Titan International, Inc.
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Operator: Ladies and gentlemen, welcome to the Titan International, Inc., first quarter 2017 earnings conference call. During this session, all lines will be muted until the question-and-answer portion of the call. (Operator Instructions)

As a reminder, certain statements made in the course of the conference call are considered forward-looking statements for the purposes of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995, and reflect the Company's or Management's intentions, hopes, beliefs, expectations or predictions for the future.

The Company's actual results may differ materially from the intentions, hopes, beliefs, expectations and predictions contemplated in these forward-looking statements as a result of various factors, including those discussed in the Company's latest Form 10-K and Form 10-Q filed with the Securities and Exchange Commission.

In addition, today's remarks may refer to non-GAAP financial measures, which are intended to supplement but not be a substitute for the most directly comparable GAAP measures. The earnings release, which accompanies today's call, contains financial and other quantitative information to be discussed today, as well as the reconciliation of the non-GAAP measures to the most comparable GAAP measures, and is available within the Investor Relations section of our website. Please note this call is being recorded.

At this time, I would like to introduce Titan President and CEO, Paul Reitz.

Paul Reitz: Good morning, everybody, and thanks for joining us. I'm going to start off with a few highlights of our business this quarter, then I'll turn it over to Jim for a financial review, and of course, we'll then get into your questions.

Cyclical market downturns are never easy, and when you find yourself in the middle of one, it can seem like the clock is stuck in place. The duration and severity of this current downturn make it one of the most challenging we've experienced in the history of our Company. Therefore, it makes it really sweet for us to be able to announce this morning that after 18 consecutive quarters of year-over-year decreases in sales, that our sales increased 11% this quarter to start 2017.

Along with that 11% gain in sales, we recorded a 40% increase in our gross margin and over 20% increase in EBITDA. So we'll let Jim talk further about that, but, again, it's a really nice start for us in 2017 and nice to break that streak.

I believe that sports and business have a lot of similarities. As they say in sports, sports are not life, but life is definitely a sport. We've been -- all been on teams or our kids have been on teams where you can just tell the team is missing that something that will bring wins. I said before that the Titan team has believed in what we're doing throughout this prolonged downturn, and we've consistently demonstrated that winning mindset that would get us through it.

We implemented the One Titan initiative early on in the downturn to align our team and collectively make good decisions on a consistent basis that ultimately would lead us through this multi-year down period. Like a good team that learns from its losses, we've learned a lot from the past few years, and certainly we feel we're better now for it. So, yes, it's really good to see our efforts pay off and resulting cash during the sales and gross margin gains that we had this quarter.

Clearly, the markets aren't providing the tailwinds that we're just coasting on to record these gains, so how did we accomplish this? First, in North America, we're all aware that the OEM market still remains in a tough spot. In mid-2016, we made some good strategic moves with our business that enabled us to capture more of the aftermarket. As a result, our Q1 2017 aftermarket gains in North America offset the OEM decreases, resulting in a net overall gain for our North American tire business.

Next, over the past couple years, we've been positioning our undercarriage business to capture additional aftermarket business. We've built a good foundation that really builds upon the strong OEM quality brand we have with our ITM products. And then on top of that, we've made investments to improve our distribution channel, and that's really positioned us for some of the solid gains that we're now seeing.

We believe there's more opportunity ahead of us in both those areas. So on top of those specific gains, we've continued to see broader gains, that we've seen before in 2016, continue. Latin America continues on a very good trend. As we mentioned in the last call, we finished 2016 as the number one tire -- ag tire brand in Latin America. It's a really nice, positive improvement from where we were in 2011 when we acquired that business.

And the CIS region for us continues to post good revenue gains. And so we're seeing these increases, broadly speaking, across the board, and that notched us an 11% gain in sales this quarter.

Another item that I want to mention has played a foundational role in our gains is our business improvement framework that we implemented a couple years ago. The BIF initiative continually pushes our teams to put forth ideas and take action to improve their respective business units. Over the past few years, BIF has provided tens of millions of dollars of savings and has really enabled us to keep aligned with the cyclical changes going on in the marketplace. And in this quarter alone, the BIF initiative provided a significant benefit yet again, to the tune of $7 million.

I don't try to spend too much time focusing on what-if scenarios. I prefer to stick with what actually happened, but our first quarter had some what-if moments that I definitely believe deserve further explanation.

First, raw materials have been fluctuating significantly over the past six months. We've seen recently both natural and synthetic rubber increase more than 40%. In North America, we have contracts with our OEMs that reprice typically twice a year based on changes in the raw material costs. Along with that, we follow a disciplined approach to our raw material supply chain that balances forward purchases of varying lengths that are tied to demand, along with some spot buys.

The bottom line is that we take a hit when raw materials go up as fast as they recently have. In Q1, the impact in North America was an increase in raw material costs that we had to absorb, of approximately $9 million.

The good news is that raw materials are starting to stabilize at lower levels, and generally speaking, we always -- I can't use the words generally and always, but I'm going to do it in that sentence. Generally speaking, we always end of recouping our raw material costs in a reasonable period of time. Again, the OEM contracts reprice twice a year. With the aftermarket, as it's been announced -- widespreadly announced in our industry, there have been price increases that took place on April 1.

So the second what-if that hurt us this quarter is -- and you'll see it in the SG&A line, is the additional legal and professional costs we incurred in Q1 for reasons that we are not expected to see as recurring. That impact to our bottom line this quarter was significant and was the primary reason our SG&A was up over $6 million. We stated last quarter that SG&A is going to be a primary area of focus, as we need to reduce not just our variable SG&A, but also launch a plan to attack some of our fixed SG&A.

Again, this $6 million increase in SG&A this quarter was not because we forgot that previous comment and simply lost our minds, but, rather, driven primarily by non-recurring legal and professional fees.

With all that being said, a gross margin increase of $11 million this quarter is still a good result, but if we could remove the impact of raw materials and legal costs, our quarter clearly would have been much better. Jim will touch later on the SG&A comments and the financials later in his comments.

I also want to bring everybody up to speed on some recent positive news from the DOC. In April, the Department of Commerce completed an administrative review for 2014 to 2015 on OCR tires from China. This was against 46 companies. They have now levied stiff new antidumping and countervailing duties. The identified levels of subsidization that had really increased dramatically since the last analysis was done by the DOC, the antidumping duties are 33% for 10 of the Chinese tire producers and 105% for all others, with countervailing duties that ranged from 34% to 46%.

Because of that increase, US importers of these tires will now be receiving a bill for additional duties owed plus interest from the date of entry. So we're pleased to see the DOC take this no-nonsense approach towards this situation, not only for Titan, but other companies we compete against. The global marketplace is clearly a tough, competitive world, and there's just no room for unfair practices that take away from creating jobs here in the US.

The last area I want to comment on this morning is that I'm pleased to announce that we've reached a tentative five-year agreement with the United Steelworkers union, representing our tire plants in Des Moines, Iowa, Bryan, Ohio, and Freeport, Illinois. The three agreements are scheduled to be voted upon for ratification in the next few weeks.

We've probably worked closely with the USW the past couple years on the cases that I've mentioned before with China, also with the International Trade Commission case that we did earlier this year with India and Sri Lanka. For more than 20 years, we've viewed the USW and its members as really an integral part of our Titan team. We truly appreciate their hard work on a daily basis in building quality products in our three North America tire plants.

I've got one more, quick item I want to mention before I wrap up. I want everyone to know that we have $50 million of cash sitting in a CD on the balance sheet and cash flow statement. I know Jim will highlight this as well, but I had to throw that in as a reminder to you all that we didn't just simply make $50 million disappear since last year.

So this quarter is a good start to our year. It really demonstrates the success of our balanced approach we've had over the past few years of investing in crucial areas such as sales and marketing and product development, combining that with substantial cost reductions accomplished through our BIF framework, and that's all while operating under the guiding principles of our One Titan umbrella.

Our balanced plan has led us through the downturn. It's gotten us to the growth we've seen this quarter. In today's competitive world, it's critical we remain diligent with our focus on this balanced approach, but we definitely feel that there is plenty of runway ahead of us to keep improving from where we are today.

So with that, I'm going to turn it over to Jim for the financial review.

Jim Froisland: Okay. Thanks, Paul. I'll begin with a reminder that the results we are about to review were presented in a news release issued this morning, and they're discussed in more detail in our Form 10-Q, which was also filed this morning.

Let's start with the income statement. Net sales for the first quarter of 2017 came in at just over $357 million. This was up more than 11%, or almost $36 million, from a year ago. As Paul mentioned, this is the first year-over-year increase we've seen in 18 quarters, adjusted for acquisitions. Also, sequential net sales grew over 16% from fourth quarter fiscal year 2016.

Here's what this meant in terms of segments. All segments' net sales were higher when compared to the same quarter last year. These increases in net sales were largely driven by higher volumes in agriculture and the consumer segments, as well as overall favorable price, mix and currency. Agricultural saw the biggest improvement in net sales of almost $28 million, or 18%.

Moving on to gross profit and margin, gross profit in the first quarter was $39.7 million, up $11.4 million over the prior year. That's a 40% increase. Our overall gross margin performance was up 230 basis points from the same quarter of the prior year, to 11.1%. As Paul mentioned, this is a testament to the diligence of our entire team, the business framework, which continually focuses on cost reductions and efficiencies. This was despite the sharp global price increase of over 40% we saw in rubber and other materials that Paul mentioned.

Now, for a closer look at our segments, our agriculture net sales for the first quarter were $180.5 million, up $27.7 million, or more than 18% over prior-year comparable. The North American region grew as sales growth in aftermarket tires outplaced OEM declines. As Paul stated, the bright spot for this segment was, once again, in Latin America, where net sales continued to rebound in the first quarter over the prior-year first quarter with a 102% increase. We believe our market share in this region continues to increase, and we're seeing this in the results from this region.

In addition to triple-digit increases in agricultural net sales, we realized in Latin America we saw double-digit increases again this quarter in Russia, at 39%, and Australia, at 47%. Our agricultural segment gross margin improved 147 basis points in the first quarter to 12% of net sales, with most geographical regions showing improvements over the same period a year ago. North America grew 93 basis points in spite of significant headwinds that we mentioned concerning raw material cost increases. Once again, this demonstrates the actions taken in the Business Improvement Framework are paying dividends as we experience these favorable financial impacts.

Moving on to earthmoving and construction segment, this segment's net sales for the first quarter of 2017 were $135.6 million, an increase of $3.9 million, or %, versus a year ago. Similar to the previous sequential quarter, North America showed ongoing softness as we continue to see improvement in other regions. We mentioned this growth the last two quarters, and it's nice to see that the investments we've made have continued to pay dividends each quarter.

Similar to my comments about the agriculture segment, we experienced a 217-basis-point improvement in gross margin within earthmoving and construction, with most regions showing gains in the first quarter as compared to the prior-year period.

Now, moving on to the consumer segment, this segment's first quarter net sales were $41.4 million, which was an improvement of $4.1 million, or 11%, when compared to the prior year. The primary net sale increase occurred in North America and Australia. Again, we were able to improve margins -- gross margins by 565 basis points on increased net sales.

Turning to operating expenses, selling, general and administrative and R&D expenses for the first quarter of 2017 were $44.2 million, up $6.6 million when compared to the prior-year period. The increase was primarily due to non-recurring legal and professional fees as well as antidumping and countervailing duty litigation, which did have, as Paul mentioned, positive outcomes for Titan during the quarter.

Finishing up on the first quarter operating statement, loss from operations for the first quarter of 2017 was $7.1 million, compared to a loss of $11.5 million for the comparable prior-year period, an improvement of 39%. Royalty expense of $2.6 million was up $0.3 million, or 14%, when compared to the prior year, and this was due to higher sales. Interest expense of $7.7 million was down $0.8 million, or 9%. Foreign exchange gain was $4.5 million, was down $0.3 million, or 7%. Other income of $3.1 million was down 19%.

This resulted in a loss before taxes of $7.1 million for the first quarter of 2017, versus an $11.3 million loss in the prior-year period, an improvement of 37%. Tax expense of $3.4 million versus $1.0 million in the prior-year period, with effective tax rates of 48% and 9%, respectively, was due to losses in the US and certain foreign jurisdictions where the tax benefit could not be recorded due to a valuation allowance and to non-deductible expenses and income adjustments. The actual cash tax payments for the first quarter were $0.6 million. All this led to a net loss of $10.6 million for the quarter, equal to $0.18 lost per basic and diluted share, versus last year's net loss of $12.3 million, equal to $0.33 lost per basic and diluted share.

For the first quarter 2017, earnings before interest, taxes, depreciation and amortization, EBITDA, was $15 million, versus $12.4 million a year ago. This is an improvement of 21%. We use EBITDA as a measure to measure the Company's performance. We have a full reconciliation of EBITDA, a non-GAAP measure, to net income in our press release issued earlier today.

Now, I'd like to move on to financial condition and highlight a few key balance sheet, liquidity and capital items. Our cash balance and short-term certificate of deposits balance came to $181 million as of March 31. This was $17 million below the December

31, 2016, balance, a $10 million below the balance for March of last year. This decrease was primarily attributable to increased working capital, which was needed to support the higher sales realized during the quarter.

We ended the quarter with inventory and accounts receivable balances at higher levels when compared to the prior year. However, our day sales and inventory was 88 days at both March 31, 2017, and March 31, 2016. Account receivable days outstanding, DSO, was 59 days at the quarter, compared to 61 days at the end of the first quarter of the prior year. Days payable outstanding increased 11 days from the prior-year period, to 56 days.

What does this all mean? Well, there was an improvement of 13 days in our cash conversion cycle, from 104 to 91 days. So you can see we continue to be diligent in managing our working capital, our liquidity and cash flow, and this remains a key focus for Management.

Now, for a comment concerning our debt. Our combined current and long-term debt totaled $456 million, which represents a decrease of $50 million during the quarter. This reflects the previously announced conversions of our convertible debt in January, which also served to reduce interest costs during the quarter.

Capital expenditures for the quarter were $8.4 million, versus $7.1 million for the first quarter of 2016. Capital expenditures for the remainder of 2017 are forecasted to be in the $25 million to $30 million range, excluding investments in our new Brazilian wheel plant. Cash payments for interest are currently forecasted to be approximately $31 million for the remainder of 2017 based upon March 31, 2017, debt balances. We believe we have sufficient funds for our operational working capital needs for the future -- foreseeable future.

So to summarize, I would like to say there are several positive takeaways concerning the financial results of the first quarter of 2017. During the quarter, we have demonstrated a meaningful increase in net sales, gross profit dollars and margin, EPS and EBITDA. As our end markets continue to stabilize and improve, we will remain strongly focused and committed to managing those areas we all control.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions) Joe Mondillo, Sidoti & Company.

Joe Mondillo: I want to focus on the gross margin at your two main segments, so I was wondering if you could take us through the puts and takes for the ag segment and construction for gross margin. Obviously, better than I expected, so if you could take us through sort of volume mix, material. And then looking at second quarter and beyond, with rubber prices actually -- have turned down since peaking in the first quarter and the price increases that you implemented on April 1, is it fair to expect gross margin expansions year-over-year to be even better than what we saw in the first quarter?

Paul Reitz: Go ahead, Jim. Why don't you jump in with some of the comments about the margins.

Jim Froisland: Sure. First off, in terms of the segments, as I said, we were up the $35.7 million in sales, and that was in all segments. But again, I mentioned agriculture was driven by volume as well as price mix and currency. Earth construction, it was primarily price and mix, with a little volume down, a negative decline and a positive currency. And then consumer, that was driven by volume and currency. So that's the drivers for the top line.

In terms of the raw materials, I guess, clearly, the rubber prices were up over 40%, and then we saw some increase in the steel, and as Paul mentioned, the price increase went into effect in the first part of April.

Paul Reitz: Yes, so I think, Joe, your question about margins improving later in the year, the answer to that is yes. And I made a comment earlier, I said generally speak, always, which sounds kind of ridiculous using those two words in the same sentence, and the reason why I did is because history has shown that we always end up recouping the raw material costs. I used the phrase generally speaking, because you never know if your competition is going to do something irrational and stupid.

I think with the raw material increases that we've seen being as significant as they were over the last six months -- now, it is stabilizing, but we've seen competition, generally speaking, act very rational thus far with the increases they put in place in April. With our OEM customers, we do have contracts, in many cases that will see repricing in July, at the start of the third quarter.

So to answer your question, yes, we would expect gross margins, absent the raw material fluctuations that we saw the past six months, improve as the year progresses.

Joe Mondillo: Okay, great. And then continuing with that, one variable that's tough for us to sort of get a handle on is mix, and I do know some of your products do have higher margins and some have lower margins. So it sounded like -- I think you did highlight that mix was sort of favorable in the first quarter. How do you think about that going forward? Is that mix sort of sustainable, or were there certain, I don't know, large mining tires or even on the ag side -- certain products that you may not tend to see as strong going forward, in the near-term at least, or how do you think about mix going forward?

Paul Reitz: No, that's a good question, and the two areas that I would highlight on mix that we've seen improvements didn't just happen overnight, and that would be, first, with our ITM business, our undercarriage business. We've made a strategic effort to change our mix from where it's historically been 75% OEM, to get it more around the levels of 60%, 65% OEM-based.

And so we made that strategic move a while back to make investments, to improve our distribution channels with the aftermarket, which, as Jim highlighted, does involve holding more inventory that you see in our working capital. But we've been working on that initiative for a substantial period of time, getting the foundation in place, and we're starting to see that take hold.

As the OEM market for our segments remains challenged, the aftermarket does present some opportunities, and so we've benefited in our undercarriage business, along with our North America tire business has seen a mix shift where -- as we've stated publicly before, we're typically, in recent years, been about 60% OEM. We're seeing that shift to be about 50-50 between OEM and aftermarket, and, again, that was driven by some strategic decisions we made the mid-part of last year to really change our positioning within the market to go capture more of the aftermarket.

So to answer your question, I do believe it's sustainable, again, not just because the market has shifted that way, but because of the strategic moves that we've put in place going back -- in some cases, going back two years ago.

Jim Froisland: The other thing, Paul, is, mentioning the LSW, we continue to see double-digit increases in that, which is a nice thing to see in terms of our margins and mix, et cetera, also.

Paul Reitz: Yes. No, that's a good point, a real good point on LSW, which I -- this is probably our first call in a long time that we didn't mention LSW in any of our comments, which I'm glad, Jim, you put that out there. That continues on a very positive trend, both top-line, bottom-line, and it's helping us in many aspects of our business, not just with the direct sales of LSW, but with what it does to our overall brand and the residual sales you get from the strengthening in your brand.

Joe Mondillo: Okay. Perfect. Thanks. And then I wanted to ask you on SG&A. So in terms of these legal and professional fees that you sort of cite as one-time, number one, is any of that going to sort of somewhat bleed into the second quarter? I realize it's going to sort of go away, or your expectations are it's going to go away, at least by, I guess, maybe the second half of the year.

And number two, aside from those legal and professional fees, I know one of your goals -- and I don't know how far you are in terms of the planning -- is to reduce SG&A sort of maybe across the board, or take a hard look at SG&A, the core SG&A, and start trying to take that down as much as possible. Where are you with that? And if you can quantify anything, that would be great, but just, overall, on SG&A.

Jim Froisland: This is Jim. Sure. First, your first question, is there going to be carryover in the second quarter? No, these were truly non-reoccurring. It related to, I guess, carryover -- we had to go through the material weakness, which we've talked about, which was a huge effort. Glad to have that one behind us, but there were audit costs as we -- well, it was a month ago that we finished our year-end. So we had professional fees -- extra professional fees, so we're going to -- that's not going to happen again, number one.

Number two, we had the ITM transaction, and there was some carryover on that. That will not going into the second quarter. So to answer your question, no, we don't see -- they were truly one-time events.

Your second part of the question is -- I'm very pleased that the material weakness is behind us, and I'm excited about -- it's given me time, and our team, to help push the business forward profitably. And this whole Business Improvement Framework -- I'm not going to get into a lot of details, but that's been in the Company prior to me coming. It's very successful, as Paul mentioned. And quite frankly, it's taking a look at your processes, building a solid foundation so that you can build a house upon that foundation.

I was a carpenter when I was going through college, and you've got to have a solid foundation, the same thing as for back-office, and we certainly have built -- the one thing good about a material weakness, you've got to get down in the weeds and look at the foundation and start building processes, so I've had a good review of all the processes. That's first base.

Second base is, okay, all roads lead to people and systems, so that's what I'm focusing on now. Our systems are -- I'll just say this -- old, and the nice thing about that is we can leapfrog -- and I've done this before in many companies. You can leapfrog forward into -- I guess it's 2017 we're talking about here, so I'm excited about that. And early indications, these are big numbers.

We have -- I call it profit leaks, but a committee -- one of the four committees that we kicked off and announced last quarter is the profit leaks committee, and it's dear to my heart. And the lists are coming in, and it's nice, because we meet on a regular basis and we share ideas and best practices, not only external, but internal, and it's nice to see people say, oh, you did that? And they say, yeah, and they say, well, geez, maybe I should take a look at it. So we're really starting to see fruits for that, and you're going to see that come out in the next three quarters. Some of it hits right away, but other times, it takes investment of people and time.

Paul Reitz: Hey, Joe, we've nicknamed Jim 'The Viking', and so if he shows up on your shore carrying a club, then you know his presence has been felt where he pulls up.

Jim Froisland: Just to give you a little detail, my cousin investigated the family tree, and I don't know if people out there watch the History Channel on the Vikings, but I'm related to Ragnar Lothbrok, which is interesting.

Joe Mondillo: All right. Well, I'll certainly keep an eye on my back, then, just in case. Last question, then I'll hop back in queue. I'm just wondering if you can give an update on the North American OEM part of the business. You said that was still sort of dragging and the aftermarket actually offset that, but are the declines showing year-over-year, or can you see what point in time? Is it end of the year, fourth quarter, or when do you see OEM in North America returning to growth?

Paul Reitz: That's a great question that I would say -- I would answer it this way -- I wish I knew exactly when it was going to get better. Just like anything in life, if you could forecast it, then I wouldn't be sitting here on this call today. But I would characterize it this way -- what we see is not much change, and that's both good and bad. It's good because, to answer part of your question, we don't see things getting worse.

We see some aspects of the market are positive, where inventory is correcting, dealer channels are starting to improve, used prices are getting stronger. But then on the flip side, you still see there's a lot of grain in storage, there's some equipment, especially on the large horsepower, that's not moving very well through the used channels, and it's causing some heartburn with dealers.

So I would just say at this quarter, at this point in time, not much has changed, and so we -- like we said earlier, we reemphasize our business in other ways. I don't think the OEM market is going to get -- I don't see there's a big risk for significant downturn in the OEM market. All the facets of the business are not pointed in that direction.

But as far as seeing some leading indicators to say when it's going to get better, I don't think we're seeing those signs yet either, but it's not a question of if, it's a question of when. It will get better. I think that's specifically for North America, to answer your question, but you do see other parts of the world where the OEM market is doing much better. Obviously, in Latin America it is, some of the European pieces are looking a little bit better, but specifically in North America, I think it's basically much of the same as what we've seen before.

Joe Mondillo: Okay. Are we at single-digit declines on North America OEM, or where are we at?

Paul Reitz: We're right around that ballpark, yes.

Joe Mondillo: Okay. All right. Thanks a lot. Appreciate it.

Paul Reitz: Thank you, Joe.

Operator: Larry DeMaria, William Blair.

Larry DeMaria: A few questions. First, as it relates to SG&A costs, which you guys discussed, but could you just give us -- what should be the run rate going forward, the normal run rate? Is it in that $35 million range, or where should we think about that going forward?

Jim Froisland: Well, I think if you back out the non-recurring that I talked about, I think, yes, $35 million is probably a good number, but it depends upon, again, the profit leaks and what -- we see good progress in that, and so, yes, I'd say that that's probably a good ballpark figure, but we're always looking for continuous improvement as it is done on the cost of sales line.

Larry DeMaria: Okay. Thank you. Secondly, on the North American OE, which, I guess -- hopefully, it doesn't get worse from here. Can you just tell us what were like maybe year-over-year orders from North American OE -- up, down, flat -- just so we can kind of gauge that?

Paul Reitz: It's, I would say, down a little bit, kind of similar to what we said before, Larry. We've offset the modest declines in the OEM business with the aftermarket. So I would say the order trends at this point are pointing downwards with the OEM piece of our business, but it's still spotty. There are some parts of the OEM business that are looking better. There are other parts that they're still working through some inventory corrections, inventory issues. But, yes, to answer your question, at this point, it is down a bit.

Larry DeMaria: Thank you. As far as divestitures go, obviously the ITM process is long over now at this point, but I guess there is hope that they still could lead to negotiations based on the folks actually submitting bids, so just any update on any divestitures and prospects of actually moving ITM still at this point?

Paul Reitz: Look, the ITM business is really performing well. As we talked about on the last call, the special committee of the Board along with the full Board -- we made the decision not to sell ITM. The trend lines that were already in place that were positive continue on that path. I think the investments we've made in the business have really positioned ourselves well. I see some further opportunities for us to continue improving on that business.

So as far as divestiture-speak goes, my discussions with the management team of ITM have been let's keep the pedal to the metal and keep this moving forward in a positive direction. So from my perspective, Larry, there's no thoughts on divesting it and certainly believe that there are some really good opportunities ahead for us with that business.

Larry DeMaria: Perfect. Thanks. And then maybe last question. You guys keep talking about the Business Improvement Framework. Can you just remind us exactly kind of the impact? I think you said it was $7 million a quarter, but I'm not sure. But just going forward maybe through this year and then even annualized into next year, how do we think about the actual dollars as they flow through on just from what you guys are doing on BIF?

Paul Reitz: Yes, I mean, with BIF, I think there are two parts to answer that question. One, we've done a really good job under BIF getting our business units to focus on the -- really, the gross margin, focus on what's going on at the plant level. And what that's done is it's allowed us to make the decisions on a timely basis that, as the market goes through its cyclical turns, we've been able to keep up with our cost control and our overall level of expense at the plant level very well through BIF.

And like we said, this quarter, it was $7 million. I think you would see trend lines that would continue on that level, but then as the business starts to improve, you may see that number actually go down a little -- or go down a little bit as we have to start investing again back in bringing people onboard and, as Jim mentioned earlier, increasing inventory.

So I think what we're doing is shifting a little bit away from BIF, like I said, which was plant level specific, and, as Jim mentioned, forming what we're calling a profit leak committee to focus on our operating expenses at the SG&A level specifically. What happened over the last couple years as we're going through the material weakness period, as you're looking to sell off ITM, you've got a number of distractions that, as you've seen and we've all seen, have caused our SG&A costs, our expenses, to creep up to a level that historically doesn't fit the Titan culture.

If you look at this business, I mean, we've been a 7% to 8% SG&A company going back a long time in our history, and I'm excited to have Jim onboard. As he mentioned in his comments, he now has the time with his team and my team to really focus on the operating expense side of this Company, and we lost that focus over the last couple of years. Being in the material weakness was a big hit to us from that perspective.

And so we're kind of shifting that focus away from BIF and getting into the operating expense line, and certainly we'll be talking more about that as we move forward. Our entire organization is going to be focused on how we can reduce SG&A, and some of these one-time events that we've had not continuing in the future will be part of it, but it needs to go deeper than that. We've got to make some structural changes to our SG&A to get it in line with what, historically, Titan has been.

Larry DeMaria: But can you get to 7% or 8% by 2018, or is that too much work to do?

Paul Reitz: Well, it depends how big The Viking's club is. We might have to put some spikes on the end of it, Larry, and have to start swinging a little harder. We'll give more specific projections on that. I think at this point, Larry, let Jim and I continue on the path we are, and definitely when we get into the tail end of the year, we'll be able to really pinpoint what those projections are for 2018.

And part of it is the variable side of SG&A. The other side of it is the fixed side of SG&A, and all SG&A becomes variable at some point, but it doesn't quite work that way in reality. So that's what we've got to spend some time focusing on, is what part of that fixed SG&A can we tackle and get the structure really positioned better for 2018.

Larry DeMaria: Well, could you just let us know, of the percentage, what's fixed and what's variable?

Paul Reitz: I don't think -- I don't have that information at this point. I don't think Jim and I are at that point yet, Larry.

Larry DeMaria: Okay. All right. Thanks, guys. Good luck.

Paul Reitz: Thanks, Larry.

Operator: Stephen Volkmann, Jefferies.

Stephen Volkmann: Maybe just to say on this SG&A thing just for a second, I was sort of feeling like, going forward -- I'm not quite sure how to say this, but historically, I think, Paul, you mentioned sort of the 7% to 8% SG&A, but you may not have had the full complement of systems and checks and balances that you necessarily needed, and obviously you're building those in at this point, but that sort of made me feel like the going forward SG&A rate would probably be a little higher than it had been historically as you sort of grow into your sort of more modern footprint. Is that the right way to think about it, or it sounds like maybe you think there's still opportunity there?

Paul Reitz: There's opportunity. We didn't have a material weakness before the last couple years, so even though we ran lean at 7% to 8%, from both an internal and external perspective, we were getting the job done. Yes, over the last couple years, in remediating material weakness, we wandered down a path that did influence our SG&A negatively. We've built up an infrastructure as a global company, as you've mentioned, that is bigger than what it was before when we were at that 7% or 8%, and I think that's what we've really got to focus on the fixed side.

The footprint we have is probably -- because of our IT systems, is larger than it needs to be, because we don't have the IT bandwidth in place at the centralized level, so we end up doing a lot more additional work at the business unit level. And so I would think that's what I mean by, structurally, that's where our additional costs are coming in. So to stay out of a material weakness, we have to invest more or spend more time, I should say, on resources at the business unit level because we don't have the centralized IT systems that can keep us out of a material weakness.

And so I think that's where -- Jim had mentioned in his comments the focus on IT. That's going to be a big part of our plan going forward, and that's why at this point, it's not something that Jim and I can just rattle off and give to you today, but we need to make some investments there so that we can run more of a centralized approach to our IT systems that structurally allow us to change things at the business unit level. So those are kind of how the pieces fit together.

Jim Froisland: This is Jim. There will be some additional investments or costs as it relates to IT, but I've been in CIO and CFO positions, and as I said earlier, all roads lead to people and technology, and I also said that we can leapfrog, and I've done that before, so I'm excited about that. These profit leaks are really just looking at the cherry tree and saying, well, maybe that one is easy to pick, and some of these are, and some of them are more long-term, definitely the systems.

But we're going to be looking at vendors next week, exactly, so we're moving that along. The project is labeled GLH, and there was a car named after it, GLH. So I'm not going to say what that stands for, but we're moving fast down that path and, as I said, looking at processes and streamlining them. The packages, we're looking at. We're looking at the best practices, and so I'm excited about that.

Stephen Volkmann: Okay, great. Thanks. And then a different topic, but I think, Paul, you mentioned that price mix was positive 3% or 4%. I missed the exact number, but I'm curious, should we -- how we should be thinking about the China tariffs in regard to that. Is that part of what's driving this, or is that just too small a piece of the market to have a major impact, or how do we think about that?

Paul Reitz: Yes, the price mix improvements that we've seen are driven by the mix between OEM and aftermarket. The Chinese tariffs certainly help in the regard that it keeps the marketplace competitively positioned on an even basis. So with the tariffs already being in place like they were with China, the recent announcement basically says, look, the tariffs are going to be in place, but at an even stronger level. So I think what that does is that cements a good level playing field in the marketplace for the OTR tires.

And then as you know, as we mentioned earlier, the India and Sri Lankan case that we got the tariffs put in place, that is at a more modest level, but that helps us on the ag side of the business, where the Indian and Sri Lankan manufacturers focus more over. The Chinese business was more the off-road OTR construction business.

Stephen Volkmann: Okay. So it doesn't sound like we should be baking in continued improvement from this level in terms of that price cost mix.

Paul Reitz: Not from the -- the tariffs certainly help. There's no doubt about it, they help, but the price mix improvements that you're seeing are driven by a mix shift within our own organization between aftermarket and OEM.

Stephen Volkmann: Got it. Okay. And then my final one is just on the rubber price issue. Will there be some residual impact in the second quarter? And then do you sort of come back to break even in the second half? Is that the right way to think of it?

Paul Reitz: Yes, it is, Steve, and that's why we kept talking about the fact that the contracts reprice twice a year. So, yes, what we experienced in Q1 will have some residual that continues through Q2.

Stephen Volkmann: Right. Thanks so much.

Paul Reitz: You bet. Thanks.

Operator: Alex Blanton, Clear Harbor Asset Management.

Alex Blanton: I just want to focus on the two items that you mentioned earlier, the lack of your -- or the lag in the price increase of $9 million, and let's call it $6 million of legal and fees that are non-recurring. If you add those up and assume a 30% tax rate, you broke even in the quarter if you exclude those. Is that correct? It's about $0.18 a share, the two combined?

Paul Reitz: I would agree with your math. Jim?

Jim Froisland: Yes, in simple math, yes, that's about right, all others being constant.

Alex Blanton: So that's a break even versus an estimate of an $0.11 loss, and I think some of that -- would you agree that some of that can be attributed to efficiency improvements that you will be continuing to have an impact on incremental margins going forward?

Paul Reitz: Yes, absolutely.

Jim Froisland: Absolutely.

Alex Blanton: Okay. So those incremental margins, if you adjust for those items -- let's say you adjust the gross profit for the $9 million, which you'll make back eventually by raising price. You would -- before that adjustment, on an actual basis, you had a 32% gross margin, incremental gross margin, 32%. But if you add back the $9 million, it was almost -- it was 57% incremental margin on the gross margin line. Is my math correct on that?

Paul Reitz: It seems right off the top of my head, Alex. I think you're on the --

Alex Blanton: Okay. So that's the kind of thing we can expect going forward, that as sales increase, you'll get -- sales, to get back to the peak, would have to almost double from last year's level, and as those sales go up, you're going to add tremendous amounts of incremental profit, it seems to me. And even on the operating line, if we add back the legal fees to the change there, that's about a $19 million swing, which is, on the operating line, 53% incremental margin. I mean, what -- my basic question is this -- do you expect those kinds of incremental margins then would basically continue as this recovery goes forward?

Paul Reitz: I think, Alex, the incremental margins you outlined, definitely that's the max. We believe that our incremental margins will be strong because of the improvements we've put in place. Our plants, generally speaking across the board, are more efficient. They've made (inaudible) in their cost of quality. But you've got to look at 50% of your costs being tied to raw materials, so using that 57% number that you quoted, that seems a little heavy as a run rate just on the fact that you've got 50% of your raw materials cost baked in there, so I would keep that in mind as you look at the run rate going forward.

Alex Blanton: But if you had been able to increase your prices to recover those costs, that's what it would have been.

Paul Reitz: Exactly, and that's the mix shift that we've been talking about. We repositioned the business to benefit from a mix shift, and pricing remains challenging, not just because of the market conditions, but because of the fluctuations in raw materials. So it's something that we watch across the board extremely close, and certainly we'll get some benefit back in Q2 and more benefit in Q3 as pricing adjusts to the cost structure of raw materials.

Jim Froisland: There are two things I would add to that, Paul. One, it's a cyclical business. Keep that in mind. And number two, there are fixed as well as variable costs. You mentioned material costs, but there's labor and then there's overhead. So in terms of variables, that's variable by definition, and then the fixed should remain fixed, or else it's not fixed.

Alex Blanton: Okay. Finally, could you give us an update on the expansion in Russia to serve the Goodyear farm tire market that you're going to be getting into? What is the timing on that? When can we expect some sales from that, from selling the Goodyear-branded farm tire in Europe?

Paul Reitz: Yes, the expansion in Russia is moving forward. I just spent a long time on the phone yesterday talking to our comrades in Russia and the gentleman from the US that's leading that effort, and we've got equipment in place that is working and going through the test phases now.

We still have some equipment that we need to get set up over there. I'm looking at this being something that by the third quarter, we have it in place, and by the fourth quarter, we'll be putting product there. Clearly, we've got to run the -- we've got to build the product, we've got to go through our own internal tests and make sure we're building to the right specifications, so that's why it's tough to nail down an exact timeframe.

I know what I expect, but I want to allow ourselves some time because of the -- we've come a long ways with the Goodyear brand since 2005, what we've done in North America, what we've done in South America to make it the number one brand on both continents for farm tires. So Alex, I don't want to run out there too fast before we make sure we're building good product that represents Titan and the Goodyear brand well.

The equipment is there. It's being set up. Like I said, we've got a little bit more still coming, but we will have the equipment firmly in place by the third quarter, and then subject to some testing of the products we're building, we'll be releasing them into market. And we have some other ways, too, that we're looking to build some product for the European market that we'll be discussing in the future. We're building some test products at other locations, so it's not just all Russia where the European market needs will be filled from. We'll be able to come into the European market from a couple different perspectives, not just the product build in Russia.

Alex Blanton: Okay. Thank you.

Paul Reitz: You bet. Thanks, Alex.

Operator: Aaron Steele, Feltl and Company.

Aaron Steele: You saw good growth in the agricultural segment for the quarter, but on the volume in the earthmoving construction, I'm just wondering kind of what's driving that lower volume in that segment and then maybe what you see as kind of some trends going for the rest of the year.

Paul Reitz: I think on earthmoving construction, you're seeing the impact of the OEM market there. It's still remaining in a tough spot. You're seeing some of the operators picking up their activity, so parts of the aftermarket, the replacement business for mining, the replacement business for construction improving, but I think what you're seeing there is just the impact of the OEM markets still being in a tough spot.

So to answer your question, if Trump gets his tax bill through and the infrastructure spending bill, maybe North America starts taking off. We all know we need to spend some money on infrastructure over here. But you're starting to see some projects that are in place. I was out West last week, it was, and you see some activity going on. So there's parts of our business, quite frankly, where we're increasing tooling, we're trying to build up some inventory, because we're not meeting all the demand of the market, but it's more region-specific, product-specific than it is across the board.

So to answer your question, I think you're going to need something that kick-starts the OEM market for earthmoving construction, and hopefully that comes through some changes in regulation.

Aaron Steele: Okay. Excellent. And then just maybe an update on the LSW plant in Brazil. Is that still slated to begin production in the third quarter here? And then what are you seeing out of Brazil right now? Obviously, improving in Latin America, but in Brazil specifically, and then any improving trends to call out there?

Paul Reitz: Yes, the wheel plant we're working on in Brazil is still in progress. We've got a team that's focused on that. We're preparing the equipment. Will it be operational by the third quarter? No, it won't. We're still going through some preparation on the equipment and getting it set up. I think we'll be able to outline the timeline a little further later in the year, give everybody an update, but at this point, we've got a team that's -- it's a mix of Brazilian and US representatives, with some of the equipment coming from the US, and then, obviously, the knowledge we have on wheels in the US, so it's a coordinated effort.

We've got a couple guys actually going down to Brazil in a couple weeks, and really will focus on what that timeline is going to look like, but at this point, Aaron, to answer your question specifically, no, it will not be operational for Q3, but that doesn't mean we aren't moving forward with our LSW effort. We do have the same team we put into place in the US with the grid squad that proved to be very successful in introducing LSW into the market.

We're doing the same thing in Brazil right now. We've got a team that is going out to the large farmers out there, which are -- I mean, those aren't farmers. Those are large businesses. The test results we're seeing out of LSW in Brazil have been fantastic, especially considering the equipment they run down there and the way their plantations are set up.

So we are moving forward with LSW. We're making some investments on the tire side to be able to build LSW tires down there. The question then would just be the LSW wheels would have to be imported from the US, which is -- we'll make that work. We're going to make LSW successful in Brazil, just like we have in the US. But the tires would be built specifically down there, and that project -- we're tooling up for that. But as far as planting the seeds with LSW in the marketplace, that is ongoing, and all the updates we get from the farms that have been running LSW have been very positive.

As far as the other part of your question with Brazil overall, I mean, I think that the market there continues to have good trends. The radialization of the market has, obviously, been very good for our business. Some of the emissions requirement changes going on there have been good for our business, and just the health of the overall farm economy, their output continues to go up every year, which is good and bad. It's great for Brazil. It helps the market down there.

Clearly, the grain markets, on a global basis, continue to suffer from being -- from having too much inventory out there, and so I think that's something that -- if you had some weather events that took place over the next few months, kind of disrupted the global supply, I think that would help get things rolling further in the agriculture markets on a global basis. But as far as Brazil specifically, yes, I do think that'll continue on a positive trend line.

Aaron Steele: Great. And then on the LSW side as well, is there still that push to grow that into the earthmoving and construction segment as well? And how are those efforts, I guess, continuing on?

Paul Reitz: No, there is the push. I mean, LSW, what it does for the farm segment, it does as well in the construction side. I mean, it provides stability and performance improvements. We're going through what we did in farm, the early stages of what we did in farm, where you just continue to get product out there and collect the testimonials that you need to really push it out into the marketplace.

So it's a different timeline than what we've done with farm, meaning we didn't start it at the same time we did farm, and farm is clearly well beyond the testimonial phase. In fact, we're pulling back on the testimonials and the testing and going into just focusing on selling it and marketing it. And with the construction side of our business, we're still in that testimonial, testing phase.

Aaron Steele: Okay. And then CapEx for the year, is it still in that $25 million to $30 million range? And then what do you -- I guess with the kind of lengthy process of upstarting both Brazil and then the building in Russia too, where do you see kind of that range of costs coming for the year?

Jim Froisland: Well, this is Jim. As I said in my comments, $25 million to $30 million excluding Brazil. Paul just talked about Brazil. It's really in the early stages, so we could be north of the $30 million, but it really depends upon how quickly we can proceed with the plant build out.

Aaron Steele: All right. That's it for me. Thanks.

Paul Reitz: Thanks, Aaron.

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

Paul Reitz: Well, I just want to thank everybody for their attendance and their participation this morning. Have yourself a great day. Thank you.