Titan International, Inc
Edited Transcript of Q3 2018 Earnings Call and Webcast
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Company Representatives:
Paul Reitz: President and CEO
David Martin: Senior VP and CFO
Todd Shoot: Treasurer and VP Investor Relations

Analysts
Joe Mondillo - Sidoti and Company
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Alex Blanton - Clear Harbor
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Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the Titan International Incorporated Third Quarter 2018 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation. [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, Cole. Good morning and welcome, everyone, to our third quarter earnings 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 are 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 a 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. A copy of today's call transcript, will be made available within the Investor Relations section on our website.

We're going to start the call this morning with Paul going through some highlights from Titan's business and our markets from the quarter, and David will walk us through an overview of our financial results.

I'd like to now turn it over to Paul.

Paul Reitz: Thanks, Todd. Good morning, and we appreciate your time in joining us today. As Todd mentioned, I'll start off by talking about some highlights for the business and turn it over to David. And then, we will provide some information on the Russian put option before concluding by taking your questions.

So, let's jump into the business as Titan had another good quarter of sales growth. This was our seventh consecutive and was led by our earthmoving/construction segment that was up over 15%. Our revenue growth was solid this quarter at 4% but was hampered by currency fluctuations that absent that impact would put our growth around 10%, which would have put us north of $400 million versus the reported $385.

However, we did a good job this quarter, leveraging that revenue growth as we produced 26% incremental gross margins that drove our adjusted EBITDA up by over 35% this period. This puts our year-to-date adjusted EBITDA at $104 million, which is more than double where we finished all of 2016 and doubled year-to-date 2017 levels. This quarter, our continuing efforts to drive revenue gain through to the margin improvements and then on to the bottom line, resulted in us reporting an adjusted net income of $0.04 per share that compares to a loss last year of $0.09 a share. That's a nice improvement year-over-year, and I should add it's our first profitable third quarter since 2013.

It's important to keep in mind that the only net income adjustment is related to the Russian put option, which is primarily for interest and currency fluctuation. Put adjustments was $4 million for Q3 and $11 million for 2018 altogether. I will talk more about the put option later, as I noted. And keep in mind, the put option does expire in January of 2019. So, the impact that we're seeing this year is an event that will stop at the end of this year.

I also want to mention that in the third quarter, it is standard practice that we have fewer production days due to plant shutdowns for maintenance and traditional summer holidays. So, you can't sequentially compare the third quarter to the second quarter, and really need to compare year-over-year results to gain a clear understanding of our performance this period.

Now, to expand that horizon and take a look back at the past couple of years, you'd see that Titan has demonstrated good sales growth of 13% so far in 2018 and 16% in '17. I believe in many instances; our growth rate has exceeded the market gains in areas where we do compete. These solid revenue gains combined with our operational improvements that we've been continuously driving has resulted in incremental adjusted EBITDA margins over 37% in 2018. But keep in mind, it's against a tough backdrop this year with significant raw material inflation and volatility.

So, looking back to 2017's performance which again was a challenging year with natural rubber for all tire companies, we still managed to report 13% incremental adjusted EBITDA margins. And if you adjust the 2017 again for that natural rubber impact that impacted all tire companies, that would have put last year at well over 20% incremental EBITDA margins.

Where I'm going with these comments is that we're confident we've built a good foundation for the future over the past couple of years, and there's still ample room for us to continue to drive stronger margin improvements as our sales as higher in the future.

Now I do want take a step back even further to 2015 when we were in the midst of the cyclical downturn and compare that to the period where we're today in 2018, just to give you a picture of where we've come from since those days a few years ago. If you do that, you'll see that since 2015, our 2018 year-to-date sales are up 14%, gross profit is up 35%, and that equals 27% incremental gross margins. Again, the point is our entire management team is keenly focused and prepared to take advantage of the good opportunities ahead for Titan to continue driving and improving our margins, leverage our existing infrastructure, cut costs where we can, and really just continue to drive down our overall cost structure and find ways to improve margins either through costs or product improvements, enhancements, new product development. There's a number of levers we can pull. While volumes have continued to improve over the past couple years, they are still well below the historical average in some of our key -- many of our key product categories, especially here in North America, and I also want to repeat that in 2017 and 2018, we faced a really volatile cost environment with raw materials, logistics that has impacted virtually every company in our industry.

So, really, with that being said, since the start of 2015, we generated 67% overall gross profit growth and 23% incremental margins during that period. Point of all this is, as markets improve, we've got plenty of runway to keep improving. And as we approach the end of 2018, we believe that our prospects for 2019 look to continue on these positive trends in the past couple of years.

As you know, the ag markets around the world have been choppy this year for many reasons, but overall they remained above sea level. Just recently here, the Brazil has a new President that is coming into a pro-business mindset. So, hopefully, help calm the waters there. Good news coming out of North America. Recent surveys show that 45% of ag equipment dealers are expecting revenues to increase by 2% or more in 2019. It's not rapid growth, but it appears that despite the volatile circumstances that many participants in the North American ag sector have been experiencing, many today feel that we're on firm footing and we really do hear that from many of our customers, I've been on the road quite a bit for last few months and really do think that 2019, there's a good firm foundation, and again we're hearing that from many of our customers as well.

From Titan's perspective, we aren't just sitting around and waiting for the ag markets to improve. Our Brazilian team has done an excellent job launching initiatives within their operations to control costs, protect share. In North America, we have been working diligently on our 80-20 program that will be launched in early 2019, to revamp our product strategy and really how we manage our operations in our North American tire business. We believe this program will improve profitability, cash flow, working capital levels and enable us to make better decisions regarding our product portfolio. We're definitely excited about the prospects of what this can do for us in the future, and we will be adding more clarity on that as we roll that out in 2019.

Titan is clearly a global company. In 2018, I would say, Titan, like many companies that compete in our industry, we have found ourselves focused on concerns here in North America, primarily stemming from the tariffs and the impact on raw materials and how it's driven lower commodity prices that impact the overall ag economy. Titan heritage stems from U.S. ag. It's a significant driver of our overall performance. However, I think it's important that I highlight how our Company has evolved to diversify beyond North American agriculture business.

If you look back a few years ago, our earthmoving/construction segment comprised 41% of our sales and 31% of our gross margin. Today, in our most recent quarter, earthmoving/construction sits at 47% of sales

and 41% of our gross margin. Also, a few years ago, 52% of our sales were outside North America compared to approximately 60% today. Our ITM undercarriage business that operates primarily in earthmoving/construction segment and outside North America has been on a strong path in 2017 as we mentioned and throughout 2018 and has influenced at a shift in our Company's operations. We continue to see this part of our business growing in excess of 30% with EBITDA improvements that are exceeding those levels.

Yes, North American ag is a significant part of Titan and our business, but that's clearly not all of who we are today. We've worked hard as One Titan to get us through the cyclical downturn. We believe that we set us and our Company and really done a good job with our customers to create a good path for growth over the past couple of years. We more than doubled our adjusted EBITDA this year and believe that we have set a strong foundation for the future to continue driving towards higher and better performance levels.

I'd now like to turn the call over to David. David?
David Martin: Thanks, Paul, and good morning to everyone on the call.

Let's get straight into the numbers for our third quarter and then the performance. I'll also discuss a few things that we're focusing on as we get closer to 2019. I'll start with net sales. Net sales for the third quarter of 2018 were $385 million, this was up 4% or almost $14 million from a year ago. This is the seventh consecutive quarter with year-over-year increases, as Paul said earlier. On constant currency basis, revenues would have been up 10% or roughly $22 million in the quarter which would have been $407 million in total sales.

For Q3, net sales were higher in our earthmoving and construction segment while ag and consumer segments were lower when compared to the same quarter last year. Net sales on a trailing 12-month basis has claimed to $1.62 billion, which represents a 15% increase on a comparable basis from a year ago.

Moving on to our gross profit and margin performance. Reported gross profit in the third quarter was $44 million, or 11.4% of net sales, compared to $40 million or 10.8% of net sales in the same quarter a year ago. This increase represents a 9% 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 as we talked about a lot this year. The impact from negative currency translation effects on gross profit was approximately $2.9 million for the quarter or 6%. Our overall gross margin improvement was primarily result of the production efficiencies we've been able to drive with increased volume, offset somewhat by the increased raw material costs. While we were able to pass through the higher material costs in many ways, our overall profit dollars were insulated but our margins were negatively impacted as a result.

Now, let's just take a look at each of the three segments. Our agricultural segment net sales were $163 million, down 4% year-over-year. That would have been positive if not for 7% currency translation headwind. Volume in the segment was down 2%, while favorable price and mix added 4% to segment net sales. Sales in Europe were down somewhat due to short-term slowness in the market and some customer-directed order delays. Latin America ag sales were lower in the quarter, but that was mostly due to the currency translation effects. Our agricultural segment gross profit for the third quarter was $19.9 million, up slightly from last year at $19.1 million, despite lower sales. Year-over-year gross margin improved 103 basis points in the third quarter to 12.2%, which was driven by the production efficiencies, primarily in North America and Latin America.
Continuing onto earthmoving and construction segment. Our earthmoving and construction segment experienced an increase in net sales of nearly $24 million or 15% to $180 million. Volume gains in the segment were 15% while positive price and mix, and negative currencies offset each other at 4%. On a year-to-date basis, earthmoving and construction net sales remained 28% above the same period last year.

The stronger series of growth in the segment came in Europe with ITM's undercarriage business as we've been talking about all year.

Gross profit within earthmoving and construction for the third quarter was $17.8 million, which represents a $3 million increase from a year-ago as well as a 41 basis-point improvement in gross margin to 9.9%. The increase in gross profit was driven by increased sales along with production efficiencies related to the improved capacity utilization across our plants, primarily in Europe

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Finally, let me cover our performance in the consumer segment. The consumer segment third quarter net sales were $41 million, decreasing 6% when compared to the last year. Increased volume of 3% and favorable price and mix of 2% could not completely offset the significant FX drag of 11% that we experienced with the biggest impact felt in Latin America. The segment's gross profit for the third quarter was $6 million compared to $6.3 million a year ago. Gross margin was 14.5% which was an improvement of 22 basis points over the same period last year. Again, it should be noted that absent the currency headwinds, each of our segments would have shown top line growth when compared to the prior year quarter.

Turning to operating expenses. SG&A and R&D expenses for the third quarter of 2018 were $36.3 million a decrease of 5.9 million. As a percentage of net sales, SG&A and R&D was 9.4% compared to 11.4% in the comparable prior year period. The decrease in SG&A and R&D costs primarily related to accrued contingent liability of $6.5 million for a legal judgment in 2017.

During the third quarter, we adopted the provisions of a new accounting standard regarding the cost of implementation around cloud computing arrangements and capitalization treatment. As many of you know, we're in the process of implementing a new cloud-based ERP system, which began in the early part of 2018. Prior to the adoption of the new standard, which was an enacted during the third quarter, we incurred approximately $4 million in development and implementation costs in the first half of the year related to the new system. The impact of capitalizing these costs has been reflected in the financial statements retroactively this quarter and you'll note that change in our income statement.

Approximately $2.1 million of implementation costs were also capitalized in the third quarter of 2018. The amortization period for these costs as well as future costs of implementation will be approximately 10 years, reflecting the same terms as our cloud computing service subscription, including future renewals. Our implementation is on track and on budget to this point, which includes our corporate financial environment, along with portions of our North American operations. Further rollouts to the operations will take place over the next 12 to 15 months.

Royalty expense of $2.6 million or 0.7% net sales was consistent with this period a year ago. We reported income from operations of $4.8 million, compared to an operating loss of $4.7 million in the comparable period last year, which is an improvement of $9.5 million. A margin of 1.3% is not where we want to be but it is reflective of the improved volume and is a solid result compared to our recent past. Keep in mind that third quarter was traditionally -- has traditionally been slower, seasonal quarter for the business. So continued improvements in profitability are strong sign of market improvements as well as strides we are making in our operational performance across the business. Also, an important initiative to leverage our operating costs to drive operating margin performance in the future, and we are already getting good focus on this in the organization.

Interest expense was $7.6 million during the quarter, which was similar to a year ago in Q3. Our foreign exchange gain for Q3 was $900,000, which compares to a gain of $800,000 a year ago. I mentioned this last quarter, but I want point out it again, this is an important initiative for our global leadership team to focus on reducing the volatility that we experienced related to currency swings, particularly as it relates to

our global treasury strategies. I anticipate that we will be kicking off portions of our larger initiatives later this quarter.

During the third quarter, our reported income before taxes -- income taxes was $5.5 million, an improvement of $14.3 million from an $8.8 million loss during the same period last year. Tax expense during the quarter was nearly $2.8 million versus tax expense of $2.4 million in the comparable prior period. Income tax rate of 51% during the quarter is unusually high due to mix of jurisdictional pretax income and losses. I mentioned it last quarter, but as a reminder, our quarterly pretax income and losses in various jurisdictions fluctuate due to performance and to a certain extent seasonal trends. So, we may see unusual quarterly tax rates from time to time. The net cash tax payments for the third quarter were $2.4 million, primarily in the international business.

A final item of note in our third quarter performance discussion relates to the redemption value adjustment of $4 million, which increased from the prior year Q3 amount of $882,000; approximately $1 million of this adjustment related to the impact -- current period impact of currency devaluation of the Russian ruble to the U.S. dollar and the remainder was principally reflective of the interest component to the fair value of the put option.

On an adjusted basis, net income attributable to Titan was $2.3 million for the quarter or $0.04 per diluted share. This compares to the prior year third quarter adjusted net loss attributable to Titan of $5.5 million or $0.09 per diluted share loss. This represents a $0.13 per share improvement compared to the prior year. Our third quarter adjusted EBITDA performance was $25.5 million, which was an increase of 35% from the third quarter last year. For the first nine months, adjusted EBITDA was $104 million versus only $51 million a year ago.

Now, I'd like to move to our financial position and highlight a few key balance sheet liquidity and capital items. The continued growth in our business has resulted in the need for increased working capital, which in turn has lowered our cash balance at the end of this quarter. Our cash balance of approximately $97 million was as of September decreased $9.7 million from -- during the third quarter and $47 million over the first nine months. As I said earlier, our last 12-month sales have jumped 15%, which is over $200 million in dollar in topline growth.

We ended the quarter with accounts receivable and accounts payable balances lower during the quarter while our inventory balance increased, reflecting the need to buy forward some raw material requirements for the upcoming and expected seasonal growth periods, and to get more favorable pricing on steel, particularly. Our overall cash conversion cycle metric came in at 110 days and increased 12 days compared to where we ended the second quarter, driven primarily by the increase in inventory. I still anticipate some liquidation of working capital into cash during our lowest seasonal quarter in Q4, while still making appropriate decisions surrounding inventory management for our highest seasonal volumes in Q1 and Q2 next year.

Now for a comment concerning our debt. Our combined current and long-term debt totaled $461 million at the end of September which is essentially flat from where we ended the second quarter. Current maturities due within one year totaled $50 million with $26 million of this amount recording as due during the final quarter of 2018. Much of this $26 million coming due during Q4 consists of local overdrafts and working capital facilities which are considered on-demand for reporting purposes, but are expected to roll over without the use of cash during Q4. As a reminder, our debt primarily consists of the $400 million of senior secured notes, which mature in 2023.

CapEx for the first nine months of the year were $26.5 million versus $23.6 million during the comparable period a year-ago. CapEx for 2018 is forecasted to be in the range of $35 million to $40

million with the top end of that range reduced from previous estimate of $45 million. Cash payments for interests are currently forecasted to be approximately $14 million for the remainder of the year based on September 30, 2018 debt balances.

So, summarizing our third quarter performance, there are several takeaways. Net sales increased by $14 million or 4%, the second -- seventh consecutive year-over-year quarterly increase. This is nearly a 10% increase when currency headwinds are excluded. If we look at the last 12 months, sales were up over 15% versus the comparable period last year. So, we increased gross profit by $3.6 million from Q3 last year, an 8.9% year-over-year improvement. As a percentage of net sales, SG&A and R&D expenses were only 9.4% versus 11% during the third quarter of 2017. Income from operations was $4.8 million, which was $9.5 million better than a year ago. And adjusted EBITDA increased to $25.5 million, which is up 35% from the prior year. And adjusted EPS of $0.04 per share was a $0.13 year-over-year improvement on an adjusted basis.

In closing, I want to reiterate that our previous full year 2018 business outlook guidance remains substantially unchanged. Our current 2018 expectation remains within the specified ranges outlined in the previous quarters for sales and gross profit growth, and our SG&A and R&D costs as a percent of sales. As a reminder, we are now in our seasonal low-volume quarter of the year with normal slowdowns due to holidays later in the quarter. That said, our EBITDA performance expectations for the full-year are somewhat higher than previously stated. We believe that straight EBITDA may slightly outperform the previously stated guidance of $98 to $109 million for 2018 due in part to the adjustments in G&A related to the early adoption of the new accounting standard related to our ERP implementation costs.

After my first 120 days on the job, the priorities I outlined initially remain substantially unchanged. First, there are a number of important initiatives already underway with the focus on driving profitability, particularly in our margin performance across the business. There is a lot of work still ahead to drive operational improvements in our production facilities, particularly in North America. Our focus is to narrow in on those things that mean the most and to drive collaboration amongst our business leadership from sales to operations to our corporate managers. I mentioned it earlier, but we also have to device appropriate strategies to reduce the volatility in our performance related to the impacts of currency fluctuations and to drive strong global treasury management practices with focus on appropriately managing capital between our global businesses.

I found that we have focused on cash flow within this leadership team, and what we need is a stronger financial acumen and information, not data. And we have been and are making appropriate investments in systems and people to drive this. Each of our initiatives will focus on driving sustainable, profitable growth across Titan.

Now, I'll turn the call back over to Paul for a few more comments before we get into Q&A.

Paul Reitz: Great. Thanks, David.

Just a few notes regarding the put options relating to our Russian tire business, Voltyre-Prom. As we stated on our earnings call last quarter and in the form 10-Q for last quarter, we are now within the six-month window that started on July 9th where either or both of our partners in our Russian joint venture could exercise the put option. A copy of the shareholders' agreement which includes this put option was filed along with our form 10-Q for this recent quarter and is publicly available. As we previously disclosed, the put options were exercised by both of our partners in the Russian joint venture. Our total obligation would be approximately $120 million, which Titan would have the option of settling in either cash or freely tradable Titan common stock. The closing of the put option would be required to occur within 60 days' notice of the put or when all necessary regulatory approvals are obtained, if later.

Under the shareholders' agreement, if necessary regulatory approvals are not obtained within 120 days of our receipt of a put notice or prior to that applicable regulatory authority refuses to grant us approval, then our obligation to purchase the interest in Voltyre-Prom from such partner would cease and they would retain their current equity ownership in the joint venture. It's important to note that one of the partners of the Russian Development Investment Fund managed by their CEO, Kirill Dmitriev, is on a sectorial sanctions list. And should our Board decide to satisfy the put and stock, there are regulatory approvals that we believe will have to be received by RDIF. If RDIF was not to receive proper regulatory approval, then we believe that discussions would take place on other alternative solutions. Over recent months, we've had some discussions with our partners in the Russian joint venture regarding their plans with respect to their investment in Voltyre-Prom and the put option. These discussions are ongoing. And as of today, we've not received a formal notice from either partner regarding their exercise of the put option.

Our Board and I together with our financial advisors are closely monitoring these matters and will deal with these issues as they develop. And our Board will work toward making the best decision in the interest of our shareholders. We continue to believe in the strength of the Voltyre-Prom management team and the prospects of a successful future.

With that, we will be glad to answer any questions you have on the financials or other business matters. And I'd like to now turn the call back over to Cole to begin that process.

Question-and-Answer Session
Operator: [Operator Instructions] And our first question comes from Joe Mondillo from Sidoti and Company. Please go ahead you're your question.

Joe Mondillo: Just wanted to clarify one of your last comments there, Paul, on the Russian put. The 120 days' notice. Could you just clarify what exactly that is? Was that at the end of the exercisable period, they get a 120-day notice, or could you just clear that up? I wasn't…

Paul Reitz: It's a 120 days from the receipt of the put notice.

Joe Mondillo: So, they choose to put it or you're -- in other words, they choose to exercise it and then within 120 days, they have -- you have to resolve finances. Is that…

Paul Reitz: The regulatory approval -- that's correct. So, as of today, we've not received the notice regarding exercise of the put option from either of the partners. So, that 120-day period has not started yet. But, as noted in agreement that was filed with the 10-Q, there is 120-day period that would start upon receipt of the put notice for us and then to obtain the proper regulatory approvals.

Joe Mondillo: Okay. And I know there's not a lot more you probably can say here. There's a lot of different scenarios that could happen in terms of how much is exercised and who exercises what and how you finance it. But, number one, could you tell us if there is a possibility or if there's any possibility that the $120 million, you won't fully be obligated? In other words, one or both may not choose to exercise it. And then, also is there any other sort of color you can provide on sort of how you're thinking about financing, if and when.

Paul Reitz: It's a good question, Joe. But, given where we're at in this process, we're just not at a position to say more than what we previously disclosed and discussed already. We plan on providing updates and certainly we will do that as further disclosure is appropriate. But, unfortunately, at this time, we just can't say anything further.

Joe Mondillo: Okay, understand. So, I wanted to ask about sort of the tariffs, gross margins, pricing. You saw about on 2% to 4%, call it, price mix benefit in the first half. You saw 4% benefit in the third quarter here in terms of price mix. And the price increase of 4%, it was not initiated until September 1st. So, I am just curious sort of going forward, looking at the fourth quarter, maybe even into the first quarter, it seems like the sort of price mix benefit is going to accelerate to maybe 5% or beyond. Could you just -- is that a pretty fair statement? And sort of how are you looking at gross margins, considering -- because they were better than I expected, considering the headwinds that you had?

Paul Reitz: Let me take that from a business perspective, then I'll let David or Todd talk a little bit more on the financial side of it. From the business perspective, it has been volatile, but I feel good about what we've been able to accomplish this quarter. As you noted, with the progress on our incremental margins, there are a lot of moving pieces with commodity prices, both on the input side and the market side of it. I feel like we're in a good spot with it now. It's hard to comment where we think it's going to be, the early part of next year. But, one thing I am very confident that we're doing well in North America is that the project we talked about with 80-20 because as we go through that we are analyzing everything about the business of how we price, what our costs are running through the operational side of the business, looking at our products, make sure we're producing the right products, have the right inventory levels on hand. So, we're really spending a lot of dedicated resource to make sure we get this right, as close to right as we possibly can, but understanding that those pieces are going to constantly change. So, culturally what David and I are driving through the organization along with Lester Brewer and Steve Hathaway, our divisional leaders, is that this has to become part of our culture. We have to be constantly looking at these drivers that impact our business and making decisions quickly and rapidly to adjust. And so, when we talk about this 80-20, it's not a one-time process where we -- we put on the shelf and we feel good about what we accomplish. It's doing what you're getting into Joe, which is just staying on top of it and try to maximize as much as we possibly can on the elements that go into our gross margin. So, from a business standpoint, that's how I see it, David and Todd, if you want to add something on the financial side.

David Martin: I think, you technically hit everything that's required here. We are seeing in a combination of price and mix some of our products large versus small ag and things like that. So, I think -- Joe, I think it certainly could be accelerating to a certain extent with various price increases. But there's a lot of moving parts to it. So, I am not sure how to get it specifically quantified for you.

Joe Mondillo: I guess, one thing that I'm sort of curious of, the price increase didn't go in place until September 1st. So, the first two months of the quarter, you didn't benefit from the price increase. And so, I'm just curious, given what you're seeing with raw materials -- and I know natural rubber has continued to come down. I'm not sure if synthetic rubber has sort of stabilized. But natural rubber continues to come down, synthetic maybe stabilizes. You get -- the price increase just went in the last month of the quarter. It seems to me that the fourth quarter is setting up pretty nicely and I am just -- I know there is maybe some other pieces in there. But, I'm just wondering what your thoughts are on sort of that thinking?

David Martin: Certainly, it is a piece of our overall global business as well. We're talking about that price increases, really specifically North America and for tire. And certainly that's been very obviously selective based on where our customers are at, as well. So, certainly, your intuition is correct. But again, there's a lot of moving parts. You have our various price mechanisms within our international business that are also -- gets in a favorable position as well. So, yes, we are setting up, but obviously this is a seasonal low quarter in the year for sales. So, it -- really the bigger benefit would be more likely Q1.

Joe Mondillo: And I just wanted to ask about the growth that you saw in the ag segment, specifically the volume. Volume was under 2% growth, slowest than several quarters. Just wondering, sort of what you're seeing there geographically, how you're thinking about growth going forward? Do we anticipate sort of

some of -- this kind of really low single digit type growth going forward? Or maybe a reacceleration, or just wondering what your thoughts are on that?

Paul Reitz: Yes. We are looking to put our thoughts together for 2019. And the early indications are growth is going to still be moderate levels. We haven't quite pinpointed exactly how to find that moderate. But, I do believe it will be above the 2% we saw this quarter. What we saw this quarter -- what David was talking about, it's the mix. Whether you are talking about small versus large, aftermarket versus OEM, you see different results. Latin America is a little bit different than North America right now. But, I would say the indications that are positive though, Joe, are OEMs are still looking for next year to be a good year. Nobody is using the word great. You are not seeing that rampant growth expectations for next year. But, you are seeing some good solid levels of expectation for growth continuing for next year. What we saw this year is the mix on the aftermarket this -- I'm sorry, this quarter, not this year. This quarter, we saw the aftermarket pull back some with what's going on with commodity prices concerns, a little bit of challenges out there in the field with the weather conditions. And so. I think the mix this quarter where we saw that growth rate come down was more towards the aftermarket in North America.

Don't anticipate that being a trend that will continue in the future because there's just a strong level of replacement demand that pent up. We had some really good LSW sales in the tail end of this quarter. We're talking about our strategy for next year and what we can do with that to make sure we're capturing everything we possibly can. If you go around the Midwest these days, it's extremely wet. And it fits really, really well into our sweet spot with our LSW products. So, I think this quarter, yes, you're right. The level of growth was on the low side. But, again, I think if you look at the mix part of it, there is definitely some positive aspects. And again, the trends and the expectations for next year I think get us back into that moderate range. And certainly we'll be pinpointing that definition of moderate as we move forward with our plans for 2019 and share that with you guys. But, I think next year will still be a good growth year.

Joe Mondillo: Yes. Not surprisingly here a little bit of weakness in North America, especially with the tariffs and everything that's caused. Outside of North America, it sounds like North America certainly was a little bit of the cause to the slowdown. Outside of North America though, any sort of shift in growth rates or change in activity that you're seeing?

Paul Reitz: As David mentioned, Brazil got impacted by currency translation, but their concerns with their political environment and the weakness they've had in their economy has made the sugarcane market a little more challenging down there for our undercarriage business. So it's not performing at the levels, I think, we expected at the beginning of the year. But again, we talked about ag, there's not anything that's performing at a really negative level. I think disappointing from the standpoint we thought there'll be really good growth, whereas as you mentioned, the growth rate was more like 2%. So nothing's really falling off the cliff. But South America, Brazil specifically, has definitely been a challenging market. I think it's in my comments when I was trying to point out that our team has done a lot of things to react. But part of it is really focusing on the cost side of the business knowing that the revenue side is going to be challenging, protecting your market share, waiting for that moment where the market bounces back as what Brazil seems to do when it goes down, it never seems to say down too long in these types of situations and has a tendency to bounce back up. So again, I don't think the Brazil trends we're seeing this quarter are indicative of what it's going to be like for the rest of this year going into next year.

Joe Mondillo: Okay. And last question for me and I'll let someone have a chance. On the product mix, just wondering, I know this has been sort of a status quo or things hadn't been changing a ton with

product mix. But how -- when do you think some demand for the heavier, larger type of equipment comes back? Do you see any change in the product mix as we head into 2019?

Paul Reitz: I would say, I'm definitely hopeful about that. The large dealers I've been talking to recently; they're seeing some good movement in their inventory. But they've done a good job of preparing for that. So it really becomes almost specific down to the dealer to get an answer to that question. Good strong dealers are moving large ag. Some of your weaker dealers that are sitting on inventory levels are trying to get a price for that used inventory are having more of a challenging time with doing that. Yes, I think the short term answer to that is, you're going to see some movement because there's just a pent-up situation there or just an underlying replacement demand there that'll keep things moving at a healthy level. Something obviously, we all watch closely is the inventory levels out there in the channels. And those are at good moderate levels. There's not anything that's really shifted significantly here lately. But again, when you talk to some of the big dealers specifically, they are moving big product. I think the answer for 2019, where it gets tough to get that visibility, though, it just -- it depends on where commodity prices are. If you read the recent fed district reports, I mean, you see some activity out there with loans that instead of going into equipment is going into supporting operations. And so you just don't know where exactly things are going to be come March of next year on commodity prices. I think we're all hopeful that some of the nonsense from the tariffs and the concerns and the pullback that we've seen will start to add and you'll get the big market moving again. It's still below 30-year trends as we've all discussed before. So there's room for it to definitely get better without really any -- you don't need something dramatic to drive that change. When you're consistently below your normal trend lines, if you could just get back up to normal, I think it'll be a really nice growth rate for large ag. And I don't think it's going to take too much to get there. But it's -- it is going to take commodity prices staying at a higher level -- higher sustainable level than where they're at today.

Operator: And next question comes from Chirag Patel from Jefferies. Please go ahead with your question.

Chirag Patel: So, I just wanted to talk a little bit about the ITM business for a few minutes. Just trying to get a better sense for, one, would that level of growth kind of contributed to the overall company? And then just where specifically you're seeing that growth coming from. And I'm really looking into the idea of how -- what the sustainability of that kind of growth is as we move into 2019, 2020 and beyond. How big is that business? And how much further can we grow really?

Paul Reitz: Yes. Again, I'll answer from business side. Some of the specific questions in ITM, we don't disclose at that level. So I'll let David and Todd jump in on that. But from the business side, where we're seeing ITM grow, has grown well in the European sector. There's a lot of construction activity, road building has been good. We're seeing the Far East perform extremely well. Again, as mentioned on the previous question, about the only softer spot with undercarriage would be Brazil, where it's primarily driven by sugarcane. If you look at our ITM business, it's 90% earthmoving/construction, roughly 10% ag. Is the growth sustainable? What the viewpoint we're collecting right now is that it is. There's enough visibility. Not just in our undercarriage business, but -- excuse me, also our wheel and our tire business, what we're seeing is that there is good visibility and good demand going into 2019. So certainly, for today, I probably can't comment on 2020, but I can say that we feel good about where the growth is for 2019 in relation to ITM. Then, David, I don't know if there's anything you want to add. Some of the specific questions on what we disclosed with ITM, I made some general comments about percent's and growth, but we really -- we fold that after our earthmoving/construction segments. So I don't think there's too much that we can add on that.

David Martin: I agree with you.

Chirag Patel: And then, if we can just move a little bit to the ag side of the business for a few minutes as well. Just -- we talked about the sales of volumes just being down a little bit here in Europe. How are the sales overall in the North American business? I know that the mix was a little bit of a driver, but just purely on pure volume itself, the overall decline was about 2%. So just trying to get a better sense for that aspect of it. And then, we talked briefly about it in the last question about the LSWs being a little bit more of a better beneficiary over the weather in recent months here, but just trying to get a sense for, one, how big of a -- is the LSW contribution currently into the ag business? And then, what kind of level of demand have you been seeing in the more recent months?

Paul Reitz: North American ag, on the OEM side, is still performing very well. It has been throughout 2018 and did again this quarter. That business is growing. We're consistently seeing that on the wheel and the tire side. Really, the only softness in North America was with aftermarket, and again, I think that's just because of the muddy waters right now with all the talk around tariffs and taxes and the farm aid and just a lot of noise. And so again, I don't think there's any underlying fundamental issues with the aftermarket performance. It definitely -- the feedback we're getting from the customers is that it's not. But it's North America that was a really, I would say, where the weakness was. But our Wheel business, which is in North America is 90% OEM, is still performing very well this period. In regards to your question on LSW, specifically I know Todd has some numbers at high-level he might have shared. But I would say from my perspective, we haven't given up the granular detail on LSW. But what I've said publicly is that it's consistently through the past few years grown double-digits. We've been very pleased with the performance since we really launched aggressively in the market a few years ago. We're continuing to see those trends. David's talked pretty extensively about working capital needs. And that's one of our working capital needs that you're seeing us investment in, is making sure we got the right inventory available. What we see with LSW is when customers demand it, they want it and they want it now because it's meeting a very specific need in the marketplace, which is it's going to make their equipment perform better in some very tough challenging conditions, which we saw a lot of this fall. So as -- from a high-level performance perspective, it continues to grow and perform right at expectations. And we will continue to invest in LSW, bring out the new models to keep pushing the pieces of the market where we're not touching right now. And we will continue to invest in working capital. I know David is working very aggressively on working capital levels, but him and I have spoke that this is one area we got to definitely make sure that we're investing through Q4 into Q1, so we're ready for next year to capture as much as we can, the market.

Operator: And our next question comes with Komal Patel from Goldman Sachs. Please go ahead with your question.

Komal Patel: A couple of follow-up questions. One, can we talk about your market share trends in the quarter? And given the impact of tariffs, did you see stepped up competition from imports that weren't impacted by the same higher cost? Any kind of customer switching that you noticed, maybe from the low-end farmer?

Paul Reitz: I would say, look, there's definitely a lot of moving pieces with the tariffs. But I would say the one part of it that -- on the positive side -- look on the low-end farmer, yes. I mean, you got some people who are going to chase price, and I don't think it's the tariffs that are going to cause that. I think they've been doing that for a long time, whether it was wherever the imports were coming from. So you're always going to have that aspect of market, but what I've been seeing in the market is a lot of customers are looking to de-risk their supply chain. And they're looking to remove some of the volatility associated with, not just tariffs, but currency. Obviously, a lot of a number of OEMs, not just in the -- in our space, but just in the broader sectors, have been talking about supply chain constraints and be able to manage that on a global basis. And so I see that there's some positive opportunities that are coming our way from the tariffs and that Titan is a one-stop shop. We can handle many of their needs across the

world, across wheels, tires and undercarriage. And so we offer the ability to do something that many companies can't do. So my discussions here over the last few months had been more on the positive side. I know my guys have the experience in that as well that people are interested in getting tight into the mix on maybe some areas where we don't currently have the business and hearing what we can offer to them. So I see some positive things coming from the tariffs. You're going to have, like you alluded to, you're going to have the price shoppers, but there's -- in a lot of products that we deal with, especially on the OEM side and even with our aftermarket customers, I mean, there's an element of not just loyalty, but there's element of cost that goes with just swapping and changing out inventory, changing our products, changing to a new supplier. So I don't think you see that. It doesn't just happen on a dime, it's not something that just happens rapidly. So I think there's always that portion of the market that is going after a lower-priced product that still -- still exists and it will exist. But no, we're not seeing that jumping around, going from 1 supplier to the next just because they can save a couple of pennies because of the tariff situation.

Komal Patel: Got it, thanks. And then, just a quick one on SG&A. I think the last time we spoke, we discussed some kind of low-hanging fruit around figuring the full financial stuff you have at each location, some other levers. What kind of operational-related improvements have you been able to unlock so far in the SG&A side?

Paul Reitz: David, let me say something. You can jump in on that. I think it's -- there's a lot of potential there, and we've passed some of it, but part of it is going to be making the investments that David talked about into our systems to really go get the rest of it. We are going live -- actually, as we sit here today with a couple of big elements of that system being rolled out to our plants and our corporate financial team in the U.S. When we get that in place, then we can really start looking at more aggressively how we approach our corporate infrastructure. I will say we are -- the way we've grown and the way we're positioned now we are decentralized at our business unit level, and with these systems, it's not just an investment. It's not just a new toy. It's an investment that will improve our ability to access information, make us more efficient, allow us to make better decisions. But in the near future as well, allow us to leverage our infrastructure better and really change how we're set up as a company and be less decentralized down to the business unit levels. But that's why we're making this big investment in the Oracle cloud system that we are rolling out. We went live November 1st. So David, anything you want to add on that?

David Martin: Just to be clear, we've implemented it in our corporate financial environment over the course of this quarter and in our wheel operations here as well. And we'll be in the midst of doing our North American tire business over the course of next 12 to 15 months. And therefore, take a little bit more time before we get fully into the cost structure, if you will, but I think the important thing is that it not only will help us from an overall SG&A management standpoint is that there is a lot of unlocked opportunity in how we run our production facilities. And obviously, that will improve production efficiency and so forth, and therefore, helping us with our margins as well. There's a lot of benefits that are going to take place over the course of getting this implemented.

Operator: And our next question comes from Alex Blanton from Clear Harbor. Please go ahead.

Alex Blanton: Could you discuss in general the effects of the tariffs on you so far? And including what's happened to the ag market as a result of the retaliatory tariffs that have been put on and the desire of farmers in view of that uncertainty to buy new equipment. And then, what would happen should the house representative shift in the Democrats and give Congress some leverage on pulling back some of these tariffs because Congress is the one that has, according the Constitution, the tariff power. But they have delegated it to the President to several acts over the last 2 decades. And now the President's exercising that power, but he could lose that power should Congress decide to repeal those acts and then on those

tariffs could be reversed or done away with. And given the fact that there are many Republicans in Congress who also do not like the tariffs, there is a possibility that, that could happen. What would happen then to the ag market if that occurred?

Paul Reitz: It's a good question, Alex. And I think the key component of all this with the ag market is what are you going to do with the export grains? And really, what the tariffs did -- and the steel prices and the impact of the tariffs on that has been what everybody is really focused on. But I think from the ag perspective, it's just what do you do with the grains that need to be exported to really drive the commodity prices here in North America? And I don't know if the answer to that question is directly related to the tariffs being repealed or not. I think the tariffs brought it into the spotlight because then everybody was focusing in on the fact that if you're going to put tariffs on our products, then we're going to stop taking your grains. But are those markets where our grains are being exported, are they able to find suitable substitutes? And what does that mean for the future? And of course, in the world of ag, the output changes so much from year to year, it's not an easy question to answer. So yes, I think for the markets to be successful in North America, you got to find a way to export some of your large grains and that's the key component of all this. And I think the tariffs, all it did is just -- the retaliatory tariffs were focused on the grain side of it. And if you repealed it, it's tough. Politically, what that would mean, but I think -- go ahead, Alex. You were going to say something.

Alex Blanton: I was going to say the soybean prices had plunged because of what China did in retaliation. They aimed their retaliation at the red states, obviously, which are the farm states, a lot of them. So it's retaliatory actions that go away because our actions are reversed. Then, one would think that the demand for the grains would come back from the people who have taken it away for the time being. And so wouldn't that be a real positive for the ag market if that happened.

Paul Reitz: I'd just avoid making a political statement is what I'm doing.

Alex Blanton: Well this isn't politics. This is economics.

Paul Reitz: I agree, but you do with the exports, that's the key component of all of this. If the exports get absorbed, then absolutely. I mean, I think you're going to see a positive impact from that. The prices will be at a higher, more sustainable level.

Alex Blanton: Well they could be more easily absorbed if the tariffs were done away with. Isn't it correct?

Paul Reitz: I think one could conclude that. Yes.

Alex Blanton: So, what do you think would happen then to the ag market is my question, if that happened. Would it stay the same or would farmers buy more equipment?

Paul Reitz: I think you would see the market go back to where we thought it was going to be the start of this year. If you look back at the start of this year, expectations were more robust, obviously, than where they are now. I think the performance has been good in the ag sector, but there was some really good prospects at the start of this year and we -- a lot of people saw that at the beginning of the year till the tariffs started coming into the picture. I think you would get that -- you'd start moving the markets back up to normal trends. There is a replacement demand cycle that would pick up. I think it's there. All the underlying pieces would tell you that there is availability in the market for it to improve if prices were higher, and I think you would see that happen pretty quickly. And again, all you got to do is look back to the beginning of the year, pre-tariffs, about expectation levels compared to where they are today.

Alex Blanton: Okay. So what's the magnitude of the difference between what your expectations were and what they are now? What's the difference percentage-wise?

Paul Reitz: I don't know if I have that exact number right now, but I think it's probably about a handful of points. It's not -- again, early part of the year, I would say things were looking more maybe right around that double-digit, low-double digit, upper single-digit level compared to where we now. As you saw we reported 2%.

Operator: Our next question comes from Kyle Krueger from Apollo. Please go ahead with your question.

Kyle Krueger: You had a significant headwind in the quarter associated with the strength of the dollar. And David mentioned, the fact that you're going to be reviewing your hedging policies and whatnot. I'll just ask the question straight up. I mean, how do you avoid overreacting to the strength of the dollar, if it is indeed temporary, in a point of maximum pressure as you go forward and set policy? I mean, how do you intend to move forward with respect to hedging? Given that there's a tendency to overreact at the point of maximum pressure. I'm not saying guys will, but there's always that pressure.

Paul Reitz: Well look, I have looked at it in two ways. One, we try to get the natural hedge by producing products in a multitude of different currencies in countries. But really, what we're referencing with the comments made on the call today about the project to reduce our FX volatility is because a lot of our volatility is driven by legacy intercompany balances that exist between various companies around the world that are a number of different reasons. Some of them are just set up at acquisitions, some of them are related to operating -- current operations. But what we want to do is limit that volatility, those intercompany balances. So what really you would see in our P&L is what you're alluding to, which is true operating hedging impacts of foreign currency volatility. So unfortunately, what you see in our P&L is just a lot of intercompany noncash volatility.

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

Paul Reitz: I appreciate everybody's time this morning. And we look forward to talk to you again at our year-end results. Thank you.

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