our cost structure and better position the business to outperform in the future. The cost of the restructuring action was $1.6 million. Both the foreign exchange loss and the restructuring costs were adjusted out of EBITDA and net income and EPS within the non-GAAP reconciliation schedules. Our strong cash flow enabled us to make a variety of key investments in the business during 2023, and our CapEx totaled $61 million for the year compared to $47 million during the prior year.

We also used our cash to fund our share repurchase program buying back 1 million shares for a total of $13.5 million during the fourth quarter, bringing the total for the year to nearly 2.7 million shares worth near nearly $33 million. That leaves us approximately $17 million of available capacity on our program. Over the last several quarters, we've also called out our strong free cash flow and intentions to be judicious in deploying it echoing Paul's comments, we're excited to have announced the acquisition of Carlstar this morning.

The cost of the acquisition was $296 million, which was composed of $127 million of cash and $169 million as TWI stock in the form of 11.9 million of newly issued shares. Importantly, leverage post transaction stands at a very manageable 1.3 times net debt to adjusted EBITDA on a proforma basis. Altogether, we expect our cash flow to adequately fund continued debt reduction, along with our share repurchase program and our capital programs.

Concurrently with closing, we expanded our ABL from $125 million to $225 million. Terms of the expanded ABL are very similar to the existing facility. We have expanded the guarantors and the related borrowing base to include the domestic and Canadian assets of Carlstar.
The pricing on the facility is also similar at SOFR plus 138 basis points to 185 basis points, depending on our fixed charge coverage ratios from time-to-time. The facility will extend to 2028, maturing concurrently with our senior notes.

In terms of margins, Carlstar's results over the last few years have been relatively consistent with Titan's. And as we noted in the press release, we expect there will be areas where meaningful operating cost synergies can be pursued. It's a bit premature to give specific figures, and we anticipate sharing more detailed information as we work through the integration of the two businesses in the coming months. Broadly, with an operating profile similar to Titan, Carlstar is a solid generator of cash, and we expect the combined businesses to produce adequate cash flow to allow us to continue to fund our share repurchase program, while also working down the increase in our ABL borrowing we have taken on today and investing in the future of the combined companies.

Lastly, as we noted in our earnings release, we're not providing fiscal year 2024 guidance at this time. The addition of Carlstar is a significant transformative acquisition and with that, we think it's prudent to get down the integration path a little ways. And as we do that, we expect to gain more clarity on what 2024 will look like for our combined operations. As we do so, we will look to provide guidance for the year during our subsequent earnings reports.

And thank you for your time this morning and your attention to what matters to Titan. It is a very exciting day for our team.

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

Question-and-Answer Session

Operator: Absolutely. We would now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Larry De Maria with William Blair. Your line is now open.

Larry De Maria: Thanks. Good morning and congratulations on the deal. Can you I guess we'll know and he just said there's no guarantee 2024 can you give some color on you said costs are reduced cyclicality. What does Carlstar look like in 2024 pre-standout?

Paul Reitz: I think David had mentioned in his comments. I mean, Carlstar is similar to what we're seeing in Titan and really overall what you're seeing across the complete landscape. So, consumer ag construction, I mean, there is some softness in the market compared to 2023. I think their business, though, is softer for different reasons than what we've seen. They are exposed to interest rates being more

consumer based, but we've talked about in our IT on some of our segments with smaller tractors in the ag space, you know, interest rates have had an impact.

So, overall, I don't think there's anything different with Carlstar that's different than Titan. That's different than what you heard from any other relief that's been put out there with ag or construction. It's a number of different factors from interest rates to farmer income to geopolitics, government blah-blah-blah, you go on and on. So, but overall, the 2023 results for Carlstar were exceptional and they're going to have another good year in 2024. They had a good year in 2022. So, it's a high-quality business, it's been performing well. It's going to continue to perform well. As we've mentioned a number of times, it's a big, a tremendous one-stop shop and exceptional team.

And I think the one thing we should also put on the table and David mentioned synergies, but we really did spend a lot of time on it because our teams we have to work together to really drive down into this, but just growth opportunities. You take Carlstar's capabilities to service the market and combine that with Titan's existing product portfolio in markets where quite frankly, Carlstar is touching right now.

As we mentioned, Carlstar is primarily in the U.S. a little bit in Europe, you look at our global manufacturing footprint, what Titan's missing is that one-stop-shop model that secret sauce of connecting to the customers through distribution centers in a world-class [Indiscernible] process.
So, we're excited to get in there starting today and learn from the people there and see how we can not only work together here in the markets that we have in front of us, but also in places where opportunities exist for Titan and Carlstar moving better together in the future.

Larry De Maria: Yes, thanks. And I was going to ask you about the synergies in the manufacturing facilities and the ability to leverage them. I guess I guess first question is, does that go both ways? Can you actually get into their facilities and bring your product through and vice versa, maybe down South America?

And secondly, I don't know if you can confirm or not, but it seems like it's happened rather quickly and we really explored the cost and sales synergies or just first, it sounds like it came together quickly and we'll figure that out as we go?

Paul Reitz: Yes, it's a good question on the manufacturing footprint. I mean there are opportunities there like you like you said in your question to leverage their plants more effectively, to leverage ours more effectively. We did get a chance to walk around their facilities. So, it did happen fairly quickly the transaction we announced today. But I also want to say that we did a lot of due diligence over the last couple of months, we've been around their plants. The legal and financial teams have worked endlessly, getting comfortable with the business.

So, I would say it's now going forward is learning more about their people and their processes, their strengths, combining that with our strengths. But then like you said in your first question, Larry, we do need to spend some time getting round of their manufacturing locations and give them a chance to see ours too. Let those dots connect in the lightbulb turned on and see what their team starts thinking when they see our capabilities when our team sees their capabilities. And so I think it's an it's an exciting time. But yes, your point this all came together quickly we're pleased to announce it today. We think the timing is right, let's get going, but we certainly have some opportunities out there that we're going to continue to explore. And I will take us a little bit time to kind of articulated more clearly back to the investor base.

Larry De Maria: Thanks. And just last quick question. Any customer overlap to speak of?

Paul Reitz: It's mainly our businesses are very complementary. And I think to answer the customer question, you have to look at the products. So because of the differential in the products, the overlap is insignificant to start with. But then where we do overlap with the same customers, the products are different. There are there are some customers in smaller ag. To be honest, we really don't overlap. We kind of goes a different direction here and there I think we both know each other's business well enough that even where we do have similar products that overlap at that particular customer is fairly well contained. And so to answer your question, these businesses are highly complementary with a little bit of overlap, starting at 7:30 this morning, our teams we get on the phone with customers and making the first call to any of those overlap customers together.

So, what we want to do say to our customers, you know, we're in this together you've got a combined stronger company. But at the same time, we're still going to continue to service you in the in the same effective manners and process that Titan built and Carlstar built, I'm not trying to change that.
So, I think the customer base should see this in a favorable manner. And again, as to answer your question, very, very little overlap when you combine both products and customers, again, some overlap in each. But when you look at it from a metric standpoint, very little overlap in both.

Larry De Maria: Okay. I'll jump back in. Thanks and good luck.

Paul Reitz: All right. Thanks Larry.

Operator: Thank you. The next question comes from the line of Steve Ferazani with Sidoti. Your line is now open.

Steve Ferazani: Morning Paul, morning David. Obviously, you've been very busy. You had a lot to cover on the call this morning. A couple of more questions on Carlstar. Your advantage has always been you're operating in relatively niche markets with less competition, can you compare the competitive landscape for Carlstar? It looks like a fairly similar margin profile.

Paul Reitz: Yes, it's a good question, Steve. And that's something that the early due diligence. The biggest hurdle we had to get over is probably related to your question right there. We needed to be comfortable that their margin profile and the competitive landscape and how they operate in their markets with similar to ours. I mean, we are we, as Titan, have built our business around being very connected to the customers with an extensive product portfolio that can risk mitigate our customers in a way that no competitor can. And Carlstar has that exact same model into three primary segments they serve. They have a product portfolio that's exceptional. They're very connected to their customer. Their margin profile is good. They understand pricing in the marketplace extremely well.

As I mentioned, a number of times, the secret sauce they have with their the process that connects their forecasts to their inventory to their distribution centers to their manufacturing. Their customers rely on Carlstar in a significant way. So, they have a they have a profile that's very similar to Titan's.
Truthfully, in the segments they operate there, there's no competitor that can do it across all three spectrums like they count. So, if you look at Titan, what we do with wheels and tires in ag, there's nobody that can do wheels and tires like we do. And if you look at the three primary segments for Carlstar is very similar that there is not a competitor that can do what they do with this one-stop shop across all three

segments. So, a lot of similarities that are complementary. Again, tight, tighter, Carlstar are better together.

Steve Ferazani: Great. That's helpful. I mean I have to ask this, Paul, and it's really a question for them more than it would be for you. But given the how you've described this business, why would you sell it for four times EBITDA?

Paul Reitz: But I don't know how to even answer that one. Let me try and get a response from them, and we'll get back to you on that one. I think look -- Titan -- look, I will give you some color on it. Again, I don't want to speak on behalf of them. There -- it's a great opportunity for Titan's shareholders, employees, and customers along with Carlstar, their employees, their customers. And I think the Carlstar Investor Group, it's a tremendous private equity business. They have a long-standing reputation. They saw value in becoming a shareholder of Titan. They believed in the -- they believed in Titan, they believe in Carlstar, but they also believed in the power of the two companies together.

So, if you look at the deal structure, and I'll let David comment more about that, by using cash and stock, we looked at this as a great opportunity and a win-win for both Titan and Carlstar's investors, customers, employees. And so I think on behalf of the owners of Carlstar, which again are tremendous people, they will be having a Board seat on our -- at Titan, they just believed in the power of the two companies combined.

David Martin: There is not much more to say than that than that. I mean, it's a fair allocation of that. And obviously, they believe in the upside of the combination and took significant amount of stock and as part of this this deal. So, you look at it that way, I think it will prove out to be a lot of value to them as well.

Steve Ferazani: Right. That's helpful. Thanks for that. And just because we do have to model it, can you do you have any idea of the seasonality of that business compared to yours and then geographic distribution?

David Martin: Yes, I'll take both of those questions, Steve. It's interesting. They tend to have an early part of the year, similar to ours in terms of the spring planting and then also powersports seasons and things like that. So they have a little bit bigger, bigger first half than second half. But I wouldn't say it's that significant, though, it's not really that different. So you can look at quarter-to-quarter have been fairly similar with just a little bit more in the first half than the second half. Geographic dispersion is mostly North America and they have –

Steve Ferazani: [Indiscernible] You obviously you ended the year given the really strong free cash flow with a very significant cash balance. You're expanding the ABL but seems like I know we're getting into a softer year. Seems like you could pay down pretty quickly and you haven't been paying down debt lately. You've built that up. How are you thinking about that?

David Martin: I think over time we'll be able to generate cash in the US to pay down the debt and we haven't fully mapped it out in terms of how quickly that will happen. There was some working capital adjustments at the closing that we had and we paid for that will come back to us and we'll be able to pay down debt and in, call it the first half for that. And over the second half, we'll be judicious in how we do that and also maintaining our capabilities to invest in the business and continue our share repurchase program or where appropriate.

Steve Ferazani: All right. Thanks Paul, thanks David.

David Martin: Thanks Steve.

Operator: Thank you. Your next question comes from the line of Tom Kerr with Zacks Investment. Your line is now open.

Tom Kerr: Good morning guys.

Paul Reitz: Hey good morning Tom.

Tom Kerr: I was going to comment, I guess, you're starting investment business buying something at four times EBITDA. I think the Carlstar has been covered, but a little less capital-intensive business than the legacy business just because of the size of the products. And then secondly, on that, you've talked about similar margin profiles as the gross margin similar to the 15% range?

David Martin: Yes, I'll cover both of those Tom. The first one well, actually take the take second one first. On the margin profile, it's slightly accretive to Titan's margins, they do maintain operating -- those distribution centers would stand to be more operating costs. Yes, a little bit higher there. So, you end up having a good idea -- the EBITDA margin that's very similar over. I think ours has been averaging about 10%. So that's about the same. So, that it pretty much covers the profile.
Your first question, I can't remember now.

Tom Kerr: The less capital-intensive business than [Indiscernible].

David Martin: Yes, the size of the business, obviously with the products that they produce is smaller, they been maintaining around 2% of sales, which is not dissimilar to Titan. We've been a little bit higher than that, but by 2% of sales.

Tom Kerr: Okay. All right. I know you guys are going to give guidance, but not size anyway. So, we can going forward a year-to-date with the inventory problem solved, we wouldn't expect massive 20% to 30% declines. That's number one.

If I could take around that, that number two, even with the softness we're seeing with farmer income, can we still maintain the gross margins in that 15% range, do you think this year?

David Martin: Yes. On the margin profile, we were over 16% in fiscal year 2023 on a gross margins. And we expect to be able to be in a similar ballpark and going forward as well. Given all the things we talked about, how we operate, the discipline that we have in managing our input costs and so forth in our pricing. And so everything should be pretty intact.

Now, again, on the pressure side, no, Paul can address the overall market context. And we believe we're in a position where that any softness that we're seeing at a higher level is offset by the fact that we've had we were impacted pretty significantly in 2023.

Paul Reitz: Yes, So, I think you referenced, Tom, 20% to 30% down market now. We're not in a situation like that at all. There's general softness in the marketplace and I think everybody that's talked about it so far this year is set similar comments. And so we're not going to sit here and repeated. I think a lot of what you heard from the larger companies was 10 percent-ish -- 10% range. And so now we're not seeing anything that's indicating that the sky is falling run for cover down 30% so we're just we're going to spend some time getting our arms around the Carlstar forecast and the Tian forecast, and we'll be able to provide some additional color as we move through the year.

Tom Kerr: Sounds good. And one more quick accounting question. Can you were fresh by memory and how big is the business in Argentina that would have that logic currency effect and maybe just quickly explain the hyperinflation rules?

David Martin: Okay, we can take it offline later too Tom, but hyper, it's a smaller business, but a very profitable business for us and it's really the net asset position that creates that on FX losses over time. Yes, you got to remember that the devaluation of the Argentinean peso was very significant during the 2023. So, it was a -- you have assets that significantly devalued during that period of time. And it's over the course of a longer period of time as well. So, we were catching up to hyperinflationary rules. So, we basically you have to adjust everything to the current rate versus the historical rates for a lot of your assets.

Paul Reitz: Tom, it was it was stupid. ARGENTINA is a great ag market. We make good margins. We got a facility there, good connection to the customers. We don't manufacture in Argentina is, like David said, is just catching up on years of kind of activity, but it makes it seem like it's a terrible business that something tragic happens. No, Argentina is a good market. It's been part of our Brazilian portfolio of your output portfolio for a long time. Nothing really changed from a business perspective. It's just at a later date, probably only We call it stupid, but it was stupid.

David Martin: Yes, I think the accounting rules require us to do this in it. And so we've obviously called things up with respect to that and you have to it when it hits over the deflation or the inflation over a period of time, if it exceeds 100% and you have to go to these rules. So, we can talk a lot more about it offline, if you want.

Tom Kerr: Yes, that's kind of what I thought, but I'll jump back in the queue. Thanks.

Paul Reitz: Thanks Tom.

Operator: Thank you. Next question comes from the line of Kirk Ludtke with Imperial Capital. Your line is now open.

Kirk Ludtke: Hello, Paul, David, Alan, can you hear me?

Paul Reitz: Yes, good morning.

David Martin: Good morning.

Kirk Ludtke: Congratulations on the transaction. A couple of follow-ups. One, how would you compare Carlstar to what you're already doing in your consumer segment?

Paul Reitz: Not comparable at all, Carlstar is a world-class thoroughbred and were what we do in consumer just doesn't even touch what they do, what we're doing in consumer. And I know David mentioned this quite a few times is going a different direction than Carlstar where we were. We have a really good mixing facility in Tennessee. And so we are doing some custom mix for other companies along with servicing our own facilities, but in the true consumer space where Carlstar operates in the segments that they're in on. Yes, I mean, we dabbled around, but yes, they were running laps around us. So, again, Titan and Carlstar are definitely better together.

Kirk Ludtke: Got it. Were you competing with Carlstar? Is that how you learned about them?

Paul Reitz: No.

Kirk Ludtke: That's, no, you weren't?

Paul Reitz: I mean -- we did, it's a similar world. I mean, competing is probably a little bit of a strong word. I mean, we did we did touch each other a little bit in some ag, but we really were competitors, but it's just a small world where we are complementary operating in similar spaces and doing it in a different way or with different products, but in a similar way. A lot of respect for Carlstar, the way they were connected to the marketplace, the customers taking care of the end users and a lot of what Titan did. But really the complementary nature of our businesses is very strong. And so I would say we know each other because it's a small world but not directly competing like the big trade shows, we would go to they would have a booth. The big trade shows they go to we didn't have a booth. So, the overlap is minimal.

Kirk Ludtke: Interesting. Okay. And you've been working on the transaction for a couple of months and what's precipitated the sale?

Paul Reitz: I mean, we've been working on due diligence for about three months. I mean what brought the sale together is just some contacts that really between our Board members, Carlstar's ownership group, and myself, we did start talking well before the last few months. And so there is interest in both parties and seeing this come together. And it just takes time, though it takes time and it takes some understanding of each other of our businesses. And so yes, I mean, it really came together quickly in the last couple of months, and that's a tremendous amount of effort on the Titan team to make that happen a few folks from Carlstar. But if you look at it from a strategic rationale perspective, and I don't want to create the impression that this just happened in a few months, there was a lot more behind the scenes that took place.

Kirk Ludtke: Got it. Excellent. Thank you.

Paul Reitz: And we got a great -- I do want to be clear that, yes, we did it again with the strength of our Board and the strength of their owners. We were able to get some understanding in place that, again, let us lead us to a transaction that you saw today. So, again, I think you get the point it was it wasn't just cobbled together too much.

Kirk Ludtke: Got it. Got it. That's helpful. And it's a decent size deal for you. Is this is it for M&A for a while? Are you going to you're going to focus on this one or are there other deals out there you're contemplating?

Paul Reitz: Well, I mean, I think as a company, we worked hard to get to this point to pursue growth. We've developed of a strong business, good brands, good products, good people and have a strong balance sheet. So, I think at this point, we need to get our arms around Carlstar and maximize the value that this brings to the table for our customers and our shareholders. And we do think it's significant and it's accretive right out of the gate, strong opportunities in growth and synergies so I think there's going to be a period of time that the right thing to do is make sure that we get the maximum value out of this transaction.

I do think there's some growth opportunities that could require some investments as we as we expand the territories, the geographical footprint of the combined company. But you never know when opportunities may present themselves like this one did. So we want to keep our company in a position our balance sheet and position where if opportunities they become available, we can pursue.

Kirk Ludtke: Got it. Is there is the company -- company's change in composition and size? Is there a revised leverage target you're sharing?

David Martin: No, I think we've got obviously, this transaction has enabled us to maintain that conservative profile. And it doesn't we're not out over our skis with respect to the debt that we took on this deal. And right now, we're on a pro forma basis 1.3 times. So we want to stay in this general territory. And as we digested a transaction, obviously the flexibility we have to pay down debt with cash flow is important as well. We can continue to build strength and then maintain flexibility for the future for growth, not just some investments that can come in the form of an acquisition, but also investments inside our business, like Paul's talked about in terms of growth, territories, products, whatever. So, we I like where we sit with respect to where our leverage is now and we'll continue to have that again. It's all about flexibility.

Kirk Ludtke: Got it. Thank you. And last follow-up, and I know there's no guidance volumes are down are there are there any other headwinds or tailwinds that that we should be thinking about when we forecast 2024?

Paul Reitz: I don't think so. I think we've touched on that pretty well, again, 2023 with a very good year as we reported this morning and coming off a really strong 2022. I don't think anything we're seeing that 2024 is different than what you've already seen in the marketplace of now. I think we've provided enough color. You've heard enough from others. And again, what we will work towards is getting a good understanding of plays to what Tyler Titan, Carlstar look like together, articulate that for not just 2024, but also work towards articulating that for the future. Because again, I think Titan and Carlstar are going to be better together. So, we'll put our heads down for a little while and work on getting that information for it.

Kirk Ludtke: Got it. I appreciate it. Thank you very much.

Paul Reitz: You bet.

Operator: Thank you. Next question, I'm sorry. Follow-up question comes from the line of Steve Ferazani with Sidoti. Your line is now open.

Steve Ferazani: Hey, thanks for taking an additional question. I don't want to harp on this, but it's a question I've been getting for two months accelerating over the last couple of weeks. Again, back to a 10% to 15% decline for large tractors coming on crude crews call you listen to, but you were down 18% in ag this year, almost entirely on destocking, which accelerated through the second half of the year. Everyone's kind of trying to do the math on this. If you you're already down that significantly in what was an okay year. And what's I mean, the simple math would say that you're more flat and I know I don't want to pin you to a number. The math would say you're kind of flattish in ag because of how much you were hit by destocking this year. I mean, is that a reasonable way to think about it? Look, I'm getting this question all the time I got asked.

David Martin: That's a great question, Steve. Obviously, as we come into the year, it's certainly not I mean flat isn't probably in the equation but certainly something less than the full impact of the market being down. And we really can't put a fine-tuned number on that.

Steve Ferazani: Okay. That's what I tried to ask. Thanks guys.

Operator: Thank you. There are no additional questions waiting at this time. So, I will pass the call back over to Mr. Reitz for closing remarks.

Paul Reitz: Thank you. I appreciate everybody's attention to today's call and the opportunity to hear us talk about the Carlstar acquisition and how Titan and Carlstar can be better together. So, thank you and look forward to talking again.

Operator: Thank you for attending today's presentation. That concludes our call. Thank you, have a great day.has now concluded.