

Titan International, Inc. (TWI)
Transcript of Q1 2024 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
Tom Kerr – Zack's Investment Research
Kirk Ludtke - Imperial Capital, LLC, Research Division
Alexander Blanton – Clear Harbor Asset Management

Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the Titan International, Incorporated First Quarter 2024 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation. [Operator's Instructions] It is now my pleasure to turn the floor over to Alan Snyder, Vice President, Financial Planning and Investor Relations for Titan. Mr. Snyder, the floor is yours..

Alan Snyder: Thank you, Megan. Good morning. I'd like to welcome everyone to Titan's first quarter 2024 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 are about to review were presented in the earnings release issued yesterday along with our Form 10-Q, which was also filed with the Securities and Exchange Commission 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 Q1 earnings release is available on the company's website. A replay of this presentation, a copy of today's transcript, and the company's latest quarterly investor presentation will all be available soon after the call on Titan's website. I would now like to turn the call over to Paul.

Paul Reitz: Thanks Alan. Good morning, everyone. As noted in our last earnings call, we saw our One Titan team step up to get our transformative acquisition of Carlstar over the goal line right at the end of February. Of course, that was just the beginning as we've been full speed ahead over the past 60 days, integrating their operations into Titans. And I have to say at this point, I'm really pleased with how that has gone thus far. Carlstar has a really good team from top to bottom and it's been great to see them embrace the transition, and really envision a good future ahead for the combined companies. On the Titan side, it has similarly been terrific to see how the new folks have been welcomed with open arms and have been integrated quickly into our One Titan team. So, I'll take a minute and thank our entire team, both the existing members and the new ones, for all their hard work and commitment in recent months with the integration efforts.

Let me shift gears to look beyond the present towards the future with our newly combined company. We believe Titan is now positioned well to deliver more consistent stronger results throughout various market cycles for a number of reasons. Let me touch quickly on just a few.

First, we have made substantial structural changes in recent years, including portfolio optimization, addressing underperforming and non-core businesses, our pricing strategies and fortifying our balance sheet. Next, we have a tremendous focus on product development that's centered around our entrepreneurial culture, which is connected to end users and has built our portfolio with innovative products. And lastly, the Carlstar acquisition. This was accretive from the onset. As we discussed last quarter, this transforms our company with growth and synergy opportunities. And now, Titan has the broadest wheel and tire product offering in our business that covers everything from ATV and UTVs, to high-speed trailers, to construction and then of course, the entire ag segment from small to large.

Carlstar brings to us a one-stop shop that diversifies our customer base with a good balance between OEM and aftermarket. So, using that as a basis along with our recent financial performance of Titan and Carlstar, we've discussed with our Board that the combined companies in a typical year would have earnings power of \$250 million to \$300 million of adjusted EBITDA that also would produce free cash flow of at least \$125 million. Keep in mind that, AIP, the prior owners of Carlstar, believed in the value of the combined company based on the amount of stock they took as part of the transaction. That's a nice positive to see their belief in Titan and our stock. And let's not forget, our Board, also represents a significant shareholder base of Titan. I say all that to bring forward the point that we feel good about the future prospects of our company, and we are currently working on short and long-term actions to deliver those numbers I presented earlier and more. While you won't see that performance this year with softer market conditions, it is good for our investors to have a perspective of where Titan and our Board see the future.

For today's call now, I'd like to share some thoughts on a couple of primary themes, before handing the call over to David for his comment on the financials. I want to talk about current market conditions that's naturally on everybody's mind, so I'll spend some time there. And I'd like to talk more about Carlstar, how we're attacking the opportunities with that acquisition.

So, let's start with the market conditions. Most everyone in the AG sector is currently characterized in the market as being in a cyclical trough. Although, many expect this cycle to be shallower and shorter lived than previous ones. A fair amount of the reasons behind the cycle that we're in are macro factors, that extend beyond the typical AG sector drivers such as farmer income and inventory levels. We all spent a bunch of time seeing the headlines and understanding the Fed's steady rate increases in 2022 and 2023, are certainly having an impact on credit availability, and in turn spending in parts of our business.

Geopolitical tensions are running high on a global basis, that's stating the obvious, but it also impacts countries that are significant producers of grain commodities, and in turn significant markets for AG equipment. There's also the presidential election this fall. It's everyone's favorite or least favorite topic, I guess. But the reality is that, this may have a material impact on US trade policy. So you put that all together, and it's easy to see why a lot of economic factors are causing more uncertainty in our end markets, than we would otherwise have at this point, in the year. On a positive note, the election is something that's not going to go on forever. It has a known end date, so to speak. And I think it's also reasonable to expect, we'll have more directional clarity with the Fed and interest rates fairly soon. So, what that means is the uncertainty phase, a pickup in end market demand should translate pretty directly into positive activity for Titan.

So, more specific to the AG sector now, is farmer incomes. We've talked about the direct correlation between that and demand. We have seen the estimates for the year trending lower. But let's keep in mind, the overall farmer balance sheets have been and continue to be described as healthy. According to the USDA, we're seeing farmer income is projected to be down around 25% this year. Sentiment has been up or down, but it's somewhat neutral right now. But it really bears note, that farmer incomes have reached an all-time high the past couple of years. So, even though the direction has retreated, they are still at quite healthy levels. Also, with each passing day, let's not forget farmers are out there in the field, with their equipment, doing the work they need to do and that drives a need for aftermarket replacement tires.

I speak with customers on a regular basis, and that uncertainty I noted is something that is weighing on everyone's minds. Of course in AG, there is always some uncertainty, this time of year with the planting season, as dealing with the weather is just part and parcel of being in the AG business. Even so I am consistently hearing our customers say that the visibility at this time of the year is below what they would normally see. Without that visibility from customers combined with the macro factors, the normal and logical reaction for dealers is to adopt a risk-averse positioning, with their inventory, which then flows back to the OEMs who adjust their production accordingly.

We have seen tire and wheel inventory levels improve at the dealer channels and with OEMs, but the slowing of demand has resulted in overall levels, not yet reaching a normal state. Again, we are confident, this is a temporary dynamic as some of the macro factors that I've noted will not simply last.

Outside the US, Europe farmer sentiment has weakened. Geopolitical concerns are taking a toll has resulted in reductions in demand and inventory is still running higher than normal. In South America strong harvests have negatively impacted commodity prices. Notably according to some research, we reviewed regional commodity sales there have trended below normal resulting in some farmers still holding unsold grains.

So moving away from AG over to the Consumer segment, which I want to remind you, now represents approximately 25% of our revenues. The same macro factors are impacting the market there, as inflation as you expect inflation would. Even though the pace of increase has slowed with inflation, it is apparent that consumers are still feeling the effects of it, with higher gas and food prices. What that ultimately means is someone who might have thought about buying a new riding lawn mower for example is sticking with their old one this summer.

Similarly, the off-road ATV UTV vehicle market is feeling the effect of the various economic factors I noted. As with AG, our view is that this is more a pause in end market demand than anything else.

So that the person that wants a new yard tractor recreational vehicle is still sitting on an aging piece of equipment that they will eventually replace.

So on a positive note, I want to point out that Titan has a robust aftermarket offering in the consumer segment just like we do in AG. We have a one-stop shop that serves the consumer marketplace. This helps us offset that delayed dynamic that I mentioned as the same customer who has deferred buying a new lawnmower ATV might still opt and would be expected to still opt for new tires that would replace the worn-out old ones and helps to maximize that performance of that existing equipment that they're still using. We've seen this for years in AG. That's where our LSWs have continued to perform well; is in the aftermarket replacement space. So we know the game plan and we know how to maximize our opportunities. Needless to say, we are happy that we've expanded the aspect of our product offering in the consumer segment and what the Carlstar acquisition has brought to Titan.

So moving over to earthmoving construction. We are seeing the broad macro uncertainty impact demand. We do see these mid to long-term drivers for the sector remaining very much intact. In the US, nonresidential construction activity continues to trend higher led by the need for facilities like data centers and the onshore render manufacturing. Outside the US where equipment is used for activities like mining demand for precious metals remains strong, especially with the geopolitical factors driving prices of commodities such as gold to levels not seen in many years.

While we face some headwinds, it is definitely worth repeating that we are focused on controlling what we can control. And as a global Titan team, we have extensive experience dealing with market cycles like this. Again, I want to repeat, our team is very experienced. It understands how to make efficient timely decisions in dealing with cycles and conditions that we have seen to start 2024. David will get into the financial details, but I want to say that we did a good job in a challenging environment this quarter and we've delivered solid financial results that our team is proud of.

To close here, I do want to shift back to Carlstar. As I noted previously, I would cover this. This acquisition has really ramped up our aftermarket business. It's something we expect to benefit on several fronts. You've heard us talk a lot already about the one-stop shop concept and that is our central emphasis. By positioning Titan as a single provider of end-to-end wheel and tire solutions for our customers, we make their lives simpler and processes more efficient. Adding a robust aftermarket business also helps us control our own destiny a bit more than the past. At Titan, we've done a good job expanding our tire aftermarket business in recent years in both the US and South America. We've done that as well in the mining sector with our undercarriage business. Historically, as expected, our wheel business has been more of an OEM-centric type of operation and therefore relying on the production coming out of their factories to drive our demand. But now Titan has a sizable aftermarket business in all of our end market segments. We have a revenue source that we expect will mute some of the cyclical nature of our end markets and we certainly view that as a positive. Aftermarket sales also lead to a more positive basis with our margins. So the Carlstar acquisition really is a win-win on all fronts. I've reached out to a couple of our key aftermarket customers right after the closing of the acquisition and the response has been positive about what the combined company is capable of doing to help them better serve their respective marketplace.

So putting that all together, we are executing well despite the challenging environment. It has only been two months, but the addition of Carlstar is on track to drive the intended impact on our business we envisioned. We are focused on creating cost synergies and David will talk more about progress in that area. We're also seeing a path to commercial synergies based on the one-stop shop proposition that is

really supported by an extensive product offering and we expect to see that accelerate when overall end market activity picks up. We are pleased to see the solid performance of our aftermarket business, particularly as we contend with weaker demand from our OEM partners.

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

David Martin: Thank you, Paul and good morning to everybody on the call today. I'm very pleased that the One Titan team fought hard, through more challenging conditions in the quarter. And we put up a respectable result for Q1.

As a reminder our first quarter included one month's contribution from Carlstar, so we'll naturally see more benefit in the quarters to come.

We are well underway with our synergy plans and we have a clear line of sight into the near and long-term opportunities. For 2024, we're targeting bottom-line contribution of approximately \$5 million to \$6 million and believe the longer-term opportunity is in the \$25 million to \$30 million range, on an annual basis. Broadly, we're developing strong plans with actions to improve areas such as procurement, manufacturing and distribution center optimization and more direct cost reductions. We're being thorough in our analysis, as we look to take advantage of the economies of scale and our buying power, along with ensuring the combined organization is efficient and working on driving value every day. For some opportunities in areas such as raw material supplies there are contracts in place that impact the timing of the changes, we will be pursuing. And the opportunities are significant. There are meaningful commercial synergies as Paul said, stemming from our "one stop shop" strategy and having complete offerings to serve our customers and our teams are very focused on this as we speak.

Moving on to our results, we performed well in terms of margins during the quarter. And as we move through the balance of the year we'll see a full year impact of Carlstar's operations. We expect that it will create some gross margin lift, all else being equal although, offset by a bit heavier SG&A which I'll discuss a bit more.

Turning specifically to our financials for Q1, Revenues in the quarter were \$482 million with adjusted EBITDA of \$50 million and adjusted EPS of \$0.29. Our adjusted gross margin for Q1 was 16.7% compared to 17.4% a year ago, but up sequentially from 14.9% in the fourth quarter of 2023. Drilling down into the gross margins a bit, AG Segment adjusted gross margin was 17.2% compared to 16.1% last year, a very healthy increase.

On a comparable basis which excludes the non-recurring inventory step-up charge we recorded in the quarter Consumer segment margins were 21.3%, compared to 20.7% in the prior year. The step-up charge of \$3.4 million was a function of revaluing Carlstar's inventory when we took it into our books at the time of the acquisition. This flowed mostly through to the consumer segment and to a lesser extent the AG Segment.

Earthmoving and Construction segment gross margin in the first quarter was 14% versus 18.7% a year ago. It was a very difficult comparison. The segment margins this year were pressured by reduced sales volume, as our OE customers in Europe and Latin America responded to weaker demand. Again, we have a long history of fighting through these issues, and I expect that we're going to manage through this with strong actions to manage costs to get our margins and going in the right direction.

Longer term, we continue to see a positive demand picture for that segment and expect margins can expand as activity picks up.

SG&A expense for the first quarter was \$39 million or 8.2% of sales, compared to \$34 million in the prior year or 6.3% with the change primarily due to the partial year contribution of Carlstar's operations. Recall from our announcement of the acquisition and our discussions on our Q4 call, that Carlstar has historically carried more SG&A expense as a percent of sales than legacy Titan due to the distribution center model. In order to help everyone understand the impact of this particular line item we added an item in our guidance, where we note SG&A including royalty and R&D expense is expected to be 11% of sales for Q2 and should remain at a similar level for the rest of 2024.

From Q2 on, the incremental SG&A expense associated with the DCs, adds at 160 to 170 basis points as a percentage of sales. After that, SG&A would be consistent with our legacy Titan operations.

R&D expenses were \$3.6 million in the first quarter compared to \$3 million a year ago, reflecting our continued and strong emphasis on prioritizing R&D investments.

Our adjusted operating income was \$25.1 million for the quarter and our operating cash flow was \$2 million. Both of those figures were impacted by the reduced sales levels in the quarter as compared to last year's first quarter. If we back out the non-recurring expense stemming from the acquisition along with the non-cash inventory step-up charge adjusted net income would have been \$9.6 million higher as would have operating income. Operating cash flow would have been \$8.2 million reflecting the removal of those transaction costs. So, this was a solid quarter of cash flow generation when you look deeper into the numbers.

First quarter CapEx totaled \$16.6 million in the quarter compared to \$11.7 million last year as we continue to invest in improvements in production efficiency and select expansion in strategic areas along with product development. And of course, this is inclusive of one month of CapEx related to Carlstar. We also used cash to fund our stock repurchase program in the quarter buying back 100,000 shares for a total of \$1.4 million during the early part of the quarter. It's worth noting that given the timing of the Carlstar acquisition, we were blacked out for much of the quarter. After our purchases in Q1 we have approximately \$15 million of available capacity on our stock repurchase program.

Net debt at the end of the quarter was \$370 million compared to \$205 million at the end of the year. Our debt leverage at the end of the quarter was naturally higher after the funding of the Carlstar acquisition in February, while we continue to be in a solid balance sheet position with our stronger cash flow characteristics. Our priorities continue to be the pay down of debt we took on over time and continued a strong focus on the investments in R&D and strategic growth along with opportunistic share repurchases. Our free cash flow so far in Q2 has enabled us to pay down on the ABL line already.

Lastly, I want to touch on our financial guidance. As Paul noted there is macro uncertainty right now which is affecting many economic sectors including ours and virtually our discussions with customers that ambiguity is a theme. As our visibility for the balance of the year is not where they normally expect it to be that is naturally impacting our outlook. Given that dynamic we felt it was prudent to provide second quarter guidance at this time. One additional point to make with respect to our guidance relates to synergies. While we are attacking all the identified synergies it is reasonable to expect that we will get increased traction over the balance of the year and thus more of an impact on our financial results will be in the second half of the year and even more impactful in 2025 and beyond.

So, our guidance for ranges for the second quarter are revenues of \$525 million to \$575 million. Our SG&A including royalty and R&D expense of 11% of sales and an adjusted EBITDA of \$45 million to \$55 million. Free cash flow of \$30 million to \$40 million which is a solid contribution from working capital management in the quarter. And then finally our CapEx, we expect to be between \$15 million and \$20 million in the quarter similar to where we were in Q1.

So, with that said, we're excited about the future and what holds for Titan and our teams are very focused on driving value for our shareholders. So, thank you for your time this morning and your attention to what matters to Titan.

We would like to turn the call back over to Megan now, our operator for the Q&A session.

Question-and-Answer Session

Operator: We will now begin the question-and-answer session. [Operator's Instructions] The first question comes from Steve Ferazani with Sidoti & Company. Your line is now open.

Steve Ferazani: Good morning, Paul. Good morning, David. I wanted to ask about the year-over-year AG sales decline. It was certainly -- and you went into a little bit of detail but it certainly was much sharper than we were anticipating. And I think in your conversations in 4Q probably sharper than you were expecting. A couple of questions related to that. And it looks like your guidance implies it's going to extend to 2Q. What's changed in the dynamics? And can you provide a little bit of color around the geography there? How would you compare it to your overall? And how much Brazil was hampering those results?

Paul Reitz: Yeah. No. Steve, you're exactly right. And as we look back, let's go back about six months as we're getting forecast from our customers, and we're discussing that internally, we have seen a contrast between what we were hearing the market was going to be in 2024 and where it's at now, like you highlighted.

So, I just want to be clear, the expectations we set weren't something that Titan was throwing a dart against the Board. And just saying hey, that looks like a good number. It was really a deep involved process. And what has changed over the last six months comes back to just the uncertainty comment. Interest rates have a big impact on it. And I know we read about it, we talk about it in our daily lives. And we think about it from an inflationary standpoint. But what it does is it impacts the amount of inventory people want to hold carrying costs. So if aftermarket dealers look at it and go, if I was paying "x" before now it's "x" plus something, I want to reduce inventory.

From the OEM perspective, we've seen their dealers do the same thing. They want to reduce inventory, interest rates driving it. But also, as we've seen, that translate into a reduction in AG demand. You get to double on, call it a double effect where you want lower inventory, but because of the uncertainty, but you also want lower inventory because you see demand decreasing. And so, we saw that take place in the forecast that we've seen in the first quarter and the activity of the first quarter more abruptly than what we saw and what we expected six months ago. So it's a combination again of inventory in the channels, being reduced along with just overall macro uncertainty that we certainly -- we all know a lot about that.

Paul Reitz: Well, the only thing I didn't touch on is Brazil. You asked about geography. We have seen Brazil be impacted more heavily than U.S. and Europe. And that is again is another action that over the long run is what needs to be done. And I'd rather have it be done quickly, so we can get back to a more typical state, but it has been more severe than what we had expected. And I think you hear that from some others as well. I mean Brazil just a number of macro factors are just waning on the AG market down there. But with our experience in Brazil and it's a market that does rebound quickly we do have really strong market share there have great products. So I'm confident in the mid-to-long-range vision of where we're at for Brazil. But in the short run, yeah, they're dealing with excessive grains, commodity prices, inventory and a few things that they got to get cleared up in the system before we get back to a typical date.

Steve Ferazani: All right. Thanks. On the flip side, I'm impressed with how strong your margins in AG and consumer if you back out the inventory adjustments held up, given the volume declines? Would we expect to see further impact --I would have expected it should look more like what you reported in EMC. How is that holding up? And would you expect further impact if this is a little bit more prolonged because just with fewer product going through your facilities it should be I would think it should be having more of an impact.

David Martin: Yeah. Yeah, Steve, it's a great question. I think we've done a really good job managing our production, taking the right steps to manage labor and all of our variable costs associated with all of our plant activity. I think the team has responded well. We have good discipline in place. And that's enabled us to hold our margins up pretty strongly. I expect that as activity -- I mean even that said Q1 is still traditionally a stronger quarter. And then as we see volume in this second quarter and beyond, it's going to be harder and harder. But again I think the teams are doing a good job with it. So I think our margins will continue to be solid in the AG Segment. But I'll contrast that with EMC. And I'll say, it's a little bit of a mix issue there for EMC and that it's -- in Europe and Brazil the activity has been much more impacted. It's surprising to see how much activity has declined so rapidly, but it's much more of a steel component and we have labor and long lead times. So it was a little bit more impactful on the margin versus our AG and consumer.

Steve Ferazani: Great. That's helpful. To get one more in. The question becomes, Paul, how you think about temporary versus more than 12 months impact on demand and how you approach cost cuts. How are you thinking about that? Because clearly, you'd like to take some costs out of the system, but if this is temporary, you don't necessarily want to do that. How are you sort of thinking about that?

Paul Reitz: Yeah. And that's where we rely on the experience of our team. We know where we can attack costs quickly, and we're doing that. As David noted in his prior response, I'm impressed to see how our team is able to react very swiftly, make timely, efficient effective decisions in times like this. And I'm not -- I said it in my comments, and I'll repeat it again. That's the experience we have. If you look at the group of the Titan management team, we have extensive experience, both with cycles, but more importantly, working together. And so the actions start happening fluidly on a consistent regular basis where we can reduce costs. We're doing that, and it happens very -- again, very quickly, efficiently and effectively. And then we talk about it as a team. So one area knows what another area is doing, and we can learn from each other. But to answer your question about how you balance the temporary versus the longer-term outlook. I mean, that is how we see it, that we do see this as more temporary. We see that this is a shallow trough. I mean, farmer income is still okay. It's still in good position. Their balance sheets are healthy. They're still planting and utilizing tractors. And so, the investments they're making will drive changes into the marketplace that will be positive.

So, we look at our customer base, the infrastructure spending for construction and our customer base is going to be solid in what I would call the midterm. And so, what we're hearing from them is the same thing. By 2025, you're looking at things going in a positive direction. So what do you do for 2024 is you do what I was mentioning with our team, more temporary type actions we take them quickly. But we're trying to avoid making those long-term decisions right now.

Recruiting and retaining labor and talent is something that's critical to every company. And the last thing you want to do is overreact in the short run and then start spending money next year, building the team and building the labor force back into play. So, it's a fine line, it's a balance, and that's why I rely and I believe in the experience of our team and our Board. I mean, we're very fortunate that we have a board that understands the cycles that we go through as well. And so, when we communicate with them, they can work with us as well to make sure we're making effective in timely decisions.

Steve Ferazani: Thanks, Paul. Thanks, David.

Paul Reitz: Thanks, Steve.

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

Tom Kerr: Good morning, guys. Can you go back to the construction earthmoving segment? Were you saying that the sort of commercial construction macro outlook was deteriorating worse and the mining was holding up? Or do they get that backwards or maybe clarify those two?

David Martin: Yeah, Tom, you got it right. It's mostly on the construction side. Our mining activity on the aftermarket side was solid. And you saw a more dramatic drop in our European and more global construction OEM segment or sector.

Tom Kerr: And is that -- do those stabilized on the commercial construction yet? Or are those ongoing declines that stay the same throughout the year?

David Martin: Yeah. Right now, it seems like it's stable. It's come down and -- but relative to where we were a year ago, it's still in decline mode. But as we shift from Q1 to Q2, it's fairly similar.

Tom Kerr: And on the Consumer segment, if you look at the legacy segment, I can back out the numbers, but that seemed to be a substantial decline as well. Any other comments on just the legacy consumer side of the business?

David Martin: Certainly, we had some decline in what we call the old utility truck tire segment, and that's mostly Latin America. And so you had some decline there, and we've had a little bit of decline in our custom mixing as well just because certain customers their activity is down and so that led to a bit of decline there as well. But then, obviously, you do have the contribution of Carlstar. And that's a very positive thing to think about though. I think our margins have held up really nicely, despite that.

Tom Kerr: Great. One more quick financial one. Do you guys, have a level of cash that you want to maintain or try to maintain? I mean obviously, you could put a dent in the new debt easily with all that cash, but is there a dollar amount you guys try to keep on the cash side.

David Martin: Well, cash can be a little bit tricky in terms of where the cash is, but we're looking to optimize where our cash is, but the levels of cash that we have are adequate to run the business, and we'll look to pay down debt as well as even being opportunistic, on the share repurchase side. As stock prices move, we have the flexibility to manage the business and do those things as well.

Tom Kerr: All right. Great. That's all I have for now. Thanks.

David Martin: Thanks, Tom.

Operator: Thank you. The next question will go to Kirk Ludtke with Imperial Capital. Your line is now open.

Kirk Ludtke: Hi, Paul, David, Alan, thank you for the call.

David Martin: Good morning.

Kirk Ludtke: I noticed there are some very helpful pro forma numbers in the 10-Q. I was wondering, if you could share the first quarter 2024, adjusted EBITDA pro forma for Carlstar. So, I see net income, do you have an adjusted EBITDA number in there for Carlstar, pro forma for Carlstar?

David Martin: No, we didn't publish that, Kirk. That's something that we wanted to -- I mean -- there's too many adjustments in it to make -- it's noisy, because of all the different things that happened with the acquisition. So we -- I'd have to put too many adjustments on there to make it meaningful. But... It's fair to say, it was a very fairly similar progress with -- or a good strong margin contribution. They're certainly impacted by the same level of impact on the market that we are with their AG sector, but their consumer business as we look at the numbers for the one month of contribution, it was solid. And so therefore, it may not be dramatically different than how Titan trended.

Kirk Ludtke: Okay. The second quarter guidance it looks to be -- at least in terms of adjusted EBITDA, it looks to be flattish, with the first quarter even though, you've got two more months of Carlstar. So I'm just curious, does the guidance reflect a continuation of the roughly the same type of trends by business Titan versus Carlstar -- or is anything changing? Sequentially.

David Martin: Yes. I mean if you think about how typical seasonality works in our business, Q1 tends to be a larger quarter for sales in the AG segment. So you're shifting a little bit from a seasonality perspective. So, it's seasonally down. And therefore, that's, why when you do the EBITDA in the 50s. It does feel flattish, maybe a little bit down in terms of overall activity, particularly in AG and construction.

Kirk Ludtke: Got it. Okay. Well, I appreciate that. And I also appreciate the longer-term guidance \$250 million to \$300 million including \$25 million to \$30 million of synergies. Can you maybe give us a sense for how that breaks down, between the two businesses? The \$250 million to \$30 million less the synergies? I imagine, the synergies are coming from both sides.

Paul Reitz: Yes. I'll say, at a high level we looked at it as a combined company and that's the way we're approaching it. As the company has and will continue just to move together and operate as one. And so, we did not approach it from breaking it out between the two. What we did use as a basis, is kind of grounding our numbers is, if you look at where the companies have performed in the past, the target of

250 to 300 is grounded in performance that is supported by both companies' historical results and then you add the synergies on top of it.

So that's why we look at it and say in typical years this is what Titan can do is expected to do. But then you throw synergies on top of it both cost and commercial again on both sides of the fence Titan and Carlstar and you start going, we think we can do even more than that.

So, we wanted to get that out there because that's the way we're talking with our Board. And it's important. I mean, our Board as substantial shareholders in Titan not just with AIP and the recent acquisition, which again is a strong signal that they took Titan shares. But our existing Board members represent a substantial shareholder base of Titan. And so I think it's just important information to say this is where the Board sees Titan going. This is where the management expects Titan to go and want to share that with investors. But we really don't have it broken down though between the two companies. That's just not the way we're looking at Titan going forward.

Kirk Ludtke: Got it. I appreciate it. And I agree. That's an important -- potentially an important valuation metric. Can you talk a little bit about now that you're into this a few months? I mean, can you talk a little bit about the synergies \$25 million to \$30 million, are those mostly revenue opportunities cross-selling opportunities mostly costs, any kind of additional color there?

David Martin: Yeah Kirk, it's a very good balanced approach to it. There's a significant amount of commercial opportunities. And then when you think about supply chain, all of our buying our procurement there's great opportunities as we're a bigger company today. We're able to get buying power, but also look at the number of things that we buy too, and actually if you think about a broadening of supply chain, they bought from certain vendors. We bought from certain vendors, the consolidation helps in bringing together the best of both worlds. So we're doing a lot of that.

There are certainly cost reductions inside the business in terms of the alignment of our organizations. We'll do that. And then ultimately there's the whole sourcing aspect of it. We're a global business and there's a number of third-party buys that we have around wheels and tires that can be brought in, or the combination of the two companies can provide more economies of scale too. So there's a lot of things, but I would tell you it's a fairly balanced approach. It's not weighed heavily towards commercial although they are significant.

Kirk Ludtke: Got it. Is there a range on revenue that you would put on that guidance?

David Martin: I would rather wait a little bit before we start putting fine tips on that. But again we'll provide more guidance on that at a later time.

Kirk Ludtke: Okay. Got it. That's it for me. I appreciate it. Thank you.

Operator: Thank you. The next question comes from Alexander Blanton with Clear Harbor Asset Management. Your line is now open.

Alexander Blanton: Thank you very much. Appreciate you taking my questions. The thing that stood out to me the most was the decremental margin in AG only 13% you've talked to something. You've talked just to that already quite a bit. That's very low for the kind of volume decline you had in that business. And it's quite a bit different than what happened in the earthmoving segment, which was a

decremental margin of 42%. And I'm wondering why that is so different? I see in the text that you mentioned contractual price givebacks due to lower steel prices. And that was not in the AG segment at least it wasn't mentioned. Was that the main difference between the two? If you had great cost control in AG why not in the earth moving, it's basically the same kind of product?

Paul Reitz: Yes, that's a good question Alex. Let me jump in first with a comment and then David will touch on the financial aspects and I know he's kind of touched on already. But you look at AG, think about what we have in AG Alex where we got to LSW. I mean LSW is just a tremendous product and what it delivers to the end user. It's a premium product for us. It's a premium product for end user as well for our customers.

And so the LSW serves the marketplace very well in aftermarket. As we've noted in our comments, in AG I mean, the fields are still being planted. The work is still going on in the LSW that ultimate product that can take care of the customers' needs. And so one of the differentials we have in AG versus earthmoving construction is going to be LSW. We have other innovation besides LSW. There's other products that do serve the marketplace well. So, I don't want to make it seem like LSW is it. But LSW stands up to test the time and down markets up markets the demand is strong. We see it increasing in many aspects. So really just one key differential though to keep in mind is just the pull-through we get of LSW. We do have a strong aftermarket distribution channel. We've talked about that and we worked very hard to have what we see and what we firmly believe is the best distribution channel in North America for large AG. Strong partners servicing the marketplace very well. We're connected to the end users. And so again that aftermarket piece and AG is really one of the drivers that is different between earthmoving and construction. So, go ahead David.

David Martin: Yes, the only thing I was going to add there is that on the EMC side, it's more heavily weighted towards the OEMs and in particular in Europe and in Brazil. So, you don't have that strong aftermarket opportunity on the EMC. So, as the volume declines you're just much more impacted there versus AG where we have a good balance of OEM and aftermarket and aftermarket margins are good.

Alexander Blanton: Well, I think I'll take the rest of that offline because I still don't quite understand what the difference is it's the same kind of product in both sectors. And one you had a big decline in margins and the other you didn't, I'm not sure I understand why.

David Martin: Before you go any further with it they are different products. The majority of our EMC segment is undercarriage product. It's not wheels and tires. So it's different.

Alexander Blanton: It's what? Undercarriage?

David Martin: It's the undercarriage.

Alexander Blanton: Okay. And what is the effect of these givebacks and the lower steel prices in that sector?

David Martin: We typically try to line that up. Obviously, when it still comes down, you've got steel, your prices come down in line, but you don't necessarily always get it exactly. And there's leads and lags when you buy steel. So it can be more impactful in a given month or quarter. It's not tremendous, but there is some of that. But the steel has moved in a reasonably down fashion in Europe and Asia over the last year.

Alexander Blanton: Okay. Thank you. Second question is on the guidance in EBITDA, what is that in earnings per share for the second quarter?

David Martin: Yeah. Alex, we'll -- it's going to be -- if you think about it from a tax rate perspective, it shouldn't be totally different. So it should be fairly in line with how we did the first quarter. I don't have that number off the top of my head. But Alan maybe you can help me out with that one.

Alexander Blanton: Okay. So we're going to have basically flat earnings in the second quarter versus first, but the sales were 14% higher. So what's happening there?

David Martin: Yeah. Again, that's a little bit of the mix and seasonality in the business in terms of the mix of what products we're selling. So that's primarily it.

Alexander Blanton: Okay. So you've modeled that out then.

David Martin: Yes.

Alexander Blanton: Just a general question one more question on that. Why is it that you don't give us the guidance and the results in EPS as well as EBITDA? I mean that's...

David Martin: That's a good question. That's a fair question. We can look at that in the future and we'll help you out with that.

Alexander Blanton: Because most channels really use EPS more than EBITDA. And to get that, we have to calculate it from your numbers.

David Martin: Sure.

Alexander Blanton: If you're guiding an EBIT -- in other words, the \$250 million to \$300 million in EBITDA that you're saying you have a long term target for. What is that in EPS? That's what people really want to know.

David Martin: That's a great question. We'll look at that.

Alexander Blanton: That would be something you could do in the future. Thank you very much.

David Martin: Yeah. Thanks, Alex. Appreciate your questions.

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

Paul Reitz: Yeah. Thank you everybody. Appreciate your participation in our Q1 earnings call. Look forward to touching base here in the near future. Thank you.

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