

Titan International, Inc. (TWI)
Transcript of Q1 2025 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

Michael Shlisky – D.A. Davidson

Stephen Ferazani - Sidoti & Company, LLC

Derek Soderberg - Cantor Fitzgerald

Tom Kerr - Zacks Small Capital Research

Presentation

Operator: Good morning, all, and thank you for joining us for the Titan International Inc. First Quarter 2025 Earnings Call and Webcast. At this time, all participants have been placed on 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 Alan Snyder, Vice President, Financial Planning and Investor Relations at Titan. Mr. Snyder, the floor is yours.

Alan Snyder: Thank you, and good morning. I'd like to welcome everyone to Titan's first quarter 2025 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 reconciliation of the non-GAAP measures to the most comparable GAAP measures. Q1 earnings release is available on the company's website. A replay of this presentation, a copy of today's transcript, and the company's latest quarterly investor presentation will all be available soon after the call on Titan's website.

I would now like to turn the call over to Paul.

Paul Reitz: Thanks, Alan, and good morning. We are pleased to report Q1 results that were at the higher end of our guidance ranges for revenue and adjusted EBITDA. Despite all the volatility floating around these days, the financial results for the quarter played out much as we had expected. This was a good solid quarter that highlights the strengths of our broad portfolio of market leading products, serving a diversified base of geographies and segments.

As we noted in our earnings release, our leadership position in our markets, coupled with our customer centric mindset are the core of who we are. And by sticking to that focus, we're able to navigate turbulent times such as these. We are actively assessing the evolving tariff situation and will be utilizing data-driven analysis in our decision-making process. Our diversified global business model enables us to be flexible with production and then will also be patient evaluating our strategic business plans in light of the evolving trade scenarios.

I do want to stress that we believe that tariffs applied consistently across the globe should benefit us in the longer term. Despite the short-term uncertainty and confusion that nearly all businesses are facing, as currently as we watch things getting negotiated and sorted out. I think this is a good time to also remind everyone that Titan has always been a proud US manufacturer with eight plants across the US. Over time, we have acquired manufacturing assets in other countries that allows us to better serve our global customers, but we've always maintained a strong US manufacturing presence.

So moving over to our segments I'm going to start with AG. We are leveraging our connection to end users by getting out to visit farmers and dealerships to really make sure we get an accurate picture of the current operating environment. On the whole, farmers appear to be guardedly optimistic that once the dust is settled they will be okay with solid farmer income. Crop prices remain in healthy ranges and they firmly believe that government stands behind them as retaliatory tariffs impact their ability to sell their harvests outside the US. The uncertainty that businesses are facing is no different for farmers, is putting a damper on equipment demand in the short run. This will eventually pass and the cycle will turn. And that's where Titan's broad product portfolio and our expansive production capabilities shine through.

Our teams need to continue to manage costs effectively while also staying prepared to ramp up to meet demand when needed. While overall, agriculture orders remain muted, we did see some positive OEM activity in the US as a key customer had extensive drop in orders in Q1. These orders came in prior to the tariff introduction, so we believe they were driven by demand, not pull forward buys. The experience of our One Titan team continues to manage cycles like this, which really makes an important asset for us and our customers when the cycle turns, because it typically turns fast.

Our team and breadth of production capabilities are best suited to meet our customer's needs in those moments. And that's what I was highlighting with talking about that key customer dropping in those Q1 orders. We have competitors that have offered buyouts to their entire labor force, while Titan is able to adjust to customers on the fly and meet their needs. And that, again, proves the expansive capabilities of Titan and our team.

So moving over to Brazil, which historically is a good leading indicator for the broader global AG market. We have seen our business strengthening since Q4 of last year. The harvest season has gone well and it seems that farmers there will benefit from the U.S. trade standoff by stepping up their exports to China. As the largest manufacturer of AG tires and undercarriage in Brazil, Titan is well positioned to benefit in South America.

So looking at Europe, the economic and military investment into that region has become a priority along with the establishment of trade accords without the U.S. In the near term, European activity has been somewhat slowed down and basically stuck as the region continues to feel the effects of the situation in Ukraine, while also working on the best path forward given the changes in the global trade policy. While our European business is being impacted in the short run, I want to mention that I was recently at our plant in Turkey and really excited to see our investments there to improve our overall European wheel capacity and lower our cost structure. And things are coming together well nicely there.

Our consumer segment continues to be our gross margin leader. As a reminder, customers in that segment include both OEMs and aftermarket, with a higher proportion of aftermarket sales than our other segments. End customers range from outdoor power sports equipment owners to businesses such as landscapers and golf courses. The latter group tends to use their equipment very regularly, which makes it a good source of aftermarket demand. That group also has a shorter replacement cycle for equipment since their businesses depend on operational uptime, which provides us a good diversification to our other segments.

Lastly, taking a look at our EMC segment, we are seeing the impact of the sluggish OEM demand, particularly in Europe and the US. It's worth noting that the type of work our products are used in tend to be in large and long-term type projects tied to mining and non-residential infrastructure. Companies and governments base those decisions on a type of work of long-term inputs and as such the near-term trade negotiations have had an impact. To that extent, a region such as Europe sees a renewed emphasis on internal investment, changes in trade policy would be seen as a long-term positive.

Similarity of volatility becomes a durable aspect of global trade. Precious metal prices would seem to have a long-term positive bias, supporting mining investment. These demand drivers are a good counterbalance to what I just mentioned in the consumer segment and the AG segment, which is our largest segment. The feedback we received recently from the Bauma tradeshow in Germany was similar to what I've been saying in my comments about our EMC capabilities in the last quarter. And I've noted that we're in a good position with our innovations and product development along with our strong service capabilities. So we are very poised when the market returns to growth to be in a good position in this segment.

While we are firmly believing that we are well positioned in all three of our segments, I want to make it clear that we are not sitting back waiting for the world to find its footing. We have a number of internal growth initiatives underway, including our continued investment in new product development across all of our businesses, driving revenue synergies amongst our segments and our product families, and then offering new third-party source products. I've been talking recently about the further penetration of our LSWs in market segments, where we really haven't market them as aggressively in the past. And with that, I'm referencing more the midsize type farms.

I got to tell you, man, we got some really strong, independent data from a group of farmers on LSW performance and the accompanying yield improvements that they bring when compared to dual tires and rougher tracks, it really amplifies the ROI in LSW to a payback of well under a year for a mid-size farm. Our teams are working on rolling out that promotional material around this information, and we are really excited about the prospects that it brings with it, as well as a couple of the dealers that we've mentioned this to.

Wrapping up, we are off to a solid start in 2025. There's certainly a lot going on in the world today and our business will continue to move forward. Farmers are working their fields, precious metal prices are driving mining activity and lawns are going to get mowed. At Titan, our investments and our domestic positioning, one-stop strategy and our organic growth initiatives have us poised to provide products as a solution to our customer needs in times of complexity and dislocation that we're seeing today, therefore supporting a long-term growth trajectory.

Further illustrating our long-term growth prospects is our recently announced expansion of the Goodyear licensing rights into new product segments. As most of you know and our customers know we've had a nearly a 20-year strong relationship with the Goodyear farm brand that we remain deeply committed to. And that couples really well with our excitement about the prospects of adding the Goodyear name into light construction, industrial, ATV, lawn and garden, and golf tires.

So with that, I'm going to turn it over to David now.

David Martin: Hey, thank you, Paul. And good morning, and thanks to everyone listening in today. Paul talked about the tariffs earlier, and it is worth repeating that we are well positioned. We are among the only domestic manufacturers in our segments, and by virtue of that, we expect trade policy applied consistently around the globe to be a net positive for our business on a competitive basis. Like everyone, we hope that policy will be settled sooner than later, as that will benefit our OEM customers, along with everyone that buys their products, farmers to landscapers.

At the same time, we will continuously evaluate our production strategies to fit the situation, And we believe that we have strong plans to win the day. As Paul noted, our results for the first quarter were in line with our expectations and at the higher end of our guidance range. And it marked a nice sequential improvement from the fourth quarter.

Revenues in the first quarter were \$491 million with adjusted EBITDA of \$31 million. Our gross margin in the first quarter was 14%, which was up from the 10.7% in the fourth quarter. That demonstrates the positive leverage that comes with increasing sales.

Looking at our margins by segment in the quarter, all three showed expansion versus the fourth quarter. AG gross margins were 12.4%, EMC was 10.4%, and our consumer gross margins were 19.6%. Consumer continued to be our most profitable segment as the higher margin aftermarket business accounted for more than 65% of the sales in the segment.

Our SG&A expense for the first quarter was \$49.9 million or 10% of sales compared to \$39 million in the prior year or 8% of sales. I want to remind everybody that we closed the acquisition of Carlstar in February of 2024, so the first quarter of last year only included one month of SG&A expense for Carlstar.

Going forward, beginning with our second quarter results, our comparisons will be all on a like for like basis. Not including the inclusion of Carlstar, our SG&A expense for Legacy Titan was 2% lower than the first quarter of 2024. Our R&D expenses were \$4.5 million in the first quarter compared to \$3.7 million a year ago and relatively the same level with the \$4.4 million we spent in the fourth quarter of last year.

Our operating income in the first quarter was almost \$12 million and reflected the combination of sales, margins, and operational expenses I just noted. Also as expected, we began to increase our working

capital balances, particularly accounts receivable and unsold inventories to a lesser extent, concurrently with the \$107 million sequential step up in sales, which resulted in a negative free cash flow for the quarter, and that includes our CapEx of \$15 million.

Reiterating our commentary from last quarter, that usage of cash was expected, and we fully expect to see improvements as the year goes on. Our net debt at the end of the quarter was \$411 million, or 3.8 times trailing 12-month adjusted EBITDA. From a capital allocation standpoint, our primary focus in 2025 will continue to be paying down debt and our key investments in the business, as we noted last quarter. We will curtail our capital investments in 2025, reflecting our cash flow expectations and the more challenging market climate while we are still focused on the investments that drive our growth strategy.

The first quarter income tax expense was \$4.2 million within an effective rate of almost 100%. Our elevated tax rate continues to be a function of where our profits and losses are distributed geographically and the associated tax jurisdictions in each of those areas.

Now moving on to our financial guidance for Q2 that we communicated yesterday. Our guidance range for the quarter are revenues of \$450 million to \$500 million, adjusted EBITDA of \$25 million to \$35 million, which all reflects stability in our business in the second quarter. So reiterating our prior comments on cash flow, we will continue to manage working capital tightly in the second quarter. And as we enter the second half of the year, we expect to see cash flow turn positive, allowing us to reduce our debt and continue our strategies.

Our financial condition is solid. Let's just remember that. We have a really good balance sheet, and I'm fully confident that we're continuing to put ourselves in a really good position to accelerate our future performance.

So thank you for your time this morning and we would like to turn the call back over to Carly for the Q&A session.

Question-and-Answer Session

Operator: Thank you very much. We're now going to open the line for Q&A. [Operator Instructions] Our first question comes from Mike Shlisky of D.A. Davidson. Your line is now open, Mike.

Michael Shlisky: Good morning. Thanks for taking my question. I guess, I want to start by maybe asking about how you source things like rubber. There are pretty high intended tariffs for some of the major rubber exporting countries like Vietnam or Thailand, but you can also source rubber -- other big countries that have rubber are in West Africa where tariffs are being kept to a pretty low minimum, 10% or the least possible tariffs. So I guess I'm kind of wondering if you can clarify which one of those two is it for Titan? Which one do you use more or do you use most of? And can you comment also on your ability to contractually pass through along any higher rubber costs or steel costs through your OEM contracts with your customers?

David Martin: Yes, great question, Mike. We have good sourcing of all of our rubber products, and they're primarily West Africa. And we have good solid contracts in place for those. And so, we feel very confident about our ability to get the materials and at a very cost competitive positioning. And we expect the year not to be impacted dramatically at all based on tariffs in that regard.

But I think I want to add to that in that, our steel sourcing is primarily domestic and the other things such as fabric chemicals and so forth are either get domestic sources or sources from areas that have fairly low tariff impacts at this point in time. So we're in a really strong position relative to -- on all parts of our sourcing globally.

And in reference to your question about pricing, we do have contracts and mechanisms in place for our OEM customers regarding raw material and other inflationary cost impacts. And they're adjusted typically either on a three or six month basis. So again, we're not going to be impacted dramatically by that. And we'll continue to really work closely with our sources to be strategic and mitigate cost impacts in any event. So I feel like we're in a good position there.

Michael Shlisky: Got it. Thanks for that. And then I just want to get maybe take a step back and ask about the broader global AG market. You had mentioned there were potentially some challenges with the U.S. farmer because of tariffs or other things that are happening. But do you feel like globally, everyone has to eat, do you feel like globally other regions may pick up the slack? We just heard from one of the major tractor audience this morning that South America was actually up in the quarter. Curious, have you seen something similar? I just kind of want to get a sense as to the net global read on ag which you serve most of those markets, are things getting dramatically better or worse on a net basis?

Paul Reitz: Yes, I think Mike that that feeds in perfectly to it makes Titan the strongest in our space. It's our ability to serve all segments large all the way down to the small like we've been highlighting, but specifically in your question to AG, by having our manufacturing presence in the key agriculture locations of Brazil and the US in times like this where you see the strength in Brazil starting to come through, which we've been highlighting and started to really see going back to Q4 last year, they're buying -- they have been buying more grains overseas from Brazil than the US, and that trend is really propelling demand and growth down there. So for Titan, we're doing extremely well in Brazil. And that's -- again, that highlights our diversification. So as the farming economy may switch to meet the needs of the global population like you highlighted. People are going to eat. They're going to eat protein-based diets and we're able to position ourselves to meet the needs of the customers wherever they may reside and whatever trends may be going on in the marketplace. And so, with AG, Brazil is coming along very well, continuing that strong trend we saw on Q4 as we get into Q1 and seeing that continue into the second quarter as well.

The U.S. is the U.S. There's a number of moving parts to it. But really what we're highlighting is, in times like this where farmer income is at a level where they're looking to mitigate costs in every angle they can, products like we have with LSW, like I mentioned, when we keep finding more data that supports the ROI and LSW, it's a product that provides a solution where if you need to drive yields to improve your performance of your farm income, we have products that can do that in the US. So we're not sitting still in the US while the market seems to be stuck a little bit right now, kind of waiting for these different scenarios to play out with global trade. But Titan is well positioned in any angle and around the world. And I haven't mentioned, but I will mention, our European presence is really strong as well with our wheel business. And so, again, I think the AG market, you said it, and I'll repeat it. I mean, the people are going to eat, and they're going to continue to eat well, and we're positioned to serve those needs.

Michael Shlisky: Great. I also wanted to ask about -- oh, sorry, was it..

Paul Reitz: Well, and just one other comment -- Mike, one other comment I want to add though. I put it in my comments and I think it is worth noting, as the US comes out of this cycle, which they will, depending on how you measure it, we're going on close to two years of a downturn in the US. We positioned our plans in the US for both wheels and tires to meet that demand. That's easier said than done. One, you got to have the tooling and the production capabilities to meet that demand as it changes. But two, you got to be prepared. And we've seen our competition do mass layoff notices and buyouts to their people, whereas Titan has really maintained the capabilities. And as I mentioned, when a large customer comes to you and drops in orders, which we're seeing more of in today's world. Being able to meet that is, again, it's easier said than done. And Titan is well positioned in the US, not just having the plants and the tooling, but also having a team that's ready to meet that change in demand. Because we all know it's coming. Trying to predict exactly when is the guessing game, but it is going to happen.

And I just want to highlight again, that's why I've made that comment in my prepared remarks is that, we did have some pretty serious drop in orders in Q1 that happens, that's been happening, but we're able to meet that demand.

Michael Shlisky: Great. I also wanted to ask about visibility. You mentioned in prior conversations, it got very tough during 2024 with OEMs, who typically give you a quarter or a little over a quarter of visibility of what they're looking for coming ahead. It was tough to predict. You really had a really rough third and fourth quarter of last year. Things changed pretty rapidly. Sounds like things seem more stable now, first quarter versus now coming up to your second quarter from an EBITDA perspective. I am curious whether you feel like the visibility has improved greatly from the second half of 2024, you can plan ahead a lot better than you could just six months ago.

Paul Reitz: It's still not where it used to be. And you got to adjust to the world, the world's not going to adjust to you. And so that's really what we've been doing. Our team has to be prepared to handle whatever the market conditions are and however our customer's needs need to be met. And we do envision a world where after you get through this inventory cycle, which is most comments are, it's getting really close to the inventory being at a level they feel more comfortable, then you start getting that visibility back, because the market demand is going to tie more into their production needs.

I think really what distorted us last year was the dislocation with inventory levels and the production cycles. And so that part will really get the visibility back. And that's going to happen. Is it happening right now? Not quite, but that doesn't mean we can't be prepared to handle the world that we're in. And I think that's what we're saying is, it's a good solid Q1. Clearly we've adapted to these market conditions. As David highlighted, our guidance for Q2 is illustrating the same thing, good financial performance. And then we'll go from there. But we've adapted well to these market conditions. But I do think the visibility will get better. And as Dave has talked a lot about his comments, our pull through will improve. I mean, we're at -- you look at our financial results, we're in a trough market and still putting out good financial results. And so that pull through of efficiency through to our margins, when that visibility comes into place and our plants are operating at a better utilization level in the U.S. is the day we're looking forward to and we know it will come.

Michael Shlisky: Okay. I appreciate the discussion. I'll leave it there. Thank you.

Paul Reitz: All right. Thanks, Mike.

Operator: Thank you very much. Our next question comes from Steve Ferazani of Sidoti. Steve, your line is not open.

Steve Ferazani: Good morning, Paul. Good morning, David. Appreciate all the color on the call so far this morning. Paul, you and Titan, unfortunately, have been through this trade war before and not that long ago. Can you touch on maybe what you learned the last time around, how you can apply at this time, and how well your aftermarket may be positioned, which may be more important over the next three or four quarters on the AG side?

Paul Reitz: Yes, I mean, what we are doing and what we're prepared to do is meet the needs of our customers by being flexible with our production. We have multiple locations where we can produce products. We have a strong U.S. manufacturing base. We have seen some customers in the U.S. start asking, can you source products or products produce in the U.S. even at a higher price? And so that risk mitigation, when our customers start looking in that direction, that plays into Titan's strength. And that's what we've seen in prior periods of dislocation, whether it's the tariff trade war or it's even COVID.

When dislocation is going on in the world, that's where our production capabilities are tooling. We have massive arsenals of tooling available to meet the needs of our customers. That's when we do really well. So dislocation can be our friend. It's not the easiest thing to get through and that's where we rely on the experience of the Titan team. So moving our production, being flexible with our production, we have built a good stable of third-party suppliers. It's something we've been working on as Titan, but also working on with our acquisition last year. Those capabilities and what we bring to the table through third party suppliers with our distribution, our brands and really our ability to meet the needs of the customers is attractive to third party suppliers. So again, we can move within our own production, we can move production within other channels.

And so for us, we've been through this before, like you said, and I think our team is -- one thing I keep hearing from our team is, they're confident in times like this, and they go out to our customers and they exude that confidence. And so, we do feel that these times are good for us in the long run. In the short run, it does require some keeping your head down and just working your tail off to get through it. And again, our experience does show as you highlighted in that question.

Steve Ferazani: Thanks, Paul. I also wanted to get a chance to touch on the expanded Goodyear licensing agreement. That seems pretty substantial now that it's going to cover some of the former Carlstar products. I know those agreements don't happen overnight, so you've had some time on this. Can you talk about how important or useful it will be to apply the Goodyear brand to some of the former Carlstar products and what that means towards realizing those synergies you had talked about a year ago when you made that acquisition?

Paul Reitz: Yes, Steve, you're exactly right. Those things don't happen overnight. So it's pretty cool today to be able to talk about it. It's been in the works for quite a while, ever since we did the acquisition. And so, we love and respect and cherish the Goodyear brand. It's been great for us and I think we've been really good for them. And so, almost immediately once we got the acquisitions done, our sales team at Carlstar was excited to potentially get their hands on the Goodyear name and what they could do with it. And like you highlighted, it took a while to get that negotiated and work through with Goodyear. And now that it's in place, man, I think there's a lot of good things we can do.

Carlstar, the brands they have with the Carlstar name, the ITP brand, it's already very well respected in the marketplace, but what we can do now with Goodyear and our product development and our designs that we can bring and just having that brand behind it, it just accelerates the path. When you have a brand name that stands out, we're using it with LSW, you don't have to knock down the doors quite as hard, they sort of open up for you. And so if you combine that with the Titan strength and recognition that we have in the marketplace with our customers and you throw their Goodyear brand with it, it just makes it so much easier for our sales group when they're when they're going through that door.

So yes, we're really excited and yes it's been a while working on it. but great to get it released and look forward to what we can do with it.

Steve Ferazani: Great, thanks, Paul. Thanks, David.

Paul Reitz: Thanks, Steve.

Operator: Thank you very much. [Operator Instructions] Our next question comes from Derek Soderberg of Cantor Fitzgerald. Derek, your line is not open.

Derek Soderberg: Yes. Hey guys, thanks for taking the questions. David, wanted to start with you. So you guys mentioned minimal impact due to tariffs this quarter. About 10% of revenue having exposure, it sounds like that's going to be the case in 2Q. But we're going to have a full quarter of impact in 2Q on that 10% of revenue, right? So first, am I thinking about that right? And then looking at EBITDA guidance to 2Q flat quarter-over-quarter roughly. So wondering if you could talk about some of the puts and takes going on in EBITDA for 2Q, specifically what might be making up for, if I'm correct, greater dollar impact from that tariff cost in 2Q, again, just looking for some of the puts and takes. Thanks.

David Martin: Yes. Thanks Derek. That's a great question. The second quarter is considered to be a fairly stable quarter, relatively speaking to Q1. That's a good thing because in terms of demand, sometimes you see a little bit of a trade-off in Q2 in the mix, not just to mention the production in AG. But so overall, we have a fairly good stable order deck and are able to produce very similar. And we also have the strength of Brazil that's continuing to happen.

So, 1 thing is really important. We put out the minimal impact to, call it, 10% of sales. And that's an important thing to talk about because that's probably less than what people thought, right? So we believe that, it's something that can be managed and it's just a portion of our overall business that -- within even the Carlstar business, which is where it's at.

So we believe it's a very manageable thing. But the most important aspect of the stability of Q2 is the fact that we have been strategically sourcing our materials and have very minimal impact on the cost position relative to our, again, raw materials and shipping and all those types of things. So we don't have any major dislocation or it puts and takes, if you will, relative to the cost of the materials that we produce. So we feel like we're in a really good position to create that stability in Q2.

Derek Soderberg: That's helpful. And then Paul, you mentioned a couple of times your position versus your peers. Your peers are offering employee buyouts. Is there a scenario here in the short term, say over the next two quarters, where Titan actually benefits from this environment? I don't know if it'd be through better pricing or market share gains, just simply because of that position. I'm just wondering if there's any potential upside here in the short term. Thanks.

Paul Reitz: Yes, I do -- Derek, I do think there's potential. I mean, the inquiries are changing. And so, customers -- and again, I use the US as an example. Customers in the US on some smaller products where they're used to foreign source supply chains have been asking the question, what are your capabilities in the US? And we are the only company in the U.S. that has those capabilities and some of these smaller size tire ranges and wheeled ranges. And so if they're looking to mitigate risk then they're going to turn to Titan and that's -- we're not always the lowest priced, we never have been, but that's okay. In times of dislocation and risk mitigation and the fact that we have premier products and great relationships with customers and end users, that's when this really shines through. So yes, we are seeing a different type of inquiries, Derek, to answer your question. I think there are -- there is a period of time where a lot of businesses, not just specific to ours, that people are sort of sitting still, asking questions, sitting still and getting prepared for the next round of actions that they'll take. And I think that favors us in the long run, those actions that they take, because we are very well suited to mitigate their risk and meet their needs.

Derek Soderberg: Perfect. Thanks guys.

Operator: Thank you very much. Our next question comes from Tom Kerr of Zacks Small Capital Research. Tom, your line is now open.

Tom Kerr: Good morning, guys. Just a little more color on the farmer's sentiment from your perspective. You see the news stories out there. Farmers are in crisis. They use the word crisis. What word would you use or how would you describe your outlook of farmer sentiment?

Paul Reitz: Farmers are always in crisis if you ask them. So yes, the farmer sentiment has decreased and there's not always a direct correlation between farmer sentiment and equipment purchases. So what we really rely on in times like this is we just got to get out and talk to people. And that's where being connected to our dealers, the end users, and our overall customer base gives us the knowledge that we really rely on. Last week, I had dinner with a very large OEM equipment dealer and I used that as a source of information. We talked to large farmers and so I would not definitely would not use this data crisis. I think what we're hearing is, and we all see it in the commodity prices, the commodity prices are fine. They're not good. They're not bad. They're sort of fine. But what we're hearing is that, look, our government's going to have to stand behind our farmers and our food production. And so there seems like there's a good floor to what farmer income is going to be. And it's at a -- again, it's at a respectable fine level. And so I think the state of crisis is more hyperbola than it is reality. But that's okay. If they use that hyperbola to get -- to help improve farmer income and get the government's intention, there's nothing wrong with that. So, I think in the end we're in a pretty good place with farmer income and, just watch it play out. I think it'll be fine.

Tom Kerr: Thanks. And on the increase in working capital, the increase in accounts receivables. Is there anything else in there besides the large increase in sales? Change in terms to customers, customers not paying or anything like that?

David Martin: No discernible change. It's been fairly stable in that regard. So again, it was a fairly quick ramp up in sales. And so, you'll start to see the natural progression in Q2 and beyond more stable.

Tom Kerr: Got it. Yes. Last question, just the industry or big picture question, what other verticals or industries are out there for you guys to explore? I know you talk about military. Could you guys make aircraft, wheels and tires? What else is out there?

Paul Reitz: Military is a good one for us because it's something that is not a big part of our overall revenue right now. So as Europe makes more investments into military, our undercarriage business is well positioned to benefit from that. We've talked about the US exploring military options as they look to have a US supply chain instead of a foreign-based supply chain for the military. Aircraft, we really have seen one of our plants produce that as an offtake when we acquired it from Goodyear and I don't think that's an area we would get into because it's highly regulated. So I think where Titan goes is more the off-road, non-regulated types of businesses. So anything that requires DOT regulation or those type of requirements just quite isn't suited for us. What we like, what we're good at is high complexity. So smaller production runs, lots of SKUs, different tough applications that the products go into.

And so, I would say our verticals would be more filling in where we already are. And that's why product development is such a big part of what we do. Because we can keep filling in those cracks in the verticals that were already in, along with again, pursuing broader verticals like military. But yes, I would think that our product development pipeline is pretty good as it sits just in the verticals we're currently in, because they're complicated. There's a lot of places we keep going in.

Tom Kerr: Got it. Thanks. That's all I have for today. Thank you.

Paul Reitz: Thank you.

Operator: Thank you very much. We currently have no further questions so I'd like to hand back to Mr. Reitz for any further remarks.

Paul Reitz: Now look, I appreciate everybody's time and attention today with our Q1 results and look forward to talking to you again in a few months with the second quarter. Have a good day. Thank you.

Operator: As we conclude today's call, we'd like to thank everyone for joining. You may disconnect your lines.