Titan International, Inc. (TWI)
Transcript of Q2 2024 Earnings Call and Webcast
Thursday, August 1, 2024 - 9:00AM ET

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 Small Cap Research
Kirk Ludtke - Imperial Capital, LLC, Research Division

Presentation

Operator: Good morning, ladies and gentlemen and welcome to the Titan International, Inc. Second Quarter 2024 Earnings Conference Call. [Operator 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, Karli. Good morning. I'd like to welcome everyone to Titan's second 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 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. Overall, Titan had a solid quarter performance generating good cash flow. Those of you that have been following Titan or the ag industry are likely well aware that industry conditions are difficult. Yet there are really several key positive themes for Titan that I want to highlight.

First, our management team here at Titan has a deep reservoir of experience operating a cyclical business. And the actions we have taken over the past several years have the company well positioned to manage through the cyclical trough and continue to drive accelerating growth as macro conditions improve. We firmly believe improving conditions are a matter of when, not if, as the secular demand drivers for the economic sectors we serve remain very much intact.

Second, we have a strong aftermarket business in both consumer and AG, fortified by market-leading one-stop shop strategy, which we have talked about on prior calls. That strategy is helping to offset some of the OEM-centric weakness in the marketplace, and we expect it to be a strong attribute through all phases of the economic cycle. Beyond the strategic importance of the aftermarket, which was strengthened by our Carlstar Acquisition, I also would like to say that the integration is progressing quite well.

The last item I'll touch on is our innovative product portfolio. That is something we're proud of and a key differentiator here at Titan with our products such as LSW tire wheel assemblies, which we've noted still have plenty of opportunity for growth, both in AG and potential new markets such as Canada, Brazil and the military.

So, to provide some context on current market conditions, really the primary headwinds can be summarized as interest rates where we're seeing market participants await potential rate cuts and then farmer income. Agriculture equipment is a significant purchase for farmers, stating the obvious there and financing costs are an important part of that equation. This prospect of rates coming down as soon as this fall has led many to defer such purchases and OEMs have responded by reducing their production schedules. Then you look at the USDA, which forecasts 2024 net farmer income to drop 25% from '23, following a 16% decline from 2022 to '23. That would mark the 2 largest dollar value drops in history. That has certainly created some paralysis within the industry, and we're seeing some AG tire volumes down to levels well below the last cyclical trough in 2019. And again, this is primarily due to these reduced OEM purchases along with some of that inventory destocking that is taking place.

As recently as 2 years ago, when we were seeing record-setting sales, I don't think many of us would have predicted volumes falling thus far this quickly. But even so as we look back on those periods, the Titan has used that strong cash flow in '21, '22 and then again this year to rapidly de-lever our balance sheet, knowing that doing so would create significant strategic and financial flexibility for the future. So if you look prior to acquiring Carlstar, our leverage was down to 1x. From there, we were at more than 10x as recently as 2020. And then today, even after the Carlstar Acquisition, we're still at a very reasonable 1.8x. And of course, David will expand further on our balance sheet and our capital allocation. But the point is, and I really want to emphasize that compared with prior cyclical troughs, Titan is in a significantly better position through this part of the cycle than the past.

Over the last few years, we've also devoted significant resources to optimizing our operations. Through this consistent effort to drive process efficiency and you've seen it result in a better margin profile that we're seeing in both good times and bad. As we work through the trough portion of the cycle, that improved margin profile is driving our ability to continue to generate positive free cash flow.

So, turning to the secular demand drivers for the sectors we serve, we really see no reason to think anything has changed for the long-term and that those positive attributes are still there. Global population continues to increase. That's going to drive demand for food. While, AI is the talk of the town and it's causing changes in some industries, farming still requires putting seeds in the ground and nurturing plants through to harvest. Doing so requires capital equipment such as tractors, sprayers, combines, farmers continue to work their fields to feed the world and use the equipment that in turn continues to age. That drives demand for replacement tires and slowly but surely creates pent-up demand for new equipment over time. And our LSWs make both new and older model equipment perform better.

The second theme I noted at the outset of my comments was that our aftermarket business is one of the positives helping to offset some of the OEM weakness we are facing. Stating the obvious, one of the good things about the tire business is they need to be replaced over time. In both our consumer and AG segments, people may be deferring purchases of new machinery, again, such as tractors, lawnmowers, ATVs, but they're still using their equipment. And as those tires on those old machines wear out, they need replacing. Titan is well positioned because we have built a strong global aftermarket presence, and our recent acquisition adds to that strength with a one-stop shop strategy that has only expanded our aftermarket offering further. We are seeing our consumer aftermarket hold up quite well at this point, which is a testament to our dealers and wholesalers in this segment and the resilience of our aftermarket business even when OE market conditions are challenged.

Using that to give you an update on the Carlstar integration, I'm very pleased to see that it continues to go very well as our teams are working together to create additional value for our customers and shareholders. It is important to note that Carlstar's aftermarket customers, especially wholesalers and distributors are mainly complementary to Titan's dealers. This creates a great opportunity to cross-sell Titan products within Carlstar's network. And the other side of the coin is we would sell Carlstar products within Titan dealers. Our sales and engineering teams have been working extensively on this effort, but we really only scratched the surface since we're only 6 months in at this point. There are also wide-open opportunities to sell Carlstar products in Europe and Latin America, where Titan currently has limited consumer presence. And at the same time, Carlstar can benefit from existing Titan distribution there. These are just a couple of examples of commercial opportunities presented from the acquisition, and David will touch further on cost synergies, which I will at least note at this time, are progressing nicely as well.

The final theme I discussed at the beginning of the call is we also continue to prioritize investments in R&D as our innovation pipeline is a key difference here in Titan and in the field with our end users. In our press release, I detailed how our LSW tires provide a number of tangible benefits for farmers ranging from direct cost savings on fuel, reduce soil compaction and to a more comfortable ride in both the field and on the road. We think we still have plenty of room to increase LSW penetration in the AG market. And I'm looking forward to an opportunity to meet with several key Canadian farmers that also happen to be key influencers in the farming community. Creating enthusiasm with end users is what got us here with LSW and is important for us as it continues to create buy-in with the dealers that serve those farmers and in turn the OEMs. The large farmers I'll be visiting in Canada have a lot of influence amongst their

peers and people do pay attention to what they are saying. I use this opportunity in Canada as just an example how Titan concede a continuing growth path ahead for LSW to increase penetration there and abroad in Brazil while also continuing to grow our base in the U.S.

Beyond LSW, there are other significant areas of innovation going on here at Titan. We continue to work on those extensively across our portfolio in wheels, tires and undercarriage using the strength of our Titan, Carlstar and ITM brands, and I really look forward to sharing more of that with all of you in the future and more specifically with our customers and end users that use our products.

Before I hand the call off to David, I want to spend a few more minutes expanding our market conditions in our key geographic areas.

In the U.S., I already noted how interest rates and farmer income continue to be a significant headwind. Speaking about conditions in the EMC segment. I mean, purchases of construction equipment are impacted by some of those same macro issues as AG equipment. But conversely, that end market demand for EMC equipment also has positive differences tied to infrastructure spending and demand for minerals. And at this time, we're seeing that segment hold up better for us.

Outside the U.S., European farmer sentiment, it continues to be weaker due to the ongoing geopolitical concerns, particularly the potential increase of some protection as trade policy in that region.

In South America, many of you are aware of the significant flooding that occurred in Brazil from late April into May. It hit Brazil, Southernmost state Rio Grande do Sul. That happens to be home to a significant production of agricultural commodities and will have a negative impact on the current year demand in what was already a down market.

So really taking that full circle in summary, macroeconomic conditions continue to be difficult. But really thanks to the superb efforts of everyone on the Titan team, what we've built here through recent years, the connection we have with our customers and our end users, we are continuing to produce solid results. We're well positioned for growth as cyclical conditions approve, and we firmly believe they will.

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

David Martin: Thank you, Paul, and good morning, and it's good to catch up with everyone on Titan again this quarter. We've been intensely focused on protecting our margins and cash flow as we work through the increasingly challenging market conditions Paul discussed. I'll start with a brief review of the key items in the second quarter and then provide more detail on our margin and cash flow strategies.

Revenues in the second quarter were $532 million with adjusted EBITDA of $49 million and free cash flow of $53 million. We're particularly satisfied to have significantly exceeded our free cash flow guidance for the quarter.

We've been very focused on our aftermarket business and that has been central to our M&A and investment strategies. The results that we're seeing validate the decisions we have been making and that will be even more impactful in the long-term.

Our adjusted gross margin for Q2 was 16.5% compared to 17.9% a year ago, reflecting lower sales. In order to facilitate an apples-to-apples comparison, second quarter 2024 gross margin was adjusted to exclude amortization of stepped-up inventory values that rolled through Q2 from the acquisition. On a

segment basis, AG segment adjusted gross margin was 15.5%. Consumer adjusted gross margin was 21.8% and EMC adjusted gross margin was 13%.

Our SG&A expenses for the second quarter were $52 million or 9.7% of sales compared to 35% in the prior year or 7.2% of sales. Again, with the acquisition, SG&A increased. Without that, the expenses related to Carlstar, SG&A would have been down 1% year-over-year.

R&D expenses were $4.2 million in the second quarter compared to $3.2 million a year ago. I'll just reiterate here that our ability to continue to fund R&D is one of the many benefits that follow from our ability to continue to drive free cash flow, and we're continuing to focus on those investments that will drive market innovation for years to come.

Our operating income was $22.3 million for the quarter and operating cash flow was $71 million. Working capital management has been a core strength of our team over the last number of years. This was demonstrated in the second quarter with $44 million in positive contribution to operating cash flow. Second quarter CapEx totaled $17.6 million compared to $15.9 million during the prior year period. This included $4.5 million related to CapEx with the acquisition. As we noted in the earnings release, we intend to reduce the pace of CapEx investments in the second half in response to the weaker demand environment, and will continue to prioritize a flexible posture as we navigate the current environment like we normally do.

We also used cash to fund our share repurchase program, buying back 775,000 shares for a total of $6.4 million during the quarter, and we have approximately $9.6 million of available capacity remaining on our share repurchase program. We will continue to be active with share repurchases in the third quarter.

Net debt at quarter end was $326 million or 1.8x leverage, compared to $370 million on March 31, a very healthy improvement quarter-over-quarter.

Our priorities continue to be the pay down of debt we took on related to the acquisition, and we'll pace that based on our cash flow. Beyond that, we will continue the strong focus on our investments in R&D and strategic growth, along with opportunistic share repurchases. It will be a balanced approach.

The second quarter included a significant increase in our effective tax rate which was 81.9% on a reported basis and 65% on an adjusted basis. This was due to the impact of where our different geographic entities produce profits and losses. With the reduction in our U.S. operations profitability expected in 2024, we're now faced with additional non-deductible interest expense. We also have some temporary negative impacts of the tax structure of the acquisition, which we are actively managing through this year. In 2024, we're seeing more challenging conditions on our tax rate, and it will be higher than normal. Cash taxes continue to be significantly lower, though than the reported income tax expense. For the first 6 months of 2024, our cash taxes were $12 million, and I expect the full year cash taxes will be in the range of $20 million to $25 million.

Now looking ahead to the third quarter and the remainder of the year, we are cautiously optimistic that some of the macro headwinds will start to abate, but we're managing the business as if it won't. When and if the Fed will cut interest rates seem to shift with each round of economic news, so we're focusing on the things within our control. That means aggressively managing our labor and our production schedules, and we have strong plans surrounding sourcing of raw materials and other input costs.

We're also pushing hard to realize the various acquisition synergies we outlined last quarter. Immediate focus – areas of focus include redundant back-office areas, raw materials, procurement, among other things. Regarding the latter, various inputs will see contract sunset moving forward. And as that occurs, we expect to find more savings as market prices have come down. During the second quarter, we realized $2 million in cost savings and other acquisition-related synergies on our early wins.

With our aftermarket business faring better than the OEM side, given the various dynamics we've been discussing that higher-margin sales mix also adds a positive bias to our margins that can offset some of the weakness elsewhere.

The more we can hold margins as a result of these strategies, the better position we are to generate positive cash flow, and that is precisely our focus. In the second half, we'll manage working capital very diligently as usual. In discussing the CapEx earlier, I noted that we would intend to throttle back on some of that spend in the third quarter in order to preserve as much cash flow as possible. Also, as we noted in the earnings release and our commentary, our leverage ratio is very manageable, so interest expense is not nearly the burden than it was during the last industry downturn. All these things will help us to build strength through the cycle.

Moving on to our financial guidance, with conditions remaining in a state of uncertainty, we have chosen to continue with quarterly guidance again this quarter. Our guidance ranges for the third quarter are revenues of $450 million to $500 million, adjusted EBITDA of $25 million to $30 million, free cash flow of $20 million to $30 million and CapEx of $10 million to $15 million.

Thank you for your time this morning and your attention to what matters for Titan. We now like to turn the call back over to Karli, our operator for the Q&A session.

Question-and-Answer Session

Operator: Thank you. [Operator Instructions] Our first question comes from Steve Ferazani of Sidoti. Steve, your line is now open.

Steve Ferazani: Thank you. Good morning, Paul. Appreciate all the detail on the call. I think I asked about this the last quarter, but I'm going to ask again because the numbers that seem odd to me are in the EMC segment, which all you noted is holding up a lot better because of infrastructure and mining, sales were down only 5%, but sales were down, what, about $9 million. Your gross profit came down $8 million. Your segment income came down $7.5 million. Given that's not – you're not seeing a collapse in that market, those decremental margins seem really high. Is there something else going on there?

David Martin: No. It's a bit of a mix of the volume that we have going through the segment. We had some challenges within our wheel and tire business, particularly here in the U.S. during the quarter. ITM itself is performing well. It had a quarter where it performed pretty much on par with where we expected them to be and actually better than the first quarter. So it's really entirely around the mix of the products that we sell more than anything. We do have – steel prices have come down. We don't have as much leverage on that this quarter either. So those are really the key elements.

Steve Ferazani: I mean that doesn't cover why gross profit down almost the same amount of sales.

David Martin: Yes. I'm just saying that the mix of the products where we had the higher margin products are the ones that we lost this quarter, and we had challenges in our production with volume on the wheel and tire part of the business.

Steve Ferazani: Do you expect any kind of margin improvement in what would be seasonally slower second half?

David Martin: I would expect margins to be pretty solid for the second half of the year, particularly for ITM.

Steve Ferazani: Okay, thanks for that. And I know you may not want to say this, but can you tell me how Carlstar is performing year-over-year?

Paul Reitz: Qualitatively, absolutely. I mean I would say that as we noted in our comments, I mean, Carlstar is performing very well, and there's solid reasons behind it. I mean, the business they're in with their one-stop strategy, they do an exceptional job. And with the aftermarket focus they have in the consumer segment, it's just – they're doing an exceptional job and the market that the segment they're in via the aftermarket, as we noted, is holding up really well. So I think on both performance and integration and then kind of throw in their synergies that David talked about 6 months in. I mean we're very happy with where we're at or not even 6 months, I'm overstating that.

Steve Ferazani: Can you talk about the drivers of recovery? This provided you a little bit more diversification. Obviously, with that, you pointed to interest rates and farmer income. What's the recovery? What's the catalyst for a recovery in some of these consumer markets for Carlstar and is it differentiated significantly from AG?

Paul Reitz: Yes. I'll answer that two ways. First, I think the key thing to point out is how Titan is rebuilding itself and diversifying our portfolio as a company. And this acquisition was a great springboard for that, gave us exposure into complementary products. It gave us good exposure into the aftermarket. Now those are things that all legacy Titan was building on. I mean we have an exceptional aftermarket business for tires in North America and South America. But this just really brings us to that next level. It opens up cross-selling opportunities, as I noted. And so I would say, let's look at the diversification of Titan going forward, along with the fact that we can take that one-stop shop, our incredible global portfolio we can grow within it.

We look to grow the brands that we have via manufacturing opportunities that we have with partners and joint ventures. And so I look at the future is almost kind of like this endless picture that we're starting to fill in every time we get together and talk about it here at Titan. But to answer your question about the drivers within that, interest rates are big. There's no doubt about it. I think the news that we're starting to see with interest rates looking like they're going to crack here is definitely a positive. And with interest rates moving, I think those deferred purchases will get a little shot in the arm that will benefit it. But again, I think we got to look here at Titan towards the long run. I mean the long term and in the long run, I think we're in a really good position for a lot of growth opportunities that can come out of the newly combined company.

Steve Ferazani: As the markets – and you've been through these cycles many times, Paul, as the markets start to recover, how quickly will channels need to restock, how fast can that come? Or do we still need to work? Will we need to work through some inventory first?

Paul Reitz: I am going to rely on history to answer that question and to say that our business doesn't go up or down 5%. When it goes down, it goes down more than that, and part of that is because they bleed the inventory out of it. And we have seen OEMs be very aggressive during this cycle to get inventory out of the equation, both their own and within their dealer networks. Typically, what then that means is when the catalysts kick into gear, you get that additional boost because inventory levels are not where they need to be. Dealers panic about losing sales. OEMs, panic that their dealers don't have the product on their lot when people demand it. And so you see the order uptick move rapidly. And so that's where I think our experience is really important at Titan. I can say on behalf of the entire team, we are taking the actions needed quickly, effectively now where we don't have to get together in a room and fight with each other, how to do it. We know what we need to do. But also, what I have instructed my team to be prepared for is that if when the market comes back, we better be prepared to serve our customers. They are counting on us. They expect it from us. We have the biggest and broadest portfolio in the industry. And so when that uptick happens, Steve, that you are talking about, I expect my team and I expect our company to be there for our customers as well. So, it's a fine line. It's an art, not a science of how we manage through this cycle. But I do expect when that catalyst kick into gear that there will be some inventory restocking that takes place. That's historically what we have seen.

Steve Ferazani: Great. Thanks Paul. Thanks David.

Paul Reitz: Thanks Steve.

Operator: Our next question comes from Tom Kerr of Zacks Small-Cap Research. Tom, your line is now open.

Tom Kerr: Good morning guys. A follow-up on that last answer, you are talking about the aging agriculture equipment, it has to be replaced. We know the catalysts are, but is there any way bit of timeframe on the number on there? Are we talking six months, 2 years, 10 years, how can we look at that?

Paul Reitz: I would say with farmer income, we got to watch that first, okay. So, let's start there. This year's crops look solid. We mentioned Brazil with what's going on with the flooding, but it looks like there is plenty of stocks in place that I think we kind of go through this year being what it is without a significant amount of change. But then I do think in '25, you look at farmer income first. You look at interest rates. Then you start looking at the age of the fleet, updated equipment is good for farmers. Updated technology and what we offer at wheels and tires is good for farmers. They can make more money via both. So, when we talk about LSWs, it's an income boost to our customers. It's not just something that's nice to have. And so as you look to next year, then, I think when those catalysts kick in, then you see that inventory restocking take place. So, it's not 10 years away. I would say at this point, I don't see much going on for the rest of this year. But as we move the calendar into next year, I think when you start looking at those indicators and those forecasts closely to give you a better indication in '25 to see when things uptick. So, I think right now, it's a little early to predict exact timeframe on when it ticks. But it's – I don't think this is a deep, long, prolonged downturn. But I would say for the rest of this year, there is not going to be much catalyst to drive change.

Tom Kerr: Sounds good. That helps. And on the consumer segment, is there a way to let us know what the legacy business revenue decline would have been without Carlstar? Do you have a sort of the same-store sales decline in the consumer legacy business?

David Martin: I certainly don't believe it was – I don't have that number off the top of my head, but it was – it's not as deep a trough as we are seeing in agriculture. As you saw, not as much a deep impact on EMC either. So, I don't have this precise figure for you, but it's down somewhat, probably similar to EMC.

Tom Kerr: Okay. It sounds good. Two more quick ones, any more color on the negative impacts of the tax structure of Carlstar. And if that's a detailed answer we can do that offline. But just any further color on that?

David Martin: I can give you further color. I mean it's – this higher rate increase this year is probably a third of the impact, at the higher rate than what we are saying. The rest of it is really relates to the non-deductible interest and other reasons why the U.S. tax rate is really high because of that and among a couple of other things.

Tom Kerr: Okay. Alright. And then lastly, I think last quarter, you gave a framework of what a normal year would look like. I think it was EBITDA of $250 million, $300 million cash flow – free cash flow of $125 million, is it – are you still thinking of that guideline for a normal year outlook?

David Martin: Yes, absolutely. Again, that's a normalized year. There is a lot of things that are variables that are taking place in the market right now that would prevent us from getting there. But normal sales level, along with the operations that we have set up. It's all there for the taking. And it doesn't even include the significant synergies we see from the acquisition.

Tom Kerr: It sounds good. Alright. That's all I have for now. Thank you.

David Martin: Okay. Thanks Tom.

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

Kirk Ludtke: Thank you. Paul, David and Alan, thank you for the call. I noticed the guidance and that's very helpful. I appreciate it. Is there anything additional – are there any additional cash requirements we should be thinking about, thinking about maybe cash restructuring costs, debt amortization? And then any thoughts you have on working capital in the second half would be very helpful.

David Martin: Well, you will note from the guidance that we gave for the third quarter, obviously, volume being down pretty significantly, that impacts margins. But we are able to impact working capital to the extent and drive positive free cash flow in the third quarter, similar to the level of EBITDA. So, that's really it. As far as things that are unusual requiring cash, no, there really isn't.

Kirk Ludtke: Okay. Thank you. With respect to the third quarter guidance, is that – is the guidance consistent with the underlying market activity, or are we still seeing some destocking of dealer and OE inventories in that number?

Paul Reitz: Yes. I think there is an impact of destocking still in that number. As they have lowered their production schedules, we do believe that there is some destocking that's still taking place and causing some additional decreases to our Q3 output. As we mentioned, though, in earlier questions, I think that destocking now will probably lead us down a path that creates some restocking when the catalyst kick into gear. And so I think the answer is yes, '24 will continue to be impacted by destocking, but we are also prepared for that restocking event to take place. I envision sometime next year.

Kirk Ludtke: Got it. Thank you. And then also, you mentioned some operating issues in the second quarter. Do those continue into the third quarter?

David Martin: Well, maybe it's misconstrued on operating issues. It's just the volume levels are so low in certain aspects of our plants that it creates a pretty tough absorption. And so that's why it really what was reflected in the margin. It's not really issues.

Kirk Ludtke: Just under absorption.

David Martin: Yes.

Kirk Ludtke: Got it. That's helpful. Thank you. How much visibility do you have at this point into the fourth quarter?

Paul Reitz: I would say at this point, is probably not the way it has been in historic periods. We are clearly operating in a different environment when you listen to the comments coming out of the – our sector, the large customers within our sector. Part of it is just a lot of the uncertainty in the world. I do think there are some hopeful catalysts that take place later this year, whether it's interest rate visibility. You saw the Bank of England move today, looking like our Fed will, the election I think that's important to get some ideas of where we are going on tariff policies. And I think you get those events behind you, you start moving into next year, we will get back to more of a normal visibility outlook that we can provide and that we will get from our customers. But I would say right now, we are in a different environment because of all the uncertainty for that – to answer your question, that visibility going into Q4 is just not historically what we would normally see. So, I think what David provided with guidance is a good outlook. I think we are seeing our business hold up well, as David mentioned repeatedly in his comments, let's generate cash flow, let's manage that balance sheet. Let's look at working capital, make sure we are investing for the future, prepared to take care of our customers. I think those are the key things we are going to be focused on. And where I look at it is we have an exceptionally strong team. Our finance team works well with our businesses. And so we know where our working capital is, we know what these drivers of how we can continue to generate cash flow are for us. And so perhaps we are looking at it a little bit differently. Like David said, some parts of our business, the absorption levels are terrible. So, if you look at margins, when you are under absorbing, it's not a very good indicator of performance. And like David already said, those aren't operational issues. Those are just simple math. So, let's trace, let's follow the cash, make sure we are generating much cash flow as we can for the business for our investors, our shareholders, and let's prepare for the future. And I think we got a great team that can do all of that. And so again, it's a different outlook because you don't have visibility, you have under-absorption going on, but that doesn't mean we can't be successful in doing what we need to do now the best we can and putting ourselves in a damn good position for the future.

Kirk Ludtke: Got it. I appreciate it. Thank you. And then last question on seasonality. I know the old – the legacy business was seasonally weakest. I think the December quarter, if I am not mistaken. Is it more seasonal now with Carlstar?

David Martin: I wouldn't say it's more seasonal. I think we are going to see the typical seasonality in the second half and a little further exacerbated by the OEMs taking a lot of production out. But for Carlstar, they have more, I would say, even keeled quarterly seasonality, maybe a little bit in Q4 just because of just the end of the year in holidays and things like that. But Q3 is very similar to Q2 in that regard.

Kirk Ludtke: It might be less seasonal with Carlstar?

David Martin: Yes, I think if you add everything up, yes, I think you can make that, you can make that conclusion.

Kirk Ludtke: Fantastic. I appreciate it. Thank you.

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

Paul Reitz: I want to thank everybody for their attendance on our call this morning and your participation. I really appreciate your involvement with Titan. Thank you. Have a great rest of the week. We will talk to you in Q3.

Operator: This concludes today's call. Thank you everyone for joining. You may now disconnect your lines.