

Titan International, Inc.
Edited Transcript of Q3 2016 Earnings Conference Call and Webcast
Thursday, November 3, 2016, 9:00 AM ET

Company Representatives:

Maurice Taylor; Chairman, CEO
Paul Reitz; President
Jim Froisland; Interim Chief Financial Officer

Analysts:

Brent Rystrom; Feltl and Company
Alex Blanton; Clear Harbor Asset Management

Presentation:

Operator: Ladies and gentlemen, welcome to the Titan International Incorporated Quarter 2016 Earnings Conference Call. During this session, all lines will be muted until the question-and-answer portion of the call. (Operator Instructions).

Any statements made in this course of the conference call that state the Company's or management's intentions, hopes, beliefs, expectations, or predictions for the future are considered forward-looking statements.

Please note that the Safe Harbor statements contained in the Company's latest Form 10-K and Form 10-Q filed with the Securities and Exchange Commission extend to this conference call and any forward-looking statements involve risk and uncertainties as detailed therein.

At this time, I would like to introduce Titan Chairman and CEO, Maurice Taylor.

Maurice Taylor: Good morning, everyone. The numbers, you should've had all press release information and everything.

During this part quarter, I have visited farmers, dealers and OE's all across North America. As I stated in the previous quarters, big iron is down; it's down about 70%. I believe it's at the bottom, but it's not going to bounce up until pricing of the equipment -- and I'm referring to big iron -- drops considerably. Because in my visits, when you look at the new tractors and the new combines, they're a little bit like Obamacare. They have everything that you can imagine electronically, and basically, I believe in listening to farmers a little too much.

So the price has to, I think, back off because when you look at good used equipment, it's moving off the dealers' lots if it's priced right. The smaller equipment at the OE level is going to stay pretty much for this next year, we believe where it's at. So we expect that to actually move maybe just a little, 3% to 5% up. That's a real bright little spot.

Construction equipment is the same as big iron. You listen to contractors, visit with them, talk to them. It costs a lot of money. If they can keep the other running, change tires, whatever, so be it. I think that's going to bounce along.

So, how do we increase our sales? We have some great opportunities over the next 6 months. First, is our LSW. We issued a press release a couple of weeks ago. What happened in southern Missouri? A big farmer and an owner of Delta New Holland did a big test using identical tractors and planters. The only differential in this was that one tractor had duals and the other was fitted with our LSW1100x46s on the rear and 1000x32 on the front.

The lower compaction from the LSW tires versus the duals increased the yield in corn by 5 bushels an acre, and on soybeans, it was 6 bushels an acre. When you look at these numbers, that tells you there is a long-term growth for LSW tires in terms of the future for the aftermarket and changeovers. We were very excited about that and we believe over the next 6 months, our LSW sales will continue to grow. That's one of the brighter spots in reference to tires and wheels we have.

You're also going to see a growth in talking with farmers and talking with a lot of tire dealers; they all expect the aftermarket of the current tires to be growing.

Now when you look at the wheel business, the wheel business will just bounce along except for the LSW wheels, which we believe will also continue to grow. Now when you move to Europe, in our European business, that is a different story. It's tied right to the OEs, and we looked at, over there, that it's pretty close to on bottom.

And so the main thing over there, because we do not have plans at this point for at least the end of next year to be pushing LSW tires into what you would call less than Europe -- our concentration is going to be to our Russian facility because of the huge farms and what advantage they can get. So the main thing we're doing in Europe is reducing cost and we believe that that's the main factor we have to work on.

Last week, as I mentioned. I was also over in our Russian factory with a team to go over the LSW tires and wheels. Sales are growing over there; they're a bright spot. They will be exporting larger radial tires, once the equipment we shipped over a few months ago is there and up and running. So we look at that in the first quarter of 2017.

We'll also be assembling LSW wheels and regular wheels for the farm, and construction wheels, in the areas for Russia and exporting into Ukraine and all of the old CIS countries. Now, our plan there is to ship components, rims and the centers from our plants in Turkey and in Italy, so that will help them. But we're going to assemble them and paint them, so we have some Russian content.

Moving on to our facility in South America, it is slowly coming back and we are waiting now for government approval, which we expect before the end of this year, on shipping our wheel equipment which has been ready for months into Brazil. Our LSWs down there are performing at a much better situation down there than we even expected.

And the reason being is that the equipment they were using was so slow because of the problems they had with traction, that not only are they getting much less compaction, but they're getting more speed. They're getting more speed and so when you take the smaller tractors they use in reference to comparison to North America, they're actually getting double the speed.

So when you get double the speed in the same vehicle, you're also getting a big increase in fuel economy besides planting faster. And we will be making LSW tires there by mid-2017. We'll have to continue to ship the wheels from the US until we get up and running down there, but that is the real quick what we see and what we go.

The other basic news is touching on our TTRC up in the oil sands and that is up; it's running. We're doing crew training for the operations of safety. We're running probably at about a third to 50% to what we want to really crank it up because we're waiting for the carbon black shifting [slivering] system, which you have to -- it's like a shaker, and the carbon black goes through, and you get out the -- you take out little slivers of the steel that are inherent that you get in the carbon black because you aren't going to have any steel in it.

And you also get a little bit of the ash out, and that unit -- units are coming this month and the last piece of the magnetic system is due the first week of December. That's a real, real bright spot and there's been a few items that really are showing that up to be more important than ever before. And that is that the Province of Ontario, who used to have a disposal for the tires. They announced -- they passed a law and now that ends January 1, and any tire manufacturer that sells a tire into the province is responsible forever that tire.

So that's gotten everybody up in the dithers because actually, we were at that with TTRC meeting, and we're the only ones that have zero pollution and actually convert everything into reusable products. And we get carbon credits, so that's a real bright spot, what's going on up there.

The other item that there's been some question around from calls is how are we doing on ITM. ITM is moving. We expect that the final bids will be in on December 1st. According to what we have heard is that the bidding should be up around the upper range than what we originally -- when I came out and said it would -- I thought the board would approve.

So I expect when it's all done, unless there's some big curve ball that that will come by the end of the year from the board, and we'll make an announcement then, one way or another. They've done a real good job in this downturn. They have been expanding. So we're kind of like pleased what's going on.

Now the main business, we make tires and wheels and that's what we've been trying to pass reference to the market where we're trying to get ourselves to. I have been -- the last time anything like the downturn to hit this was back in the late 1970s. Most of you on the phone were not in this business, what you're in, but maybe a couple of you out there were. And we came out of that, bigger and better, and I expect the same thing with this.

The main thing is you've just got to cut your cost; you've got to keep looking for new products and what you can do, and it all comes back and that's how I look at it. And I think we're in the best position for the growth. Appreciate that everybody likes to see all positive numbers, but as Paul will go through of all the things, if you get your costs down and we've been able to generate cash. So I think we're on the right track.

And with that, I'm going to turn it over to Paul because he's closer to all the cost reductions and what he's got planned, so take it away, Paul.

Paul Reitz: Hey, sounds good. Thank you, Morry. Good morning, everybody. How about those Cubs last night? Let's start building that Theo statue. I think it's going to be a pretty big one shining all over the City of Chicago and I'm not sure how Boston feels about the victory last night, but certainly fun to see.

Despite the continuing market challenges, I think we had some good things going on this quarter. I'd like to spend a few minutes talking about that this morning. You heard Morry already talk about our LSW down in Brazil and also the test that we performed. Titan has been, and will remain, committed to R&D, and developing the products that make us a leader in our industry for the foreseeable future. That's in the DNA of our Company.

We've not reduced any investment in engineering and R&D during the downturn. So we've talked about cost cuts, being efficient, but we believe, and continue to believe, our future rests on being a leader in developing the best products in the industry.

And so with that stated commitment, I don't want to make this an LSW infomercial, but we are big believers in what this means for our future. And we have many of end users who've now experienced and seen the benefits of it. We've been introducing LSW into Brazil and I have to say, I've even been surprised how quickly we've been able to get some really good testimonials results from a few huge farmers down there.

Our Grizz Squad will keep pushing LSW into Brazil and along with that, we're developing our wheel manufacturing operations in Sao Paulo. They'll be right in our tire plant there. So you're looking at a really good opportunity with LSW and the wheel business and what we can do for the farmers and OEMs in Latin America coming our way in 2017.

But I want to jump back a minute to that press release we put out a couple of weeks ago from our LSW test. Morry referenced it, but this is a really big win because it demonstrated the improved yields you get from using LSW tires and wheels. And Morry and I went up there and we spent some time with this farmer and he's also an equipment dealer. So he covers both sides of the business and we just listened.

And in listening to his success story that he had with LSW, and seeing firsthand the genuine enthusiasm he had towards the performance of LSW, I have to say his positive energy was absolutely impressive and infectious. And keep in mind, he is an equipment dealer, so he's not going to risk his reputation for no reason to promote LSW; he's not just a farmer.

So we at Titan already know that LSW makes equipment perform better. It improves the fuel efficiency, the ride, but when you combine that with improved yields, you truly have a win-win for the farmers that puts more money in their pockets. And if you look at that picture in our press release, the depth and the breadth of the roots says a thousand words that we've been trying to communicate for a couple of years about what LSW can do.

So look, at this point, we're satisfied with the growth we've seen at LSW this year. We continue to position it as a premium price product in the market, but we all know at Titan, and with the current users of LSW, that there's much, much more to come with LSW in the future. And we'll continue to develop along with LSW, the biggest portfolio wheels and tires in our industry and that's a commitment that we stand behind.

Next, I want to spend a few minutes on the accomplishments with our financial performance this quarter. We saw our revenue stabilize to within a few million of last year. That's clearly good to see happen, but what's even better to see is that our gross margin percentage was up 230 basis points this quarter over last year. That jump in GP percentage resulted in improvement to operating income over \$6 million.

And the part I'm most proud of, of what our team accomplished is that our Q3 operating income was up over last year in nearly all of our main geographies that we operate in. We'll cover that later in more detail in the call, but what I want to illustrate is that our teams in Latin America, Australia, Europe, ITM, Russia, have all done a really good job improving their results in tough market conditions.

In North America, who's fighting the biggest challenge of all, like Morry talked about earlier with big iron, considering the reduction in large horsepower volumes in North America, their performance and our performance in North America is not that far off from last year's operating income. So obviously, sales are down, but we've managed the bottom line well there.

I'm positive that we're a better operation in North America now than we were before the downturn began, and in a tough market, these financial results across the board, across all our major geographies, don't come easy. And it really requires the effort of many, many people from our team working together to make these good daily decisions on a consistent basis -- so again, proud of our consistency across the board with that this quarter.

On the other side of the fence, cash remains strong, \$215 million. Bonds are trading in good territory in the 90s, bouncing back from those lows that we saw in the 60s -- so demonstrating the success we've had in managing the balance sheet side of the business. So again, I'll let Jim cover that later in the call.

But what I want to say is that these accomplishments on the financial side, as a measuring stick, really speak to what we've done in the face of the continuing challenges of a down market. If you look back a couple of years ago, there are some that view Titan as an organization that was running in far too many different directions in a somewhat unorganized manner.

And look, under the one Titan umbrella, we, as an organization, have done a lot to get to where we are today. And again, I think the results speak for themselves, and I do believe that this team in Titan as a Company is much better now than we were a few years ago when the downturn started. And we will continue to respond well to the challenges that are ahead of us.

So with that note, I want to say that I still believe we've got some good runway ahead of us to continue moving this organization forward. We've done a good job managing the plant efficiencies as revenue has declined, but even though our SG&A is less than last year, as a percent of sales, it's higher than we'd like it to be. We've taken some bites out of it over the last couple of years.

There are some challenges in doing that with prior commitments and agreements you have, but we're definitely, as an organization, focused on bringing that down in the future without -- and I say this very sincerely -- without impacting the quality of our overall customer experience. Because, again, in these tough markets, you cannot impact the value that you bring to your customer and think you're not going to damage your overall bottom line. And so we'll talk more about that in 2017.

We're still in the process of putting together all our plans for the year, but definitely believe there's some good paths ahead of us to continue managing the operating expense side of this business.

Another change we made recently was to reorganize our sales organization. I've mentioned quite a bit in previous calls, the changes and additions we've made to our sales teams, but the re-org went a step further, and what we did is we aligned our Grizz Squad Group with our sale territory managers. The Grizz Squad has done a great job being out there in the field, bringing our LSW to our test farms, providing technical assistance to many of our existing customers. But the reality is we've moved beyond that test phase with LSW, and now it's time to go sell products.

And in North America now, when you take the Grizz Squad and align them with our territory managers, you're unleashing a much larger sales group here in North America that will be out there on the street every day visiting current and potential customers. So again, I think in a tough market, I'm pretty excited to see what we can do with this large group of individuals that are going to be out there every day pushing for Titan.

We continue to work diligently on our pricing and our marketing programs for 2017. In today's world, you've got to be spot-on with both those to really earn the sales and the dollars from your customers. Over the years, the reality is we've been a difficult company for our customers to work with on pricing of our products. And I'm referencing North America tire when I talk about that and I think we've probably out-thought ourselves. We've made things more complicated. And by thinking we're smart and adding complications, we've been hard to understand our pricing structure and as a result, you're harder to work with as a company.

And so we, over the past few months, have really been working diligently and in the early part of 2017, will release our new pricing program and it will make us much easier to work with. We

have learned more in the last 4 or 5 months about our pricing and our strategy and where we fit within the marketplace than I think we have in a long, long time.

And in fact, I have a grizzly veteran that runs our North American sales team, and he's been in the industry over 30 years. And he has said to me multiple times over the last couple of weeks that with what we've done with these pricing initiatives, he's never been more excited for an upcoming year than like he is now.

So these are just a few examples of what we're doing that has moved our organization forward and we're excited about. We know 2017 is going to continue to have its challenges and as I stated earlier, we're definitely prepared to meet them.

However, I was out with a big tire dealer earlier this week and talking business. He agreed that the OEM market is going to continue to remain challenged, but he said he believes 2017 is really going to be a good year for the tire replacement business. And the point of that is there are bright spots out there. You've just got to go find them and you've got to chase them hard and we're looking forward to doing that.

What I want to do now is turn the call over. As we noted last quarter, we'd hired a Jim Froisland as our temporary CFO, who, along with our Chief Accounting Officer, have been doing a good job in addressing the material weakness and preparing solid timely financial information to our organization. So I've been very pleased with where things have been over the last couple of quarters with that group.

Titan is still working through the process of hiring a permanent CFO, but I do want to introduce Jim on today's call and would like now to turn it over to him to discuss the financials. So Jim, it's all yours.

Jim Froisland: Well, thanks, Paul. Let's take a look at our financial results now. As stated in the press release, sales for the quarter came in just over \$306 million. This was down less than 1% or \$2.6 million from a year ago. The quarter-over-quarter decrease was primarily driven by price mix.

In terms of segments, earthmoving and construction volumes were higher, but offset by lower volumes in both ag and consumer. There was virtually no impact from currency. This is a welcome change given the volatility we've seen over the past several quarters.

Turning to geographies, our North America business continues to see lower sales volumes across each of their segments. The good news is we've had other geographies that have seen business improvements in both sales and gross profits. As Morry and Paul stated, we saw both. We saw sales, but also we saw gross profit increases in our regions outside of North America, in Latin America, Europe, Russia, and Australia, so again, some positives coming out of those markets.

Moving on to gross profits and margins, our gross profit dollars were up nearly \$7 million for the third quarter. That's a 26% increase from the prior year on slightly lower sales. As Paul stated, our overall gross margin performance was up 230 basis points from the prior year to 10.8%. It's

a tremendous accomplishment in our team's part to have achieved that level of margin improvements in the third quarter, given the challenges and the strong headwinds in our end markets.

We've talked about our margin performance for several quarters and we're proud of what we've accomplished, our One Titan Team operating model, along with business improvement framework have really been instrumental for us to be able to maintain and actually improve our gross margin percent, despite the large reductions and sales unfavorable price mix that we have experienced.

Let's take a look now at our segments. Our agriculture segment revenue was down \$2 million or 1%, which is in line with overall sales decline. The North America region continues to slow. Declines in the high-horsepower products that Morry mentioned with an overall North American decline of 17%, which again was driven by primarily volume.

The bright spot for this segment was Latin America, which rebounded in the third quarter over the prior year with a 54% increase in sales. Our market share in this region continues to improve, which positions us well in Latin America for nice profitable growth when this economy starts to pick up again.

Europe and Russia also increased sales over last year. On a gross margin basis, Ag improved 235 basis points with every region showing improvement from the same quarter to last year. North America improved 180 basis points in spite of the previous mentioned volume decline. This further demonstrates the actions taken from our business improvement framework are taking hold and we're seeing the results thereof.

Let's move on to earthmoving and construction. Our sales for earthmoving and construction were up \$3 million or 3% for the quarter. While North America showed ongoing softness, we continue to see improvement in our undercarriage, mining and aftermarket business. We've talked about this growth last quarter and it's nice to see the investment in these projects continue to pay dividends each quarter.

Our Australian mining business within this segment has also seen modest improvements.

Similar to my comments within aggregate segments, we experienced a 239-basis point improvement in gross margin, while earthmoving and construction with all regions showing gains compared to last year's third quarter.

In our consumer segment, you'll notice revenue was down \$4 million for the quarter. Lower sales were driven by a decline in low-margin supply agreements in Brazil, as well as lower sales of high-speed train brakes in China. Again we were able to improve gross margin by 230 basis points on lower sales.

Now turning to operating expense, SG&A was slightly up by \$800,000 for the quarter compared to the prior year period. As we have stated over the past several quarters, our strategy with our operating expenses has, and continues to be, to invest in sales and marketing as Paul mentioned,

as well as R&D during the downturn. This represents a way for us to combat the market conditions we face currently.

We're starting to see the benefits of those investments in our results and this will continue to improve as the market improves. We've also spent some money this period in the anti-dumping case that you're aware of. This impacted our SG&A during the quarter.

So let me summarize the P&L results. Our third quarter adjusted EPS came in at \$0.18 loss per share. Adjusted EBITDA for the period was \$9.6 million. Comparing that to last year, we were at an adjusted loss of \$0.59 per share with an adjusted EBITDA of \$2.7 million. Now these are adjusted numbers I'm quoting, but the only adjustment during the quarter in either year was the removal and redemption value adjustment relating to the settlement put option in Russia. So we showed improvement overall when you compare this third quarter to last year.

I'd like to move into the balance sheet I'd like to touch quickly on a couple of items there for the quarter. Accounts receivable was down \$12 million.

DSO remained similar to third quarter of the prior year at 54 days.

Inventory was up slightly during the quarter. Our day's sales inventory increased 7 days during the quarter to 93 days. This is a 15-day increase from 78 days at this time last year. This was driven by a strategic increase in select inventories related to the mining and aftermarket, as well as certain tire products.

We continue to manage inventory, while aligning ourselves with customer demands for specific products needed in the market on both a seasonal and competitive basis.

Accounts payable did increase \$7 million this quarter. This reflects a 12-day improvement in DPO, since the start of the year and a 10-day improvement over third quarter of 2015.

Our cash balance ended the quarter at \$215 million. This compared to \$200 million at the beginning of the year and \$207 million at the end of our most recent quarter.

So we continue to be diligent in manning our liquidity and our cash flow in the midst of these tough market conditions.

Balance sheet management remains a significant focus during the quarter and will certainly be on our [go]-forward basis.

Just a couple more things involving our debt. I want to bring up our \$60 million of convertible bonds, which are due this January, while our positive cash position gives us flexibility and comfort with using our cash to repay this debt.

Our stock has recently traded at a level which exceeds the \$10.75 per share conversion price. Either way, this event is expected to reduce our debt and the associated interest costs beginning in early 2017. Although we have no current borrowings under our revolving credit facility, we

have begun renewal discussions and we currently anticipate completion of this renewal process in early 2017, in advance of the December 2017 maturity.

So wrapping up, there are some positive takeaways from the financial results this quarter, despite the continuing challenges within our markets. We've seen some stabilization in Ag, improved margin performance, diligent liquidity management just to name a few. As an organization, our Titan team remains focused on managing those areas which we can control.

So with that, I'd like to turn the call over now to the operator for questions. Thank you.

Question-and-Answer Session

Operator: We will begin the question-and-answer session. (Operator Instructions). Brent Rystrom of Feltl.

Brent Rystrom: Could you guys give us a sense, when you talk about LSW tires, and we think about the aftermarket opportunity, how we should think about the incremental revenue, and then how the margins should look on the replacement cycle?

Maurice Taylor: Firstly -- and I know you've travelled and you've seen it and you understand what's cooking -- the big thing is the OEs basically average around retractors and big iron and combines, duals, on 75% of all the equipment they've been producing for the last umpteen years. The market out there is huge. What we've found out is that horsepower, if you go from the duals to the super-singles, you actually can use a lower horsepower tractor and pull the equipment and go through the field at the same speed. So it's got so many big advantages.

And now, it's starting to float out there at the same time that farmers are getting very conscious of what their cost does. And I think that in answer to your direct question, we've been -- and Paul's been working real hard with the sales staff so that you've got two different customers. You have to convince the farmer and show him how much he can make more and how much he's going to save and then for him to place the order. So that's why Paul has moved the Grizz Squad with our salespeople because when you walk into a tire dealer, which is a farmer who has replaced his tires, he doesn't have to replace the wheels; he just goes buy the tires.

So to catch the wheels, he's going to have to pay more money. So he's going to have to see it. So it really becomes, in the marketing side, of showing what the benefits are. And when that happens, you're looking at, I would say, probably everyone you sell your -- on the margin side, you're from 20 and above. It's pretty decent in this market. And Paul probably has -- go ahead. Paul; you step in now, and you know the number because you've been working on it more than I do.

Paul Reitz: Yes, what we're doing, Brent, is we got these guys who've been training for the last couple of years, not just understanding LSW, but understanding what the end-users want in a product, and they've been doing it from a technical perspective. And what we're doing is

basically saying, look, guys, you've done a great job with that. You have the relationships out there with the end-users. And it's like Morry says, it's a different process selling LSW, so we're combining the two with that.

How we go to market is still the same as what we've been doing, but now we're going into sales mode; going beyond just being these technical advisors, going beyond just working with the test guys. And so in that sense, we've basically doubled the size of our sales force and they're going to be out there just like they have, but they'll be working under the direction of the territory managers as well.

So if they need to cover off some of the areas where possibly we weren't as good, or even a little bit weaker with making those daily contacts, we now got an arsenal, a troop of people that could take care of that. And they're well trained, very knowledgeable, and a good group of guys. So we're pretty excited about what we can do with that.

It's been well received internally and we're going to get that unleashed there and basically now and in early 2017, you combine that with what we've been doing on the pricing side. We're going to be well-positioned.

Maurice Taylor: One other thing to step in, Brent, is that we were at a big tire dealer up in Iowa and he has probably moved well in excess of 500 LSW tires; that's big. And when we, Paul and I, met with him, and of course, it's a wheel and a tire. And he did not know -- he knew basically about the less compaction, about the power hop going away, rode lope. He never knew because he never read the press release that we sent out about when you had 6 bushels of soybeans and the farmer is in Iowa, between 1,000 -- the average farm, I believe, is between 1,000 and 1,500 acres.

So if you got half of it in soybeans, you're at \$60 an acre. You really -- that's \$42,000. And then you check it with the corn, it's only \$16 at \$3 corn, but that's a -- you've paid for the tires, the LSW tires and wheels. And just on that, forget all the other benefits you get with it. You've done that in 3 months, 4 months max, of what you've done in your pricing to pay the extra and that's where we're at.

Paul Reitz: Brent, as you know, you sprinkle in some fuel efficiency savings as well, and that looks pretty good from the farmer's pocketbook perspective.

Brent Rystrom: And I think all of that's helpful. I guess what I'm trying to get at, it may be easy if you go back to the farm progress show. I think you guys had about a 9460 out there. And what I'm wondering is can you tell us, from pricing perspective or from revenue perspective, if you were to put all LSWs on that 9460 as you had on your test drive model there versus replacing those with duals, how did that revenue look per tractor? And then are the margins higher than they would be on the dual types?

Maurice Taylor: On an OE segment, I'll tell you that it's pretty -- it's because you're dealing with 8 wheels and 8 tires versus 4 and 4.

Brent Rystrom: Yes.

Maurice Taylor: The revenue is going to be pretty close to the same.

Brent Rystrom: Yes.

Maurice Taylor: The margins are going to be substantial and I'm not going to say on the call what they are because you know, as well as I do, that every OE is on my phone call, okay? So let's just say that yes, they are better.

Paul Reitz: Yes, I made --

Maurice Taylor: The aftermarket is better and better.

Paul Reitz: Yes, I made a comment about it; it was kind of vague. We're doing well with our LSW performance; we're satisfied with the growth. I will say its double-digits this year. Where I was vague is I said we price it as a premium product in the marketplace, and that was my way of saying, like Morry said, you don't want to come on this call and blab it to everybody, but that was my way of saying we have not discounted this product to generate sales.

The margins are good on LSW. We're keeping it as positioned as a premium product in the marketplace, while growing sales. So that's why I say it is a win-win. The economics look good from the farmers' perspective and it looks good from our perspective as well.

Maurice Taylor: The other thing -- go ahead.

Brent Rystrom: My final question on that, just a real quick thought then -- I'm just trying to figure out from a farmers' perspective on a replacement, so if the tires are comparable in cost, how much extra does this deal cost? So what's the wheel on that 9460 going to hit the farmer?

Maurice Taylor: The wheel -- well, here now -- if the farmer already has the tires and wheels on a 9620, you go to the super-single, what's he going to do with the old one? If the OE was offering it, then what would happen is that one wheel would probably come in fairly close to -- he's not going to pay a big premium at an OE level. That's what I'm saying.

But now on that 9620 what we're doing -- and part of the reason I was in Russia -- is there is no one who makes a tube. We're going to take the 90 -- like a 9620 out West and we're going to run that against a quad; big singles with 1400x46s, but because of the hills out there, which most people on this call don't realize, they've got rolling hills. That's all grain country, most of it is out there. And then also, you have big drop-offs.

So for safety, you want to put a tube into it, and you also want to put a rim. You've got to make a wheel that's similar like a forestry wheel. So we're not out there yet. We're running LSWs on sprayers etc. Those are narrower LSWs and they're running great and we actually can make

LSWs for the dual application. But that out there where we want to put on the 9620, our big 1400-46; the smaller tractors, you go from a 1250 on down.

So the farmer and the OEs are two different animals that we have to work with. So right now, we figure for OEs that takes them so long, and so they trim up and get the bureaucracy down that we're going to concentrate pretty much on equipment dealers, tire dealers, and right to the farmer. That's what we're working on.

Brent Rystrom: And then a quick final question -- you got \$215 million in cash; you've got the sale of the track business. You've got the potential sale of other assets; you've got the \$60 million of debt due. Clearly, you're going to have a lot more cash on hand if these sales go through. And even without the sales, you may have a little bit too much cash on hand. Can you give us a sense of what you're thinking about the balance sheet over the next, say, couple of quarters, how that might evolve as some of that cash is realized?

Maurice Taylor: The situation is, let's just assume you have the ITM closes right after the 1st the year; then what happens to you, you add that chunk on to where we have. Now originally, we had assumed our shares would be that you'd be calling those bonds as they expired.

So two things we expect to happen because there's -- in our bond agreement on the converts, there's a little extra ticker in shares where we hold those bonds, so if the stock continues to stay pretty close to where it is, I'd expect those to convert to shares. So then all of a sudden, that \$60 million that you're not pushing out, well, now oh man you've got a tremendous amount of cash.

So then I'd figure at this point -- and it's all up to the board and what they wish to do -- but we'd probably increase our ownership a little bit in Russia; and we'd probably look at the 2020 bonds, look at bringing those in, or whatever we do, or restructure that, go for longer periods. All these things are available to us and that's up to the board. It's just like on TTRC, when you look at what's happened up in Canada, we have the opportunity where if the Province of Alberta decides to put a 10% on reclamation to the people selling the tire. At this moment in time, we're the only one who can honestly say there is zero pollution, and we take it to carbon black, oil, and steel and it's been running.

And we just - actually our friends at Suncor have said we've done such a good job, they want us to look at a bunch of other stuff. So what happens as that takes place, you basically double the revenue of that facility. So there are so many things that are in the air right now, that -- that it's all positive; there are no negatives there. The only -- and then what happens with the election? That's only 5 days away.

If Trump wins, I think it's a big move for both -- when everybody talks about free trade, there's only one thing people forget. There is no such thing as free trade when it comes to ag. Otherwise. The American farmers would be driving Rolls Royce because they would just -- no one can compete with them, even Brazil, who gets two crops a year. They lose too much.

So what happens, if he takes ethanol, moves in a little bit, Katy bar the door. So that's the way it is. I'm an extreme optimist and I always had the normal life, but I wouldn't -- I couldn't tell you

what's going to happen. I don't know about that. All I know is, we have a plan, one way or the other.

Brent Rystrom: Thanks, guys.

Operator: (Operator Instructions). Alex Blanton of Clear Harbor Asset Management.

Alex Blanton: Thank you, can you hear me?

Maurice Taylor: Yes, Alex.

Alex Blanton: Okay, good. You mentioned that the Russian plant would be shipping Goodyear Tires for the farm sector into Europe starting in the first quarter?

Maurice Taylor: Yes.

Alex Blanton: Now in the past call, I think that was supposed to take place in the fourth quarter. So it looks like there's been some delays. Could you elaborate on that?

Maurice Taylor: Yes. The equipment we shipped through, we shipped over there and I was there last week. The first group of equipment arrived. The market and the radial tires, big radial tires, they are producing those and as the numbers and they spoke, they're doing really well. In fact, they're a little behind fulfilling the orders that have been coming in. So the equipment was held up. I shouldn't call it held up; it's just that you can't land it at the port, grab it, and ship it.

It's like we had a whole team over there. If you're even on your plane, you've got to have a boarding pass to go on your own plane. It's still a slow process, okay?

Alex Blanton: It's understandable.

Maurice Taylor: Pardon?

Alex Blanton: It's understandable.

Maurice Taylor: All right. So that's what's doing it. You can't get it done as fast as we get it done here; that's what I'm saying.

Alex Blanton: You said that you're behind in filling orders. Are those orders for the Russian market?

Maurice Taylor: The Russian market, yes. What has happened is Putin has -- there's a couple of things going on. Putin has turned around and he's put a push to help farmers and to move the Ag business forward over there, and so that's increased demand, which is good for us. It's the same situation; our Turkish plant has been doing real well; it's profitable.

We have molds for Goodyear. We had two companies. We've decided now to go with one to make our Goodyear tires, and not only for that market in Turkey, which is we have a big demand for Goodyear brand tires in Turkey, as they used to be made at the Goodyear plant before they got out of it. This other company bought all that equipment. So and now, it's a very lucrative market because they slapped a 28% duty on the wheel, tire, anything coming into Turkey, to protect their industry. So we're there and that's what we're excited about.

Alex Blanton: Second question is you mentioned making wheels because you can't import them. Are you importing them?

Maurice Taylor: No, you can import the wheels into Russia.

Alex Blanton: No, Brazil; I'm talking about Brazil.

Maurice Taylor: Brazil, they charge a duty. So what we have decided to do, to speed everything up, is that we're going to do the wheels in Quincy and container ship them down, pay the frigging taxes and pass it on. The farmers don't like that, the big farmers, but they are so impressed.

I didn't mention this, but when you look at how doubling the speed -- they go across the field, and then you look that they don't have any slippage, they're going across those fields now. And when you look at their savings in fuel, it's not because our tire is moving that tractor and they had so much slippage on the ground that their fuel use was way up. They're saving 25% in fuel.

Alex Blanton: You just said you were going to make the wheels though at Sao Paulo tire plant. When will that take place?

Maurice Taylor: We'll be making wheels there probably between the end of the -- now this is provided the government there gives us approval by the end of December, okay? They've had this paperwork; we've had lawyers, everybody going to them. The equipment is here in the U.S. and it will depend because we're not placing orders.

Paul is down there too. We have to buy the paint system in Brazil and we're not placing the order until the government approves. When they approve, it's a whole package of all the equipment we can send down there and then place orders. So, now --

Alex Blanton: So in the end of --

Maurice Taylor: Between now and the end of December, that they push it, you'll be making wheels down there, third quarter of 2017.

Alex Blanton: 6 weeks; that's only about six weeks. You need to get the government approval, and then you need to ship the equipment down there and then you have to order the paint system and install it?

Maurice Taylor: Well, the paint system will be ordered. It'll take you probably 90 days to start having the equipment coming in, but now you can put the power in and you can do everything. The equipment is fitting, so it's not going to take us long to get that going. It's the paint system; the paint system, you're looking at basically 6 months to 8 months. The first part of it'll come in; you're going to sell that. And so you're looking towards the end of the third quarter in Brazil before you make you're making wheels.

Alex Blanton: And if they are --

Maurice Taylor: They're not only LSW; they're for everything.

Alex Blanton: Yes, okay. Okay. So about a year from now, you'll be shipping, making wheels in Brazil.

Maurice Taylor: Yes.

Alex Blanton: All right. That's the answer.

Maurice Taylor: Yes.

Alex Blanton: And then one more, small question -- you mentioned the price being the reason sales were down, how much was the price factor? You didn't mention how much it was?

Maurice Taylor: Well, how -- what did you - Paul, you're closer to that than I am.

Paul Reitz: Well, what are you referencing there Alex?

Alex Blanton: Well, you said that sales were down year-over-year, total (inaudible) price.

Paul Reitz: Yes.

Alex Blanton: So what I'm asking is, how many dollars was the price decline?

Paul Reitz: Yes, in our 10-Q, we do talk about price volume and the impact it has on sales. So we do break --

Alex Blanton: I don't have your 10-Q right now, what is it?

Paul Reitz: Jim, I don't know if you have any of that information in dollar terms in front of you. We talk about it in percent terms in the 10-Q.

Jim Froisland: Yes, we don't have the dollars; we give the percent in the Q and what --

Alex Blanton: What's the percentage? What I'm trying to get is, what's the real volume increase? That's what I'm trying to get at.

Jim Froisland: By 5%.

Paul Reitz: Around 5%. Yes, go ahead Jim, if you got the Q in front of you.

Jim Froisland: Yes, it's around 5%.

Alex Blanton: Oh, so something around \$15 million?

Jim Froisland: Correct.

Alex Blanton: So if you take that out, your sales would have been up \$9 million?

Jim Froisland: That was a year-to-date number, 5%.

Alex Blanton: Oh, 5% year-to-date. What is the quarter?

Paul Reitz: If you look at -- we're down -- we had a 6% volume reduction in Ag and then price mix hit us for 4%. So looking at our larger segment, Alex, those are the splits for the quarter, but what you've got to remember when you start talking about price mix is it's driven also by raw material fluctuations that can be passed through via contract.

Alex Blanton: Yes, exactly.

Paul Reitz: So it's not all pricing pressure within the market that drives that 4% drop in price.

Alex Blanton: Right.

Paul Reitz: And if you look at earthmoving construction, we had an increase in volume for the quarter of 10% that was offset by a reduction of 7% in price mix. So we don't split out price mix, but we do combine -- we do split out volume versus pricing in the 10-Q.

Alex Blanton: Okay. So Ag was minus 6% volume, minus 4% price, and construction was plus 10% volume, minus 7% price and that was for the quarter, correct?

Paul Reitz: Actually, what I said there's a 4% price mix increase in Ag, correct, Jim? So volume was down 6%. So for the quarter, we were down 1% for Ag, okay. And then roughly 5%, 6% was from volume reduction offset by a price mix.

Alex Blanton: Oh, that was a price increase?

Paul Reitz: Price mix improvement of 4%, and then it does the opposite when you look at earthmoving construction where you had the volume increase in a price mix reduction. So they're opposite for Ag versus earthmoving construction.

Alex Blanton: Got you. Okay. That was for the third quarter. And there's no indication that rubber prices are going up?

Paul Reitz: In talking with our supply chain last week, we kind of see it -- predict it to be relatively flat for visibility going early into the year, kind of not much expected.

Maurice Taylor: I don't think it's going up, Alex, because automotive is dropping, okay? So automotive is dropping and when you look at Ag and earthmover, it has no bearing on the natural rubber prices; automotive does. So if anything, it'll have a tendency to drop.

Alex Blanton: Okay. Thank you.

Operator: This concludes the question-and-answer session. I would now like to turn the conference over to Mr. Taylor for closing remarks.

Maurice Taylor: Just congratulations to all you Cubbie fans and congratulations to those in Cleveland. We got a lot -- that was one hell of a team you put together. So enjoy yourself for the holidays and stay safe. Thank you all; bye.

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