Titan International, Inc.
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Presentation

Operator: Ladies and gentlemen, welcome to the Titan International, Inc. fourth-quarter 2016 earnings conference 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 risks and uncertainties as detailed therein.

Please note that this call is being recorded.

At this time, I would like to introduce Titan Chairman, Maurice Taylor. Please go ahead.

Maurice Taylor: Thank you. Good morning, everyone.

Of course this is -- you should have the paperwork if you're on the call. This is our year end of 2016 which was an interesting year. Number one, we started the year at a -- everybody was worried about our liquidity. And of course that triggered a lot of the events through the year, which is spelled out in the press release you have.

The other situation is on the -- and I'm going to talk about our market before I turn this over to Paul. And in fact while I'm talking about Paul, it was a big year. At 2016 at the end of the year Paul took over as the President and CEO of Titan, which he can cover on his team and what they're doing. But I think it's very exciting what they've got planned and what they've been able to do the last couple of years.

The situation in the third -- you'd have to call it the end of the third quarter, I mentioned I thought we were pretty well scraping, bouncing around the bottom. I think the results show that that is true. I think ag has bottomed out, construction market has bottomed out, and the earthmover has bottomed out.

Last week CONEXPO arrived, which arrives every four years in Las Vegas. I've been to probably all the way from CONEXPO that used to be up in Milwaukee I believe, and then it went to Chicago before resting out in Vegas.

I've never seen a more active, bigger CONEXPO than what happened this past week. And the unique thing about last week, never did I ever see all the contractors' people that they sent, not just one person, two person. There were teams. And the excitement was really, really upbeat. And Paul will go through on his take of it and more of the action of what transpired.

But going forward, which is what everybody's interested in, I think it's going to come on in 2017 at a little bit stronger than anybody has gone out and stated. And I'm referring to our large OEs. I believe that the people I have talked to, even in the farm industry, the farmers, they're excited. They're excited because things have dropped down. You can pick up the paper today, that natural gas there's a glut. Well, think of the fertilizers they get from the processing of certain natural gas. It's a different feeling than what you've had for a long time. And we're excited about it.

Since I've moved from the -- given up the CE role, I'm going to concentrate as the Chairman. I plan to continue to work on the LSW tires and wheels at our big farms and the wheel business that we're putting in in Brazil and in Russia. Paul has a good team and anything and whatever if he decides and I'll help out on that.

But with that, number one, all of you, I plan to come to a couple of your conferences, because I love being on the road.

So with that, I'm going to turn it over to Paul. Go ahead.

Paul Reitz: Thanks, Morry. Good morning, everybody.

I'm going to start off by talking sports for a couple minutes here. Just think what took place in 2016 with the recent sports season that concluded. You had the Cubs come back from a 3-1 down deficit to win their first World Series since 1908. Cavaliers came back from 3-1 down to bring a championship to the beleaguered City of Cleveland. And then of course most recently you had New England come back from 28-3 down late in the third quarter to make Tom Brady the winning-est Super Bowl quarterback of all time.

Now you may or may not like the results of these games, but one thing that we consistently heard from the players behind those comebacks is that they kept their focus on the task immediately ahead of them and not their deficit they were looking at. The players realized that they must take things one step at a time in order to come back from near defeat.

So let's tie these 2016 sporting events together with Titan.

As we started our 2016 financial season, we were in year three of a massive cyclical downturn in our end markets. Our sales were down over 40% from peak. Our stock was at \$3. Our bonds were at \$0.63 on the dollar. Now, I'm not saying Titan won a world championship in 2016, and I'm just having some fun with the sports comparison.

But in all seriousness, the Titan team has done a really good job of applying that same competitive mindset to keep a focus on moving forward one step at a time. This past year not once did I hear anyone from my team whining about the market conditions and the challenges we were battling. We believed in what we were doing, the plan we had in place, and we kept our focus on execution. So as we wrap up our 2016 financial season for Titan, it's good to see our stock and bonds showing a nice rebound to today's levels.

So if you take a look back at 2016, our sales came in at \$1.26 billion. That compared to \$1.4 billion in 2015 and then \$1.9 billion in 2014. And even with that decline in sales, our gross profit percentage has steadily increased the past three years. This means we've been consistently managing our way through the downturn and not relying on one-year stunts to drive results.

Along with these operational accomplishments we've maintained roughly the same cash balance over the past four years. Again, all this is a testament to our team, to keep our competitive focus on moving forward one step at a time while dealing with these challenging market conditions.

So drilling down into some other accomplishments that took place this past year, I want to point out an impressive feat that came from our Latin American team. Titan took over the top spot in Brazil for the combined OE and replacement market share. Let's not forget when we took over Titan Brazil in 2011 that business was 11 points behind the market leaders. So that's really a strong accomplishment and a good story to see how far we've come with that business in just five years to take over the top spot there.

You'll also notice in our 10-K filing that our material weakness that has hampered us for the past two years has been remediated. There definitely were some celebratory drinks to celebrate this accomplishment. The finance team has really done a great job taking care of what needed to get done to remediate the material weakness.

Our CFO, Jim Froisland, said to me in the second week of the job that with his leadership and the existing team in place he'll get rid of the MW and Jim and the finance team did exactly that. So our hat's off to them for taking care of what needed to get done on that pretty significant accomplishment.

Now as we look back into 2016 the one area that we need to, and will, improve upon is our SG&A. With the material weakness now behind us we're going to be putting some additional focus into that. Jim and I have formed a committee comprised of a group of our business unit leaders. And we're just going to start taking a look at some of the profit leaks that are taking place in our SG&A area.

We've seen our SG&A percentage creep up over 2 points the past few years as our cost reductions in that area just haven't kept pace with the sale decline. As I illustrated earlier with our gross margin percentages, we've demonstrated over the multiyear downturn that we've done a really good job managing operational costs. And, again, that's been pretty consistently evidenced in our gross margins.

However, we really allowed too much of our SG&A to fall into the trap as being viewed as a fixed cost. And that needs to change. That is certainly true to some extent that with declining sales there are some fixed costs associated with our overhead. But there are opportunities for us to attack not just the variable SG&A costs but take a hard look at some of the fixed SG&A costs.

So, again, that's a pretty big project that we're going to put on Jim and I's plate for this year. And I think our team leaders as well realize that we have some opportunities to tackle some profit leaks in this area.

As we look forward into 2017 I want to discuss a few areas that are off and rolling to a good start. We have worked hard on our plants the past few years to get more efficient and reduce our cost of quality. This has enabled us to come into 2017 and position our products well in the marketplace and make Titan easier and more effective to do business with.

In a nutshell, we have introduced a new program that really positions our Goodyear and Titan brand of products at the right levels compared to the respective competition, and also removes some of the variability that existed across our various product platforms.

We rolled this out January 1. We're really excited about the early momentum that we're generating in North America. And to ensure we don't slip backwards we've also developed the systems and deployed the resources to ensure we stay on top of our product positioning and our overall product portfolio. It's incredibly important to us in North America. It's an area that we see significant opportunities for us. And, again, we really feel that we started off this year very positive in North America with what we've rolled out.

This leads into our product development. As we've noted over the past few years, we continue to invest in our future via product development. And LSW is a cornerstone foundation of that. We've really seen some exciting things happen with LSW to start the year. The groundswell from our grass roots marketing efforts from the past few years is starting to take root. End users are now coming to us to learn more about LSW instead of us really having to push it to them.

Our product manager, our ag product manager I should say, has been in a couple trade shows already in 2017. And he's typically a pretty calm guy but, I've got to tell you, he's been jumping out of his shoes with excitement this year, as our booths have been virtually an endless parade of potential customers that have heard about LSW, know about LSW, and simply want to learn more. In fact, he's been so excited he takes pictures now at our shows and sends them around to our entire global team so they can see exactly what's going on with the groundswell of LSW.

My marketing VP is obviously at those shows as well. She can be naturally more excitable than our ag manager, but she is seeing the same LSW buzz at the National Farm Show, from East Coast to the West Coast, the shows out in California, then Morry mentioned CONEXPO.

So really the entire marketing team, the product management team, just an absolute flood of energy that they're able to bring back from these shows. And we definitely feel that this is spreading very well at the grass roots level, the end users and off to a great start with that in 2017.

I got a chance to see it firsthand myself at not just CONEXPO and some of these shows, but some recent grass root local events that we do in conjunction with local tire dealers to educate farmers about tires, Titan and LSW. And I've been really impressed at these events to see how many hands go up when people are asked if they're already using LSW, and then if they would be considering using it in the future.

So without a doubt the interest level and excitement around LSW is spreading around. And as Morry mentioned, CONEXPO last week was another good example of not just the excitement that exists within the industry, but I think the excitement that exists specifically with some of the things we're doing here at Titan.

I do want to touch briefly on our North American tire union situation. The three tire plant contracts were supposed to expire in November of 2016. The Company and the union agreed to extend the agreements to January of 2017. The contracts have now expired.

As a result, the Company and the union are currently working without a contract and we're also working without interruption to our normal ongoing operations. While the contracts have expired federal law does require us to follow the terms of the expired contracts until new agreements are in place or an impasse is reached in our negotiations.

Morry already touched on this, but I do want to talk just for a minute about ITM. A lot has changed with our balance sheet and the market since we put this business out to market. The reality is it's a good asset we don't need to sell, especially if the price isn't up to our expectations of its value.

The bankers at Goldman Sachs and Titan's special committee did a really good job with the process and ultimately we decided it's not in the best interest of Titan and its shareholders to sell the business at this time.

I spent some time last week with the leader of our ITM business units, and I definitely feel good about what's going on at the business and where it's going. The trend lines at ITM look good as they expand their business into additional geographies and grow their replacement business.

So, again, we feel good about the asset we have and the value that ITM brings to Titan and its shareholders. And so we concluded the process and have retained ITM as part of Titan.

A lot has taken place in 2016 to move Titan forward and we feel good about where we stand today moving into 2017.

So I'd now like to turn the call over to Jim.

Jim Froisland: Thanks, Paul.

I'll begin with a reminder that the audited results we are about to review were presented in our news release issued this morning and will be discussed in more detail in our Form 10-K, which was filed this morning.

Let's start with the income statement.

Net sales for the fourth quarter of fiscal 2016 came in at just over $307 million. This was down less than 1%, or $0.5 million, from a year ago and the smallest decline we have seen this year. Sequentially net sales were up $1 million from third quarter fiscal 2016.

Here's what that meant in terms of segments. Agricultural and consumer net sales were higher but offset by lower earthmoving and construction. Increases in net sales were largely driven by favorable prices and currency. Net sales volumes were down slightly in all segments, with the biggest decline occurring in agriculture, which was down less than 4%.

Turning to geographies, North American business continued to see lower net sales volumes across all segments. The good news is that, in spite of lower net sales in North America, we were able to improve gross margin while other geographies showed improvements in both net sales and gross profit.

Moving on to gross profit and margin, gross profit for the fourth quarter was $32.5 million, up $14.7 million over the prior year. That's an 83% increase over the prior year on similar net sales. Overall, our gross margin performance was up 480 basis points from the prior year to 10.6%. This is a great accomplishment by our team, to have accomplished that level of margin improvement in the fourth quarter, which has historically been our toughest quarter.

We've talked about our improvements in margins for several quarters and I'm proud of what we've accomplished. Our One Titan Team operating model, coupled with our business improvement framework, have been instrumental in improving our gross profit and margin despite the downturns in the market we operate in and our reductions in net sales.

Now for a closer look at our segments.

Our agricultural segment net sales for the fourth quarter were $145.2 million, up $2.6 million, or nearly 2% over prior-year comparables. The North American region continues to slow. Declines in high horsepower products continued and overall net sales were down 16% which, again, was primarily driven by volume.

The bright spot for this segment was Latin America, as Paul mentioned, where net sales rebounded in the fourth quarter over the prior year, with 112% increase. Our market share in this region continues to increase and puts us in a nice profitable growth position when the economy and market picks up. Triple-digit increases in agricultural net sales were realized in Latin America, with double-digit increases in Russia and Australia.

Our agricultural segment gross margin improved 548 basis points in the fourth quarter to 12.6%, with most geographical regions showing improvements over the same period a year ago.

North America improved 180 basis points in spite of the previously mentioned volume decline in net sales. Once again this demonstrates that the actions taken by our business improvement framework are paying dividends as we experience the favorable financial impact of those actions.

Moving on to the earthmoving and construction segment, this segment's net sales for the fourth quarter of 2016 were $122.6 million, a decrease of $6.8 million, or 5%, versus a year ago.

While North America showed ongoing softness, we continued to see improvement in our undercarriage mining aftermarket business in our other regions such as Latin America, Russia and Australia. We mentioned this growth last quarter and it's nice to see the investments we have made continue to pay dividends each quarter.

Similar to my comments about the agricultural segment, we experienced a 313 basis point improvement in gross margin within earthmoving and construction, with most regions showing gains in the fourth quarter as compared to the prior-year period.

Now to our consumer segment. This segment's fourth-quarter net sales were $39.4 million, which was an improvement of $3.7 million, or 10%, when compared with prior year. Net sales were up across every region.

Again we were able to improve gross margin 741 basis points on increased net sales.

Let's turn to operating expenses. Selling, general, administrative and R&D expenses for the fourth quarter of 2016 were $39.5 million, up $5.8 million when compared to the prior-year period.

Our strategy has been to invest in sales, marketing and R&D during the market downturn. This represents a way for us to combat the current market conditions and we continue to see the benefits of those investments.

Also the business performance and improvements made in 2016 over 2015 resulted in an incentive, an earnings incentive compensation expense for 2016 versus a -- with a reversed incentive compensation expense in the fourth quarter of 2015. This swing impacted SG&A by $1.1 million in the fourth quarter of 2016.

Other increases were driven by legal fees incurred concerning the anti-dumping and countervailing duty basis.

Finishing up on the fourth quarter operating statement just quickly, royalty expenses of $2.2 million were down $0.1 million, or 5%. Interest expense at $7.3 million was down $1 million, or 12%. An exchange gain of $1.1 million was up $0.2 million, or 19%. Other income of $1.9 million was down 59%.

This resulted in a loss before taxes of $13.3 million versus a $20.8 million loss in fourth quarter of fiscal year 2015. EPS came in at a loss of $0.26 versus $1.07 loss in fourth quarter of fiscal 2015.

Now I would like to move to our financial condition and highlight a few key balance sheet liquidity and capital items.

Our cash balance and short-term certificate of deposit of $198 million as of December 31, 2016 remained flat with the prior-year balance.

We ended the quarter with inventory and accounts receivable balances relatively the same as the prior year. Days sales in inventory, or DSI, was 86 days as of December 31, 2016, compared to 77 days at December 31, 2015. The increase was to support forecasted higher sales in the first quarter of 2017.

Accounts receivable days sales outstanding, or DSO, of 52 days remained flat with the prior year. Days payable outstanding, or DPO, increased 11 days to 52 days.

So you can see we continue to be diligent in managing our working capital liquidity and cash flow during these tough market conditions. This has been and will continue to be a key focus for management.

Now for a quick comment concerning our debt. As we've previously announced, holders of a substantial majority of convertible bonds which matured in January 2017 chose to convert from debt to Titan shares. This conversion represented more than $58 million, or 98%, of the total convertible debt outstanding. This shift from debt to equity will further strengthen our balance sheet as well as reduce future interest costs.

In February of 2017, we entered into a new $75 million revolving credit facility. Similar to the previous facility, this new credit facility is collateralized by accounts receivable and inventories of certain Titan domestic subsidiaries.

This new credit facility extends the maturity date from the previous maturity of December 2017 to the earlier of five years, which is February of 2022, or six months prior to maturity of the company's 6.875% senior secured note due in October 2020.

The new facility is $75 million smaller than the previous facility and better matches the current size of our collateral and will reduce annual costs thereof.

Capital expenditures for the year were $42 million, down $6.5 million, or 13%, from the prior period. Capital expenditures are forecasted to be approximately $35 million for 2017. Cash payments for interest in 2017 are forecasted to be approximately $30 million.

We believe we have sufficient funds for our operational and working capital needs for the foreseeable future.

Last but not least, Paul and I are pleased to report that the significant investment in people, processes, and systems to remediate the material weakness related to Titan's internal controls over financial reporting have paid off and have been remediated by the Titan One team. Our special thanks to all that contributed to this successful result.

So in summary I would like to say that there are several positive takeaways concerning the financial results for the fourth quarter of 2016 end year. Despite the market challenges we have faced we have seen some stabilization in our agricultural segment, improved margin performance, diligent liquidity management, and remediation of the material weakness, to name a few.

The Titan One team remains strongly focused and committed to managing those areas we each control.

I'll be glad to answer any questions you may have on these or other financial matters. In the meantime, I'd like to turn the call back to the Operator for questions. Thank you.

Questions & Answers

Operator: (Operator Instructions) Larry DeMaria; William Blair.

Larry DeMaria: It sounds like obviously you've seen some stabilization. Can you discuss your overall segment outlook for 2017? Expect improving sales and operating margins in all businesses in 2017? And maybe just discuss order of magnitude, if you can.

Paul Reitz: I'm not sure, Larry, at this moment we can talk about that level of granularity. We did not give out forward-looking guidance at the beginning of 2017. And so not to sidestep your question; it's certainly a good question. But because we have not issued formal guidance and there's not been any comments in our filed releases at this point we're going to have to talk in generalities.

But I think you were out at CONEXPO and I certainly feel that the momentum is turning and on a good foot going forward into 2017 from the construction side, which fits well with --obviously our ITM business is doing well in that segment. We certainly see some opportunities with our wheel business in the construction segment coming out of last week.

We've reorganized our team to be more focused on taking advantage of those opportunities. I would say one of our weaker areas has been construction wheels. And we've reorganized our team and see some positive things coming from that.

Going back into last year at the MINExpo, you certainly have seen some trend lines that are starting to look pretty good in mining. And, again, that fits good with our replacement business and ITM.

And then talking about our core business with ag, we see the replacement side of the ag business in North America off to a good start. As Jim had mentioned in his comments, the ag business in South America finished the year strong and is rolling into 2017 in good shape.

Russia, we finished 2016 with the number 1 position in Russia with over 50% of that market. When I say Russia, referencing the entire CIS region. So we see that business again continuing to perform on those same lines and improve on what they had done in 2016.

And then, Europe is Europe, Larry. It's kind of stuck where it's at and moving in a direction that's stable, but not anything significant upwards or downward. So I think for us Europe our opportunities are organic in what we could do with the Goodyear brand.

And so we have a lot going on in Russia to expand our Goodyear product platform and its production capabilities. Looking at producing some product down in Brazil. Have some other projects in the works to be able to expand our Goodyear Europe presence. So I think for us the opportunities in Europe are exciting to see with what we can do organically.

So as we look around the world, I know it's a high-level look, Larry, but I think we do see some positive things going on in just about all the areas.

Larry DeMaria: Thanks, Paul. So you fully expect to be able to penetrate the Continental European market with the Russian -- with the GT brand coming from Russia. Is that right?

Paul Reitz: We're going to come at it from a couple different ways. We'll get more into that later this year as we get our portfolio built up. But they'll be a couple different ways that we'll have to attack the market there, with Russia being a part of it.

We have equipment that's already there getting installed as we speak. Some of it is already installed. More of it's continuing to be installed here this quarter, this month, next couple months. So with what Russia can do they're already, combined with what we're adding, the additional equipment, we certainly feel good about not only our CIS position, which I've mentioned earlier is over 50% of the market, what we can do with exporting from Russia into Europe.

We feel like our cost of production there is very favorable. And, again, the improvements we're making with the equipment and the quality will get us to the point where Russia will be a big part of our European strategy. And there's other pieces to it that we'll talk about later in the year as we get those finalized.

Maurice Taylor: If I could throw a little more light to that, Larry, is that you've seen in Europe they have a total different problem, farmers do, than they have in the US or a lot of in South America. They use their tractors mainly as a pickup. So if you notice, you see all these what they -- they call them different names, but it's central inflation systems. You see it on the trucks over there, too, where they try to keep the air pressure way up.

But when you go into combines and tractors out in the fields you need lower air. So this has been a thing they've attacked and that's 20 years ago is when it was developed for the Desert Storm for the US military. Came out of France.

Well, you turn around and you use an LSW, you're down to anywhere from 12 to 15 psi. So that will go through your fields anyplace in Europe. And because the sidewall doesn't bulge out, you can get on the road. And you want to do 65k, 70k, fine. So we're going to attack it with the LSW.

And selling over there is a situation of you actually sell to a group of individual farmers, is how you make your inroads. And as Paul mentioned, that's what we're going to do. We have everything there actually bring them to a little more advanced technology and save the farmer a ton of money.

Larry DeMaria: Awesome. Thank you, Morry. If I could ask one other question. On ITM obviously you're going to keep it now. But you mentioned in the release that there could be some other opportunities. So could you explain or think about it, give us some thoughts about other opportunities and the required investment you would need to make in ITM should you keep it?

And then should we also expect potential divestures from TTRC and Brownsville? Are those still on the table? Thank you.

Maurice Taylor: Well I think, speaking for the Board, yes, the other two are on the table. We have bankers for the situation at TTRC up in Canada. The thing that's happened is the Province of Ontario notified all the tire manufacturers that, "You own the tires, even after you sell them to dispose of them."

The TTRC, there's a lot of people on the environmental end, but what happens up there is it's in a total sealed system. You put the tires in and you get the oil and you get carbon black and you get the steel. So it's a total pollution-free system.

A lot of others through the pyrolysis, they're out there burning a gas that comes off. And so this system is a little bit different. And we expect that it's going to be added to the bottom line of Titan as it goes on. But to expand it would take a tremendous amount of capital. And we have a number of people who will be interested and we want a process of getting at least 6 months of operations under it before we look at disposing of it.

Brownsville, they did an appraisal. Came higher than what we were thinking it would be. And of course until our President gets the situation straightened out, Brownsville's a super hot market. And it's a cash generator for Titan. So it's sitting there generating a little bit of cash. So I think the Board right now is -- and I think Paul will back it up that it's something to -- do you actually expand -- we've got quite a bit of property down there. And we've got a big power source right on the property. So there's a lot of things outside of the wheels and tires that they've got to look at that will generate cash for the Company.

Reference ITM, ITM has been a very strong OE producer. They have great, probably the best, engineering. It's all German engineered. So the aftermarket, we're just kind of scraping the surface.

So we have three items that we always knew would generate about $250 million in ready cash. And that's kind of like been going up. So there's no hurry I don't believe, as Paul mentioned, on any of it at this point. And with your bottomed out and what we're looking for, I think it's all good.

You were at the show. You seen what happened at the show. I've never seen as much enthusiasm at any show as I seen out at CONEXPO. And we're seeing that right now on the order deck.

That's -- unless you want to add to it, Paul.

Paul Reitz: Yes. No, Larry, as reference the ITM and the opportunities, the opportunities are already in process. We aren't going to have to invest significantly in order to continue to exploit those opportunities. Part of it is driven by the market. Part of it is driven by what we've done with the business over the past couple years.

And so kind of circling back to your other question that -- your first question as well, our CapEx for 2017 is forecasted to be relatively in line with where we were in 2016. So I had talked about some opportunities that we're exploring in Europe, with what we're doing in Russia and other possible avenues. That's already baked into that number.

So I don't see a significant change in our CapEx for 2017. We do have some investments that we'll make in the Brazilian wheel plant that we've already talked about before. And those will be separately disclosed. But, again, those will be a relatively small number in the big picture. So I don't see our CapEx changing that much.

So these opportunities are really already laying out there in front of us, whether you're talking about ITM, Europe or Brazil. And so, again, I know we didn't give guidance in 2017, but I do want to comment that we don't see a significant change in our CapEx for the year.

Larry DeMaria: Okay. Thanks, guys.

Operator: Joe Mondillo; Sidoti & Company.

Joe Mondillo: So just wondering if you could comment on pricing, both in the market and what you're seeing, and how pricing is trending relative to sort of where raw material costs are? And then also if you could comment on your internal pricing and the new system that you're implementing and how that's sort of trending and going so far this year and how that's benefiting gross margin?

Paul Reitz: Sure. The market right now is dealing with a lot of changes with raw material costs. That is something that we've put a lot of time monitoring, not just on the supply chain and our input costs perspective, but also how the market responds to it.

At this point just about everybody, if not everybody, has announced some sort of price increase. Ours are rolling into effect as well. We didn't do anything necessarily across the board. So there was some strategy involved with that.

So kind of the second part of our question, we had rolled out some strategic moves to start the year and how we positioned our products that were very well received. We've taken out a significant amount of the variability that existed across our product portfolio. Really came out into the market strong to start the year, so have seen a nice uptick in orders.

And so as we went through this price increase that, again, kind of caught everybody off guard. I think what's going on with raw materials is somewhat driven by speculative Chinese movements that aren't necessarily supply/demand driven. But needless to say, everybody had to react to it because the raw material cost changes had been so significant.

And so we made sure that as we did that we didn't undo what we had already done before on January 1 with our strategic moves. And so we applied some strategy. We waited as long as we could to see what some of the competitors' moves were. And to answer your question, there's a lot of moving pieces as we sit here starting March 1 going into April across really all of our products on the pricing side. The more so on the tire side but definitely on the steel, the wheel and the undercarriage side you're experiencing some input changes there as well.

OEM businesses do have contracts. So to answer your question on the impact on margins, there's some contracts that you change it every quarter. Some are changed every 6 months, depending on the fluctuation in the index prices.

So there are some opportunities out there where you're going to just stay naturally perfectly in line with the changes in your raw materials. And there's going to be in some cases where you have a 30- to 60-day lag on when you can push through those price changes.

So a lot of moving pieces -- not to repeat that same saying again, but it's something we've put a lot of effort into both strategically and then in dealing with the raw material changes here recently. And we'll continue to stay on top of it. I made a comment in my announcements earlier in the call that we had really deployed a lot of resources, both from a system and a human capital perspective, to make sure that we stay out there in front of the game when it comes to this stuff.

Joe Mondillo: All right. In regard to the effect that you're seeing with raw material prices, have we seen the worst within your results yet in terms of the near term? Or are you expecting first quarter, just given how rubber and steel has moved -- are we expecting in the near term to see a little bit weaker effect from raw material price -- costs?

Paul Reitz: You do have some situations where you have some lags on being able to push those through. Certainly we move as quickly as we can in line with what the market is doing, and then obviously what our costs are doing. But there are some situations where you do have a lag, a timing difference, in when you can necessarily make those price changes and then when you get some cost impact that hits you.

So we're still looking at close -- I would say the first part of the year, not much of an impact, but there's a little bit of a lag as you kind of get caught -- you're in the tail end of this quarter. So I think for the most part our industry, our business, has reacted to the changes in the raw materials. But there is some strategy involved with how you make those changes. So with the OEMs we do have some lag impact that will hit us in part of this quarter.

Joe Mondillo: Okay. And then in regard to SG&A, I know you commented on that you're going to take more of a focus this year on SG&A. But your SG&A outpaced revenue in the fourth quarter. What exactly drove that? I know you're focusing on the LSW tires and trying to get out there in terms of marketing and such. Was that the driver of that?

And if so, with the focus of trying to transition farmers to the LSW tire and focusing on marketing and such, do you expect in the near term the SG&A, regardless of you commenting that you're going to focus on it, do you expect SG&A to sort of continue to outpace revenue, at least in the next couple quarters?

Paul Reitz: I'll let Jim make a couple comments on that. I'll just open by saying that what we experienced in the Q4 was driven by some legal fees associated with the countervailing and anti-dumping cases, a little bit of incentive changes that hit us in Q4. Jim can talk a little bit further about that.

But my comments were getting to some -- the structural things that we see we can attack differently in 2017. We've really done a good job focusing on the operational side of it, the plant level. And there's some different things that we're going to take a look at from the SG&A side, forming some different views on ways we can structure the business and look at things to really take some of those costs out of there.

So as we move forward into 2017 is there going to be an immediate impact to what I just said? It's going to take some time. But definitely I think as we move into the tail half of the year we'll see more of an impact from that.

We do have some legal fees that -- our legal is running higher than it has been traditionally. So that will naturally reverse itself over time. I think when you look at Q4 those are the two primary areas.

Jim, is there anything you want to add on that?

Jim Froisland: Yes, I would just way that, as you mentioned, the incentive and the legal were sort of one-time. They should -- incentive's incentive but legal I would see that not being as much as it was in 4.

The other thing is just the whole, the idea -- I call them profit leaks. But, I mean, we're all cost managers. So we're taking the culture -- it's to look at all expenses, which we do. That's really everyday business.

But then in the long term I'd say that we're really taking a hard look at our systems. I'm talking about information technology systems, our operating systems. So we've set up an IT steering committee. So we're taking a good hard look at that. And those systems will have a nice ROI or else we wouldn't do it. So that's more of a long-term thing that will be carried out through 2017.

Joe Mondillo: Okay.

Maurice Taylor: And also, I think in reference when you're talking about the SG&A, you have the lawyer fees. They were substantial. And I think both Jim and Paul and their group, a lot of it was driven into making sure that the material weakness was taken care of.

All the other items that we had there was a lot of lawyers involved. And that's a hard thing at the point until you get the bill. And I think, as Jim mentioned, it's a one-time thing and you can't very well fire them when you're half way through the system until you get their bill. But anyhow, looking at it it's something I don't think is going to be repeated, so it's pretty well gone.

The other thing that -- to just give you a flavor, if President Trump puts his tariffs that he says he's going to, if you were to put a 25% to 30% tariff, with the capacity that Titan has in their tire facilities and even in the wheel side, you'd probably look at over 1,000 employees we'd have to go hire because that makes a big differential.

And I think it's going to happen. And when? That's the big magical question. But as time goes, I don't think the US is going to be a dumping ground for manufactured products. I think they'll get that solved by the middle of this year if you want to put a big boost into this economy. And that's just my take on it. And there's a lot of other manufacturers the same way. So wait and see.

Joe Mondillo: All right. Great. Just lastly, one, could you quantify the legal expenses in the fourth quarter? And then, two, regarding the balance sheet and sort of managing risk, where are you comfortable on a leverage standpoint? And how do you think about being -- we're eight years from seeing a recession. How do you think about sort of balancing that risk and maybe not taking the opportunity to selling some of these assets and just giving some more breathing room in the near term?

Paul Reitz: I mean, as far as breathing room in the near term, I think we've maintained the same cash balance now for three years. If you look at our cash balance, it says $150 million roughly in cash, but we moved $50 million into investments. So we're right around that same $200 million level that we've been at for the past 3 years. So I don't think we're facing any near-term issues.

We had the converts, as Jim mentioned, that converted in January. We've been through the list of assets that we have that certainly could be monetized. Again, ITM is an attractive asset. We have the Brownsville asset. We have TTRC. So I don't think there's any short-term issues.

As far as the leverage ratio, we're comfortable at I think at this point when you look at the ability we have to monetize those assets, you look at our balance sheet, you look at our cash position, you look at where we are in a multiyear downturn, I don't think we have a specific leverage target we're looking at. I mean, our business has been cyclical and fluctuating quite significantly over the past few years. But I think you can look at the fact that we've managed it very well through that downturn. And I think at this point you look at things moving upwards versus moving -- the risk of it moving downwards.

So if anything, we may have to deploy a little bit of capital into working capital to get our inventory levels in place to adjust to the increased level of sales. But that's about the only near-term thing I would put on the radar map.

Maurice Taylor: Well, to follow-up on that, that $50 million is a CD. So you're basically, as Paul said, $200 million. And if you turned around and decided to exit the track business and the other two assets, you add that to your cash, you wipe out your bond debt and you've still got $50 million in cash. So liquidity is a fake boogeyman running around, in my opinion.

Joe Mondillo: All right, great. Thanks for taking my questions.

Operator: Joe Gomes; William Smith.

Joe Gomes: Just wondering, maybe you could provide a little more detail on the LSW. We've talked a lot about that and what it could mean to the Company. I was just wondering, for 2016 where did we end up? What kind of level of sales or percentage of the overall revenue was the LSW? And what kind of growth do you think you could see here year over year in 2017?

Paul Reitz: Well, we haven't put those specific numbers out there into the market. But I will say our gross margin dollars for 2016 were up over 75%. Our sales continued to grow double digits. In our internal forecasts we certainly believe those trends will continue. It's not a material level that we disclose that in any of our releases or financials. And at this point I don't want to disclose it, because it's something the competition doesn't need to know.

I think we have enough proof in 2017 from these shows that I mentioned previously. What has really changed, Joe, is that when we go to the shows or any type of event, the groundswell of people that come up to us and they already know about LSW. They've heard about its benefits and they want us to educate them further on it, versus trying to go out to people and pull them in and say, "Hey, we want to tell you about this product we have." There's been a significant shift in -- so far this year and the last year that definitely we believe translates into sales.

And I think we're continuing to get the LSW growth that we believe is meeting our expectations. And obviously as the markets get better and with our end users that's only going to help. So I feel really good about where we're at as far as the message that's out there.

And as there's an improvement in the market it's something that we're seeing a lot of people look to as not just a benefit, but it's a competitive advantage. I mean, clearly commodity prices haven't rebounded to a level where there's a lot of excess cash flowing around. They've managed their input costs well and their balance sheets. But if they can get a competitive advantage over others, then we're seeing the farmers realize that this is a way they can do that.

And we're going to keep pushing it. We've invested in it. We are going to continue to invest in it. We feel like we've got the right sales team, the marketing team, our product development. It's just got to continue to push new products out there. And we certainly are seeing the benefits of that.

So I don't think at this point we're going to disclose anything further that gets into the financial side of it. But I think -- I highly recommend you that you attend a show and stop by the Titan booth and you can see firsthand yourself what's going on and take a few pictures back with you.

Maurice Taylor: To follow up on that, we -- last November Paul and I went and visited a farmer who happened to be an equipment dealer, which we can't put a press release out. Since then in Iowa we're going to have a big situation this spring of a planting where the number of acres that are going to be planted in corn, the number of acres that are going to be planted in soybeans, is large enough so that when they harvest and that out there they're going to find that they're going to get at least 5 bushel per acre more of corn and probably at least 7 bushel more of soybeans that they wouldn't get without the LSW tires.

We're also going to do that in Illinois. So they'll be -- up in Canada it's different crops. But we're scheduling to do the same situation up there. And once that takes place, you're at a situation now whether a farmer is running duals, it makes no difference whether they're our brand or somebody else's brands, he's going to want to go to super singles. Hell, just the added crop he gets will pay for it.

It's not going to be a situation where you've got to run. It's just that now it's all gone and they want to see it. And once they see it, we're off to the races big time.

Joe Gomes: Okay, great. Thanks. Appreciate it.

Operator: Aaron Steele; Feltl and Co.

Aaron Steele: Just wondering if you could provide some comments on the aftermarket versus OE markets in North America, how that's setting up for 2017, and then given that the OE demand has kind of cleaned up the inventory there?

Paul Reitz: Yes, I mean, definitely the aftermarket business in North America is off to a really good start in 2017. Part of it is just the natural tendencies in the market. As we had seen fewer OEM equipment reach the market you're seeing the replacement obviously starting to take foothold from there. But for us I think personally we've done some good moves also that have helped boost our aftermarket in North America beyond what the natural market tendencies would be.

But overall definitely the aftermarket is starting to bounce back. The OEM, Morry's talked about it, not just in this call but in prior calls that we felt like it was bouncing around the bottom and starting to push its way off it from there.

Yes, I think there's parts of the OEM market over the last couple of years that have been good. When you look at the small, midsized equipment it's been the large horsepower that has definitely fallen off most significantly over the last few years. And so I think you see some inventory trends when you talk to dealers, when you see the dealers' inventory levels that are starting to move in a positive direction.

So to bifurcate it as you asked, I would say the aftermarket is already off and running and the OEMs are starting to look better and more favorable than they have been, that's for sure.

Aaron Steele: All right, thanks. And then wonder if you could comment on the order book year over year on the ag side. And then how you view the earthmoving, construction business going forward in 2017. I know you saw the decline in the fourth quarter, so we're just wondering if that trend might continue.

Paul Reitz: Well, the order book is off to a good start. We're up over the 2016 levels. Again, there's some strategic moves that we've done to help propel that. Our plants are running at a pretty healthy level. Clearly we're pushing more production out this year than we have been in the last year. So order books are good and looking to continue to get better. That's on the farm side.

On earthmoving, as you asked, earthmoving we have some products that we're behind on and then we have some products that, again, kind of looking at our plant capacity levels we need to push more product out the door. So I think that the opportunities exist in both sides of the business, whether you're talking OTR or farm.

And on the OTR side we're a little bit more constrained on output than farm. And so that's something we're trying to correct here as we move into 2017. As I mentioned earlier on the call, I think on the OTR wheel side is where we've got some opportunities.

We're currently going through the process of consolidating our Saltville facility. So that will take us a little bit of time to move around some things there. But at the same time it creates a lot of opportunities for us. And so we're not just simply moving things around and leaving it as status quo. We certainly believe there's a lot of opportunities that we can exploit on the OTR wheel side.

And with that, when you start selling more wheels you also start selling more tires. And so we look forward to what that can do for the rest of 2017 on the OTR side of our business. And that's in North America, but that also starts to transcend itself around the world as well as we make those improvements here in North America.

We got hit a little bit in Europe, to answer your question on earthmoving. Little bit of change in Europe is where we saw some of that softness and weakness. But our European business unit leader was out at the show last week and there's some opportunities that look like they're coming back into play for 2017. But the numbers you were referencing primarily were driven by Europe.

Aaron Steele: Okay. Good to know. And then just wondering, maybe one more here, how the setup in Russia has progressed in the quarter. You were kind of looking at shipping the Goodyear tires I think in this quarter and maybe that's pushed out a little bit. Do you have any update on the timing, that we might start to see that? And then kind of update us on the LSW tires in that plant as well.

Paul Reitz: Well, I mean, the equipment is there. We're working on getting it installed. I would say -- I believe in some of our other comments we talked about that being a second half of this year event versus first half of this year. I don't think we've fallen off from our original timetables.

The equipment is there. It's getting set up. You've got to go through your trials and get things going. But we've taken the Goodyear molds that we had purchased and we're getting those positioned in the right locations. And I think we'll have that business, whether it's in Russia or other locations, we'll have that going in the second half of this year.

So it's coming along. There really hasn't been -- again, I didn't expect anything to be shipping the first quarter this year. So I don't think we're missing any internal timetables that we'd established.

Aaron Steele: Sounds good. Thanks.

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

Maurice Taylor: Just have a great day, everybody. It's finally starting to percolate. So thank you. Have a great one. Bye-bye.

Operator: The conference has not concluded. Thank you for attending today's presentation. You may now disconnect your lines.