Titan International, Inc. (TWI)
Transcript of Q2 2026 Earnings Call and Webcast
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Company Participants

Paul G. Reitz - President and Chief Executive Officer
Tony C. Eheli - Senior Vice President and Chief Financial Officer
David A. Martin - Senior Vice President and Chief Transformational Officer

Conference Call Participants

Michael Shlisky – D.A. Davidson & Co., Research Division
Joseph Gomes – NOBLE Capital Markets, Inc., Research Division
Kirk Ludtke – Raymond James
Derek Soderberg - Cantor Fitzgerald
Steve Ferazani - Sidoti & Company, LLC

Presentation

Conference Call Operator: Welcome to the Titan International, Inc. second quarter 2026 earnings conference call. [Operator Instructions]

On the call today are Paul Reitz, Titan's President and CEO, Tony Eheli, Titan's Senior Vice President and CFO, David Martin, Chief Transformation Officer. We will begin with a reminder that the results management is about to review were presented in the earnings release issued this morning, along with Titan's Form 10-Q, which was also filed with the Securities and Exchange Commission this morning.

As a reminder, during this call, management 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 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 the 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 second quarter 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 and good morning. Our second quarter results reflect solid improvement from prior year, with revenues of $485 million and adjusted EBITDA of $34 million. Our diverse business model is an important part of Titan's ability, we talk about that frequently. It enables us to continue succeeding despite continuing difficult end market conditions in the AG segment. Our one-stop-shop product and distribution strategy, which is well executed by our experienced team, places our customers at the center of everything we do. It is really a key element of this business model that is diverse. It allows us to continue driving success through a range of differing and challenging market conditions.

In our earnings release, we highlighted the fact that each of our three reported segments accounted for between 30%-40% of revenues in the quarter. Within each segment, we also have further diversification, whether it be geographical, product, or end user profile.

Diving into our AG business, farm incomes continue to be pressured with lower commodity prices and input costs such as fertilizer due to the ongoing conflict in Iran. Along with that, borrowing costs remain elevated. Those factors are weighing on OEM activity as farmers are hesitant to invest large sums of money in new equipment. For Titan, our AG aftermarket business and our global footprint continues to provide some offset to that OEM weakness. When you look within the tractor category of the lower horsepower unit sales have generally fared better than high horsepower over the last few quarters. That is primarily a function of *(Technical difficulties)* differentiated end users as higher horsepower units, as we all know, are used by the large row crop farmers, and they have been most impacted by this turbulent trade policy that has been ongoing. When you look at the lower horsepower units, they serve a variety of uses around almost any farm, and they also are used quite extensively by hobby users and municipalities. These equipment owners have fared better than the row crop farms, and as a result, these types of users have been more active buyers on a relative basis.

Looking at our Consumer segment, our diversification is really a function of our ability to serve a broad base of customers and end users with our extensive product portfolio. With our wide range of off-road wheels and tires, our customers include recreational users of power sport and off-road equipment, along with trailers that are used to move that equipment, and then you also can throw in professionals like landscapers and golf course operators. As you can imagine, those varied end customers have much different motives when looking to buy tires for their equipment. A recreational user might be highly motivated by a cool tread design, or you counterbalance that with a timing of a purchase based on getting something like a tax refund or a big commission check. On the other hand, the professionals that I mentioned, like a landscaper, they depend on the equipment running each day to keep up with their client schedules and make money. As a result, worn-out tires are often a required immediate replacement, reducing the owner's ability to defer those type of purchasing decisions.

Lastly, looking at our EMC segment, we derive a significant portion of our revenues from Europe. They're driven by infrastructure activity that's influenced by some differing factors than what you would see here in the U.S. Our global footprint allows us to be a key partner for global OEMs, and along with that, when they start to focus on areas with stronger demand, we have the ability to follow suit with them. End markets such as construction and mining can also have harsh operating conditions in many cases. That would take a toll on equipment, and that creates demand in the aftermarket.

If you tie that all together, Titan is well-positioned to continue succeeding with our diverse business model. Of course, like everyone else, we are looking forward to the day when it comes, and it will come, when you have a sustained recovery and demand across the AG segment. Many of our AG end markets are characterized by continued usage of machinery and equipment like I've highlighted, and that continues even in softer economic conditions. Given that, worn out tires and tracks need to be replaced, as does equipment when it fails or it ages. Farmers, similarly to the operators I mentioned, like landscapers, they're still working their fields. They still got acreage that needs to be tended to. Low grain prices will drive down and have driven down, along with the pressure from the input cost, farmer income for this year, but they are continuing to utilize their equipment. Tires and parts wear out, and that is going to necessitate replacement. With us, roughly 45% of our aggregate sales consist of aftermarket products. We are therefore well-positioned to benefit from that dynamic.

In our AG sector, we are also a secondary beneficiary of government support. I know that gets talked about a lot, all the way up to our president and the secretary. If you look at the farmers, they're independent, pragmatic, can-do people here in the U.S. and around the world. Government support, though is rarely seen as 'growth capital' by farmers but to the extent government support enables farmers to end a given year with their finances in a reasonable position, that can allow them to invest in things like new tires. *(Technical difficulties)*

As we look at the second half of the year, uncertainty around the world continues to be prevalent, which is the main impediment to a broad-based recovery. Even so, we expect to continue succeeding for the reasons I have outlined. That doesn't mean there won't be quarter-to-quarter variance in demand, but over the longer term we really like the markets we serve with our extensive product portfolio and broad geographical footprint. *(Technical difficulties)*

Conference Call Operator: Ladies and gentlemen, we are currently experiencing technical difficulties. Please stand by as we resolve the issue.

Paul Reitz: Okay. We'll continue. Among our priorities, we are focused on controlling what we can control. With that, today, we are going to have our Chief Transformation Officer, David Martin, share his perspective and key priorities after we have Tony go through the financials. As many of you know, David recently assumed this role after serving as CFO for seven years. This move allows him to focus squarely on ways to improve our business as technology continues to rapidly evolve. Finding ways to reduce costs and improve efficiency is crucial in today's world, while we also continue to prioritize our investments in R&D that bring innovative, value-added products to the market, and in doing so, further solidify our market-leading position in off-road wheels, tires, and undercarriage.

Wrapping up, I want to just say we remain confident in the durability and diversity of our business model, the strength of our aftermarket position, the breadth of our product portfolio, and the dedication of our global One Titan team. Together, these advantages position Titan well to navigate cycles while continuing to create value for our customers and shareholders over the long term. With that, I'll turn it over to Tony now.

Anthony Eheli: Thank you, Paul. Good morning, everyone, and thank you for joining us today. As Paul noted, we delivered solid second quarter results with revenues near the top end of our guidance range and adjusted EBITDA above the top end. This demonstrates the resilience of our portfolio and the continued execution of our team. Compared with last year's second quarter, several financial metrics stand out. Sales increased 5.2%. Consumer segment sales led our growth, increasing 27%. Gross margin was solid at 15.5%. Adjusted EBITDA improved to $34 million, reflecting strong operating performance and $6 million of tariff refunds. Free cash flow generated was $26 million. Turning to our segment performance, the results reinforce the value of Titan's diversified business model that Paul discussed earlier.

In recent quarters, EMC has been a primary growth driver, and this quarter, consumer led the way, with sales increasing 27% as our Titan Specialty line experienced a notable rebound in demand. Reported segment gross margin was 23.7%, compared to 20.4% a year ago. The current quarter includes $4.6 million of net tariff refunds, which reduced cost of goods sold. While those refunds benefited the quarter, it is important to note that our margins in recent periods were negatively impacted by higher input costs associated with tariffs. While we can't really isolate the impact, it does factor into the comparative business performance over the past year. Our EMC segment increased 1.4% in sales compared with the prior year, with gross margin improving 12.5% from 11.5% last year. Foreign currency translation remained a tailwind, contributing 3.2% to segment revenues.

While North America construction OEM demand softened modestly from the first quarter, margins benefited from the cost reduction and productivity initiatives implemented across the company's production facilities. Our agricultural segment continued to face pressure from lower farm income and elevated financing costs, which weighed on end market activity. Segment sales declined 5% from the prior year period. Lower activity levels impacted fixed cost leverage, and together with higher input costs, resulted in segment gross margins of 11.4% compared with 14.6% a year ago.

As we noted last quarter, activity in our Brazil agriculture business remains challenging. High interest rates, political uncertainty ahead of the upcoming presidential elections, and elevated input costs, particularly fertilizer costs tied to the Iran war, continue to pressure farmer profitability. OEM and dealer inventory levels have also become elevated, creating additional near-term demand pressure.

As a result, farmers remain cautious with equipment purchases and activity in the region remains low. SG&A, including R&D expenses, was $58.1 million for the second quarter of 2026, compared with $56.7 million in the prior year period. As a percentage of sales, expenses improved to 12% from 12.3% a year ago, primarily reflecting the benefit of cost reduction initiatives.

Operating cash flow was $39 million in the second quarter, improving from a usage of $47 million in the first quarter, consistent with normal seasonality in our working capital, but also an improvement from $14 million generated in prior year period. *(Technical difficulties)* This strong performance on cash flow was driven by focused execution by our team to optimize our working capital investments. CapEx was $13 million in the second quarter compared with $10 million in the prior year period, primarily due to timing of capital expenditure. Year to date, CapEx remains comparable to prior year period as we continue to make prudent and measured investments in the business.

Net debt was $413 million at quarter end, down from $441 million at the end of the first quarter. This reduction reflects progress towards one of our key priorities for the year, which is strengthening the balance sheet and reducing leverage as we move through the year.

Tax expense was approximately zero for the quarter. As we have discussed previously, our effective tax expense can vary based on geographic mix of profits and losses and the applicable tax rules in those jurisdictions. The main driver of the variance versus the range we provided last quarter was certain discrete tax benefits recognized during the quarter and the impact of jurisdictional mix of earnings.

I'll reiterate that as market conditions in the U.S. recover, we expect our tax rate to move back toward more normalized levels. For the third quarter of 2026, we expect tax expense to be in the range of $4 million-$5 million.

Turning now to our financial guidance for the third quarter of 2026. We expect revenue of $440 million-$460 million and adjusted EBITDA of $27 million-$33 million. For fiscal year 2026, our financial guidance remains unchanged, with revenues of $1.85 billion-$1.95 billion and adjusted EBITDA of $105 million-$115 million.

As Paul and I have noted, our agricultural segment continues to operate in an uncertain environment. Given current market conditions, our prior expectation that customer activity would accelerate in the fourth quarter ahead of an anticipated agricultural recovery early next year now appears less likely. As a result, we currently expect full year sales to trend towards the lower half of our guidance range, which would represent modest year-over-year growth.

With respect to tariff refunds, we expect an additional $7 million-$9 million of refunds net over the remainder of the year. We intend to reinvest the proceeds back into the business with a focus on initiatives that enhance our product offerings and deliver greater value to our customers. Before turning it back over to the operator for the Q&A session, I want to hand the call off to David Martin, our Chief Transformation Officer, who will share some thoughts on key initiatives he's working on.

David Martin: Thank you, Tony, and good morning, everyone. It's been an exciting seven months in my new role. Today I want to share how we are applying AI and transformation at Titan.

Titan is a company built by people who know how to get things done. With strong industry experience and an entrepreneurial culture, we make complex products, serve tough end markets, and operate in places where local knowledge matters. Transformation has to build on that.

The focus of my role in the CTO position is simple: improve performance, move faster, give people better information, and take manual work out of our business and functions. It won't be about chasing dreams and shiny objects. I'll walk through some of those important focus areas now.

First is operations. In the plants, we are connecting production data, machine information, quality data, and operator experience so teams can see issues earlier, understand root causes faster, and make better decisions on throughput, downtime, scrap, yield, and quality, among other things.

The second area is supply chain and enterprise visibility. Our footprint creates complexity in forecasting inventory, freight, and working capital. Analytics and automation can make that information cleaner, faster, and easier to act on, helping us lower costs and manage inventory more effectively.

Our third area. We have a great deal of knowledge that sits in separate systems, spreadsheets, reports, or individual experience. We are building a more connected thread from design and testing through quality, production, and commercial feedback.

We are applying that same mindset in finance, legal, compliance, contract management, workforce planning, and reporting. Reducing manual work, standardizing repeatable processes, and making information easy to find and use are keys to this. We have several early projects underway or getting started, including plant-level industrial analytics pilots, a new approach to contract lifecycle management, supply chain analytics improvements, an AI-driven LSW payback calculator app for sales enablement, product development cycle improvements, and a new human capital management foundation through Workday.

Our approach is practical. Start with a clear business owner and a real problem. We'll test and learn. Then we'll scale where value is clear.

That matters at Titan. We are decentralized and very operationally focused with our resources. Corporate can provide tools, standards, oversight, and support, but the value has to show up inside the business, in the plants, with customers, in engineering, supply chain, finance, and across all of our functions.

Our people know the bottlenecks, the reports that take too long, the decisions that need better data, and the work that can be simplified. My job is to listen, help prioritize the right opportunities, and put support behind the areas that really matter.

For our employees, the message is very simple. You don't need to become an AI expert. My goal is to have everybody stay open, look for ways to simplify work, and help us apply these tools where they can make a real difference. I see that momentum building every day in my conversations with our teams across the business. I'm encouraged by how many people are turning to use AI productivity tools to work smarter and solve practical problems.

I want to thank our One Titan team. The progress we make will come from the people closest to the work, our plants, our commercial salespeople, engineering, supply chain, finance, all of our functional leaders, and then our business unit leadership. For customers and shareholders, *(Technical difficulties)* the goal is to be a company that executes with stronger visibility, responds faster, improves productivity, and makes even more disciplined decisions. It's about performance at a higher level.

Our AI and Transformation Initiatives is focused on measurable business outcomes across manufacturing, supply chain, engineering, product and business development, and administrative functions. We have identified opportunities expected to generate up to $15 million in operating improvements over the next three years. This is aggressive and aspirational, but also very grounded in the real opportunities across the business that we're already vetting. We expect to begin realizing benefits in 2027 with a target of $3 million of improvements by the end of next year.

Importantly, these investments will be funded through our ongoing capital expenditure programs. We are not increasing CapEx because of our AI and Transformation Initiatives. We're being very smart how we allocate our capital. As we move forward, I will be ready to share more on concrete progress and financial performance against our targets. I'm really excited about the opportunities in front of us and look forward to getting after it in the second half of the year. Thanks for your time this morning, and I'd like to turn over the call to our operator for our question and answer session.

Question-and-Answer Session

Conference Call Operator: [Operator Instructions] Your first question from the line of Michael Shlisky with D.A. Davidson. Mike, your line is open. Please go ahead.

Michael Shlisky: Good morning, thanks for taking my questions. The audio has been a little funny on the call, so I may have missed a few comments along the way. I'm not sure about anybody else, but I may have missed a few sentences. Hopefully, I only asked something that was already covered in the prepared remarks.

Paul Reitz: Mike, yeah, I apologize for that. We got notice in the middle of the call that the audio was bad, and we're trying to correct it, so hopefully it's clear now. I apologize for that. We became aware of it in the middle of my comments.

Michael Shlisky: Okay. Well, hopefully we'll somehow muddle through here. First, Paul, your comments on commodity prices were interesting, it appears to me as though commodity prices have been improving recently. I think we had corn at nearly $5 just this past week. This is the December futures price. I was a little surprised to hear that you are calling commodity prices still struggling. I guess if some of these $4.75, $5 corn prices hold to the end of the year, if farmers do actually realize that across a lot of their crop sales, and that includes the old crop, by the way, do you foresee any improvement in 2027 if we were to see commodity prices hold?

Paul Reitz: Totally agree with your comments, Mike. Mine were in the broader scale of the commodity price range over the course of the year. Clearly, like you said, you articulated very well. We're starting to see some positive things happen. What we've been watching closely, what I've been really spending a lot of time on throughout Q2, was trying to get our feelings for where things are going in the future. We got some indicators early part of Q2 that we thought, as we talked about previously, that we would see more of an uptick later this year. What we're seeing is exactly what your question is leading towards. We're seeing things building. Commodity prices are more favorable. Equipment is aging. Used inventory is better positioned. We're seeing the market conditions really, really improve to create that foundation for an uptick that is coming. We just haven't quite seen all the indications that it's going to hit this year, but still remain favorably in position, exactly like you stated, that the foundation is there for next year.

Michael Shlisky: Great. Maybe can you just drill a little deeper, Tony, on the guidance? Because as Paul just said, AG is still a little challenging here through the rest of the year. Which end markets or what part of your other markets maybe got better for the fourth quarter that maybe kept you from cutting the top line for the full year?

Tony Eheli: Mike, thanks for that question. When we look at our business, first, our Europe business continues to do well. The opportunity is there. We continue to win new business in Europe. That's going very well, and we're looking to get some good growth in that part of the business. It's not a significant piece of our AG business, but they're looking very healthy in what we're seeing in the markets there. The second aspect is in our consumer business, where we are winning business, new business with OEs, that continues to happen and we expect to see some of that benefit as well help our Q4 results year-over-year.

Michael Shlisky: Okay Thanks so much.

Paul Reitz: Thanks, Mike.

Tony Eheli: Thank you.

Conference Call Operator: Your next question comes from the line of Joe Gomez from Noble Capital Markets. Joe, your line is open. Please go ahead.

Joe Gomez: Good morning.

Paul Reitz: Morning, Joe.

Joe Gomez: Just on the AG business, you talked about OEMs continue to reduce inventory. How much further can they reduce inventories to? Is maybe the replacement cycles becoming structurally longer here, or we're really just thinking this is an abnormal cycle what's happening here, given all of the impacts that we're seeing between interest rates and geopolitical stuff? Just maybe, Paul, you could touch a little bit on that. I'd appreciate it.

Paul Reitz: Yeah. Joe, you think about what's taken place this year. We live it, everybody lives it, and you kind of get used to it, but it's pretty astounding. Week to week, month to month, everything that goes on, creating that envelope of uncertainty into business activity. I want to look at what we're facing with the AG cycle as exceptional, not a change in the norm structural. I do know in spending time out in the field with a number of OEM dealers, they've put a ton of effort into managing inventory. This isn't something they just woke up in 2026 and said, "Let's go try to tackle it," even though it may appear like that from some of the comments. The well-capitalized OEM dealers have been working on inventory for a period of time. I do feel that the ones I speak with have done a great job. They're in a good position to benefit from a recovery. As I mentioned in my comments, the government support is very good, the fact that it solidifies balance sheets, keeps their financial position strong, enables them to keep buying some of our replacement products, our tires. It doesn't necessarily drive the equipment purchases. I think that's where that sustained recovery in farmer income is what's going to have to take place in order for that to happen. I do think inventory is in a good position.

Now, there may be pockets, either geographical or by dealer to dealer, or brand to brand, that maybe it's a little bit out of balance. Man, I'm telling you, the ones I've spoken to, spent a long time just a couple of weeks ago with a quite large dealer, and they've done a tremendous job.

It's personally hard for them to do that, but they've done a tremendous job. I think we're in a good position. I think the foundation is there. Get a little calmness, if that's possible, in the world activities. I do think it's possible, I should say. I don't think we're going to continue with that. I think the AG cycle gets back to more normal trends. There's great new equipment out there. There's aging equipment that needs to get replaced and eventually it's going to start happening.

Joe Gomez: Okay. Thanks for that. What are you hearing from the OEM customers on the EMC side of the business, going forward here for the second half of 2026 and maybe into 2027?

Paul Reitz: Definitely more stability. Again, our OEM business for EMC is a little bit different than others. It doesn't necessarily follow the bellwether of a market leader that you can just look at their comps. Our business, we got really good performance as we exit Q2, and we see that being sustainable through the rest of this year. That segment has experienced some good performance and has some stability behind it as we move into the back half of the year. Again, we're exposed a little bit different than the U.S. infrastructure cycle, more positioned towards Europe. We do have some exposure down into Brazil, a really good position in Brazil that's been performing well outside the AG cycle that we've highlighted. I think we counterbalance throughout EMC quite well and do see some good performance and stable performance through the rest of this year.

Joe Gomez: Okay, great. Thanks. I'll get back in queue.

Paul Reitz: All right. Thanks, Joe.

Conference Call Operator: Your next question from the line of Kirk Ludtke with Raymond James. Kirk, your line is open. Please go ahead.

Kirk Ludtke: Thank you. Good morning, Paul, Tony, David. Appreciate the call. Maybe on the consumer side, you mentioned that the revenues were up pretty substantially due to higher volumes in your Specialty business. Could you maybe elaborate on that? Is it partly the rollout of the Goodyear brand, or is there something driving that growth?

Paul Reitz: Yeah. I think Tony highlighted this earlier, I'll add a little color and then let Tony kind of wrap up there from more of the financial perspective of it. Our team is doing a great job. I think the one thing I want to highlight, and the reason why I say they're doing a great job is since we've moved more heavily into the consumer business with the acquisition two and a half years ago, we have launched more new products into that segment than they had in the previous 15 years. Tony mentioned the OEM wins that we're getting. It's not because we just woke up, fell out of bed, and the OEMs called us and placed some orders. We have done a lot to position ourselves much stronger within that segment, and we're starting to see the payoff, like Tony mentioned.

We feel really good about our pipeline of new products that we're continuing to put out into the marketplace. Go online and look up VPO. I'm not a social media expert, but my guys showed me the number of YouTube videos on that is astounding. We have literally just barely launched that product. Literally just barely launched it. Again, the pipeline of products that we have coming into the marketplace, along with what we've already done, has really helped driving some wins despite some market conditions that haven't been as favorable with the OEMs. That's kind of getting buried under the scenes and Tony did a good job explaining that. I mean, the OEM wins are offsetting some market conditions. Again, we're very well positioned for the future when the market does improve.

The Goodyear brand is part of that, like you said in your question, Kirk. We are using that and launching it. That's certainly a premium that'll drive nice margin and growth for us in the future as well. From a positioning in the market, it's been fantastic to see what our team has done with launching new products and the impact it's having.

Tony Eheli: Paul has explained everything we're doing great in our business. That's all. That said, the only other thing I would say is you would recall where we were last year, Liberation Day. There's a weak campaign there. I would acknowledge that in my role. That also ties into the Q3 conversation as well, because that weak compare in Q2 creates a tough compare in Q3. Overall, the business is doing well and that's what Paul is trying to explain in terms of the wins and how we're progressing.

Kirk Ludtke: Yeah. That's great. The transformation position's a new one as far as I can remember. Should we expect a more aggressive approach to operational restructuring going forward?

David Martin: Well, we're constantly vigilant with regard to how our operations are performing and especially given market conditions, if they persist. We're always going to be prepared to make the right decisions. In fact, if we think about the AI and transformation initiatives we have, that's actually going to help us improve, even in the midst of a pretty low market that's going to really set us up well for when it does recover. When you think about productivity, efficiency, and those types of things, it's going to give us better access to make even better decisions about how we allocate our production domestically versus some of our sourcing opportunities as well. All of that's pretty exciting because it plays together.

Kirk Ludtke: Great, thank you. Lastly, on tariffs. *(Technical difficulties)*

Conference Call Operator: Your next question from the line of Derek Soderberg with Cantor Fitzgerald. Derek, your line is open. Please go ahead.

Derek Soderberg: Yeah. Hey, guys. Thanks for taking the questions. Two-parter to start. What's the scale of the challenge of the fertilizer issue? It seems like it compounded the issue from the Ukraine conflict. Can you talk about the scale of that challenge relative to the ongoing farm income and financing challenges for farmers, just to help us understand the scale of that issue? The second part is what might be the impact if we see a prolonged conflict in the Middle East here, and does it potentially create a crisis for farmers? Maybe just help us quantify that.

Paul Reitz: Yeah, I got a couple of viewpoints on that, Derek. Let me start with, when you look at Brazil, the farmers there did not purchase fertilizer in advance. Plus, they have two crops, so they're more susceptible to the higher input costs throughout 2026. The U.S. farmers, more of them had purchased fertilizer at the end of last year, lower prices before the conflict. So they're able to get the seeds in the ground and get things going better than Brazil did. You take that and roll that forward into the future and go, "Okay, what does that mean if fertilizer stays as high as it is?" You're going to see potentially less fertilizer be applied. At some point that could impact yields.

I think there's the more favorable dynamic that could come from that, where crop prices or grain that gets thrown into the bins at the end of the year, maybe it helps relieve some of the storage at the end of the year and we get better prices going forward into the future. I think there's a counterbalancing mechanism to that. You think about weather events around the world for the last five, six years, there really hasn't been any. Farmers have been able to basically produce at a high level with extremely strong yields. I think there's some counterbalancing things to the higher fertilizer costs that would have a favorable longer-term impact. In the short term, yeah, the fertilizer costs are high, as we all know.

At times they're in tough supply, I think you're going to see some impact to the usage of fertilizer. Brazil is going to be probably the first because they just don't have as much coming into the year, we know that was the case, I think you're going to see the U.S. farmers face the same thing. They're going to have to balance input costs, one way to do that is just buy less. Again, I think there's a counterbalancing mechanism. The way I look at it and the way I've been thinking about it the last few months, there's a counterbalancing mechanism that helps us on the longer term with some crop prices.

Derek Soderberg: Got it. That's helpful. Appreciate the color. Then just one clarify on the tariff piece. I think I heard $7 million-$9 million in tariff refunds through the remainder of the year. That's an incremental amount on top of what we saw in 2Q, correct? Maybe I missed it, but how will that sort of $8 million or so be spread across 3Q and 4Q? Thanks.

Tony Eheli: Yeah, thanks. Yes, it's incremental to what we got in Q2. We expect a similar amount in Q3. About $6 million in Q3. Then the balance in our Q4.

Derek Soderberg: Perfect. That's helpful. All from me. Thanks.

Paul Reitz: Thanks, Derek.

Conference Call Operator: Your next question comes from the line of Steve Ferazani with Sidoti. Steve, your line is open. You may now go ahead.

Steve Ferazani: Morning, Paul. Morning, Tony. Nice to hear from you again, David. Tony, can you walk through a little bit about the improvements in working capital? I'm looking at it looks like particularly Q quarter, year-over-year, on the payables line. How much of this was a timing element and how much of this is permanent improvements in how you're handling working capital?

Tony Eheli: Yeah. Overall on working capital, the team continues to execute on all three components. I know the payable is a big piece for Q2, but it's not just that. The AR as well, they're executing well on the collections, driving that heavily. That's a big plus to the team on that front. We continue to optimize our inventory levels more and more. We've talked about our strategy around driving the strategic sourcing products, which we're going to have from third party, and we're going to drive sales on that. That requires some investment in working capital. In inventory as well. We're optimizing that inventory level.

All the additional inventory that comes in with respect to that strategy to help support the sales in that area. We are able to manage it well with what we produce with our raw materials and all that. Specifically on the payables, we continue to optimize and address points related to how we manage the cycle of our payments. Yes, we'll continue to see improvements. However, will it be the kind of improvement we saw in Q2? No, we don't expect that kind of improvement to continue all through. Just to be reasonable on that. We continue to drive improvements on that front. Yeah.

Steve Ferazani: Given that the AG recovery maybe is pushed back a little bit, any changes in your CapEx expectations in the near term?

Tony Eheli: No changes on our CapEx expectations. David talks about what we're going to do on AI. We're going to make some investments there as well. All that is going to be managed within our normal CapEx budget, our normal CapEx range we've given. We are continuing to invest in the business.

Steve Ferazani: Just the benefits you're expecting from that plant consolidation, is that really a 2027 story still?

Tony Eheli: That is 2027, beginning Q1.

Steve Ferazani: Okay. Beginning Q1. Okay. I'll get a hold of you on that. All right. Thanks everyone. Appreciate it.

Paul Reitz: Thanks, Steve.

Conference Call Operator: Your final question from the line of Kirk Ludtke with Raymond James. Kirk, your line is open. Please go ahead.

Kirk Ludtke: Thank you for the follow-up. Is the tariff recovery a full recovery? Did you get 100 cents on the dollar?

Tony Eheli: It's a net amount which we have recognized, taking into account specific customer situations where we may have obligations to give some refunds.

Kirk Ludtke: Okay. I understand. Got it. Thank you. Do you feel like you're even with respect to the reciprocal tariffs? Is it a wash pretty much? In other words, should we be thinking? Yeah, go ahead. No, I'm just wondering if maybe your historical results were depressed more than the periods that included the refunds are benefited. You know what I mean?

Paul Reitz: Yeah. There's a broader perspective that we look at here at Titan. I'm going to give you the inner working viewpoint, because we're a different company than a lot of the high-profile stocks that are out there in our industry that everybody follows. We're not a final assembler of components from other companies into a finished good that we have access to a dealer channel. What Tony's referencing in his comments is the direct tariffs. We also have tariffs that go into underlying costs, for example, steel. My viewpoint is going to be, our team has done a great job managing through the tariffs and the volatility the administration has created, and we're able to keep our price and costs fairly well aligned. We haven't had to talk about that a lot publicly. There's a lot that goes on behind the scenes.

We do have the pricing leverage with our products to handle the volatility in the tariffs. There's the Section 232 steel impact, the volatility in freight costs and those types of things that we're exposed to, that from period to period can have a bigger impact. I am not a big fan of the Section 232 tariff. I think it's ridiculous what it's done in our industry when you are a converter of steel into a component, a finished good that then goes into somebody else's finished good. All we have done is seen nothing but a negative impact from 232 with the inflation on raw steel in the United States. Don't look at what goes on at steel companies, because that's the stocks that everybody follows. We are a purchaser of raw steel. I do think there's some relief in our numbers in the future if we ever get our steel tariffs better aligned to reality of being a converter of raw steel into a finished good in the United States of America. Yes, Titan has been impacted by those tariffs in our results in a great business with great products, great market share, very important to our end customers, but hit hard by tariffs that we do not control. When our country, our administration, gets their arms around what to do properly with steel tariffs, then yes, our results can and will be better in the future. There's two different things. There's the direct tariffs that we're going to talk about publicly. We do a lot managing that operationally.

Behind the scenes, there's an impact from tariffs that we can't control, that our administration is completely not understanding the impact it has on companies like Titan. That is in our results negatively for the last two years. In the future, again, we will see better results out of that part of our business.

Kirk Ludtke: Got it. Thank you. I appreciate it. That's what I was getting at.

Paul Reitz: I'll get off my soapbox. I think I said enough. I could go on for another 10 minutes. I'll stop.

Kirk Ludtke: I got it. No, that's what I was getting at. It's still a drag. Lastly, on Brazil, when will we get some clarity on what the public policy is going to be toward your industry?

Paul Reitz: That's a great question. We spend a lot of time with our team talking about it. There's a high correlation between public policy and impact in the business sector in Brazil. It is different here than, I think, what we are used to in the U.S. or even in Europe, where public policy is talked about business impact lesser so. I was looking at the polls just on Monday. It's a tight race. It's going in a direction that has negatively impacted business in Brazil.

We're not going to know till the election's over. Unfortunately, we're caught in limbo just like every other operator in Brazil right now. It's a little bit of a shock how quickly it came this year considering the performance before that. That's Brazil. It can get hit hard quickly and it can recover quickly. We've really adapted our business well to these conditions.

Our team. It's hard. Just talking to them last week, this is not easy. It's real. The political environment does create a real impact on businesses and we are managing our way through it. We've done a good job controlling our plant operations. We just finalized our union negotiations in the middle of this volatility with the political environment. Got a very good agreement with the union. It's a win-win for both sides. It's a really tough environment and unfortunately it doesn't go away till that election happens. All I do is watch the polls just like everybody else and help our team and get through this tough time. Politics and business are very tightly correlated in Brazil.

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

Paul Reitz: Thank you.

Conference Call Operator: We have reached the end of the Q&A session. I will now turn the call back to Mr. Reitz for closing remarks.

Paul Reitz: Appreciate everybody's attendance today and apologize for the technical difficulties that we had in the middle of some of our earlier comments. Hopefully it still came through clear enough that you could understand what we were driving towards. The Q&A I think covered a lot of it anyway. Again, appreciate everybody's participation and we'll talk to you next quarter. Thank you.

Conference Call Operator: This concludes today's call. Thank you for attending. You may now disconnect.