Titan International, Inc.
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Presentation

Operator: Ladies and gentlemen, welcome to the Titan International, Inc. Fourth 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 this 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 and 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 to be a substitute for the most directly compared 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 Web site.

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. Please go ahead.

Paul G. Reitz: Thanks. Good morning, everybody. I appreciate you joining us today. I'll start by going through some highlights on Titan's business and then I'll turn it over to our CFO, Jim Froisland, to run through the financial side of the house. And then we'll conclude by taking your questions.

To start with, I think we had a really good finish to 2017. Our fourth quarter sales were up 22% which propelled us to a gain of 16% for the year and saw our total sales landing just under 1.5 billion. I had a

business colleague from over 20 years ago that liked to say, "Elephant hunting typically ends bad for the hunter." So for Titan, it's really good to see that our revenue growth this year came from solid gains across all of our business units and segments. This means we've built a good foundation with our growth and we didn't just simply find ourselves one big elephant.

Another point I'd like to make that illustrates the strength of our 2017 growth is that this was the first time since Titan became a public company in 1993 that we experienced sequential growth in all four quarters throughout the year.

I'd like to spend time referencing sports frequently when I talk and I do that because I believe there's a high correlation between winning in sports and what takes place in the business world, the basic premise for success in sports and towards the same goals. I want to take just a moment and look back at 2014 as our company was facing a super commodity cycle that is coming to an end and creating a challenging business environment of which we hadn't seen for many years, if not decades. Clearly, we've been through a lot of cyclical turns but one was going to be different.

You look at what Titan guiding light strategy since our inception it's really been about accumulating distressed assets and adding value to them. In the years preceding 2014, Titan went outside our historical sweet spot. We embarked on a geographical and product-based expansion.

Then the cyclical downturn came roaring in while we were still in the process of digesting these acquisitions. So as a result we generally found ourselves operating more like a holding company than a synchronized global business, which was clearly our goal at the time we were doing this.

Therefore, starting the downturn right in the face or staring – the downturn staring us right in the face became imperative that we make some organizational changes to fight these impending challenges. These changes started right at the top with us with the launching of our ONE Titan operating framework.

And ONE Titan's essential premise is simply about getting our business units, our diverse business units and plants and operations in all the departments working effectively to make good decisions that were in the best interest of Titan International. We needed to do that with the situation we faced over the last few years. So basically, anyone or any group not rowing in the same direction of the ONE Titan mission was not going to succeed.

As we sit here today, I firmly believe we have demonstrated the success of our ONE Titan team over the past few years during this downturn and definitely so this year to drive the growth that we did. As we all saw recently in the Super Bowl, not even the great Tom Brady could overcome the backup Nick Foles and the strength of the overall better Eagles team. I don't want to belabor that game any further but my point is ONE Titan has been successful for us and getting us through the downturn when our stock was down here hovering around $3, our bonds were below $0.65 to now get us to the point where we produce the gains and the improvements we reported for fiscal 2017.

All right, let me go in a different direction and take a few minutes and spin around the globe to recap 2017. So starting in North America, we saw our bellwether wheel business bounce back really well this year with good growth that was also coupled with solid improvements to operating margins.

Our North American wheel plants thrives on volume, so it was good throughout the year to see our small and mid-sized ag business perform well and we started to see our large ag come around better as we got to the back half of this year.

At the end of 2017, we also completed the consolidation of our OTR wheel plant that was based in Virginia into our large wheel plant in Quincy. This will drive improvements to our future margins in our OTR business.

So moving over to our tire business in North America. As you know, we got hammered to start the year with a $19 million hit to operating margins from raw materials and the increases associated primarily with natural rubber that we were not able to pass on to our customers.

Every tire manufacturer has addressed this point already, so there's really nothing more to say. But absent the impact of raw materials, our North America tire business definitely saw the positive impact of the initiatives we launched back in 2016. It helped drive us to double-digit sales gains in our ag tire business. Now again, our margins were impacted by the $19 million in our raw materials. While ag moved in the positive direction in 2017 and looked good to start 2018 as well, a primary goal for us this year is to make changes to improve our operating margins at our OTR tire business.

This plant was built for higher volumes, much higher volumes than what we've had the past few years and this obviously causes inefficiency and cost absorption issues. We've reduced headcount over the past few years. We've done other cost cutting measures obviously but in 2017 that still has not been enough to provide satisfactory margins.

We started to see some improving OTR market conditions at the tail end of 2017. Along with that, we have launched a number of sales-driven initiatives to drive improvements to both volumes and ultimately to operating margins and this is going to continue to be a primary focus for us as we move into 2018.

So moving down to Latin America, overall in 2017, we posted good solid gains in revenue and operating income. I've said this before but our Latin American team has done a really good job since we bought this business in 2011 [corrected from 2001].

Across the board, they've improved plant efficiencies, developed new products, launched a new OTR line, and of course they jumped into the top spot in Latin America ag tires starting a couple of years ago with that accomplishment.

Our Latin American operations had really strong gains in the first half of 2017. We did start to see some slowdowns near the tail end of the year as we faced tougher comps in a slowing ag sector in Latin America.

We know that Brazil in 2018 could be hitting some headwinds, but we still remain confident with our plans to continue to grow in 2018 and keep our Latin America business on a good path.

Early in 2017, we expressed our confidence in our ITM undercarriage business when we made a decision not to proceed with the divestiture process. Since that point our ITM business has lived up to and even exceeded our expectations, as in 2017 we saw ITM grow handsomely in sales, EBITDA and operating profits.

The heavy commodity market has definitely improved and helped us. But we've also benefitted from our own strategic investments we've made the past couple of years to better position ITM in the marketplace. We see ITM's growth continuing in 2018 on a strong path which further supports our decision to keep this as a key part of Titan.

Now over in the CIS region, Titan Russia has in 2017 faced challenging economic conditions. They were amplified by the raw material pressures that we referenced many times.

In the CIS region, it was different than North America. It wasn't just a pass through situation that caused a problem. We also had a competitor that was being aggressive on pricing and really absorbing the impact of raw materials and going after volume.

We have a premier product in that region and so we continue to price our tires, our products as such and we did not respond to the competitions pricing moves. As a result, when you look at 2017, we did take a hit in the CIS to our expected volumes that we had forecasted. But with that being said, Titan Russia still posted double digit gains in both sales and operating margins.

Look, every time you mention Russia, the CIS region, we all understand the geopolitical sensitivity in this area. But again, I'm going to state again that our Titan Russia business has come a long way from where it started.

We have a good local management team that has really positioned this business well to continue successfully moving forward into the future, and we do have some nice improvements and gains in 2018.

Then moving down under, we acquired the Australian business of the Planet Group in 2012. And since that acquisition that business has seen its share of internal and external challenges and it's really required us to overhaul the operations and the team for that fact to get things moving in the right path.

It's really good to be able to say that in 2017 we beat back those issues and we did achieve positive EBITDA in Australia and that has not happened for a long time down there. In fact, probably have to go back to the year or two right after acquisition since that has happened. So again, a good accomplishment for our Australian team.

So looking forward to 2018, as stated on the last call where we see our business going this year, and we continue to believe in the outlook that we had discussed earlier. And our strategic investments continue to payoff along with improving market conditions. So that is definitely encouraging as we sit here and begin 2018.

In general, we're optimistic about where Titan is going. It's evidenced in how our North America wheel and tire businesses finished at 2017 along with our wheel and our undercarriage earthmoving and construction segments. They all finished on a strong note and combined with this strength we've seen in our order decks as we sit here today, we do continue to believe in the outlook that we presented in Q3 of last year.

While we're glad to see these improvements, the Titan team realizes we have a road ahead of us to keep improving our operating margins in the bottom line. Our operating margins must continue to grow in the future. This means our ONE Titan team needs to remain diligent to ultimately reach our goals and win the game that we've set up in front of us.

I'm going to move over to one last comment here before I turn to Jim and I'll let Jim talk further about this. But I do want to make a quick comment about the $10 million asset impairment that was recorded related to our tire recycling operations in Canada.

As we had discussed previously, in 2017 we did have a fire there that destroyed one building that housed three reactors. We do have a total of six reactors at that location. Again, I'll let Jim talk about the accounting ins-and- the-outs of why we recorded this and how things worked later when the insurance comes back with their settlements.

But I do want to state from a business perspective, our TTRC Canadian team is still confident and remains confident as they always have been that our operations will be successful and we will get this up and running again in the future.

They've been working closely with our partners up there in the oil sands to ensure that everyone understands the situation and what our plans are moving forward. That's been communicated across the board with everybody we need you up there. We are though still continuing to work with the insurance company to resolve that process.

So at this point, we've not encountered any red flags with the process with the insurance company, but there's really not much more we could state. And so that's why you see the accounting treatment that we had to do this quarter.

Once we reach an agreement with the insurance company, we will communicate more about that, we'll communicate more about our plan for TTRC in Canada, and of course, we'll update our financial records accordingly.

So with that, I would now like to turn the call over to Jim to discuss our financial size of our business. Thank you.

James M. 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-K which was filed this morning.

Let us start with the income statement. Net sales for the fourth quarter of 2017 were $376 million. This was up more than 22% or almost $69 million from a year ago. This is the fourth consecutive quarter with year-over-year double digit increases we have seen.

Sequentially, net sales grew $5 million, up approximately 1% from third quarter 2017. This is not our normal seasonal trend, as we often see net sales declining from third to fourth quarter as you experience plant shutdowns and holidays.

Here's what it meant in terms of our segments. Net sales were higher in all segments when compared to the same quarter last year. Overall, net sales volume was up 16% with higher volume across all segments and geographies.

Our earthmoving/construction segment saw the biggest improvement in net sales of more than $43 million or 35%. Our agricultural segment was up 14%, while the consumer segment increased 12% compared to last year.

Before we discuss gross profit and margin, I'd like to further explain the asset impairment that was reported during the quarter. As we previously announced on September 21, 2017, a fire broke out at the TTRC facility in Fort McMurray, Canada.

The facility contains six thermal vacuum recovery units which are large, contained capsules used to recycle large mining tires. Since then, an investigation has been in progress and since February of 2018 as part of the investigation, information became available that the TVR units involved in that fire were a total loss. Therefore, as required by accounting rules, as a result of this involuntary conversion, an asset impairment for the damaged TVR units at net book value was recorded.

It should be noted that, as Paul stated, Titan carries both casualty and property insurance for this facility and the equipment as well as business interruption insurance. The asset impairment charge or loss was

partially offset by an initial $1.6 million advance from the insurance company received to-date for a net total of $9.9 million. We anticipate receiving additional insurance proceeds and will reflect such proceeds in our financial results once the cash is received.

Moving on to gross profit and margin. Reported gross profit for the fourth quarter was $35 million or 9.4% of net sales. Excluding the previously mentioned asset impairment, adjusted gross profit for the fourth quarter was $45 million, up 42% and was 12% of net sales versus $32 million and 10.4% of net sales in the same quarter a year ago.

The increase in adjusted gross profit as a percent of net sales was driven largely by increased volumes across all segments with the earthmoving/construction segment increasing the most.

Taking a look at our three segments. Our agricultural segment net sales for the fourth quarter were $166 million, up $21 million or 14% over the comparable prior year period. The North American region grew 18% over the fourth quarter 2016 with gains experienced in both OEM and in the aftermarket.

Russia was up 33% during the quarter, while Europe experienced 16% growth in net sales during the fourth quarter when compared to the same period a year ago. Our agricultural segment gross profit in the fourth quarter was $21 million, up from $18 million in the comparable prior year period.

Gross margin improved 62 basis points in the fourth quarter to 12.9% of net sales when compared to the same period a year ago. The increase in gross profit as a percent of net sales was a result of North American volume increases.

Moving on to the earthmoving and construction segment. This segment's net sales for the fourth quarter of 2017 were $166 million, an increase of $43 million or 35% versus a year ago. All regions improved over the prior year quarter with overall volume gains driving the increase. The investment decisions we've made in our ITM aftermarket business have shown positive returns for more than a year beginning in the fourth quarter of 2016.

This segment's reported gross profit for the fourth quarter was $7 million, which represents a $2 million decrease compared to the same period a year ago. Impacting the gross profit in this segment was the previously mentioned $9.9 million asset impairment recorded during the quarter.

After excluding the impairment charge, the adjusted gross profit for the fourth quarter was $17 million, up from $10 million or 79% versus a year ago and a 252 basis improvement in gross margin to 10.3% versus a year ago. North America, Europe and Australia each contributed to this increase.

Now on to our consumer segment. This segment's fourth quarter sales were $44 million, an increase of $5 million or 12% when compared to the prior year. All regions, except Australia, improved over the prior year quarter with overall volume gains driving the increase.

This segment's gross profit for the fourth quarter was $7 million, an increase of $2.2 million or 48% versus a year ago. Gross margin was 15.4%, an improvement of 370 basis points over the same period last year.

Turning to the operating expenses. Selling, general, administrative and R&D expenses for the fourth quarter of 2017 were $37 million, a decrease of $2 million when compared to the prior year period or 4.9%.

When considering only SG&A expenses alone, the reduction was 5.8%. This decrease was in line with our continuous improvement initiatives that started in the beginning of 2017 and focused on reducing both fixed and variable expenses.

Finishing up on the fourth quarter operating statement. We reported a loss from operations of $5 million which included the asset impairment of $9.9 million. Income from operations for the fourth quarter of 2017, excluding the asset impairment, was $5 million compared to a loss of $10 million for the comparable prior year period, an improvement of $15 million.

Royalty expenses came in at $3 million which was up $0.6 million or 27% due to higher net sales when compared to the prior year period. Interest expense of $8 million was up $0.3 million or 4%. A loss on the repurchase of our senior notes was $18.6 million during the period.

Foreign exchange loss of $2 million was worse by $3 million when compared to the comparable prior year. Other income of $3 million was up 42% from the comparable prior year. This resulted in a reported loss before taxes of $30 million.

Excluding both the asset impairment and the loss on senior note repurchase, the adjusted loss before taxes for fourth quarter 2017 was $2 million, an improvement of $12 million from the $14 million loss from the same period a year ago.

Tax expense was $5 million versus $1 million expense in the comparable prior year period. This tax expense was due to losses in the U.S. and certain foreign jurisdictions where the tax benefit could not be recorded due to a valuation allowance.

The net cash tax payments for the fourth quarter were $4 million versus $1 million a year ago. Titan recorded no additional tax expense related to the Tax Cuts and Jobs Act which was enacted during the quarter.

All this led to reported net loss of $36 million for the quarter equal to $0.55 loss per basic and diluted shares versus last year's net loss of $15 million equal to $0.27 loss per basic and diluted share.

Excluding both the asset impairment and the loss on senior note repurchase, the fourth quarter 2017 adjusted net loss attributable to Titan was $5.7 million equal to $0.10 loss per basic and diluted share. This is a $0.15 per share improvement from the loss of $13.6 million equal to $0.25 loss per basic and diluted share in the comparable prior year period.

For the fourth quarter of 2017, earnings before interest, tax, depreciation and amortization, was $10 million versus $8 million a year ago. On an adjusted basis, excluding both the asset impairment and foreign currency exchange, adjusted EBITDA was $22 million for the current quarter versus $7 million a year ago. This is an increase of more than 3x the prior year same quarter amount. We use EBITDA and adjusted EBITDA as a means to measure the company's performance. We have a full reconciliation of EBITDA and adjusted EBITDA, non-GAAP measure to the net income in our press release issued earlier today.

Now I’d like to move on to the financial condition and highlight a few key balance sheet, liquidity and capital items. Our cash balance of approximately $144 million as of December 31, 2017 was $54 million below that of the prior comparable period when you include the certificates of deposit at the year-end of 2016. This decrease was primarily attributable to the increase in working capital needed to support the sales increase during this year and moving into 2018.

We ended the quarter with inventory, accounts receivable and accounts payable balances at higher levels when compared to the prior year. However, our overall cash conversion cycle remained the same at 97 days when compared to the same period last year. Therefore, we continue to diligently manage our working capital as our net sales increased 22% from a year ago.

Moving on to comments concerning our debt. Our combined current long-term debt totaled $451 million, which represents an increase of $4 million during the quarter and a decrease of $55 million from the same period in 2016. This reduction from a year ago reflects the previously announced conversion of our convertible debt in January.

During the fourth quarter, we announced completing the refinancing of our $400 million principle amount senior secured notes which were due in 2020. These new notes mature in 2023 and are subject to an interest rate of 6.5% which is lower than the rate of the refinanced notes.

Capital expenditures for the year ended December 31, 2017 were $32.6 million versus $41.9 million a year ago. Capital expenditures for 2018 are forecasted to be in the range of $35 to $45 million. Cash payments on interest are currently forecasted to be approximately $30 million in 2018, based upon year-end 2017 debt balances at maturity.

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

In summary, there are several positive takeaways from our fourth quarter 2017 results.

One, net sales increased by 22% for the fourth consecutive quarter at a double-digit rate. We increased gross profit by $3.4 million, an 11% year-over-year improvement. After adjusting for the previously mentioned asset impairment, gross profit increased 13.3 million, a 42% year-over-year improvement.

Two, SG&A expenses decreased by over $2 million or 5.8% while net sales increased 22%, lowering SG&A to 9% of net sales versus 12% in the prior comparable period.

Three, adjusted EBITDA increased more than 3x the prior year amount to over $22 million.

Four, 400 million principle amount of senior secured debt was refinanced extending maturity to 2023 and reducing future interest costs as a result of reduced interest rate.

With net sales improving for four consecutive quarters, our results demonstrate continuing signs of recovery. We are cautiously optimistic heading into 2018 and our previous guidance for 2018 remains the same.

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

Question-and-Answer Session

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Steve Volkmann with Jefferies. Please go ahead.

Stephen Volkmann: Great. Thanks. Good morning, guys.

Paul G. Reitz: Good morning, Steve.

Stephen Volkmann: Paul, you mentioned I think at the outset that your order books were looking a little bit better. I'm curious maybe if you could just kind of bring us up to speed in what you're seeing in the end markets sort of construction versus ag, replacement versus OE, large versus small, just whatever kind of color you can give us on how your order book is looking and how you're kind of looking at '18?

Paul G. Reitz: Yes. Generally speaking we're seeing good improvements across the board. Now ag's weaker in certain areas such as Europe, doing better in North America, holding its own in Brazil. For us I think that's a – it's divided pretty well between OEM and aftermarket, so I think both areas are functioning very well. It's clearly not a commodity-driven process or improvement. It's not a farmer income-driven improvement. It's really just the industry fundamentals and Titan business fundamentals improving. And so I think the spread across the board and definitely improving size of the business. We're seeing that move in good direction in just about every location. And I think that's more driven by industry improvements and obviously coupled with some of the changes we had last couple of years. But you're seeing more of an industry cyclical improvement there than you are necessarily in ag. I think ag is just fundamentals of the business and dealers getting their inventory right-sized. People managing input cost better.

So for us, we've seen that kind of spread into our order books where generally across the board kind of like how we saw 2017, things are just fundamentally improving. And it's not, Steve, happening in one big area where we could say this is the shining light and we're going to follow that. I think we're spread pretty evenly seeing things move, continue what they did in 2017 and continue to move in a positive direction for 2018 with order books. We got to continue to watch it closely. We got to continue to stay on top of it. And I think if we continue to do that, then 2018 will be a very good positive year for us.

Stephen Volkmann: Okay, great. And then just a quick totally unrelated follow up. But I think that somewhere around mid '18 is when they potential put option on that Russian deal kind of comes to fruition and I'm just curious if you have any updated thoughts about how that's going to play out? And if you did have to put out cash for that, how would that kind of get funded and so forth?

Paul G. Reitz: We are having discussions with our partners on that and that will continue as we get closer to the date you mentioned. From our perspective we're assembling a multitude of plans on how we can address it and it will depend on how we end up with our partners and how we move forward with them into the future. I think as Jim stated, we're comfortable with whatever solution is drawn up and it will – in all likelihood it may be a blend of different approaches versus just one direction. But it's still early on that but it's definitely not something that we're waiting to really plan for. It's something that we will continue to work on, Steve, but we don't have anything concrete that we can talk about here today.

Stephen Volkmann: Okay, good enough. Thanks. I'll pass it on.

Paul G. Reitz: All right. Thanks.

Operator: Our next question comes from Joe [corrected from John] Mondillo with Sidoti & Company. Please go ahead.

Joseph Mondillo: Good morning, guys.

Paul G. Reitz: Good morning.

Joseph Mondillo: So I wanted to talk about the SG&A. Just first off, wanted to – in terms of the fourth quarter, so your SG&A fell about 2% I think, revenue up 22%. Could you explain to me how that's really possible with such strong revenue growth? Essentially I'm just trying to make sure that we're not eliminating certain costs that will sort of hinder future growth.

James M. Froisland: Yes, this is Jim. Again, as I mentioned in my notes, we set out a number of initiatives at the beginning of last year, one of them was what I called profit leaks just taking a close look at doing the basics, looking at our SG&A expenses. And there was quite a few findings at the corporate level. For example, naturally when we solved the remediated material weakness, our audit fees came down and cost associated with that. That's just an example. We've taken a close look at our legal spend.

So basically it's taking a hard look at, as I said, every fixed and variable cost. Now to address your question, are we hurting the business? No, I don't believe that. We're increasing our productivity, as Paul said. We're taking a hard look at making sure that how we invest our money in SG&A. And also as I mentioned earlier, we've invested some monies not only just in people but also in the technology side of things. So in my opinion all roads in SG&A lead to people and technology.

Joseph Mondillo: Okay. So in terms of the 2018 outlook then, what are your expectations? Do we continue to sort of see a flattish or declines in SG&A? You put out a target of 10% to 10.5% of sales, SG&A and R&D the last quarter around. Do you see downside – could that be lower given the revenue trends? And then just in terms of the ERP investment, how does that sort of play into it? Do we see a higher ERP spend in the first half of this year? Just sort of give us an outlook on sort of SG&A and how that trends.

Paul G. Reitz: Yes. Well, we stick our guidance of those numbers that you mentioned in terms of SG&A as a percent of revenue. In terms of the ERP system, as I said before, we'll have additional costs but at the same time we're taking cost out. We're basically going – as I said before, we're going to the cloud, so we will not – we will gradually get off our AS400 legacy type platforms. But for – I would say mostly in the third and fourth quarter you'll see an uptick in IT costs but you also will see corresponding – as it relates to the cloud, but also some reductions in other IT costs as well as other SG&A costs.

Joseph Mondillo: Okay. And then in terms of I guess gross margins on the ag side of things, could you just maybe walk through some of the puts and takes; mix, price cost, how you're thinking about it heading into the year?

Paul G. Reitz: I'll jump in first, Jim, and then you can add on. With gross margin, Joe, we are seeing a mix that's improving in the back half of the year. The first half of the year was really driven by the small and midsize market. We're seeing the large products start to move better which is a plus for us as we continue to grow volumes which we did in '17 and then into '18 as well. We'll see the plants get more efficient. We've been hiring. The only headwind we face right now is just the training cost of getting people up and running and working effectively in the plant. So at all our locations we are hiring. We have been hiring and will continue to do that and we're getting them adopted into the plant as quickly as we possibly can, so we're pretty efficient at doing that. But there is obviously a learning curve of two to three months before you really get somebody operating at a high level.

So for the business overall on margins, I think economically just fundamental it's going to continue to improve. Where we got to watch things closely is just the balance between pricing and cost with raw materials and then where you can pick up some additional pricing power as the markets go in a favorable direction compared to where we were over the last few years. Many times you have a prolonged downturn – multiyear prolonged downturn, it gives your customers a chance to really focus on their costs and in turn they're going to find ways to put suppliers against each other. And so that's the market [Technical Difficulty] see that change. It's not going at a game-buster level where you also then have pricing power flipping all the over. But we are going to continue to look very closely at how we price our products, where the demand is increasingly compared to the supply in the market. We've been focused on pricing for a while and we're going to continue to do that. We even got a two-day meeting set up for next week that's just about pricing. So I think on the fringes, you continue to get better on your pricing versus your

cost, again assuming that raw materials don't have any hiccups like we did in 2017. You put all that together and you keep driving some margin improvement in that direction.

Again, I think the big headwind for us though is just bringing in headcount. Whenever you're doing that you got some costs you have to absorb. But other than that, that's a positive. Once you get a trained workforce in place, now you're really running, you're getting some improved volumes going out the door.

Joseph Mondillo: Okay. And just a follow up on sort of mix. Where are we in the cycle of small/large mix? Are we still very close to the bottom and do we still have a big runway in sort of the shift in mix, or where are we within that cycle?

Paul G. Reitz: Yes, the mix is still skewed compared to historical levels towards the small/mid. The large, while it's improving, if you look at historical metrics going back over the last couple decades, it would tell you that there is definitely runway ahead for the large market to keep going. So I think that's a positive that we're not sitting here already having taken on the improvements in the large market. We got a lot of runway ahead of us. And for us, our plants operate very well. It's what we're designed to do. We're designed to serve the large ag market. That's the core of our company wherever you look around the world. And so as the large markets improve, we definitely have the capacity and the capabilities that's second to none in our industries to serve customers in ways that not everybody can. And so we're prepared for that. We're going to continue to be prepared for that. Again, the only thing we got to do is keep hiring people and training them. But there is – again, compared to historical levels, there is runway ahead on the large market.

Joseph Mondillo: Okay. And just one more for me and I'll hop back in queue. In terms of taxes, could you help me understand how – first off, how you're paying cash taxes despite seeing pre-tax losses in the prior periods? And then how you see tax reform affecting the bottom line?

James M. Froisland: Yes, this is Jim. In terms of tax reform, it really has no impact. The reason for that is the same reason you stated about the tax question. It's our NOL position in the valuation allowance as it relates to the countries that we're in and the mix thereof results in the taxes that you see on the – and reflected in the financials.

Joseph Mondillo: And just in terms of the cash taxes that you've been paying despite pre-tax losses, why is that? Why are you paying cash taxes – why are you paying taxes on losses?

James M. Froisland: Again, that's just the foreign jurisdictions. In some countries we're making profits and we have to pay the governments their due.

Joseph Mondillo: Okay. And that's offsetting losses elsewhere, I guess?

James M. Froisland: Well, we're not getting – basically we're not getting any benefit on that.

Joseph Mondillo: I see. Okay. Thanks.

Paul G. Reitz: Joe, one point on that is Jim and our Treasurer and IR VP, Todd are – they're looking at how we can position ourselves from a tax standpoint, some moves we can make with how you set the company structure, pretty standard stuff that both – all of us have been doing for 20 plus years. So I think there's ways where we can reduce that cash tax expense. Also along with that project taking a look at how we got our intercompany balances structured with our different entities and try to remove some of that FX volatility. So that project is underfoot and hopefully something that will get locked in here in 2018. But there will be improvement in both taxes and FX volatility.

Joseph Mondillo: Just a follow up real quick. The cash taxes seem to be running at about $5 million the last two years. Best guess if your foreign businesses continue to improve in 2018, should that be similar to maybe a little higher in 2018? Is that a good way of thinking about it?

James M. Froisland: It again really depends on mix, but yes. I think that it's going to be around that level.

Joseph Mondillo: Okay. All right. Thanks.

Operator: Our next question comes from Larry DeMaria with William Blair. Please go ahead.

Larry DeMaria: Hi. Thanks. Good morning. It looks like sales and adjusted EBITDA obviously ended higher than expected than you maintain in the guide for next year. Just want to clarify, just looking 7 to 12 and 50 to 100 gains from where we ended the year imply from that 1.47 and the 72 million of EBITDA, that's correct, right? So the new range on EBITDA is 108 million to 144 million. Is that right?

Paul G. Reitz: Yes. Yes, we'll take the outlook issued in Q3 and apply it to the 2017 numbers that you referenced.

Larry DeMaria: Right, so essentially it's probably a bit higher. Okay. Thanks. Can we narrow that 108 to 144 down a bit or can you maybe help us provide some kind of a bridge to get to the mid or upper end of their, considering obviously we're starting at a much lower base?

Paul G. Reitz: At this point, it's early in the year. What we're looking at it from our team's perspective is that we're comfortable with the outlook we put out there. We see the path on how to get there is really kind of how we talked about 2017 results is spread across all the business units and segments within our company. So the bridge is not simply just take A plus B and you get C. You're getting revenue gains, you're getting some margin improvements, you're getting cost cuts, and you're reducing SG&A. And so – again, it's really a broad based improvement. So what we're looking at is again the overall forecast and the overall picture for 2018 supports the outlook that we put out there. As far as narrowing it down that's something that as the year progresses, we could look at doing that. But for today and for announcing the 2017 results, we just keep the 2018 outlook as is.

Larry DeMaria: Okay, that's fine. Thank you. And then I guess, Paul, as we think about seasonality, it sounds like you have better results expected in the second half based on the mix and some things. Is that right or did I hear that wrong and I just want to understand first half or second half to make sure we model it correctly?

Paul G. Reitz: The seasonality, it's a nature of the business. You got plant shutdowns that take place for the most part around the world. Midsummer I guess is a slower period in the European markets and then around the December holidays. And so you do have some natural seasonality that is built into just the business model. So I wouldn't take that off the table for 2018. I think what we saw in 2017 was just the improving conditions taking effect in the second half of the year that propelled the back half to be strong in a way that we have not typically seen, as Jim had mentioned. But I would not take what happened in 2017 and apply it forward because you just have fewer working days available in the back half of the year compared to the first half.

Larry DeMaria: Okay. Thanks. And then I just two more quick questions. You mentioned, Paul, I think that ag order books in Europe were weaker. Is there something fundamentally driving that or is that maybe driven by some pull forward from the mother rules in Europe, if you could clarify that specifically? And secondly, price cost, can you just help us understand what kind of inflation for steel and rubber you expect this year and what kind of price increases we should be looking for? Thank you.

Paul G. Reitz: As far as my comments on European ag, it's weaker compared to the rest of the markets that are growing. It's not in a declining situation that causes panic, it's just – it's generally speaking just not as strong as everywhere else and so it's again not an area of highlighted concern where we're looking back – that we're looking to have to pull back costs and reduce production levels. But it's just not an area of growth – it's not the same level of growth as the rest of the business.

As far as the questions on raw materials, I think our forecast for raw materials on the rubber side of the business, it looks like the supply is in pretty good condition. So the issues that existed in 2017 don't appear to be percolating at this moment.

And steel, obviously there's just a lot of talk going on in the world these days about steel. And specifically from the U.S. perspective, from our North American business, the way we have it structured we do believe at this time we have sufficient supply for steel and we have sufficient capability to pass through any increased costs to our customers in what I would call a timely efficient manner. So our North American wheel business is much different than our tire business. And so as we sit here today, we clearly are watching it closely both supply, costs, price in the market, but we don't have forecasted headwinds for steel. And that's generally true across the world on steel, but steel is volatile.

The announcements of potential tariffs and what may be going on with price competition clearly it's something we just got to stay very close to. But at this moment, the way things are, the rising cost in steel is not a concern and it's not even the same situation as what we faced last year with rubber. So at this point again, raw materials appear to be in a fairly stable, neutral environment and we don't have any forecast for that. And by neutral, I just mean price-to-cost not obviously price of steel is going up. But for us, the price-to-cost ratio seems to be very stable.

Larry DeMaria: Okay. That's actually helpful. Thank you, Paul. And then just to follow up on the European comment. So essentially it's just not as strong on a relative basis than other regions but you would expect some kind of moderate growth in Europe, is that basically what you're saying?

Paul G. Reitz: Yes. We do see some parts of the business that are growing. It's not at same levels as what we're seeing elsewhere.

Larry DeMaria: Okay, great. Thanks. And good luck guys.

Paul G. Reitz: Thanks.

Operator: Our next question comes from Justine Fisher with Goldman Sachs. Please go ahead.

Justine Fisher: Good morning.

Paul G. Reitz: Good morning.

Justine Fisher: I just have one question on your aftermarket. I know this was a business that you guys have talked about when you were on the bond roadshow in the fall. How is the growth in that business trending and what are your expectations for 2018?

Paul G. Reitz: On the active market we see good trends going forward into the future based on just the amount of the equipment that came into the world in the early part of the decade; '10, '11, '12. Really put a lot of new equipment out there. They're running the equipment longer and harder. So for us we do believe aftermarket will continue to be an area of growth and opportunity.

We've done a number of different measures that we've talked about with pricing. We did that about a year and a half ago to make sure that we're priced properly within the market and got our products positioned where we want them to be. We have LSW which continues to be a good growth asset for us in the aftermarket. And really from a sales environment, we continue to just look at our sales force in our organization to make sure we got everybody out there hustling as hard as they possibly can to hit every potential customer. And I still see opportunities for us to continue to grow just from a sales organizational perspective in our dealer network and it's something we got some ideas on how we can continue to do that and we've already launched some of those early this year.

So broad-based speaking, I think the aftermarket will continue to be a positive growth engine for us. Clearly farmer incomes, the reports that we've all seen coming out of the USDA are not headline wise, they're not great obviously but I don't think there's any reason for concern at this point that if farmer incomes are flat to down as they projected, farmers have done a good job on costs at some point going to have to do some replacement and maintenance on that which is good for our aftermarket business.

Justine Fisher: What percent of your revenue is aftermarket now? It's a very small percent now, right?

Paul G. Reitz: It's a small percent only on the real business. And what we do on the real business is primarily more OTR related where you have components and you have refurbishment and repair work going on. And that's true for the most part on a global basis. And so the OTR wheel business has some replacement. Ag wheel, there are very minimal replacements. But on the tire side of the business, we've really positioned ourselves to be about 50-50 split between OEM sales and aftermarket sales.

Justine Fisher: Okay, great. Thanks. And then just my last question is on working capital for this year. I know it's a decent use in 2017 as your inventories and your inventories were up. What's the expectation for working capital in 2018? Do you expect it to be more of a source of cash?

Paul G. Reitz: Working capital – Jim made some comments and Jim you can jump in on this as well. Jim made some comments about the investments we had to make to support the growth in sales. My expectations for the team this year is that we should hold the line and Jim mentioned that our cash conversion cycle days have remained stable. But from a dollar standpoint we need to be very aggressively holding the line on what we invest in the working capital. So it's an important area of focus for us. It can be a challenge obviously when the business is growing on how much you invest in working capital and obviously what we continue to convert in a very timely effective manner [indiscernible] watching it very closely and not just building inventory for the sake of building inventory. They better have a plan, a reason that supports why they're making that investment into working capital. And I think we're on that path but it's going to be – we got to focus on throughout the year. And I don't know Jim if you want to add some further color on that.

James M. Froisland: Yes, Paul. It's clearly on our scorecard. We look at it but there was – I'd mentioned that there was a focus on aftermarket. You have to have the inventory in that area to sell it at the right time. And then heading into the new year, the aftermarket picks up. So we had to build the inventory to make sure that the tire was there as we mentioned to be sold. So we have this build up at the end of the year going into 2018.

And then as Paul said, we've got initiatives. We both take a close look at it and the businesses do and we look at our cash conversion days. So they've been improving except for this last quarter where they evened out and again that was due to primarily stocking and making sure that we can make that sale and continue the double digit growth.

Justine Fisher: Great. Thank you guys for the time.

Paul G. Reitz: Thank you.

Operator: Our last question for today comes from Justine Ho with Mesirow. Please go ahead.

Justine Ho: Hi. Can you elaborate more on what you experienced with rubber last year? You said that cost went up and you were not able to pass it through in terms of price increases. Maybe if you could just elaborate a little bit more on that and what was the impact?

Paul G. Reitz: Right. We announced in the first quarter of last year is roughly a $10 million hit primarily to our North American tire business due to a sharp increase in natural rubber prices. It was driven primarily by some speculation in the market not driven by a supply constraint issue. For us, we run a higher blend across our total tire portfolio of natural rubber because of the off-road requirements of natural rubber being put into our recipes for our products. So we came out with that in the first quarter last year, probably one of the first public companies to announce an impact of natural rubber on their results.

What happened in subsequent quarters after that is that just about every tire manufacturer around the world expressed concerns and took really a hit to their operating margin due to the rising cost of rubber. And so for us that impacted us again in the second quarter roughly $9 million. So the total for 2017 was right around $19 million, $20 million and that was all in the first half of the year. So for us, the back half of the year the impact of imbalance between natural rubber cost and the price that we can pass through our customers, really the impact was mitigated. So it was really just a first half of the year phenomenon.

But it continues to be a drain on some tire manufacturers and they continue to talk about just issues with the imbalance between raw material costs and pricing. But for us, Jim and I in Titan have not had that same level of concern over the back half of the year and we have not talked about it in the back half of the year. So as we sit here today going into 2018, we do not have really any further updates other than we're kind of a rational world right now as far as price and cost and hopefully it remains that way. And then on the steel side of the business, as I talked about earlier, that's a different business model for us where we do have better capabilities to pass through the impact of any rising steel cost. So as steel prices have increased at this point, we are not giving any disruption through our cost model.

Justine Ho: And so did rubber cost go back down in second half and that's why there was no impact in the second half, or was it – because I don't think you increased prices, right?

Paul G. Reitz: Well, we did along with the competition. We only had one competitor out in the CIS region that did not increase prices. So what happened in the back half of the year was the combination of pricing coming down on natural rubber and then also just the ability to pass through some of those cost increases. And I would say to my knowledge really that's the only competitor that didn't act rationally with cost increases in passing those through to the pricing to customers. So for the most part, it balanced itself out in the back half of the year because of those factors.

Justine Ho: Okay. I guess I must have misheard you. I thought you were not able to pass the rubber cost increases through without price increases.

Paul G. Reitz: Just the first half of the year. If you look at the chart for natural rubber going back to the tail end of '16 into early '17, it spiked rapidly. So if it had done a gradual increase, it would have been less of an issue, but it didn't. It did one of those runs up the mountain that's scary to look at. And it was just driven by primarily speculation going on in some Asian markets. So that's why it wasn't a supply-demand imbalance, so that's why it was able to correct itself in the back half of the year. But again, if you just pull up our natural rubber chart, it does the hockey stick and it's ugly to look at. And the way our business model is and the way tire manufacturers is they've also expressed since that moment – we just don't have the ability to absorb those – well, we have to absorb the cost but we don't have the ability to

pass them on that quickly. And so basically everybody had to face absorbing those costs more so than what we could pass on. But it hasn't happened that – that hasn't happened that often out of blue. It's happened before in commodity cycles where rubber cost increased that quickly, but this one came out of the blue with natural rubber and again it wasn't driven by supply-demand and the world went back to normal fairly quickly.

Justine Ho: Okay. And I guess as a last follow up with that one. If you – when it spikes that quickly in the first half and you're able to then increase prices in the second half, do you have to give that back when rubber cost go down and then you end up having a permanent loss of that 19 million, or do you kind of --?

Paul G. Reitz: The way we look at it and the way – I think Jim's talked about it in prior calls is we do end up with the permanent loss. Generally speaking you end up – the commodity prices and really the components that go into our products are known by our customers. So generally speaking you end up pricing in an equilibrium manner between your price and your cost. And it's just when you get those rapid changes that you get some things to get out of whack. But I would say generally speaking you end up having permanent losses and then you get back to a rational price cost point which is where we've been since the back half of the year. Would you agree with that, Jim?

James M. Froisland: Yes, I would point out that that price uptick there at the end of 2016 heading into first quarter we saw 30% or 40% I'd call it a rocket price increase. It shot up like a rocket. Everybody as you said in the industry was surprised. And then it continued in the second quarter. It took a while for the rocket to come down. But it totaled about $19 million that we could not pass on or the industry as far as that goes. As a result, we did strengthen our purchase policy, such things as dollar day averaging going out, et cetera, trying to do what we could within our own four walls to control it. So that helped out in the third and fourth quarter naturally. So that's what I'd add. But as Paul said, it's back to "more normal."

Justine Ho: Okay, great. Thank you.

Paul G. Reitz: Thank you.

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 G. Reitz: I just want to say thank you to everybody for your time today and look forward to talking to you again here soon. Thanks.

Operator: The conference is now concluded. Ladies and gentlemen, thank you for attending today's presentation. You may now disconnect.