Titan International, Inc.
Edited Transcript of Q2 2018 Earnings Call and Webcast
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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].

It is now my pleasure to turn the floor over to Todd Shoot, Treasurer and Vice President of Investor Relations for Titan. Mr. Shoot the floor is yours.

Todd: Shoot: Thank you, Brandon. Good morning and welcome, everyone, to our second quarter earnings conference call. On the call with me today, I am pleased to have our President and CEO, Paul Reitz, and our Senior Vice President and CFO, David Martin.
I will begin with the reminder that the results we're about to review were presented in the earnings release issued this morning, along with our Form 10-Q, which was also filed with the Securities and Exchange Commission this morning.

As a reminder, this morning, we will be discussing certain forward-looking information, including the company's plans and projections for the future that involve risk, uncertainties and assumptions that could cause our actual results to differ materially from the forward-looking information.

Additional information concerning factors that either individually or in the aggregate could cause actual results to differ materially from these forward-looking statements can be found in the Safe Harbor statement, included in today's earnings release attached to the company's Form 8-K filed earlier today as well as our latest Form 10-K and Forms 10-Q, all of which have been filed with the Securities and Exchange Commission.

In addition, today's remarks may refer to non-GAAP financial measures, which are intended to supplement, but not be a substitute for, the most directly comparable GAAP measures.

The earnings release, which accompanies today's call, contains financial and other quantitative information to be discussed today as well as the reconciliation of the non-GAAP measures to the most comparable GAAP measures.

The earnings release is available on the company's website within the Investor Relations section under News & Events.

Please note, today's call is being recorded. If you'd like a copy of today's call transcript, this will be available on our website soon after the call as well.

We're going to start the call this morning with Paul going through some highlights from Titan's business and our markets for the quarter. David will walk us through an overview of our financial results and our outlook, and then we will turn the call back to Brandon to begin the Q&A portion. Paul?

Paul Reitz: Thank you, Todd. Good morning, everyone. And we appreciate you joining us today.

Let's jump into things. We came out of the gate in 2018 on a positive note, with a nice return to profitability. We kept the momentum going in the second quarter with our sixth consecutive quarter of double-digit revenue growth at 18%, along with another quarter of improved operational performance as adjusted EBITDA grew by nearly 60% to $33.5 million.

I believe we are on a good path. The solid growth and operational improvements are spread across our various business units as we continue to move forward in many positive ways.

However, I do want to point out that it's really our Earthmoving and Construction business that's jumping ahead with 32% growth this quarter, and that is being driven by our ITM undercarriage business that posted strong results again this period.

Before I dive further into our business units, I want to point out a couple nonoperational items that had an impact on our bottom line. The US economy continues to be on a tear. And that combined with the stimulus that's being pumped in the economy has pushed the dollar to even stronger levels against the currencies of many countries that we operate in. And for us, that's created a fairly sizable currency headwind.

It's our job as a global manufacturer to manage the cocktail of currencies that we buy and sell in, and there's proof that we are managing around that effectively as it's reflected in our sales and operating income growth results.

However, our currency movements are typically non-cash and non-operating as our FX fluctuations are centered around intercompany balances.

I want to point out another non-operational item this period that was nearly a $5 million hit. It was related to the redemption value of the Titan Russian put option. And again, that is also heavily driven by currency fluctuations.

I'll let David talk further about the financial results later in the call, but I did want to point out these two items that don't take away from the positive operational execution that we had across many of our business units this quarter.

All right. Now, let's jump into the businesses. I want to circle back to my previous comment about ITM, our undercarriage business unit. As you may recall, back in 2016, we received an unsolicited offer for this business.

Myself, along with the board, with assistance from our advisers at Goldman, we felt that the future trend lines for ITM was very healthy based on our extensive manufacturing capabilities we have in this business, our strong management team, the sound strategic investments that we had already made in the ITM, we were confident that this – ITM and where we are at that we are very well positioned for a strong future.

Looking back now over 18 months later, it's great to say that ITM has performed exceptionally well, even outperforming our own expectations as we expect 2018 to be the highest year of sales in ITM's history.

Again, as in recent periods, ITM sales gains this quarter were outstanding, with EBITDA margin improvements that well exceeded those sales growth levels.

Our undercarriage growth is coming really from a good global mix of strong activity out of OEMs, especially so out of China and with road building.

Also, our investments that we've made to improve our mining aftermarket business with undercarriage continues to reward us with strong sales as mining activity continues to improve in many regions around the globe.

We have a strong order book, and we expect this business to continue on a very positive path. The only exception for ITM, and I talked about this before, is in Latin America. That business is heavily weighted towards sugarcane. It's a market that is very good for us in the aspect that we are the only undercarriage manufacturer based in Brazil. But again, it's heavily directed towards sugarcane. So, with the manufacturing presence we have in Brazil, the strength that we have being really the only manufacturer down there, we remain confident with the long-term prospects for ITM in Brazil, but, again, are taking a few lumps with the sugarcane market there.

For our ITM business, as we look towards the future, we need to and we will continue to make the investments to make this business stronger. We are continuing to invest in capacity in the right places to meet the growing demand. We're making investments to further develop our product range. We have a keen focus on reducing costs in key middle-size ranges, and then we're developing some market-leading IT solutions that will only enhance our good customer experience that we have today. So, with that in mind, along with the strong leadership team, we feel really good about the future of our undercarriage business.

So, moving over to North America now, where we, along with many other companies, find ourselves in the middle of a protectionist tariff battle, which means the business landscape of today looks much different than what it was just a year ago.

The early steps out of the gate were to reduce regulations and lower taxes to promote positive business activity. I think we've seen that it's done that.

Now, we find ourselves in the next phase of the administration's plan, which is to create better trade deals. And for US manufacturers like us that convert raw materials to finished goods and also sell into the ag sector, the tariff battle has created a barrage of fast and furious changes.

So, what does that mean for Titan and our businesses here. Let's start with our North American wheel business that have seen steel costs accelerate over 30% to really almost unexplainable and unprecedented levels.

We have the largest ag wheel plant in the world. We build some of the best ag wheels in the industry. That has enabled us, through the years, to develop solid long-term relationships with our OEM customers that include contracts to their pricing adjustments based on raw material fluctuations.

Our wheel business is around 90% OEM. So, for the most part, those pricing adjustments have kept us in line with the raw material costs.

Overall, ag OEMs and equipment dealers in North America remain on the bullish side. So, our North American wheel demand that has been strong thus far in 2018 is expected to continue on that path.

As we look to the back half of the year, in our wheel business, we really just need to remain diligent in our recruiting and our retention of good people to ensure we successfully manage our costs and our production fill rates.

Moving over to the North American tire business, we had another good quarter of solid growth in sales and operating profit, but we did start to see the impact of the tariffs.

Our tire business is a fairly even blend of OEM and aftermarket sales. It's tilted more towards the OEM side. Therefore, our business is tied heavily to farmer sentiment to either invest in new equipment or spend money on equipment maintenance.

At this juncture, from all the information that we receive and the conversations that we have of the market, it appears that farmers continue to have a strong need to replace aging equipment, along with the fact that farmers do believe that the ag market will improve further down the road.

At this point, there is the impact of the tariffs moving in the backgrounds. We've all seen what they already have done and could further do to the US grain export markets, the grain commodity prices and the cost of ag equipment.

Despite the drop in the commodity prices and some of these concerns I highlighted, we've heard from many OEMs and larger equipment dealers that they continue to feel good about the prospects for the second half of this year and heading to 2018.

So, for tire manufacturers, if you recall, the first half of 2017 was difficult as we all dealt with the negative impact from the rampant inflation in natural rubber.

Natural rubber is our single largest item in entire costs of sales, but our tires also use a large amount of synthetic rubber. So far, in 2018, natural rubber has laid low at really moderate historical levels.

But we've seen a run up synthetic rubber now with a 25% increase since the beginning of the year as oil prices have moved higher. We've also seen a price jump in carbon black and chemicals used in tires.

So, as a result of this inflation in raw materials for this quarter, we weren't able to pass along all of the rising cost through to our customers. However, based on these rising costs that are expected to remain at these higher levels, we have announced a price increase for our North American tire business effective September 1.

Jumping down to Latin America, the headline grabber this quarter was a nationwide trucking strike in Brazil that forced many businesses to shut down their operations for extended durations.

For us, in São Paulo, we had to cease operations for one full week with no production. So that was a quite expensive shutdown for any type of manufacturer like we are.

Along with that, the Brazilian real has continued to weaken, which helps exports, but has caused inflation with raw materials for many Brazilian companies that buy in US dollars.

Of course, when you're talking about Brazil these days, politics and presidents are nearly always part of the discussion. With an upcoming election in October, the political situation has added a layer of uncertainty again to business this period.

We did see the government take some expected positive action this quarter with their FINAME that finances many ag equipment purchases and that has helped OEMs to continue to forecast growth for the second half of this year.

With all that being said, we have a talented and experienced team at Titan Brazil that has been through situations like this many, many times. They have and they continue to manage these issues effectively for us. Our business was off plan for the second quarter, but still ahead of last year's results.

If you look at it closer, at a constant FX rate, Titan in São Paulo did experience growth in the first half of this year, but mix and currency worked against us to offset those volume gains.

Once again, we had a quarter of lots of media attention around US and Russia. For us, our Russian business had a good quarter of improvements in sales and EBITDA. However, it is a market that is still challenged there as we look back to the second half of this year.

There's pricing. There's concerns in the ag sector. You are seeing some slowdown just overall in the economy that is also impacting the ag market. So, inventory has gotten more crowded, but we continue to work through those situations, work close with our dealers and ensure that we hold on to our strong position that we have in the market.

We continue as well to improve the efficiency of our plant in Russia and improve the quality of the products that we produce through the investments we've been making through – making there through the years.

Regarding the put option in Voltyre-Prom, we are now within the window that started on July 9 where our partners could exercise the put option anytime during a six-month period.

If the put option were to be exercised, Titan has the option of settling the put in either cash or stock. As of today, I can state that we've had some meetings recently with our partners to discuss the future.

At this point, neither of our partners have exercised the put options as these discussions continue. This matter has the full attention of the board and myself, and we will continue to update you accordingly in the future.

I want to spend now a few minutes on David Martin, our new CFO. I've spent a lot of effort building a good global team here at Titan, and I'm really confident that David is a strong addition to that team.

I say that because not only does David have the requisite 10 years of experience as a public company CFO, but he comes from a company that is similar to Titan in size and operations.

This has really enabled David to walk in the door and feel comfortable in the role and immediately make a positive difference in our business, not just the finance team but in our business.

I can personally state that I'm glad to have Dave as part of our team, and I'm really confident in the value that he brings to Titan.

To wrap things up, earlier this year, we issued expectations for 2018. And as noted in our Q2 release, we've tightened the parameters on our 2018 forecast.

It's to illustrate our belief that Titan's business will continue on a good path for the second half of this year. In the short-term, the changes and uncertainty of global protectionism has brought us challenges as it has for many companies like us.

We are proud of our recent operational and financial accomplishments. And when looking further down the road at the longer-term picture, we are confident in our industry-leading strengths and our markets, and we remain committed to making the right decisions to benefit our shareholders and our customers.

I believe our customers understand that if you are looking to reduce uncertainty in a complex evolving global world that Titan is definitely the company to turn to. I'd now like to turn the call over to David.

David Martin: Thanks, Paul. And good morning to everyone on the call. Let me start by saying that I'm very excited about joining the Titan team. After a little over one month in the chair, I'm even more enthusiastic about the opportunities that lie ahead for our organization.

As Paul said, I've spent a long time in my career and been working with a diverse global specialty construction, industrial services and manufacturing business, and that required relentless focus and discipline across the organization.

In this environment, I learned that I also had to be very proactive and remain agile to meet the challenges of complex and often volatile global markets.

My last 10 years as a public company CFO prepared me well to hit the ground running here at Titan, and I'm very energized by the opportunity to be part of this leadership team, in my ability to make strong contributions to our future success.

I see a tremendous amount of dedication and pride in our recent accomplishments. At the same time, I also see a strong sense of urgency to unlock more power from the business in the future.

I believe we have great things in front of us and as we focus on our initiatives to make this company even stronger.

With that said, I'll spend my time this morning going through the key drivers of our second quarter and first half performance and discuss a few things that are in front of us as we navigate the second half of the year.

Let's start with the top line. Net sales for the second quarter of 2018 were $429 million and this was up 18% or almost $65 million from a year ago.

As Paul said earlier, it's the sixth conservative quarter with year-over-year double-digit increases. Over the past four quarters, our sales growth has averaged 20%.

Here's some further details regarding our revenue growth. Net sales were higher in all segments when compared to the same quarter last year, but net sales volume was up 16%, while favorable price and mix added only 2% to net sales and an unfavorable currency translation reduced our net sales less than 1% this quarter.

Our Earthmoving and Construction segment experienced the biggest increases in net sales of nearly $48 million or 32%. This follows the 39% and 35% year-over- year improvements during Q1 of this year and Q4 last year respectively.

Our Agricultural segment was up 8% for the second consecutive quarter on a year-over-year basis, while the Consumer segment increased 6% compared to last year. Again, volume gains drove much of our improvement within each of the three segments.

Moving on to our gross profit and our margin performance. Reported gross profit for the second quarter was $58 million or 13.6% of sales compared to $44 million or 12.1% of net sales in the same quarter last year.

This increase represented a 32% improvement in gross profit versus last year. The increase in gross profit in dollars was driven by increased sales volume, partially offset by material costs, but steel in particular.

We were able to offset some of the steel increases with our raw material pass-through mechanisms, but not all of it. Production efficiencies, driven by the increased volume along with favorable product mix, led to the improved gross margin percentages during the quarter.

Now, I'd like to take a look at each of the three segments in more detail. Our Agricultural segment sales for the second quarter were $187 million, up $14 million or 8% compared to last year.

Volume increased the net sales by 8.5%, while price and mix added another 2.3%. Then unfavorable currencies reduced our net sales by 2.8%.

North America grew over 12% over the second quarter of last year, with gains experienced in both OEM and in the aftermarket. Our undercarriage business in ag was up 22%, while Latin America was down 15% during the quarter, primarily due to currencies, along with the trucking strike, which disrupted the business during aa portion of the quarter.

Our Agricultural segment gross profit for the second quarter was $27 million, up from $23 million last year's second quarter.

The gross margins improved approximately 127 basis points in the second quarter to 14.6% of net sales when compared to the same period last year. Increased net sales volume, primarily North America and undercarriage, and the corresponding production efficiencies, drove this overall increase in gross profit.

Continuing on to the Earthmoving and Construction, this segment's net sales for the second quarter were $199 million, an increase of $48 million or 32% versus a year ago.

Overall, volume gains of 26.5% primarily drove our increase in net sales this quarter, with all regions up over prior year, led by the undercarriage business in Europe, while in North America tire and wheel also showed strength.

Favorable currency translation contributed an additional 3% in Construction and Earthmoving, principally in Europe, while favorable price and mix contributed an additional 2%.

Gross profit within Earthmoving and Construction for the second quarter was $24 million, which represents a $10 million increase from a year ago as well as a 275 basis point improvement in gross margins.

Again, our European and North American regions contributed to the increase in gross profit on the added volume related to production efficiencies from increased capacity utilization in our plants.

Finally, let's briefly go through the performance of the Consumer segment. The segment's second quarter net sales were $43 million, an increase of $2.6 million or 6% when we compare it to the last year.

The increase in net sales were primarily result of favorable volume, contributing 10%; favorable price and mix contributing an additional 1%, while unfavorable currency translation decreased sales by 5% this quarter, primarily within Latin America.

This segment's gross profit for the second quarter was $7 million, which is flat versus a year ago. Gross margins were about 15.7%, which represents a reduction of 87 basis points over the same period last year, again was due to the challenges in Latin America that drove that.

Turning to our operating expenses. SG&A and R&D expenses for the second quarter were $39.5 million, an increase of $2.4 million or 6% when compared to last year. This increase in SG&A, primarily related to information technology costs and investments that we're making, costs from the new company-wide initiatives to upgrade our basic ERP systems.

We also have increased our R&D spending as efforts to improve our product designs are moving forward.

Royalty expenses were $2.6 million in the quarter, and that's up 4% due to the higher net sales volume when compared to the last year.

We reported income from operations of $16 million in the quarter compared to income of $4 million last year. That's an improvement of $12 million year-over-year.

Our margin of 3.8% is still not where we need to be, but is reflective of our improved volume and a solid result compared to our recent past.

It is an important initiative to leverage our operating costs to drive operating margin performance in the future, and we are already getting focused on this in the organization.

Interest expense was $7.7 million in the quarter, which was slightly higher than a year ago, reflecting higher debt balances.

Our foreign exchange losses for Q2 were $3.6 million, which was better than last year by $1.7 million. This quarter's losses were driven by currency devaluation experienced primarily in Latin America during the quarter.

I want to point out that this will be another important initiative for our global leadership team as we've experienced significant volatility in recent periods from currency swings and the impact on our intercompany loans and balances between our operations.

All these items, combined with our income from operations, resulted in a reported income before taxes of $7 million, which represents a large improvement of $13.8 million from a loss last year during the same period.

This is obviously a significant improvement in the business year-over-year. Tax expense during the quarter was nearly $1.7 million versus tax expense of only $0.1 million last year.

The net cash tax payments for the second quarter were comparable to last year at $2.6 million. The rate of 23% during the quarter was more normalized with no unusual impacts.

As our quarterly pretax income and losses in various tax jurisdictions fluctuate due to performance and – to a certain extent – seasonal trends, we may see unusual quarterly tax rates in the second half of the year.

A final item to note in our second quarter performance discussion relates to the redemption value adjustment of $4.7 million, which was similar to last year in Q2 where we recorded $4 million.

Approximately $2.6 million of this adjustment related to the impact of the current period from currency devaluation of the Russian ruble versus the US dollar, and the remainder was principally reflective of the interest component to the fair value of the put option.

It's important to note that the combination of the currency devaluation impact from the redemption value adjustment, along with reported foreign exchange losses which both hit below income from operations, totaled $6 million during the quarter, which significantly diminished our reported net income for the quarter.

That said, reported net income was $5.7 million for the quarter or $0.02 per diluted share versus last year's net loss of $6.5 million, which was $0.17 per diluted share. This represents a $0.19 per share improvement comparable to the prior-year period, which included these negative currency impacts and the normal redemption value adjustment related to the put option.

Our second quarter EBITDA performance was nearly $30 million in the quarter, which was an increase of 88% from last year. On an adjusted basis, excluding the foreign exchange losses, our EBITDA was over $33 million for the current quarter versus $21 million a year ago, which was also a very nice improvement of 58%.

As a reminder, we use EBITDA and adjusted EBITDA, both non-GAAP measures, as a means to measure the company's performance. We included the full reconciliation of EBITDA and adjusted EBITDA to net income within our press release issued earlier today. Now, I'd like to move over to our financial condition and highlight a few key balance sheet, liquidity and capital items.

The continuing growth in our business resulted in the need for increased working capital, which in turn lowered our cash balances at the end of the quarter. Our cash balance of approximately $106.5 million as of June 30 decreased nearly $6 million from last quarter and $37 million since year-end last year.

The use of the cash to fund the business was anticipated during the beginning portion of our year with our significant sales increases. This will be a significant focus in the near term as we look to drive better performance surrounding our individual metrics relating to our cash conversion cycle.

And we ended the quarter with inventory, accounts receivable and accounts payable balances remaining at higher levels when we compare it to the end of the year, but with relatively minimal change during the most recent quarter.

Our overall cash conversion cycle metric came in at 98 days, and it has decreased two days when we compare it to the end of last quarter.

Now, I'd like to comment a little bit about our debt levels. Our combined current and long-term debt totaled $462 million at the end of June, which was essentially flat with last quarter.

Current maturities due within one year totaled $52 million, and with $25 million of this coming due during the remainder of 2018. As a reminder, our debt primarily consists of the $400 million senior secured notes, which will mature in 2023.

Capital expenditures in the first six months of the year were $18 million versus $15 million a year ago. Capital expenditures for 2018 are forecasted to be in the range of $35 million to $45 million, as previously forecasted.

Cash payments for interest are basically forecasted at $16 million for the remainder of the year based on our current debt balances.

Now, summarizing our second quarter performance. There are several takeaways. Net sales increased by $64 million or 18%, the sixth consecutive quarterly increase at a double-digit rate.

We increased gross profit by 32% from last year. And as a percentage of net sales, SG&A expenses were 8.6% versus 9.5% from last year. EBITDA increased 88% over the prior year to nearly $30 million.

This performance enables to see a $0.19 EPS improvement from a year ago, while reported net income and EPS were negatively impacted by both foreign exchange losses of $3.6 million and the redemption value adjustment of $4.7 million, which included the unfavorable currency translation effect during the quarter of $2.6 million.

As Paul discussed earlier, after having a very positive first half performance, we remain encouraged about our near-term opportunities as well. At the same time, we remain vigilant as uncertainty remains as to the effect of the tariffs and a potential trade war and the corresponding continued impact on steel and other raw material costs.

We continue to monitor the impacts on our business in light of rising interest rates, overall sluggish ag-related commodity prices and farmer equipment demand. As you would expect, we will make proactive decisions to navigate through this environment.

In closing, I want to reiterate that our previous 2018 business outlook guidance remains unchanged. Our current 2018 expectation remains within specified ranges that we've specified previously.

As of now, halfway through the year, we did narrow the forecast range somewhat for net sales, SG&A and R&D costs and our EBITDA on the lower end.

The lower end of the net sales range was increased from 7% to 9%. The previous range for SG&A and R&D costs as a percentage of net sales was 10% to 10.5% and is now projected to be at or slightly lower than 10%.

The lower end of our EBITDA guidance is now 80% improvement as compared to 2017 versus the lower end of the range of a 50% improvement. This puts our 2018 EBITDA guidance between $98 million and $109 million, without adjusting for the impacts from currency that we saw in the first half of the year.

There are a number of things that are a priority for me as I begin my tenure at Titan. First, there are a number of initiatives that are already underway with the focus on driving profitability, particularly in our margin performance across the business. My focus will be to foster collaboration across the business to galvanize our results.

Secondly, we'll work together to device appropriate strategies to reduce volatility in our performance related to the impacts of currency fluctuations. We will do that by focusing on our global treasury management practices and how we appropriately manage capital between our global operations.

Finally, we will continue to focus significant effort to improve our cash flow performance across the business, so we can increase our operating flexibility.

It's important to say we as it is the global Titan team that will make this happen, and I'm very excited to be a strong part of that.

Now we'll be glad to answer any questions you may have on the financials or other business matters. With that, I'd like to turn things back to Brandon to begin the question-and-answer portion of the call.

Question-and-Answer Session

Operator: Thank you. [Operator Instructions]. Our first question comes from Steve Volkmann with Jefferies. Please go ahead.

Stephen Volkmann: Hi. Good morning, guys. First thing I was hoping to just get a sense of, Paul, how you are thinking about the second half. And, I guess, what I'm thinking of here, hopefully, my math is right, if David – if you said the $98 million to $109 million is kind of the full-year EBITDA range now, clearly, that suggests some downshifting in the second half relative to the first half run rate. I have the first half at about $64.5 million. So, I know there is lots of moving pieces, I guess, on the cost side, but I'm just trying to get a sense of why there would be that type of downshift in the second half or if you guys are just sort of playing it on the conservative side.

Paul G. Reitz: Yes, I would – instead of calling it downshifting, I would reference it as seasonality. We have – in the US, we'll experience the shutdown period in the first week of July that impacts the third quarter. Then you get into August and you get the European holidays, and then we have some shutdown periods as well in Russia and Latin America, and they're all standard course of business.

I think last year, when you look back at 2017, we had more of an anomaly where the business started to perform differently in the back half of the year than what our normal seasonal trends would be. So, this would – in the back half of the year would be highly really correlated to the normal seasonality in what we did with updating our guidance, our forecasted numbers for the rest of this year. So, we actually tightened the range. We didn't bring it down. We just tightened the range that we originally had out there that we put out last year.

So, you're right. When you look at the first half versus the second half and you do the math, there will be the differential, but the main driver would be seasonality.

The other issue in the second half of the year, again, is the cautious optimism about where the tariffs take us and where the markets go. We've seen some ups; we've seen some downs. There's been a lot of changes into the markets thrown at us fast and furious during the second quarter on raw materials, on demand.

Again, some of them are good, some of them are bad. Sometimes you have levers that you can pull and adjust to it quickly. Other times, you've got to take a couple of punches in the nose. So, I think that's what's reflected in the numbers.

And again, we didn't necessarily change our internal forecast. We tightened those ranges. And again, it's really just the seasonality, Steve, and some cautious optimism as we go through the changes in the markets driven by the tariff battle.

Stephen Volkmann: So, last year, we actually had revenue up second half versus first half. And you're saying that was an anomaly and that won't happen this year?

Paul G. Reitz: Yeah, that's correct.

Stephen Volkmann: Right, cool. Okay. And then, if I could ask you just a quick follow-up. And I know certainly my head is spinning on this. There's a lot of moving pieces. But on the tariffs, the one sort of piece that we didn't really discuss is kind of the tariffs on – or at least the proposed tariffs, I think, cover natural rubber, the next 301 section tariffs that are being proposed. And then, I think we've also seen some tariffs on various tires, but I think I also saw that some of the Indian or Sri Lankan ones actually rolled off. So, I guess, I'm just curious as you think about sort of what is coming down the pike here? All in, any thoughts on how that impacts you guys if it all gets implemented the way it's been proposed?

Paul G. Reitz: Yeah, there's a ton of moving pieces right now, and that's clearly one of the challenges. For us, what we've done is really taken our entire North American tire team and formed a group that is constantly assessing all those changes. I mean, just about every aspect of our business is involved with it. As I announced earlier, we put out a price increase that will be effective September 1.

So, there is really two ways to look at. One, what's going on in the marketplace with the tariffs and the costs. So, we are constantly assessing that. We employ a very standard supply chain buying methodology, so that we're not out here taking gambles, trying to predict the future. We aren't going to expose the company to something that will end up burning us if the tariffs don't go through, meaning if they put something on the table that we think is going to happen, we don't rush out and invest millions of dollars' worth of capital and go gamble. So, we kind of roll with the punches as they come with the tariffs.

With that, it depends on the customers and the markets you're selling into, Steve. Some customers we have pricing contracts that adjust fairly rapidly.

Others have more of a tail on it. And then, other cases, we don't have a contract. And so, in those situations, you look to see what's going on in the market.

The one thing that we're constantly watching closely is, obviously, the price of tires being imported offshore, and that's where my complaint would be with the tariffs that have been put in place as you're putting these taxes on American companies that are taking raw materials and converting them into finished goods and you're not putting any tariffs on the finished goods that come in from overseas.

And our problem is not China in our business. It's not China at all. It's other countries that are not seeing the same raw material escalation in costs that we are. So, again, it's something we watch closely. I literally have my entire team in North America watching it every day. If you look at my e-mail inbox morning, I mean, there's 15 e-mails by 730 this morning talking about these topics. And that's about all we can do is just continue to stay diligent and stay on top of them. But what they're going to be for the second half, sitting here on August 3, it's impossible to predict.

But I'm not a fan of what's going on with the US tariffs on raw materials coming in. As you said, they continue to pile more on there, considering where our markets are competing against. So, I hope the administration gets this right in the long run. In the short run, it's something that we're just going to continue to deal with.

But the one comment I do want to make is the underlying theme in the market is positive still. The ag markets are getting hit in a lot of different ways, but there's definitely a bullish tone still out there. The replacement demand in our market is strong. And I think as we look at the forecast that we put out and others have put out, we still see growth for the second half of the year.

Stephen Volkmann: Great, okay. I'll pass it on. Thanks.

Operator: Our next question comes from Larry DeMarco (sic) [Larry DeMaria] with William Blair. Please go ahead.

Larry DeMaria: Good morning, guys. Paul, I liked your pun that sugarcane was taking lumps in Brazil. I'm not sure it was intentional or not. A clarification on the EBITDA guide first of all, please. You've been giving adjusted EBITDA guidance of $109 million to $146 million. Now you're giving EBITDA. So, can you just clarify what the adjusted EBITDA would be because I think there is some confusion even in the consensus numbers out there.

Paul Reitz: Yes. Todd, you want to take that one?

Todd Shoot: Yeah, I can jump in on that. Larry, I think, at least for us in terms of what we put out publicly, I think we've always talked about just straight EBITDA, not adjusted, in terms of any guidance.

The only thing that would be adjustment at this point, from our guidance, would be the year-to-date FX impact. So, we're not forecasting FX in the back half. We don't try to guess what's going to happen there. So, if you were to take that $109 million, for example, and look at the year-to-date $8 million of FX exposure, that would put you at an adjusted EBITDA number on the top end at $117 million, is the way I would do the math.

Larry DeMaria: Okay. I'm looking at your presentation from Q1. And the 2018 outlook says, A EBITDA $109 million to $146 million, which is 50% to 100% growth.

Todd Shoot: Okay. Well, we'll take a look at it, but I think the top end of that is not intended to be changed or any different than what it's been in the past, but we'll certainly take a look at that adjusted number.

Larry DeMaria: So, top end of $117 million?

Todd Shoot: That would be the adjusted number, yes, with the currency impact.

Larry DeMaria: Okay. And then on the IT – or, I guess, the Russian business, to refresh us, I guess, the cash outlay could be in total around $120 million. I guess, is monetizing ITM now a possibility given you held on to it, maybe you get a better price for it. And what kind of conversations are you having with these partners? Maybe you want to keep the local Russian partner, I would think. So, can you just kind of frame some scenarios for us and what the conversations are like?

Paul Reitz: Yeah. It's difficult to frame the scenarios that specific, Larry, because of the ongoing discussions. Where we're at right now is we put a lot into the business. Titan has, operationally – we believe we have a business with not only a good track record today, but a good future. Our partners have been instrumental in getting this to this point, and we continue to have discussions about with the future may look like.

The agreement itself stipulates that Titan – if the put is called, Titan can settle that in either cash or stock. And that's really all I can say on that as that's a matter for the board, and I can't speak on behalf of the board at this point on that topic. It's something that I wish I could give you more update even though we're within that July 9 put option window, but really all I can say is that the discussions continue.

Larry DeMaria: All right. But I'm guessing you may have the put option exercise maybe by the financial company, but the Russian – you might negotiate with the Russians and they may stay on. These are all the kinds of possibilities, right, so you may not have to write a check or even issue equity for that entire 120-roughly-million-dollars, is that right?

Paul Reitz: Certainly, that's definitely a possible scenario. As you highlighted, you have one financial partner and you have one partner that's the Russian investment fund. So, you're right. There's the potential for two different scenarios based upon just their characteristics of the investment from them.

I will say this. We are definitely looking at all those scenarios, working closely with the board, working very closely with our advisers. We are very confident that we can get this settled, and this is not meaning negotiate with our partners from a balance sheet perspective, Larry.

Whichever path we take, this is not something that is sounding the alarms as far as the balance sheet goes, but it's definitely something we could just – we'll continue to have the discussions and update everybody accordingly in the future.

Larry DeMaria: Okay. And then just last thing, I'll go back in queue. Steel costs, you called out as a negative impact. Correct me if I'm wrong, but a vast majority of your steel gets through wheels, that's passed through to OEM or index. So, is that something you make up in the second half or that's just headwind in the first half and you don't make it up. So, just how do you think about the steel costs?

Paul Reitz: The steel costs for the second quarter weren't bad for us. So, 90% of our business being OEM, as you highlighted; yes, steel is up 30%; but we're able to cover that off through the contracts and the pricing adjustments. So, in the second quarter, steel has not been a problem. I would expect that for the back half of the year to be fairly consistent.

Where it does hurt us, though, is in the aftermarket. So, the part of the business where you're more susceptible to global competition where you don't have contracts. So, as US steel goes up 30%; and the rest of the world, their steel costs don't, you clearly have some impact that could be risen there, but that's a much, much, much smaller part of our business.

Use of steel and tires as well in the beads and some belts, so you do get some rising costs that impacts your tires on a smaller scale. For us, on the tire side, Larry, it was synthetic rubber. If you look at the markets there really driven by oil, carbon black and some of the chemicals that have gone into tires have experienced some inflation.

And again, for us on the tire business, it's a mixed bag of how we pass-through those costs. Some of them are forced adjustments, some of them are manual adjustments through contracts. So, there's not a kind of

one answer for everything. But on the steel business, on the wheel business, you're correct with the steel costs. We are able to pass those through.

Larry DeMaria: Okay, thank you.

Paul Reitz: You bet.

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

Joseph Mondillo: Hi, guys. Good morning.

Paul Reitz: Good morning, Joe.

Joseph Mondillo: I actually had a few questions on materials as well, and I just wanted to sort of push back a little bit there on steel just only because in the press release, you literally write out that materials offset the benefit from higher volumes and you say especially steel. So, why would you call out, especially steel, in the press release if you're passing it fully through like you just said?

Paul Reitz: It depends. Again, you use some steel in tires as well. And then, in the wheel business, you use – obviously use steel and 90% of it going to the OEMs. But it's cost inflation, it's price inflation. You reach an area where inflation compared to the rest of the world is something that is not positive. So, I think we're calling that out to say, look, I mean, the steel costs are there. We're able to – since they are on everybody's mind, they're headlines everywhere. So, we're calling it out to say, look, they're up, we've been able to pass on that inflation, but you do reach a point with parts of your business where that inflation gets too high, specifically in our aftermarket wheel business, where now you're more open to competition. So, there's just different ways you have to look at the tariffs and the impact that has on our business. And I know it's a lot of moving pieces. But it's the world we're in now. So, from 90% of our wheel business, it's not calling out the steel cost as having a negative impact on our business during the second quarter, on the wheel side.

Joseph Mondillo: Okay, okay. So, your gross margins have a lot of variables that sort of can fluctuate those gross margins. So, I was wondering, by curiosity, if you have tried to calculate sort of the abnormally inflated prices within steel, synthetic rubber, et cetera, and sort of isolated that to see and quantify how much this inflation sort of weighed on your gross margins in the quarter? You have a number like that or...?

Todd Shoot: Yeah. Joe, I can jump in there. I don't know that we have quantified every one of these components that we call out here. But just to give you an example, if you look at – we talk about – I think Paul talked about the increase in synthetic rubber and what it's been from the beginning of the year to what we saw into the second quarter and beyond, 25% increase. We're buying 13 million pounds of synthetic rubber or 20-plus million pounds of synthetic rubber year-to-date. So, you can kind of do the math. It's a sizable number.

And then, when you look at all of those things that we call out, bead wire chemicals, synthetic rubber, carbon black being up, it does have a pretty good impact on that gross margin. But to be specific, by each component and exactly how much it is, we have not specifically called that out or have done that complete worldwide analysis. Yes, we have it for North America, we have different pieces of it. We know what it is. We're tracking it. We're monitoring it, but not anything that we've specifically called out.

Joseph Mondillo: Okay. Do you know what synthetic rubber is as a percent of COGS roughly?

Todd Shoot: It depends because we change our mix. As that cost rises, we'll shift possibly from natural rubber to synthetic and vice versa. I'm going to say – I'm not going to give an exact percent. We do use more natural than we do synthetic. But it depends on the tire, depends on where you're at, it varies. So, it's a big component as is natural, but it's not as big as natural.

Joseph Mondillo: Okay. Is overall rubber – I was estimating it at roughly 30%. I'm just trying to get a sense of this because it is such a big percent of COGS and even small fluctuations in price does make a difference over time. So, I'm just trying to understand the business and how that's affecting.

Todd Shoot: Yeah. We can circle back around because again, obviously, we don't break it all down specifically in terms of between the wheel and the undercarriage and the tire. We don't break that all down publicly. So, we can try to give you a sense. We can try to give you a sense of how much natural versus synthetic in a range. Probably, we can come up with something for you there, but we'll have to do that offline. I don't have that in front of me now.

Joseph Mondillo: All right. I wanted to also ask about your pricing. I think David or somebody mentioned that 1% of the sales growth or 100 basis points was related to pricing. That seems very low, especially in this inflation environment where all commodities and all industrial products are seeing multiple percentage points of inflation. I'm just – and you're seeing such extreme demand on the – at least on the construction side and pretty solid demand on the ag side. I'm very surprised to see only 1% thus far to see a price increase initiated for the first time in September. It seems a little late. Just wondering, sort of what's going on there in the market for whatever reason sort of not moving that much in terms of price Why is price so low? And why are you so late of raising prices?

Paul Reitz: I'll take the back half of that question and let Todd take the first half. When I referenced the price increase, that's only for North American tires where that inflation has just started accelerating in the back half of the second quarter. The rest of our business that's driven by steel, whether you're talking about wheels or undercarriage, you're correct that there's been inflation going on for the – throughout the course of the year. There's been other price increases that we do on a continual basis, whether it's contract driven or pushed into the market that I didn't reference in my comments. So, my comment was only on the recent inflation we had in the second quarter that doesn't necessarily catch all the headlines because it's not steel that we are adjusting through a price increase that will hit the markets September 1. So, that's where my comment was. And, Todd, I don't know if you want to talk about the first half of the question on the actual price mix results.

Todd Shoot: Yeah. Joe, that price mix for us is a combination as it implies. It's price and mix, and I would say, overall, I think our mix has certainly not changed dramatically in terms of size. Again, we've talked about this in the past. There's not – there hasn't been big moves in terms of large ag and larger product. So, that mix is relatively similar to what we've probably seen in the second quarter last year. As it relates to price, yes, we have pass-through increases. But if you recall last year in the second quarter, what impacted us dramatically was the increase in natural rubber prices. So, whereas last year we had really high natural rubber, this year that is stabilizing at a lower level, certainly much lower than what it was in Q2 last year. The other components have increased. So, I think the effect of those things, all of those things weighing together is where you get that net impact at a relatively smaller number, 2%, less than 2%.

Joseph Mondillo: Okay. I understand. And then also, how much benefit are you seeing from natural rubber prices being down so much year-over-year. I know the OEMs every six months, you have a calculation in place essentially that resets pricing or whatnot. But on the aftermarket side of things, I would think you are benefiting on a year-over-year basis with natural rubber being down so low. But, I guess, what's going on is essentially synthetic rubber is just offsetting the benefit. Is that how to look at it?

Paul Reitz: Yeah, that's correct. That's where rubber is at a good point. It's moderated. It's synthetic rubber. It's kind of a few different areas. It's carbon black. It's the chemicals. Again, the price increase we announced was 4%. So, it's not rampant inflations like we had last year with natural rubber. So, it's not that wicked situation that we had in 2017, but it's just a general inflation across a number of commodities that are using our products that put us to the point where we got to protect our margins and we needed to put through a price increase.

Where they go in the back half of the year, that could change minute by minute. But at this point, we've got those particular chemicals – or those particular products that are in our raw materials forecasted to remain at elevated levels. And we do believe natural rubber will remain at a pretty moderate level. So, it's flat. Last year, natural rubber driven by the countries that grow it in the far east. This year, it's just driven by some rampant inflation in other products that go into the tires.

Joseph Mondillo: Okay. And last question from me. Just wanted to get an update on sort of the SG&A and the cost structure. And then also, I'd like to get David's thoughts on what you've been doing, what the opportunities are going forward? With the new CFO on-board, is the story still the same? You guys have been talking for a while – you've been doing a really good job actually, especially with revenue up so much – that SG&A can continue to come down. Is that still the case? Just wondering sort of overall what's going on there.

David Martin: Yes. Let me just give you my, call it, my first six weeks' impression and some of the things that I've been involved in. Obviously, what I – my main purpose in the first six weeks is really to get into the organization, spend a lot of time with people and understand exactly what are the drivers for the business, understand the business better and then, obviously, look at all the initiatives that are taking place and figure out how to prioritize them and how to galvanize the efforts that are going on.

Certainly, we're doing a lot of things in the organization. It's undergoing a lot of change in the last year or more. And we're just really having conversations across the business to drive better results. We've got – as I talked about earlier, focusing on managing our margins, focused on our cost control and focus our investments in the right areas, but there's also other things that we can do to reduce volatility in the business too. So, a lot of my effort has really been around listening about that and understanding the business, but also figuring out ways to drive and foster momentum in the business as well.

Joseph Mondillo: And, Paul, just to follow-up there, the exit of – Jim's exit was very abrupt. And to this day, it's still a little unclear what happened there. From your perspective, is there as much opportunity as there always was? Is the story still the same with the SG&A? Are we sort of resetting things with the new CFO? What is your sort of take on things just so I understand what's going on because that was a big part of the story over the last couple of quarters?

Paul Reitz: Right. We're moving in a very good direction with getting David onboard. David comes from a company that understands being a global company of our size, around $1.5 billion mark where you have to operate in a decent centralized manner because you just don't have the same infrastructure as either just a strictly domestic company or a much larger global company. So, David fits in very well. He's got a ton of experience in that type of environment and a lot of experience as a public company CFO. And he works – as he just mentioned, he works extremely well with people.

Obviously, I can't comment on the departure of Jim, but I will highlight that sentence again. David works very well with people, and that's important to that job to drive the type of SG&A – continually drive the type of SG&A improvements that you're referencing.

And I'm confident that he can take what was already being done and do that even more effectively because of, again, his experience and his ability to work effectively with a large global team. And he's already doing that.

So, the initiatives have a good foundation already set. We're continuing with the projects that we've talked about on previous calls in all aspects. We've also – I talked about it on the last call. We've rolled out a project that's kind of 80/20 initiative where you take a look at your product portfolio and really do some dive down and do some analysis on that. We're continuing on that project. So, David will be involved with that. So, I'm extremely confident with where we've gone over the last six weeks. And I understand it was an abrupt departure that took place, but I'm very confident we're in a good spot today.

Joseph Mondillo: All right. Just one last follow-up question, I promise, on this topic. Do you still see that the SG&A cost structure is somewhat – I don't know if you want to say bloated or whatnot, but do you still think that there's way – that ideally there should be sort of a more efficient, lower SG&A cost structure and that you're going to continue to try to bring that down? Is that still…?

Paul Reitz: Yeah, absolutely. In fact, earlier this week, David and I spent some time with really laying out our thoughts on that and getting prepared for how we put together our 2019 plan on the topic of SG&A. There's plenty of opportunities.

I won't disagree with you using the word bloated. We set up an infrastructure that was designed to be a business that, at one point, was $2.1 billion and had expectations to get to $3 billion. And, clearly, we aren't at those levels, and we're not sitting here today saying we expect to be there.
So, we need to continue to make adjustments. We've made a number of adjustments already, but we're not done with it by any stretch of imagination. So, there's some foundations we got to continue to put in place. And once we've got that foundation, we'll continue to take away the cost that drove our SG&A to the point where it's at.

So, now we will continue aggressively on SG&A. And like I said, I'm giving David some time to get his arms around it, but that was a hot topic to him. And I spent time on this week. And when we go through our 2018 planning process, we will have a plan to continue to reduce SG&A.

Joseph Mondillo: Okay, great. Well, thank you. Appreciate it.

Paul Reitz: Thanks, Joe.

Operator: Our next question comes from Komal Patel with Goldman Sachs. Please go ahead.

Komal Patel: Hi. Thanks for the question. I think a lot of our questions have been touched upon so far. But just one quick one, on the price increases that you mentioned, have your competitors already announced these increases and you guys are just a little bit later to do so, or is that not the case?

And have you gotten any kind of initial feedback from customers on what kind of impact of volumes are you expecting, if any?

Paul Reitz: Again, it depends on the price increase. Some of these are standard, some of them are – we're leading the path in the market to announce some price increases. As I mentioned earlier, we are really spending a lot of time making sure we stay on top of our business from all aspects with the products we produce, the changes in raw material costs and the pricing we put into the market. So, I would say we're on the early edge of this price increase. We'll continue to put our foot in the water is and see where it goes and see what the competition does. So, as far as impact of volume, we will constantly analyze the impacts

and make sure we're making the best decision. So, this is really a daily, weekly process for us. So, I don't have a forecast for what it will do to volume. I would expect competition to also do price increases as well.

In today's world to sit back and not do a price increase, you're just taking the margin right away from your pocket. If they choose to do that, then we'll take a look at assessing it, and we'll respond accordingly.

I will tell you, we already have three or four scenarios planned out on how we'll respond depending on what the competition does. If we have to put programs to certain customers, certain products, we'll be able to move quickly. So, this is our number one priority in North America, is make sure we understand the market. We're making the best decisions as quickly as we can.

Komal Patel: Got it, okay. And then, just one, if we could dive a little bit deeper on the aftermarket business. Have you seen kind of increasing traction there in recent quarters? And what is kind of like the opportunities still going forward to grow or just any additional color on that side of business is helpful.

Paul Reitz: Yeah. The aftermarket business, you look at the dealer settlement reports, it's a mixed bag. Sitting here six months ago, it was really positive across the board, but we've all seen where grain prices have been as you see the tariffs out there having an impact on it. I don't think that's taken away the bullish tone overall. Clearly, the market is moving in a good direction fundamentally. I think, right now, the fundamentals are outweighing the tariffs. But have the tariffs and the grain prices had an impact on sentiment within the farming community? Absolutely.

So, again, it's something you just have to your eye on a constant basis. We hear a lot of positive comments. I hear a lot of positive comments from our dealers in the back half of the year. And I continue to believe that it's a good bullish tone overall in the ag market, but it's not the same bullish tone when we sat here six months ago before the tariff battle started.

So, again, I continue to hear positive comments. And I think the back half of the year has good potential, but it's a different market than what it was, again, six months ago.

Komal Patel: Got it. That's fair enough. I'll leave it at that. And thank you so much for the time today.

Paul Reitz: You bet. Thanks.

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

Paul Reitz: Well, again, I appreciate everybody joining the call today and sticking with us for the question-and-answer period. Look forward to giving you an update on the third quarter in a few months. Have a good day. Thanks.

Operator: Please note that a webcast replay of this presentation will be available soon within the Investor Relations section on our website under News & Events. Thank you for attending today's presentation. The conference call has now concluded.