Titan International, Inc.
Edited Transcript of Q1 2018 Earnings Call and Webcast
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Company Representatives:
Paul Reitz: President and CEO
Todd Shoot: Treasurer and VP Investor Relations
Amy Evans: Interim CFO, VP and CAO

Analysts:
Stephen Volkmann; Jefferies
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Presentation

Operator: Ladies and gentlemen, welcome to the Titan International Inc. First Quarter 2018 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 purpose 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 of 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, to 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 on the company’s website.

Please note, today's call is being recorded.

At this time, I would like to turn the call over to Mr. Paul Reitz, Titan's President and CEO.

Paul G. Reitz: Good morning, and thank you for joining us today. I'll start by going through some highlights on our business, then I'll turn it over to Todd Shoot, our Vice President of Investor Relations and Treasurer to have him run through the financial aspects, and then we'll conclude by taking your questions.

I do want to start by noting that Amy Evans, our Chief Accounting Officer, is also on the call as she has assumed the role of Interim CFO. As noted in the 8-K filed a few weeks ago, Titan's board has decided to not renew our prior CFO's contract that ran through the end of the year and was up for renewal in June.

Since making that announcement, as noted in the 8-K filed last night, our prior CFO has separated from the company. As we stated previously, we are in the process of executing out our CFO succession plan and we'll update everyone when appropriate. We've had discussions with our accounting firms and after coming off a good, clean the year-end close, we are definitely confident in the financial team that we have in place to continue to perform at a high level. Also, along with that similar lines, we've been talking quite a bit about our ongoing system initiatives to upgrade our IT global platform, and I do want to update everyone and state that we've hired 2 executive level IT folks to complement our existing team, which will help ensure we continue the momentum of this important project. So I do want to start off today's call by updating everybody on that, and then do want to point out the reference to the 8-Ks that have been filed a couple of weeks ago and last night for further information.

Alright, let's move on and get into the business side of things. I'm going to start by looking back to last year at this time. In Q1 of 2017, we turn the corner into an optimistic mindset when we announced an 11% increase in sales after a long 18 consecutive quarters of declining sales. We then followed through the rest of 2017 with a strong 16% gain in revenue that included for the first time since Titan became a public company in 1993, a sequential gain in sales in all 4 quarters of the year. Therefore, it's definitely really nice today to report a continuation of this trend with a strong start to 2018 by posting a sale gain of 19% this quarter.

We once again, this period, reported good broad-based gains across nearly all of our geographical regions. Also and more importantly, this quarter for the first time since 2013, we had quarterly net income in 8 figures at over $14 million. This bottom line improvement, of course, starts at the top with the 19% gain in sales, which we then did a good job to drive more leverage throughout our organization, and that led to a $19 million jump in gross profit. That GP jump is combined nicely with us keeping a lid on SG&A as that dropped to under 9% this quarter, and the result is a much improved better looking bottom line.

All in all, it's a really good quarter and a strong accomplishment for our team to overcome the challenges of the past few years to achieve this growth and return to profitability this quarter. Titan has been capitalizing on this strengthening industry demand to deliver these increasing results over the past year plus. And like many other companies in similar industries, we operate today in a world that could be best described with cautious optimism. As we sit here today, there are plenty of reasons to be positive about of the world that we operate in and the direction that's going. But of course, there are some risks that will continue to keep our attention on alert as we move forward this year.

For example, let's move down under to South America. Last year, was about weather year for LatAm ag, and now the start of this year, we're looking at a market with a challenging environment as industry-wide sales have fallen. Farmers there are facing a dry weather pattern spread through Argentina and to South Brazil, that's had a decrease in crop production. You throw in the ongoing political concerns that continues to damper the overall economy, and you see a market that has turned into a different state as we start 2018, and that's been pretty well noted through other comments from other companies as well.

But, on the positive side, as we look to the back half of the year, there is a some movement in the Brazilian government financing program that we certainly believe will lead to some improvements in the second half of this year as ag is simply too important of a part of the overall Brazilian economy for that to not protected.

Moving away from the broader perspective in Brazil. I do want to take a minute and talk specifically about our Titan Brazil team. This -- our Brazilian team has worked closely together for many years. If you do recall, we acquired this business in 2011 so I've got to know this group quite well through the years, and I can't say enough about the tremendous gains they've made in all aspects of the business. This was on display again this quarter as we were facing these tougher market conditions that I highlighted. Our

Brazilian team worked hard to push the organization and managed to exceed targets in volume sales and EBITDA. We realize that there are challenges ahead as we move forward in the LatAm market, but we do remain confident in meeting our 2018 targets for this region.

Our ITM undercarriage business we've been talking a lot about in 2017, and they continue to 2018 right where we left off after exiting the strong 2017. We're continuing to see this business grow in excess of 20% with gross margin and EBITDA improvement that exceed those levels. Our strategic moves that we've highlighted a number of times over the last few quarters, and we put in place over the last few years, have really helped position ITM more effectively in the market, and ITM allowed us to capture gains in the improving construction and mining markets -- marketplace that we operate in, and we are continuing to see good global OEM demand across most geographies that ITM operates. The exception for this positive demand would be in Brazil or as I noted earlier, the challenging economic and political conditions, along with a weaker real that turned the sugarcane market, had negatively impacted our volumes in our ITM Brazilian operations.

The strong demand that we're seeing in undercarriage, which for us, is about 90% driven by mining and construction, is also translating very well to our European construction wheel business where we see that business growing at similar levels. One of our primarily European wheel competitors has recently announced a transaction to be sold and their wheel business is been declared a non-core asset that they would look to divest and my perspective on that is that it's definitely a long-term positive for our global wheel business as we continue to be committed to our core industries products and geographies that we operate in.

Moving over to North America where our business is tied more heavily to agriculture than mining or construction. That leaves them into the consistently discussed question these days on where is North America ag economy going in 2018. I would say, look, there's always a lot of what-ifs in farming. These tough typical what-ifs run the gamut from a whether the ethanol standards of interest rates, commodity prices, farmer income, et cetera, and of course, we've got the new one lately that seems to be the favorite in the media these days, which is what if Trump has hurt the American farmer with the tariff trade war. In my opinion, I believe Trumps a tariff move was shortsighted to attack raw materials and leave the downstream products exposed to potentially unfair competition. This move certainly creates a risk to supply chains and cause that may not be yield to be observed in the marketplace, which then, of course, could allow farm competitors to step in. That this seems to be thought that it's been shared in the tire industry and some of the pieces of information they put out.

I would say that through the years, Titan has fought hard against unfair foreign competition. That was seen most recently in January of 2017 when the ITC ruled five to zero in Titan's favor against certain tires importer from India and Sri Lanka. At this point, in my opinion, it's far too early to draw conclusion on what the tariffs will do to the American farmer. It's a Titan supply chain and ultimately, to demand for US-made products in our industries. We do know that it creates some uncertainty, but that is not unusual in the world of agricultural and farming. I will say that I am personally happy for our colleagues at the United Steelworkers Union and all of its proud members. They deserve the right to compete in a fair and equal marketplace.

As we sit here today, the farm equipment industry appears to still have a good foundation for 2018. I see that personally first-hand in positive comments from some of our large ag equipment dealers and farmers that we work closely with. But the reality is there's also some smaller guys, smaller dealers and farmers out there, they're still having a struggle day to day. I think overall, there improving vibes within the sector these days, as inventory and pricing levels appear to keep improving. It leads many feeling cautiously optimistic about 2018 agricultural and moving forward, continue to move forward in a little bit of a positive direction. I would just conclude by saying this, looking at the long-term, we are definitely

optimistic about solid growth and ag based upon the fundamentals that support ag-related commodity prices and ultimately drive farmer income.

So let me talk specifically now about our North American operations, which I'll have to start by saying we had a really good first quarter. We experienced strong gains in both sales and margins. We're also seeing a good situation with the raw material cost compared to pricing levels within the marketplace. And as we've been able to add more volume, we're starting to drive more of that through into our margins.

Titan in North America has continually been making progress with our business to adapt to a changing landscape of demand and competition. Certainly, it's been a very active five, six years. And recent times, demand has been strong for smaller horsepower equipment, which is a very attractive area for Titan as in North America and the customer base that we have. But large ag still stuck in the position where demand remains below that 30-year trend line. And if you've been to any of our plants or followed our company, this is our core business. We are an ag-based company, and so we have plans that are equipped to tools, and we are as strong as anybody in the world when it comes to the large ag and the products or the equipment that our products go on. At some point, large ag will bounce back up and trigger another level of profitable demand for industry and specifically for us but obviously, here at Titan, we can't sit around to wait for that. And we really have worked hard to adapt our business to these market conditions. But one example of that is, of course, the success we've had with the launch of our LSW wheel tire assemblies. I'm not going to spend a lot of time talking about LSW, I think you guys heard enough about that through the years. And if you've been to any ag shows you can see the high level interest that it attracts from the farming community, but LSW is just not enough in today's world.

So we are launching another project right now that will closely examine our product but folio. Again, because we are a complicated business from the aspect that we try to serve all the needs of the marketplace with our customers and their equipment and really anything they need to be successful in their business, our portfolios complicated. And so what we're doing right now is we're looking for ways to drive improvements in our product positioning strategy but ultimately, we'll drive further improvements to our plant and their efficiencies.

I got this project, it's initiated actually through an idea from an investor meeting where he got talking and presented it suggested from some positive experiences he's seen with many other mid-sized global companies that are not related to what we do, but he's seen this strategy play out very well in similar circumstances. So I'm excited to say we've got that project rolling and my operational team is really excited to get those results implemented in the latter part of this year.

We've been referencing in 2017, and then earlier today that the broad-based gain in our business and products. I do want to say that, that really wasn't the case unfortunately for Russia in the first quarter. Aside from all the sensationalized media headlines, that market for us is facing challenges in the Ag sector, along with a tough pricing environment that's really specific to our industry and some of the competitor moves that have been taking place. That resulted in this first quarter drop in our sales by slightly over 10%. Also what we saw is that because the market condition, the tire dealer inventory channels were fuller than normal as we enter the planting period now and also the weather added to a late start of farm fieldwork, and so both of those that all those items combined to a demand shortfall.

I do want to say, and I stated this before, we really have a good leadership team at Titan Russia that's been with us from the beginning. I'm confident, and they are confident, they will continue to do a good job in leading this business forward through these challenges.

Now moving direction and want to take a few minutes and just talk about the multi-prompt put option as we are in the period where that is, this coming closer into potential realization. I do realize that this is the lingering out there and people are waiting for an update from us. I do have to say at this time, I'm not able

to discuss publicly the current status of these discussions as they are ongoing. The matter does have the full attention of the board and myself, and we will certainly update you accordingly, as soon as we possibly can on that.

Before we jump over to the financials, I do want to take 1 last minute and just thank our Global One Titan team for wok ring hard through the challenges of the past few years to turn the corner positively with a strong sales in gains we had in 2017. And then moving ahead even further this quarter with a 19% increase in sales that propelled us to over $14 million in net income.

So now I'd like to turn the call over to Todd Shoot, for the financial side of the business. Todd?

Todd A. Shoot: Okay. Thanks, Paul.

First, a reminder that the results we are about to review were presented in a news release issued yesterday afternoon and are discussed more fully in our Form 10-Q, which was also filed yesterday. And as Paul referenced, there is also an 8-K that was filed in reference to our new Interim CFO, Amy Evans.

I will begin by talking about our income statement, which was very positive this quarter. Net sales for the first quarter of 2018 were $425 million, this was up 19% or almost $68 million from a year ago. This is our fifth consecutive quarter with year-over-year double-digit increases. And as a review of these prior periods, these year-over-year increases were beginning back in the first quarter of last year with an 11% growth year-over-year, 10% in the second quarter of last year, 21% in the third quarter, 22% during the fourth quarter and the previously mentioned 19% growth in the current quarter. That's an average growth each character of nearly 17% during that entire period.

For the current quarter, the net sales were higher in all segments when compared to the same quarter last year. Overall, net sales volume was up 12% with higher volume across both our Ag and our moving construction segments. Favorable price mix added 4% to net sales, while favorable currency translation added another 3%. As Paul referenced earlier, our earthmoving construction segment experienced the biggest increase in net sales of more than $53 million or 39%. This is on the heels of a $43 million, 35% year-over-year improvement in the fourth quarter within that earthmoving construction segment. Our agricultural segment was up 8%, while the Consumer segment was up 3% when compared to last year.

Moving on to gross profit margin. We reported gross profit for the first quarter at $60 million or 14% of net sales, this was compared to $40 million or 11.2% of net sales in the same period a year ago. This increase represents a 48% improvement in gross profit versus the first quarter of 2017. The increase in gross profit, both in gross dollars and as a percentage of net sales, was driven by increased net sales volume and also the associated manufacturing efficiencies related to that capacity utilization, as well as something that we've talked about for some time now, the ongoing continuous improvement initiatives that focus on lowering our cost and increasing our efficiencies.

Now for a closer look at each of our 3 segments. Our Ag segment net sales for the first quarter were $194 million, up $14 million or 8% growth over the comparable prior-year period. Price mix increased net sales by 4%, while volume added 3% and currency contributed another 1%. The North American region grew 13% over the first quarter of 2017, with gains experienced in both OEM and aftermarket. Europe experienced 11% growth in a net sales during the first quarter when compared to the same period a year ago.

Our Ag segment gross profit for the first quarter was $30 million, up $22 million -- up from $22 million in the comparable prior year. Gross margin improved approximately 330 basis points in the first quarter to 15.4% of net sales when compared to a year ago. Increased net sales volume and the same manufacturing

efficiencies that are referenced earlier and the utilization -- the capacity utilization, along with that, drove those increases in gross profit.

Continuing on to our Earthmoving/Construction segment. This segment net sales for the first quarter of 2018 were $189 million, an increase of $53 million or 39% versus a year ago. Overall, volume gains of 29%, primarily drove the increase in net sales during the quarter within North America, Europe and Australia. Favorable currency translation contributed an additional 7%, while favorable price mix also contributed an additional 3%. Our European undercarriage and wheel businesses both showed the robust OEM and aftermarket strength during the quarter, within the segment.

The gross profit within the Earthmoving/Construction segment for the first quarter was $22 million, which represents a nearly $10 million increase compared to the same period a year ago as well as an approximate 240-point improvement in gross margin to 11.9% compared to 9.5% a year ago first quarter '17. The previously referenced in North America, Europe and Australia regions each contributed to the increase in gross profit.

Now for our final segments, our Consumer segment. This segment's first quarter net sales were up $42 million, an increase of $1 million or 3% when compared to last year. The increase in consumer net sales was primarily from favorable price mix contributing 8%. Favorable currency translation contributed an additional 1% of net sales and volume impacts actually decreased sales by 6%. The segment's gross profit for the first quarter was $7 million, an increase of nearly $2 million or 32% versus a year ago. Gross margin was 16.8%, an improvement or nearly 370 points over the same period last year.

Now turning to our operating expenses. Selling, general and administrative and R&D expenses for the first quarter were $39 million, a decrease of $5 million or 12% when compared to the prior-year period. The decrease in SG&A resulted primarily from two things. Lower legal and also lower nonrecurring professional fees as compared to the first quarter of last year, as well as a third thing that we talked about for some time as well, management's continuing efforts to reduce SG&A, that paying off we're actually seeing the benefit of that.

Royalty expense of $2.7 million was up $.1 million, or 2%, this was due to higher net sales when compared to the same period a year ago. Finishing up on the first quarter operating statement. We reported income from operations of $18 million compared to a loss last year of $7 million, an improvement of $25 million. Interest expense was $7.5 million during the quarter, foreign exchange loss of $4.4 million was worse this quarter by $8.9 million when compared to a $4.5 million gain in the comparable prior period.

Other income was $7.8 million during the first quarter. All these items combined with our income from operations resulted in a reported income before taxes of $14 million, an improvement of $21 million from a $7 million loss during the same period a year ago.

Tax benefit during the quarter was $1 million versus tax expense of more than $3 million in the comparable prior-year period. And the net cash tax payments for the first quarter were $2.5 million. This led to a reported net income of $14.7 million for the quarter, equal to a $0.23 earnings per basic and diluted share versus last year's net loss of $10.6 million equal to an $(0.18) loss per basic and diluted share. This represents a $0.41 per share improvement when compared to their prior year.

For the first quarter of '18, earnings before interest, taxes, depreciation and amortization EBITDA was nearly $37 million versus $15 million a year ago. On an adjusted basis when we exclude FX, adjusted EBITDA was $41 million for the current quarter versus $11 million a year ago. This is an increase of more than 3x the prior year same quarter amount. As a reminder, we used EBITDA and adjusted EBITDA, these are both non-GAAP measures as a means to measure the company's performance. We

include a full reconciliation of EBITDA and adjusted EBITDA to our net income or loss within our press release, which as I mentioned, has already been issued.

Now I'd like to move on to our financial position and highlights, a few key balance sheet liquidity and capital items. The continuing growth in our business did result in the need for increased working capital, which in turn, lowered our cash balance at the end of the quarter. Our cash into the quarter at 111 -- $112 million as of March 31, 2018, which was approximately $31 million below our December 31, '17, balance. This use of cash to fund the business was anticipated during the beginning of this year. We knew that was going to be the case going into it. However, we are continuing to closely monitor the individual metrics of our cash conversion, and we began to see some improvement in March, and we expect further improvement, which is forecasted to continue in the second quarter and more significantly, in the second half of this year. We ended the quarter with inventory, accounts receivable and accounts payable balances at higher levels when compared to the end of the year. Our overall cash conversion cycle came in at 100 days and has increased 3 days when you compare that to the end of the year. As the conditions Paul referred to earlier within Russia, were a contributing factor to the overall increase in our cash conversion cycle days during Q1.

During the first quarter, accounts receivable days of sales outstanding increased 8 days to 63 days. Days payable in inventory decreased 2 days to 96 days, while days payable outstanding increased 3 days to 59 days. So 2 of our 3 metrics in our cash conversion cycle were actually improved.

Now for a few comments concerning our debt. Our combined current long-term debt totaled $463 million, which represents an increase of $12 million during the quarter and an increase of $7 million from the same period a year ago. Current maturities within 1 year totaled $55 million with approximately $24 million of that coming due between now and the remainder of the end of the year.

Our current debt, as a reminder, primarily consist of our $400 million senior secured notes, which mature in 2023. As you recall, we refinanced those towards the end of last year, and that's our current maturity in the current balance. I would also like to point out that we continue to have no borrowings under our $75 million asset based lending facility here in the U.S.

Capital expenditures for the first quarter were $7.8 million versus a year ago, $8.4 million. Capital expenditures are still -- we continue to forecast to be in the range of $35 million to $45 million, no change from our previous estimate there. Cash payments for interest are currently, forecasted to be approximately $30 million for the remainder of 2018, and this is based upon our current March -- actually, our March 31, 2018 debt balances. We do believe that we have sufficient funds for our operational working capital needs for the foreseeable future.

So in summary, there are several positive takeaways from the first quarter results. First, earnings were $0.23 per share for the first quarter. As I said before, that's a $0.41 per share improvement over the same period a year ago. And as Paul pointed out, it's our most profitable quarter since the beginning of 2013.

Net sales increased $68 million or 19%, the fifth consecutive quarterly increase at a double-digit rate. We increased gross profit by $19.4 million, a 48% year-over-year improvement and also SG&A decreased by $5 million at the same time we grew those sales by 19%, lowering SG&A to below 9% of sales versus 12% in the comparable prior year.

And finally, EBITDA increased $21 million and the first quarter to $37 million. With these positive first quarter results and coming on the heels of our '17 results that we remain optimistic about the remainder of the year.

Lastly, I want to reiterate that our previous 2018 business outlook and guidance remains unchanged. Our current 2018 forecast remains within the specified ranges outlined previously, and those have been in a number of news releases over the last few periods.

We'd be glad to end answer any questions you may have on the financials or any business matters. And with that, I'd like to turn things back to Andrea to begin the question-and-answer portion of our call. Thanks.

Question-and-Answer Session

Operator: We will now begin the question-and-answer session. [Operator Instructions]. And our first question comes from Steve Volkmann of Jefferies.

Stephen Volkmann: So stronger quarter than I expected here, Paul, and I guess, I'm trying to just think about how to triangulate the rest of the year. So maybe I'll start by just saying, was there anything in this first quarter on the cost side, maybe, that was sort of temporary some sense, and not going to be sustainable? And obviously, where I'm coming from here is that if you just annualize the first quarter, you get a number of quite a bit above your previous guided range, but then we just heard that the guided range stands. So it sort of implies some deceleration going forward, and I guess I'm curious why that would happen.

Paul G. Reitz: Right, right. Let's first, by just looking at the difference between the price of the back half of the year. The deceleration comes naturally in our business from the shutdown and the kind of the vacation periods that you're going to experience in July with the shutdown and August with European vacation time. Then you get the back half of Q4 where you typically start seeing that the holidays have an impact, obviously, the latter part of December then, of course, over Thanksgiving. Last year for us is a little bit different where as you enter 2018, you start to build enough some inventory levels with your OEM customers in the Q4 '17 for '18. So kind of looking at the back half of the year. We don't have that visibility yet for '19, and so we kind of look at the back half of the year being impacted by seasonality and looking at the information that we have today, and really coming up with that conclusion of staying within our previously issued guidance.

I think as we get -- it's probably not going to be until Q3 until we really know what Q4 goes, it depends what the OEMs were doing for 2019. But you are -- have that seasonality that the impact significantly both of those periods and again, that just happens naturally. That will once again be the case in 2018. So as you look at the front half of the year, to answer the first part of your question, we had some favorable trends in the first quarter driven by volume, as both Todd and I mentioned in the queue states as well. So as we increase our volume levels we're really getting good throughput through our plans, efficiencies have kicked up to a much better utilization level. We see it in an environment that was good for pricing in relation to our raw material cost. Obviously, 2017 was a real volatile year for that. This year, we've had a lot of media reports about potential disruptions to supply chains and cost.

We highlight that as a potential area of concern but for Q1 1, that was not -- we did not have an impact. It was a favorable situation, and we also saw our competitors in really every location but Russia act very rationally, and priced accordingly to make sure that the raw material cost, as they have gone up, and we're all aware of that, but raw material pricing in relation to raw material cost has stayed very balanced for the first quarter. And so we use that as an area for a concern as we move forward. Certainly, it is volatile, it changes from month to month. The way we procure raw materials where everybody procures raw materials, there is no natural hedging on a number of our components that we use, and you are going to be in a period where you have about 30 to maybe 60 days, where you can call yourselves locked in but beyond that, it's going to be highly volatile. So we do take the cautious mindset, like Todd said, 2017 was really a strong period. We saw that continue even better in 2018, bottom line jumped up quite

significantly. A lot of positives in construction and mining that helped us in our steel side of our business and wheels and undercarriage. The ag appears to be stable even though, as I mentioned, Brazil has been. Concerning any and seeing the numbers drop in every business, we did a good job in Q1. So again, that's an area that we just need to watch closely in the second quarter. But overall, we're confident our guidance for 2018, and there's just a lot of moving pieces and going to answer your question. But it's definitely, what we are looking at is the back half of the year being impacted by seasonality and just not having quite enough visibility yet to where the OEMs are going for 2019.

Stephen Volkmann: Okay. That's helpful. Was there anything in the price cost, you mentioned it was positive in the first quarter, is there anything in the sort of the way the contracts play out over the year or maybe inventory levels or something that might cause that price cost to be less positive in the second quarter, for example?

Paul G. Reitz: I don't think we have enough information on that. And now, I guess, the way we look at the forecast is just neutral. We believe with what we know today and where our costs are obviously, we tracked our cost and every component we buy closely, and we know what we're going to be buying in that as we look down the road as far as we can. And right now, we're basically looking at a world that's fairly neutral.

Stephen Volkmann: Okay. And then my final one, I'll pass it on, is I was surprised on the SG&A side, obviously, you guys kept that under good control, as you said in your prepared remarks. How should we think about that going forward? Does it sort of hold at this dollar level or was that sort of abnormally low?

Paul G. Reitz: Well, I look at SG&A almost like you look at a plan. I mean, you have your fixed and you got your variables, except I would say, in SG&A, world there is no such thing as truly fixed, and that's one of the things we're working to address with our system upgrades in data hold initiatives really about getting some of that what we have to declare now is a fixed SG&A cost really getting that into more of the variable model where we can control that better. So for us, like Todd mentioned, the variable part of our SG&A is going to be in legal and professional and in 2017, I will say it wasn't our strongest year on that side of the equation. Now I wish I could tell you, and I could control all the legal cost, I like our attorneys, Mike and Jeremy do a great job, but at times, they got to go spend some money, and so there is that variable component of legal that is just tough to predict. I do believe, as we sit here today, that legal will be better than what it was last year, but that's tough to predict. Professional it's moving in the right direction.

We've taken some measures to reduce our professional fees, and I believe that will continue to be moving in a positive direction. So the rest of the business, Steve, I mean, we are working hard as a company to control and I mean, where SG&A went in the last couple of years was just too high. We, as a company, with our gross margins, can't operate in a world of 11% to 12% SG&A. So that's why we're doing this IT initiative, it's really to leverage our company and get away from that operating decentralized business units that have infrastructure in all the locations and really find a way to drive that SG&A consistently down into levels where with our gross margin, we start flowing a lot more to the bottom line. So we do believe we got a good forecast for the year and SG&A being down from last year. This year, this quarter, was very good, like Todd mentioned, with legal, professional. So I would give us a little bit of area of flexibility on the SG&A for legal and professional to possibly sway depending on some events. But as a company, we are very focused on SG&A keeping it at these levels.

Todd A. Shoot: Steve, just as a reminder, we, I think what we had issued previously was 10% to 10.5% of sales for SG&A and R&D together. So that should be still in that range.

Operator: Our next question comes from Joe Mondillo of Sidoti & Company.

Joseph Mondillo: I wanted to ask about Jim's departure. I was under the understanding that he was to stick around until the end of this year, give you guys some time to find a replacement, but it seems like he left a much more abruptly. What exactly happened there? And then more importantly, just -- he was really manning the SG&A in part of the restructuring with SG&A and all that? Does that slow down or hamper this year's ability to sort of fully do as much you were planning on in terms of SG&A?

Paul G. Reitz: I mean, when it comes to SG&A, in every company, your CFO is ultimately the leader of that expense but we got 7,000 good people around the world that really are the ones out there running the businesses. So I had no concern with Jim leaving and the impact it will have on SG&A, that's between my business leaders of the people on my team and the direction that we're working together. So not worried at all about his impact on SG&A. Clearly, we have the right support and infrastructure in place with Todd and Amy that are on the call today, but going beyond that with the rest of the financial team to continue to monitor SG&A and drive the right decisions. But the separation announcement that came out yesterday with the -- our prior CFO separating from the company. You're right, we did file an 8-K a few weeks earlier, and it had a different timetable. Really, all I can say is that he had separate that from the company, but from Titan's perspective, we are, again, very confident, the team we have in place. I mean, with the global business and the financial reporting requirements of a public company, it's done by a lot of people.

And Amy has been with a company now for a while, and she's been through the close. We had a very good year end close. We've definitely been talking with our accountants about this CFO transition. They remain very comfortable and confident as those are Board of Directors. We will -- as we said a few weeks ago, we will be ongoing in the CFO search process. One of the things that we've done as a company is we've created a Chicago-based office, I certainly believe, and I know for a fact, that will allow us to attract the right candidates to Titan. One of the challenges we have in the past is our location has limited the pool of potential candidates. Clearly, we're in a different position now as we are going about that CFO search process and as a company. I mean, so I think you take our location in our company, and it's a much different environment. So I do not anticipate at all that we'll have a hard time attracting a very good highly skilled person for that position. But I do want to say, and give Amy a chance to introduce herself here in a minute, I mean, we do have a good team already in place, and Amy has been leading that charge already. Amy do you want to take a minute and introduce yourself to the group. If you can give your background, that would be great.

Amy Evans: Good morning, everyone. As Paul said, I have been here for a couple of months, I started in the beginning of March, and I'm really happy to be part of the Titan's team. I, as most of you who have seen the press release, I've got a very broad, diverse background, a lot of multinational corporations, both Fortune 500s and private. I started my career in the CPA, started at Price Waterhouse as an auditor. My most recent experience was an adviser to the executive leadership team at Stericycle. And prior to that, I was interim Senior Vice President and Chief Accounting Officer at RR Donnelley. Then prior to that, I have worked at other large, multinational corporation, I was at Navigant Consulting, Agency Finance, Sara Lee, I did a stint at Opportunity International, which was a nonprofit organization. So I've had a lot of experience, leading diverse, as I said, diverse multinational teams, and I'm really excited to be onboard here at Titan. I see a lot of growth and opportunity and nothing but forward movement. So the close went really smoothly, and I expect that we have things under control and new but exciting challenges ahead of us. So with that, Paul, if you want to make any further comments?

Paul G. Reitz: I appreciate that Amy. That was good to give everybody your background and introduction. So Joe, I'll kick it back to you see and see if you got additional questions.

Joseph Mondillo: No, that was informative. I wanted to ask now into the business side the gross margins. The incremental margin expansion at the Ag segment relative to the construction was quite strong

compared to the revenue growth, the margin expansion was quite strong at Ag. Just wondering sort of what different dynamics are driving the Ag margins in the first quarter relative to construction?

Paul G. Reitz: Well, for us, it is a different product mix in Ag being more North America-centric when you look at Ag. And the primarily locations that we produced our Ag products are not quite at the same utilization levels as where we produced some of the Earthmoving/Construction products. So there still the opportunity to increase the margin as we continued to drive more leverage where as we do have location that are running, that's very, very high capacity levels, utilization levels, and really getting the higher levels of pull through and the margin on Earthmoving/Construction. So it's kind of a product mix within the Titan universe and where we produced products and kind of demand levels. So -- and as we all know, too, Ag is just a -- just hit a different point that are moving construction where Ag is really bifurcated between some of the smaller products, which do have less margin and are really been driving a lot of the growth last couple of years and large Ag still continues to lag behind. So for us, it's somewhat of a mixed, it's particular to Titan where we produce products and kind of how our plants are being utilized based upon the different segment.

Joseph Mondillo: So Todd, certainly highlighted, in terms of gross margin expansion as cost absorption, cost capacity utilization, in terms of you talking about certain regions, especially North America, are those North America plants running at higher utilization rates. So every little bit of volume, you're just getting that much more gross margin and maybe compared to mining and construction, it's not as much, is that what your sort of referring to?

Paul G. Reitz: In the plant in North America, I mean, they were up -- last year and obviously the years before they're running at a much lower level of utilization, whereas the earthmoving/construction operations, more European based, we're already are running at higher levels. So you get a bigger pop in Ag regions, excuse me, in the Ag plants into North America regions because they're going from a lower level of utilization up to improving situation. So you really went from - - you had more room for gain - - ground to gain.

Joseph Mondillo: And in terms of product mix, at both segments, Ag and construction, you can take one each by its own, where are we if you look at the last 5 to 7 years, where are we in terms of the cycle within the product mix? Are we still very close to the bottom in terms of small versus large? And again, Ag is different than construction, but I'm just curious how much more upside we have in terms of a mix and driving those margins going forward, over the next several years?

Paul G. Reitz: Oh, yes, I think we've got a lot of upside there. Our businesses are tooled up and really ready to run in both sides of the fence, so both small and large. So I think we sit on a global perspective in a unique manage point with that. The problem with that though it is we are tooled up a lot of large products. So if OEMs need something Titan is there to take care of it. So if you look at our utilization rates, the large Ag is still is at a much lower level. And so what I was referencing earlier as part of the differential between when you gain ground, you're going to get a bigger pop in North America as we start getting more of that large Ag going through there. And so I believe if you look at the 30-year trend lines, the large Ag is still well below just the normalized trend line. So there is just inherently a gap that, even if that's just fills backups and amortization, that will really help out our plant's operation and obviously, our gross margin. So I sit here today and think there's definitely a lot of upside that eventually has to happen. It's large Ag, we're watching it, we kind of wait for that moment where farmer income and commodity prices and everything comes together, and you get a bigger buying cycle than what you're seeing. I think you're seeing a good stable replacement cycle right now, like you're seeing inventory channels improve, you're using definitely the higher horsepower inventory starting to move at good prices, but it's not that big pop that still, really, at some point, exist just by looking at the trend lines over the 30-year history. So

for us, yes, there's a lot of potential still sitting on the table for our business to grow stronger as large Ag jumps back up.

Joseph Mondillo: All right. And in terms of the SG&A expense is just going back to that. ERP investments, where are we in terms of the time line there? It is upfront related investments with the ERP system, is that going to potentially bump up SG&A at all in the near term in terms of your expectations?

Paul G. Reitz: The run rate you saw in the first quarter of this year is going to be basically the runway we have going forward. We are moving forward as aggressive as we can with that project. But it is cloud-based. So you save a lot on the CapEx, the infrastructure of making those investments upfront. As we go forward, we're breaking this down into phases over a couple of years, so I don't expect that all change SG&A significantly. As we are going to be successful this project, so we're not going to overtax our resources at Titan in doing so. So the first phase of the project is really to get our financial reporting teams are more efficient, have a global consolidated start of accounts that allows our back-office to really streamline their clothes but also allows us to get information more efficiently onto the management teams, and that's how we look at the first phase then we start going out to our plants.

We'll start here in North America with 1 plant then move to the next one. So this isn't going to be a big bomb that we're going to drop on anybody, and if we find ourselves in that position then we're just going to adjust our time line. So I'm not comfortable with the run rate on SG&A, very comfortable still with the team we have in place and the project moving forward. But again, my mission statement to the organization as we are doing this to set the tone right culturally from infrastructure-wise, become a more efficient organization to be less decentralized. But the last thing I'm going to do is screw the whole thing up by trying to go too fast. So that's just not something that I believe it's going to happen, Joe. So we're going to do this the right way, and I think the cost is on Q1 will be pretty similar as we move forward.

Joseph Mondillo: Okay, perfect. And asked question for me, on the operating -- the other income line, below the operating income line, you break that out in the Q. And in the other income line within all of that, there was about a $5 million number of income that beefs up EPS a little bit, what exactly was that? And I'm assuming it's maybe one-time, but if there's anything ongoing?

Todd A. Shoot: Yes, Joe. I can add to that, it is one-time. There is an arbitration award that's in there. We are under obligation to keep that information confidential. So we really won't be expanding on that anymore from what we've said there, but that is a one-time benefit. If you look at our run rate for other income, it's typically between $11 million and $12 million, $12.5 million over the last 2 to 3 years, and that's if you take that and break it down by quarter, that's probably what would expect for the remainder of the year.

Operator: Our next question comes from Larry De Maria of William Blair.

Lawrence De Maria: A few things. Just stay with the European implementation for a second, it sounds like you're obviously, you guys got a plan to phase it in. For a call, that was a pricey domain. So just curious, how if at all, if at all, things are changing time line changes, implementation changes and if there's somebody else is not running that implementation?

Paul G. Reitz: Yes, there is. And so my responsibility to the organization is that once we announced that CFO succession plan, as voted upon by the board and I need to make sure that, that's exactly what you're referencing to take place. So we needed to have the right people in place to ensure the project is going to be successful, and we did that. In the last month, we've hired 2 highly skilled IT professionals into our Chicago office, working in conjunction with the teams that we already have in Quincy, and it's going to be right where we left off, definitely feel confident with that. So the people that will be leading that project are already onboard, already part of the Titan team and expect that to be a smooth transition.

Amy Evans: Larry, I'm sorry, this is Amy. I will add that I have been very active in the IT, the ERP rollout, so I will be very involved in it as well.

Lawrence De Maria: Okay. Also, as it relates to the supply chain, obviously, you guys have probably more about inflation than getting access to keeping this supply chain going, but curious about maybe more upstream, what you're hearing and your concerns are related to OE's and you supply to because they may have other issues that can throw things down. So how are you thinking about maybe upstream in your ability, you might have the ability to supply them but what you're hearing in terms of slowdowns and availability and because that could, obviously, fall back to you guys?

Paul G. Reitz: Yes, it's a good question, Larry. For us, because we're such a large -- we use so much steel, we use so many components, I don't want to say I don't worry, but we feel very confident that our supply chain won't be interrupted by capacity. What I probably see as more concern with the OEMs is actually the logistical side of it. Right now getting trailers hooked up and getting people to move the trailers is causing some bottlenecks. And that's probably what we're seeing more on our docks and our business is just the way trailers hooked up. And so you look at the about a product as OEMs are moving, they obviously have access to some of the finest logistical operators in the world, but it's a concern. There's a shortage of skilled professional truck drivers out there that the new laws and regulations in place, everybody's kind of fighting for these lanes depending on the location and geographic location where you're trying to move the products. But kind of going out of supply chain a little bit, more looking at it from logistics, it's something that we are starting to see everybody fighting harder just to move products. So that does impact the supply chain, if you're trying to get raw materials in what you're referencing. But I think on the overall supply chain, everybody's kind of ramped up production a little bit. We've seen the companies in North America where they can't quite to meet all of the supply, there's been enough import still coming into the market that I don't see anything in 2018 that's going to cause that supply-side interruption, it's more just getting products moving around that is more of a concern.

Lawrence De Maria: Okay. So does that mean you see some pushed out lead times because of that now? And to what kind of level, I'm curious?

Paul G. Reitz: At this point, it's not necessarily push out lead times, but it's just -- it's a fight to get the trailers. So I think what you need to see happen is you need to get more available trucks to move products. And so that needs to happen somehow, someway, either get more people into the profession, you look at getting more efficient where you're able to move product more effectively what you've got. I was talking to some folks yesterday that are in the business, in the trucking business, and it is they got a lot of trailers right now that are parked, they're trying to find people.

So right now, I don't see necessarily impacting lead times, but it is – it's a race, and so you always want to make sure that they are still running in that race in that race doesn't stop moving, which is not the case right now. Definitely, there's still moving, but it's at times, you see the product sitting there that little bit of extra time kind of wait for something, but I don't -- I think everybody has enough cushion built into the supply chain that I don't see impacting lead times and delivery to customers yet.

Lawrence De Maria: Okay. And then two last questions. You mentioned LatAm you are on track to hit those, can you remind us what they are and how we think about kind of the growth in LatAm? Number 1. And secondly, in respect to, obviously, you don't want to do Russian put option, can you, I don't know if it's even possible to book in some of the financials around that? Or even discuss to you is there likely to have a major capital structure change at all? Just what some of the theories that rest is possible?

Paul G. Reitz: As far as Brazil, what we said is goals down there, we still do continue moving forward with the growth despite the challenging market conditions. So as we are planning out 2018, we definitely saw some trends to start the year that were going to be highlighted as concerns, and we've all seen it and

the numbers that we reported as far as industry-wide tractor sales. For us, we've had a lot of confidence in our team, as I stated. And so our forecast for 2018 was still to grow, which considering where that market was in 2017, the exceptional year it had, producing growth again in 2018 was what we believe the very good result for our team. Again, considering coming off 2017 and where the market was in 2018.

As far as a Russian put option goes, definitely it's something that's very important to the board, to myself. We spent a lot of time on it. We believe we have a team there that is moving in the right direction. The overhang cost by the put option, I'd love to be able to sit here at today and completely remove it all. But it will say is the options that we do have are either restructure it, that's the obvious one, you issue equity or you pay them off in cash. At this point, those are the options. We just are not at a point where we can talk any further about it. Certainly, we will as soon as we can, Larry.

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

Paul G. Reitz: I certainly appreciate everybody's time today, I look forward to talking to you again next quarter. Thank you.

Operator: The conference has now -- please note that a webcast replay of this presentation will be available soon within the Investor Relations event section on the company's website. Thank you for attending today's presentation. The conference has now concluded, and you may now disconnect.