Titan International, Inc.
Edited Transcript of Q2 2017 Earnings Conference Call and Webcast
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Company Representatives:
Paul Reitz; President & CEO
Jim Froisland; CFO and CIO

Analysts:
Larry DeMaria; William Blair & Company
Joe Mondillo; Sidoti & Company

Presentation

Operator: Ladies and gentlemen, welcome to the Titan International, Inc., second-quarter 2017 earnings conference 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.

Participating from Titan International on today's call will be Mr. Paul Reitz, Titan's President and CEO, and Mr. Jim Froisland, Titan's Chief Financial Officer and Chief Information Officer.

Please note today's call is being recorded.

At this time, I would like to turn the call over to Mr. Paul Reitz.

Paul Reitz: Thank you, Austin, appreciate it. Good morning and thanks for joining us.

I'm going to start off with the highlights from our business this quarter, followed by a financial review from our CFO and CIO, Jim Froisland. And then we'll wrap up by taking your questions.

Let's start right at the top with sales. In the first quarter we reported our first year-over-year increase in sales in 18 quarters. So it's great to report again that our Q2 revenue is up over 10% from last year. As you know, the duration and severity of this latest downturn was challenging. Therefore it feels really good for our team to be pulling ourselves out of it.

When you dive into our $34 million in revenue gains this quarter, it really comes from a good mix across our segments and business units. For example, this quarter we had $26 million in gains from our AG segment as well as our business units were all up in AG, except for Russia, which was only down slightly due to some market conditions and pricing pressure.

That is really something that we're watching the competition closely. They did not respond with price increases. We did do price increases due to the raw material fluctuations. So we did see a decline in our revenue there. As a reminder, we have the number one market share in that region, and so we certainly believe that we can sustain our market-leading position and protecting our margin was the right move in the CIS area.

Our North American AG had a good Q2, as we saw our tire business report a double-digit gain that was led by gains in aftermarkets. The aftermarket wins we've seen through the first half of this year really have been spearheaded by our efforts that we started back in the mid part of 2016 to focus on our customer experience and to really position our products properly in the market. So it's really good to see the fruits of our labor paying off there.

Moving from tires over to wheels in North America, our wheel business posted a strong Q2 after a relatively flattish first quarter. As you know, this business is primarily OEM-driven, so it was really good to see a solid quarter of gains coming from our North American wheel business in both volume and pricing.

ITM, our undercarriage division, they've really continued to report strong sales. They had a gain once again this quarter. We continue to benefit from our aftermarket strategic plan that we put in place really going back almost two years ago. During the second quarter at ITM we also won a major contract to provide 100% of the forestry undercarriage to a major OEM. And we were also named a preferred supplier of D10 and D11 tracks with a major global mining operator.

I do want to note we did miss out on a few million in sales in our European region for undercarriage this quarter. We had a brief labor issue in our Italian undercarriage plants. It was settled fairly quickly. The plants returned to full operation and we are confident that the lost production is only a timing issue. These sales will be made up in the third quarter.

Our North American undercarriage business, it's a tougher market for us so far this year. It continues to be relatively flat. We did make some changes there in 2017. We added a new general manager that came to us with extensive sales experience in the industry. We also responded by opening a new small service center in the heart of the western US mining sector. And really proud to see how that's taken off for us, both with the GM and that service center. We've already seen our sales increase in that service center almost three times what they previously were in that region of the US.

Moving down south to Latin America, our Brazilian tire business continues to have a strong 2017 campaign as we reported another quarter of solid year-over-year double-digit gains. These gains are all driven by AG. Throughout really Latin America we've seen our export business pick up from our manufacturing point in Latin America to other LatAm countries.

Not a surprise, we continued to see construction remain weak in Brazil with the economic conditions there. But really good to see that Titan Brazil, after earning the number one position in Brazilian AG market in 2016, continues to see our team building upon that success, a good start to the first half of 2017.

Let me circle back to Russia a minute here. As I stated earlier, our Q2 sales were down slightly, due to some market conditions. Obviously these days you can't look at the news without seeing something about Russia. Yesterday was no exception to that.

Therefore I really think it's important I spend just a minute talking about our management team at Titan Russia. For the past few years I've been continually impressed with our general manager there. Since the acquisition we've been fortunate to have a stable quality leadership team, really thanks to the efforts of this particular general manager. Our Russian GM has repeatedly proven to have a strong grasp of operations, sales, the overall CIS markets, where we're looking to go in the future and has proven consistently to be a good decision maker in challenging times and, most importantly, has demonstrated the ability to be a good leader of our Titan Russia team.

I bring this up, for one, to compliment our GM but, two, to make sure that everyone realizes that our Titan Russia business is a well-managed operation, despite all the negative political headlines out there. We're making good progress with our investment to upgrade the Russian plant, to make it more efficient and to really primarily improve the capabilities as we build out the Goodyear European brand.

So we look forward to what Titan Russia will be doing for us in the future. And, again, we really do have good leadership and a good management team there for that business.

Now moving away from revenue, our biggest headwind this quarter was yet again the challenges associated with the fluctuations and increases in raw materials costs, especially in our North American business. Last quarter I discussed the unfortunate what-if scenarios that impacted our Q1 performance, with the primary issue being increases in natural and synthetic rubber prices.

As expected, Q2 was very similar to Q1 in regards to these raw material issues. And I want to remind everyone that in North America we have contracts with our OEMs that typically re-price only twice a year. They're based upon the standard market changes in the raw material costs, so it's index-driven.

With our raw material purchases we do follow a disciplined approach to our supply chain. It balances forward purchases of varying lengths tied to the demand, the forecast that we see, along with some spot buys in the marketplace. So therefore it really prevents us from making risky bets in the commodities markets. The bottom-line result is that when we take a hit, when raw materials go up as fast as they have, and what we saw in the tail end of 2016 and 2017.

In Q2 the impact in North America was an increase in raw material cost that we had to absorb of approximately $11 million, which is fairly consistent with the $9 million we experienced in Q1.

Outside North America, raw material costs relative to pricing were up in some areas and down in others. So we're really only talking about our North American tire business when we talk about the negative hit to operating profit from raw materials.

This hit is obviously painful. It's been very difficult the first half of the year to have to experience this, but we believe firmly that it's never a good idea for our shareholders to have Titan taking chances and gambling with raw material purchases. In today's volatile commodity markets, it's just not a prudent move, and that really would introduce a high level of risk into our business.

Our job is to carefully access the markets, understand what's going on with market pricing, understand the moves being made by the competition and then, where possible, respond with agility to take action with appropriate pricing. I think it's been pretty clear over the past few months that in North America the competition has responded with price increases. We have done the same.

So as we move forward, we've consistently been out there, understanding what's going on in the market. We believe we've taken appropriate actions. And in the back half of this year we do expect our raw material costs relative to our pricing to be at more of a reasonable neutral level.

Moving away from raw materials and away from the P&L, I want to follow back on something I talked about in the first quarter. I noted that we had reached a tentative agreement with the USW on our North American tire plants. I do want to state on today's call we subsequently announced in May that we've reached a five-year agreement.

I want to first say that I personally have a ton of respect for our team in our tire plant for what they do day in, day out building quality tires and really enabling Titan to be the market leader that we are in North American AG tires. If you've been to our plants or really been to any manufacturer who converts a raw material into a finished good, you'll walk away feeling the same way I do.

So these five-year agreements we have in place are good, fair agreements that have some wage increases along with the introduction of a new provision that incentivizes our USW members with a profit sharing plan. So, again, really good to see a nice five-year agreement put in place and cements our relationship there with our tire builders in the USW.

We've been discussing for the past few years the seeds that we've been planting with LSW. And when you introduce a revolutionary product into the world of AG, especially, as you know, dealing with farmers and how they make purchasing decisions, we knew that these LSW seeds weren't wildflowers, they would just grow like crazy everywhere they were sprinkled. We knew our efforts with LSW and the seeds we planted were -- they were more like a tree and it would take some time for them to grow. But once they did they would form a good, solid long-term foundation for Titan. And 2017, just like last year, our LSW sales continued to grow successfully at a rate well into the double digits.

We also had some really good news this past quarter with LSW in particular. And it's built upon what we did last year. Thanks to the efforts of Mark Stallings from Delta Equipment and a farmer in Central Missouri, we got our LSW tractor setup approved in the New Holland book.

The test that we ran last year was with Mr. Stallings -- I should say not we ran, the test that Mark and agronomists ran was -- ran last year at his farm. And it verified that LSW improves farmers' yields. And so it's really through his efforts that we now get this opportunity to see our tractor set up in the New Holland book. And I believe that this will lead to other opportunities with OEMs.

Please keep in mind that we have other LSW combine setups approved with other major OEMs. But really it's this particular setup that I'm referencing is the first tractor setup that's been put into the OEM product book. So, again, a good accomplishment that just further validates our efforts that we've had with LSW.

In June we had our annual shareholder meeting up in Calgary, Alberta with our Board of Directors meeting that also included the group traveling up to Fort McMurray to tour Titan's mining group operation up there and TTRC. This really gave the Board a chance to see up front our operation up close and also to meet our TTRC partners. I did get a number of comments. They're impressed with what they saw in that operation up there. We do have signed contracts with the major operators in the oil sands and really we're looking to leverage the relationships we have at TTRC, sell additional products that we offer, and continue to grow our business up there in that region.

So let me kind of wrap everything up for this part of the call. We saw again this quarter with our revenue gains the success of our balanced approach over the past few years during the downturn of investing in crucial areas such as sales and marketing and product development while also focusing on the efficiencies in our plants.

We've made some pretty good cost reductions through our BIF framework. And we've done this all while applying the guiding principles of our One Titan umbrella. We definitely know we've got some work ahead of us. But I really think that what you've seen through the first half of the year with the gains we've seen in revenue, we've done a good job of getting us through the downturn and getting us to the point now where we're looking forward to taking the next steps with this company and bringing it to the next level and seeing some of that flow through to the bottom line.

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

Jim Froisland: Thanks, Paul.

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

Let's start with the income statement. Net sales for the second quarter of 2017 came in at just over $364 million. This was up more than 10%, or just over $34 million, from a year ago. This is

the second consecutive year-over-year increase we have seen after 18 quarters of declines adjusted for acquisitions. Sequentially, net sales grew almost $7 million, or over 2%, from first quarter FY17.

In terms of what this looked like in terms of our segments, both agricultural and earthmoving construction segment net sales were higher than compared to the same quarter last year. These increases in net sales were largely driven by 7% higher overall volumes in the agricultural and earthmoving construction segments, as well as overall favorable price, mix and currency. Agriculture saw the biggest improvement in net sales of just over $26 million, or 18%.

Moving on to gross profit and margin, gross profit for the second quarter was $43.6 million versus the $43.7 million from the prior year. Overall gross margin performance for the quarter was impacted by approximately $11 million of increased raw materials that could not be passed on to the customers.

Titan, along with other manufacturers in the industry, recently announced price increases to help offset the sharp uptick that everybody realized in raw material prices during the first half of the year. Despite these circumstances, we increased gross margin 84 basis points for the first quarter.

Now taking a closer look at our segments, our agricultural segment net sales for the second quarter were $172.9 million, up $26.2 million, or almost 18%, over the comparable prior-year period.

The North American region grew 21% over the second quarter 2016 as we continued to benefit from our moves in the aftermarket. Latin America net sales continued to rebound in the second quarter, with a 45% increase over the same period a year ago. We believe our market share in this region continues to be strong, and we are seeing the results in this region.

Our agricultural segment gross margin declined 240 basis points in the second quarter to 13.2% of net sales, with most geographical regions showing reductions over the same period a year ago. North America was down the most, primarily due to the increase, significant increase, in raw materials that we mentioned earlier.

Moving on to earthmoving construction segment, this segment's net sales for the quarter of 2017 were $151 million, and an increase of $9.9 million, or 7%, over the prior year ago. All regions improved over the prior-year quarter and overall volume gained, driven by the increase. The investment decisions we have made in our IT and aftermarket business have also shown positive returns for the past three quarters.

Similar to my comments about our agricultural segment, we experienced 163 basis point reduction in gross margin within earthmoving construction, with North America taking the largest hit, while Europe was flat and other regions experienced gains in the second quarter as compared to the prior-year period. Once again the decline in North America was a result of the previously mentioned increase in raw materials, primarily rubber.

Now to our consumer segment. This segment's second-quarter net sales were $40.5 million, a decrease of $2 million, or 5%, when compared to the prior year. Net sales in North America improved, while other regions were lower during the quarter compared to the prior year. We were able to achieve 16.5% gross margin.

Let's take a look at operating expenses. Selling, general and administrative and R&D expenses for the quarter, second quarter of 2017, came in at $37.1 million. This was down $1.9 million when compared to the prior-year period. The decrease was in line with our focus on what I term "profit leaks" and our plans that we talked about last quarter to reduce our costs.

We are encouraged by our early results. It's picking up speed. We have more work to do, naturally. But we are taking a hard look at both fixed and variable costs. We're turning over every rock and looking at every expense. And we're really encouraged by that. And that will continue throughout the rest of the year and forward.

Finishing up on the second-quarter operating statement, income from operations for the second quarter of 2017 were $4 million compared to income of $2.6 million for the comparable prior-year period, an improvement of 53%.

Royalty expenses of $2.5 million was up $0.4 million, or 20%, due to higher sales when compared to the prior-year period.

Interest expense of $7.3 million was down $0.7 million, or 8%.

Let me talk about foreign exchange loss of $5.3 million, which was worse by $7.4 million when compared to $2.2 million gain in the prior year. I want to point out that this $5.3 million really relates to our intercompany accounts. And primarily most of this $5.3 million therefore is noncash. We're taking a close look at this and looking at our opportunities thereof. So wanted to point that out. Overall, FX loss for the six months ended June 20, 2017, was $0.8 million, so the loss this quarter reversed all the gains we experienced in the first quarter.

Other income of $2.2 million was down 28%. This resulted in a loss before taxes of $6.4 million for the second quarter of 2017 versus a $0.2 million loss in the prior-year period.

Turning to tax expense, it was $0.1 million versus $3.6 million expense in the prior year. This tax expense I'll point out 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 due to nondeductible expenses and income adjustments. The net cash tax payment for the second quarter was $2.6 million compared to $2.2 million in the comparable prior-year period.

Take this all into consideration, this led to a net loss of $6.5 million for the quarter, equal to $0.17 loss per basic and diluted share versus last year's net loss of $3.8 million, which is equal to $0.10 loss per basic and diluted share.

For the quarter of 2017 earnings before interest, taxes, depreciation and amortization, EBITDA, was $15.9 million versus $23.2 million a year ago. This is a decrease of 31%. However, if you

look at EBITDA on an adjusted basis, in other words subtracting out the FX impact, we're at $21.2 million for the current quarter versus $21 million for the second quarter a year ago.

We use EBITDA as a means 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 our financial condition and highlight a few key balance sheet, liquidity and capital items.

Our cash balance and short-term certificate of deposit balance came in at $153 million as of June 30, 2017. This was $45 million below December 31, 2016. Now, this decrease was primarily attributable to our increasing working capital needed to support higher sales in both the first and second quarter of this year.

We ended the quarter with inventory and accounts receivable balances at higher levels when compared to the prior year. However, accounts receivable days sales outstanding was 55 days at both June 30 of 2017 and the prior comparable period; days sales in inventory was 96 days in the second quarter compared to 93 days at the end of the second quarter in the prior year; days payable outstanding increased 6 days from the prior year to 56 days. The key thing here is this resulted in a 3-day improvement in the cash conversion cycle, from 98 to 95 days.

So therefore, you can see that we continue to be diligent in managing our working capital as our net sales increase.

Let's turn to our debt. Our combined current long-term debt totaled $451 million, which represents a decrease of $55 million from December. This reflects the previously announced conversion of our convertible debt in January, which also served to reduce interest expense during the quarter.

Capital expenditures for the six months ended June 30, 2017, were $15.2 million versus $18.1 million for the same period 2016. I'd like to point out that the capital expenditures for the remainder of 2017 we feel will be in the range of $15 million to $20 million.

Cash payments for interest are currently forecast to be around $16 million for the remainder of 2017, based upon June 30, 2017 debt balances.

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

Therefore, in summary I'd like to say there are positives within our results for the second quarter of 2017. During the quarter we increased our net sales by 10%; reduced SG&A expenses by $1.9 million, or 5%; and improved operating income. We experienced triple-digit growth in LSW net sales, while also improving our LSW gross margin. We gained new business with valued global customers in our undercarriage business, with net sales improving with two consecutive quarters.

These results continue to demonstrate early signs of a recovery and provide optimism moving forward.

I will be glad to answer any questions you may have on these or other financial matters. And 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: I just want to understand the raw materials issue a little more. First half a $20 million headwind. We have price increases and OEM contracts in place. And I think it says neutral in the second half. Therefore, are we going to recoup those costs, or all or a portion of those costs? Or are we just trying to get back to where we were overall neutral?

Paul Reitz: Yes. I mean, the first half of the year, Larry, you had the OEM contracts. So take that part of the business aside. The OEM contracts don't give us any flexibility. So on July 1 with most of our OEM relationships we'll see a price adjustment that will reflect the raw material index prices. So at a minimum you're going to be obviously neutral with the OEMs.

What we've been doing throughout the first half of the year is watching what the competition does and also assessing our own situation and really almost going product class by product class, determining where and how much you can change prices.

So we came out with that on April 1st. There's a little bit of a lag because you've got existing orders that don't re-price. And so in the back half of the second quarter but really leading into Q3 you get the benefit of that price increase. And then we're also taking a look at other products where we can adjust pricing. Just this week alone we've seen two of our competitors come out with price increase announcements.

And so it's still very fluid. Our comments that Jim and I made on the call basically reflect that we believe based upon everything that's in place today with existing price increases, along with where we see the forecasts for raw materials at for Q3 and hopefully staying relatively stable the rest of this year, that we're at least neutral. Now, in a perfect world we'd be able to recoup some of what we lost in the first half of the year, but I'm not sure at this point we can cement that we will be able to start recouping. But we feel that we're at least at a comfortable neutral level as we go into the back half.

Larry DeMaria: Okay. Thanks. Maybe another way to look at this, how do we think about at this point overall levels of gross margins in the second half? What should we be thinking about for our models then?

Paul Reitz: Well, I think the simple way to look at it is we lost in raw dollars for raw materials $20 million. So you've got the $9 million and the $11 million. And so if you were to look at modeling or looking at historically Q1 and Q2, I would say that the basis for the model in the back half of the year is that you could say, look, our gross margin was definitely impacted by

costs that were higher relative to pricing by $20 million in the first half of the year. So I would use that as a basis for going into the second half of the year for the model.

Now, in the second half of the year, you do have -- this quarter you've got the seasonality impact of some of the shutdowns that always take place in July. You have the European August month that has additional vacation time. And so I don't think you can just take Q -- or, excuse me, the first of the year and say that's going to be an exact replica of the second half of the year. But -- so I think you need to look at historical 2016 back half of the year, add back in the $9 million and the $11 million in the first half of the year that we lost on raw materials. And I think that gives you a good foundation for the back half of the year. And obviously we've experienced really good revenue growth in the first half of this year and we think those trends do have continuation into the back half.

Larry DeMaria: Okay, thanks. And just one other question. Can you maybe discern between OE and replacement demand in your business, have the growth rates of both [one] -- of both of those, please?

Paul Reitz: Yes. What we're seeing is some different moving pieces to that. I wish there was an easy way we could just point to one indicator and say, yes, this is going to drive these particular movements.

I mean, what we are seeing in -- I'll start with the tire replacement business. We're seeing a very positive double-digit gain through the first half of the year. And I do believe that the market conditions with the replacement business have improved. But we've also put a tremendous amount of effort and made significant changes over the last 12 months to get ourself in a better position for growth in the markets.

So the replacement business, you think about it, with all the new equipment that came into the market in 2011, 2012, 2013-ish. I mean, from a tire side you're going to start hitting the replacement cycle with a lot of those tires.

But it's really a combination. We've done a lot to reposition from a customer experience, from a product positioning standpoint, the opportunity for us in the replacement business with tires. And so we've seen very good double-digit gains in the first half of this year.

Now, on the OEM tire business, it's kind of a mixed bag, Larry, as everything is with AG these days. We've got certain parts of the business where certain customers, certain parts of their business that we're seeing good indicators of growth. And you have other customers that are still dealing with a little bit of inventory.

So I would point to our North American wheel business, where we really -- we had a good second quarter. And that's all OEM. We see the order book for Q3 with our wheel business in North America remain fairly strong. So it gives us optimism as we move into Q4, which is really when you'll start to get the telltale signs for how the OEMs feel about 2018. I just spent a lot of time yesterday with my team talking about that. And I think it's a little early to start predicting

2018. But we had a good Q2. We had a good order book already placed for Q3. Probably another 30 to 45 days it'll start to tell us more about 2018.

So there's definitely a sense of optimism from our North American wheel business which, again, in that business we're talking 90% OEM, that there's some good trends there that hopefully will lead us well into 2018.

Larry DeMaria: Okay. Thank you.

Operator: (Operator Instructions) Joe Mondillo; Sidoti and Company.

Joe Mondillo: Just wanted to ask you about the SG&A situation. So seems like the quarter trended very positively here with SG&A being down a little bit. Just wondering how much and what have you sort of cut right now and if you can quantify that, as well as what you anticipate going forward as opportunities further.

Jim Froisland: Yes, Joe, this is Jim. As you saw, real dollars $2 million this quarter. And that was really looking at it -- we started in the first quarter but we really gained traction in the second quarter here.

And I'm not going to -- I will just say this, that we're happy with the $2 million but there's more to realize. I mentioned last time that really where the -- the one thing that I've had a good chance of looking at is all the policies and procedures. And when you do deep dives on that stuff, you start turning over rocks.

But the real money relies on the -- we're looking at a new ERP system. And we started that process in the beginning of the second quarter. So we're ending the first phase on that and we're in negotiation phases right now. But there's huge dollars there. I can't quote them right now, but trust me, there's a nice ROI on that and we're talking large dollars.

The other -- profit leaks to me, that's just looking at contracts. That's looking at everything, going through and adjusting our policies to make sure that we've always got two or three bids, et cetera, to maintain ourselves as competitive. But I hope that helps.

Joe Mondillo: And so, Jim, the $2 million, that was actual, absolute dollars that was cut in the second quarter, so we're looking at maybe an $8 million run rate that we've cut at the beginning of the second quarter that was fully realized?

Jim Froisland: Well, it was $2 million in the second quarter. I would -- time will tell, but I'd hate to -- I'd rather deliver results. And we delivered $2 million real dollars, so I feel confident that we're going to do better than that as we go down.

As I said, we're entering into a bit of an unknown. The big dollars are, how can we automate our processes and streamline it and actually have better information to run the business and give power to the people so that they can then do their job in a more efficient manner. And we really are -- I'll have a better number on that after we get through this really total ROI study.

Joe Mondillo: Right. Okay. And is most of it that you saw in the second quarter at least, variable? Or was some of that fixed?

Jim Froisland: No, it was both. As I said, we're looking at both variable and fixed.

Joe Mondillo: Okay. And then --

Jim Froisland: I will point out we did go down in SG&A as our revenue went up. So we're taking a hard look at fixed as well as variable.

Joe Mondillo: Okay. On the pricing side of things, just wondering, because if I recall, you implemented a new sort of system on pricing at the beginning of this year. I don't think we touched on it that much on the first-quarter conference call. But I'm just wondering how that's been playing a role in more efficiency on the gross margin standpoint and pricing in your products.

Paul Reitz: Yes. No, we have, Joe. What we've done is just really improve our market intelligence and utilizing a lot of information before we make pricing decisions. So we've become more effective at our pricing and definitely have gotten more efficient as well, as you mentioned. But that process is really ongoing.

What it's done is become part of our culture. I think before, if I kind of look back in time, we had a tendency to get too focused on cost plus. And now the way we price is in tune with the market. So we're constantly looking at any deviations in our volumes. We're constantly looking at decisions being made by the competition. And we're able to react very swiftly to it. And so it's really become again, as I said, part of our culture. And I think that's what's really paid off for us.

I don't believe there's anybody in North America right now that can move as quickly as we do when it comes to setting prices and going into the depth of product classes and products to figure out what that price level is, or where the price level should be.

So you're always going to have to deal with what's going on in the market and sometimes react, sometimes you don't. But I think I'm very comfortable with the decision making process we have now with our pricing process in North America. And we've definitely seen the improvements in our business the first part of this year.

So as you see the markets start to increase their prices and kind of gain back what we lost, or at least get back to neutral and hopefully gain back what we lost in raw material pricing in the first half of the year, I'm very optimistic that we'll position our products at the right price to either gain volume or gain margin or do both. So it's really definitely paid off for us.

But it's something we started back in 2016, putting all the processes in place to be able to do this and get the benefits we're seeing in 2017.

Joe Mondillo: Okay. And then in regard to revenue growth, specifically at the agriculture segment -- so you saw 18% revenue growth in the first half of the year. You've said that the trends you expect will continue. But I think the comps -- correct me if I'm wrong -- might have been a little easier in the first half of the year. So just wondering if you can sort of provide any more color on what kind of sort of trend or revenue growth at the agriculture segment you're looking at in the back half of the year. And do you think it still will be double-digit kind of type of growth? Any sort of visibility or color on that, that would be helpful.

Paul Reitz: Yes. I'll add some color and I'll let Jim talk about the numbers or where he's comfortable. I don't think we put out forecasts down to the segment level. But from a color standpoint, you do have some different comparisons in the back half of the year, as you mentioned.

Latin America has some comparisons that are a little bit different than what we saw in the first half of the year. So some of the -- the relative sales levels will continue on the same trend. But, again, some of those comparisons may change the percent differences that you're looking at. But I think we're still very optimistic of what's going on in Latin America on the tire side.

We certainly believe that North America has got some good potential there. We saw good first half of the year. I think the key for North America is going to be what happens with the OEMs and where that goes into 2018. And we all watch the headlines carefully on what they're forecasting. So that's the part of the business where I'm going to kind of point to the headlines out there that tell you where the OEMs are going. And I think we're optimistic that things will -- we definitely feel that they've hit the bottom and we're optimistic that it will keep pushing itself off that floor.

So I think as we move into the back half of the year for agriculture, there's parts of our agriculture business -- sugar cane in Brazil was down a little bit. So we've seen actually that start to improve a little bit on our undercarriage business already in the back half of the year.

So there's just not blanket answers to anything these days. You've got to look at individual pieces. And I think what we've done that is a blanket answer is I think we've positioned ourself very well for growth opportunities on the replacement business of agriculture. And the key will be is kind of what the OEMs do. And that's just -- again, I'm going to kind of point to the headline figures that you see from the large OEMs versus try to give you a granular prediction on what that means at the Titan level. I think, again, we position ourself well for growth and definitely optimistic that things are going to keep pushing off the bottom.

Joe Mondillo: All right. Great. I have a few more questions but I'll hop in queue for now. Thanks.

Operator: (Operator Instructions) Joe Mondillo; Sidoti and Company.

Joe Mondillo: All right. Well, I guess I'll continue then. So I missed your update, Paul, on TTRC. I was wondering if you could go over that again in terms of how the operations are going and sort of where we're at in terms of dealing with that asset.

Paul Reitz: Yes. We had the entire Board up there, which was a great experience for them and for us, to get them on site. The business is -- all the reactors are operational. It's definitely a learning process in getting something like that up and running, and we continue to move through those phases.

The comments I got from the Board were very positive of what they saw. We do have our work ahead of us to keep getting the business more efficient, more effective. I mean, there's a lot of fine tuning that still needs to take place to get that business, again, as effective as we possibly can.

As far as what to do with that asset, because we brought the Board up there for a reason, I'm going to have to defer to the Board of Directors on that one. That's their decision to make. My role and my team's role is to get that business operating as effective as we can.

I think from a partner perspective we've positioned that business very well. We have some partners who are extremely invested and passionate about everything I just mentioned about getting that business operating effectively. And so I think that's another part of it the Board is very impressed to see, is that we've -- Morry and the Board and what we've done as a team to just get the right partners in place is really I think a critical part to the success of that business in the future.

But, again, as far as the Board's positioning and their thoughts on what to do with that asset, Joe, that's ultimately going to be their decision. I certainly have my thoughts on it and will be sharing those with the Board as we move forward. But our goal right now is just keep getting that business operating as effectively as we can. And, again, the Board liked what they saw as far as the business and the potential it has.

Joe Mondillo: So it seems like six to nine months ago we were maybe actually potentially trying to get operations up to a point where we could sell it by maybe early 2018. At this point in time is it sort of a wait and see? Or do you not want to sort of put a timetable on it anymore? Or just trying to understand, given what you've said in the past, sort of what the thinking is.

Paul Reitz: Right. What we did late last year is Jim and I, we certainly did approach the market with getting their feelings on what the value of that asset would be. I would say Jim and I were impressed with those meetings and the response we got. At this point, though, I do have to just say, look, let's let the Board make that decision.

We put all the investment into the business. So there's a lot of opportunities that also comes from having that operation up there as far as the relationships we're building with the partners in the oil sands and potential sales it drives into our three core products -- wheels, tires and undercarriage.

So the decision really becomes the Board's as far as just an investment that you believe can provide the ROI from an operational perspective and the additional sales that it can drive. Or is this asset better off just being positioned in the market to sell? And I think that's the debate and

the discussion that needs to take place with the Board. And that's not the question I'm going to try to answer today. I think, as you said, we do need to have that discussion because we have talked about what we see this asset having as a market value. And, again, Jim and I did go up there and do that and we feel that the asset does have value based upon the feedback we got.

But right now, again, I'm going to let the Board make that decision when the time comes. Our focus is going to be on the operational side of it. The investment's been made. Generated positive EBITDA for us in the second quarter. And so let's just keep getting that -- let's keep driving that EBITDA higher and getting the business more effective. And, again, when the Board makes a decision on what to do with the asset, that time will come.

Joe Mondillo: Okay, good enough. I did want to return to gross margins. I think that was the biggest downfall here in the quarter. The stock's off 20% here right now. With what you've done with prices and with the OEMs as well as the aftermarket products, I imagine going into -- especially going into the fourth quarter when comps get a little easier and then first half should be a lot better -- in addition to the leverage that you see with revenue that gross margins should see some pretty good expansion, at least starting in the fourth quarter. Would you agree with that synopsis?

Paul Reitz: I definitely agree with it. Jim, I don't know if you want to add some thoughts on it.

Jim Froisland: Yes, I think if, Joe, as you said, comparable to the prior year, yes. I think your question was -- we had the 10% uptick in revenue and I think your question is, do we -- nobody's got a crystal ball. Okay? But you're saying as we look out in the future is that 10% double-digit going to continue. And I guess if I had to guess today, hopefully yes.

I mean, as we talked about in this call, what we're seeing is green shoots and if it continues to grow we'll be harvesting. But if not, we'll be farming next year.

Joe Mondillo: And if rubber prices stay consistent where they were July 1st or whenever you made the contracts with the OEMs, given where your pricing situation was a year ago, you should have really good comps on the pricing situation. And then the leverage of revenue and the trend that you're seeing should leverage even more. So the gross margin should see some nice expansion. Right?

Jim Froisland: Yes, I mean (inaudible) --

Joe Mondillo: I just want to make sure I'm not missing anything.

Jim Froisland: Right. If you do look at the rubber prices, they have come down. I mean, it was a huge spike in the first and second quarter. It caught everybody by surprise. Now, Paul mentioned that we have in place -- we do dollar-day averaging for a certain portion of it. And we do some forward buying. This is just good purchasing. So we take a look at what we control. But we don't control a lot of things.

So we're doing the best we can on the raw materials side, but the good news is we see rubber prices have really dropped, quite frankly, about as quick as they went up. But who knows? There could be monsoons again for the rubber trees. We consume a lot of synthetic. But we're hopeful. I'll just say that.

Joe Mondillo: Okay. I also wanted to ask you about the redemption, the noncash redemption value that hit the income statement. I believe that's related to a put option related to the joint venture partners for the Russian assets. And I believe that comes up in less than a year, July of 2018. And I'm just wondering what your anticipation when that does expire, what happens with that whole scenario.

Jim Froisland: Yes, Joe, you're right. It is on our radar. And we are currently looking at that and we will have discussions internally and then we'll share the different options naturally with the Board, get their approval and implement the plan. But it is on our radar.

Joe Mondillo: Okay. And then last one for me, the taxes. The taxes have been all over the place. I'm actually a little surprised that you've been paying so much taxes in the first half of the year relative to your financials. Just wondering why that is. And is there any way you can provide any more guidance relative to taxes maybe in the back half of the year or going forward?

Jim Froisland: Well, taxes are a funny area. We all have to pay them. But we're in so many different countries and with this valuation allowance, as I explained in my notes, I know it appears really funny. And FX is another thing that bounces around. I will say this, that one of the initiatives I've got on my plate, front burner, is coming to gather our tax professionals. We're taking a look at all our legal entities, our balance sheet. It's all intertwined. So actually that -- we're meeting next week. So that is clearly on the table, as well as what you just mentioned, the put options, et cetera. So we are looking at that real soon here.

Joe Mondillo: Okay. All right. I appreciate it. That's all for me. Thanks a lot.

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: I certainly appreciate everybody's time and participation this morning and look forward to talking to you again on the third-quarter conference call. Thanks. Have a good day.

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