Titan International Inc.
Transcript of Q4 2018 Earnings Call and Webcast
Thursday, March 7, 2019 9:00 AM ET

Company Representatives:
Paul Reitz: President and CEO
David Martin: Senior VP and CFO
Todd Shoot: Treasurer and VP Investor Relations

Analysts and Other Participants
Steve Volkmann - Jefferies
Joe Mondillo - Sidoti & Company
Komal Patel - Goldman Sachs
Justine Ho - Mesirow Financial
Alex Blanton - Clear Harbor Asset Management

Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the Titan International, Inc. Fourth Quarter and Full Year 2018 Earnings Conference 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, Alison. Good morning and welcome everyone to our fourth quarter and full year 2018 Earnings call. On the call with me today, I'm pleased to have our President and CEO, Paul Reitz; and David Martin, Senior Vice President and CFO.

I will begin with the reminder that the results we are about to review were presented in an earnings release issued this morning along with our Form 10-K, 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 risks, 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 and Events.

Please note, today's call is being recorded and a copy of the call transcript will be made available within the Investor Relations portion of our website.

I' would now like to turn the call over to Paul.

Paul Reitz: Thanks Todd. Good morning. We appreciate you joining us today for our call to wrap up 2018. I'm going to run through the business highlights, then our CFO, David Martin will go through the financial aspects, and then we'll provide some additional comments on our recent strategic announcement before concluding with your questions.

To start-off as you look back at the past couple of years, I firmly believe Titan International and our global team have accomplished a lot. And the proof of that progress is evidenced in our financial results. Our 2018 sales ended over the 1.6 billion mark and up over 9% from last year or if you back out the negative impact of foreign currency, we actually had an 11% revenue increase. We moved our sale gains well through into EBITDA where adjusted EBITDA finished 2018 at $119 million representing a solid 64% increase over 2017, $72 million. That equates to an incremental adjusted EBITDA margin of 35% this year. Keep in mind these top and bottom line gains came this year within a volatile business landscape that is seen tariff battles, steel prices at decade highs, sluggish commodity prices that have impacted farmer income and that's just to name a few of the challenges. I can't say if this type of market environment represents the new normal or not, but I do know that the financial improvements we posted in 2018 represent a really good year, and definitely reflect our extensive efforts over the past couple of years.

As you may recall, we laid out our original 2018 business outlook in November of 2017 as we were preparing to refinance our bonds. When you look now considering the volatility of the current bond market, we're very fortunate to have made that decision to get our bonds refinanced at 6.5% through 2023. So let's recap our 2018 performance against the updated outlook that we provided. As I stated earlier, our 2018 sales were up 9% or 11% excluding that negative impact of currency. This compares favorably against our noted expectations of 9% to 12% growth. EBITDA was up 98%, well within our guidelines of an 80% to 100% increase. SG&A came in much better at 9.1% of sales beating the 10% low-end of our guidance by $14 million. Gross profit improved this year by 24%. We were only slightly below our outlook guidance by $2 million. Gross margin this year was, of course impacted by raw materials. We saw an ag market as I mentioned earlier that led us to some tougher pricing within many parts of the landscape that we compete in as the tariff battles continued to drag on. We are all very familiar with those issues. But again, I think our gross profit improvement by 24% this year reflects a strong performance. When you look at our outlook that we provided, we did not provide anything for EPS. But I do want to note we returned profitability this year for the first time since 2013 with income of $16 million or $0.27 per share. All-in-all, we did a good job this year of accomplishing what we said we were going to do in 2018.

As you know, kind of looking back in a different direction, as you know, our end markets entered a heavy cyclical downturn in 2014 that reached its low point in 2016. I'd like to take just

a second here to point out where we've come from since that low point. Titan has posted overall sales growth of 27%, and if you take the solid revenue gains and combine them with the operational and business improvements that we've been continuously driving, that resulted in adjusted EBITDA growth of 152% in that two-year period. Again these accomplishments are against a tough backdrop of a volatile market conditions in a wild raw material situation that we saw in 2017 with natural rubber.

We've worked hard and are proud of these improvements we've made over the past couple of years, but it's good as these gains have been, we know we still have more work to do. First, we need to continue to drive stronger margin improvements. We have to raise our gross margins above today's level. Next while it was definitely nice to return to profitability this year, we have pieces of our business quite frankly perform unacceptable levels. These particular areas have a negative impact on our bottom line and as a company impedes Titan from reaching an even higher level of profitability.

So first let's touch on the comment about driving gross margin improvements and talk specifically about North America our largest business units. Our management team in North America is keenly focused on opportunities to improve our margins. We operate in a competitive landscape. We operate in a challenging market that continues to grow - remain below historical averages.

With that being said, we have made good gains in 2018 with North America gross margin gaining over 200 basis points, but we all know there's still ample room to improve from there. Last quarter we announced that an 80/20 portfolio management program would be launched in early 2019. We have done that and formerly put that into place for our tire business on January 1st of this year. The history for both our North America and tire wheel business is that they started off as the little guys competing in a big world and to this day that spirit is inherent in our entrepreneurial culture, that's a good thing. However, similar to many smaller companies that have been seeking growth for many years through that period we continue to see our product portfolio balloon, that in turn has made us overly complex and less efficient in our processes more and really all the way through our manufacturing operations. Our 80/20 program will revamp our product strategy and how we manage our operations in North America. We believe quite confidently this program will improve profitability, cash flow and our management of working capital levels, while also enabling us to make effective timely decisions by reducing the burden of our complexity in our daily business activities. Many world-class organizations have already implemented the 80/20 program. CNH recently announced they're embarking on this program as well. 80/20 is a longer-term journey for us. We're often running within our Tire Group and then later this year we're going to implement it in our wheel division as well.

Continuing on the margin discussion, Russia is another business unit that we're heavily focused on and needs to improve their margin performance. It goes without saying Russia is a complex arena to operate on many fronts. For us it was made more complicated as we worked through the five year put option that came due this year. Our Russian business is primarily Ag-related and within the Ag sector in Russia they have faced many challenges associated with not just the commodity prices but a banking system that is causing significant working capital constraints within our distribution channels, our dealers, our end users et cetera. Our Titan Russia business

unit is the number one ad tire producer in the CIS region. 2018 results are much better than they were a few years ago but as we sit here today the gross margins are not near where they need to be, and operating income is nowhere near an acceptable return on the investments we've made. We've been prudent through the years with the investments we've made, and they've had a very positive impact. Titan Russia have increased our efficiency levels well over 50% in the last few years. Along with that we're putting in other enhancements that are designed to drive quality improvements and that has been going well. We are in the later phases of developing tires that can be exported in the EU and other markets as well. That is crucial to the future success within Titan Russia. Our management team there is making good decisions in navigating the challenging Russian market and improving their operational efficiencies as I noted earlier, but we need to and we'll do more to produce better financial results there.

Next moving over to profitability. As I mentioned earlier, Titan has seen our operating income improve from a loss of $25 million in 2016 to an operating profit of $42 million just this year 2018. That is a fairly solid improvement. However, for us to reach our potential, we need to continue to reduce the negative bottom line impact of certain parts of our business. One area that needs addressing is our TTRC recycling business in Canada. As we previously announced in September of 2017, we had a fire at TTRC, destroy the building that contains three of our six reactors. Prior to that fire we had internal projections that we had shared publicly the TTRC would be a profitable business with healthy EBITDA margins. That has not materialized. And due to the fire has placed a fairly sizable negative burden on our financials in the past couple of years. We are hopefully nearing the completion point with the insurance and insurance settlement from that fire and at that point Titan will complete a strategic and operational review of TTRC to determine the next steps for the future.

Another area of strategic focus for us is Australia and what goes along with that is our light larger mining tire business that is produced here in the U.S. In those two areas combined, we've made sizable operating income improvements over that tally well over $10 million since 2016. But despite those improvements that we've introduced into these businesses, both still operate at an unacceptable level of financial performance, and we need to see better from them.
In 2019, we have already made organizational changes in Australia and we'll be further analyzing both these businesses this year to determine the strategic plans and what else needs to be done to drive towards acceptable financial performance.

The next area I want to jump over to is spending some time on our 2019 outlook that we provided in our press release. We believe 2019 total sales will grow 6% to 7.5% with our earthmoving construction segment leading the way with growth in the 8% to 9.5% range. Like many other companies, we believe there is pent-up demand within the Ag market. We are cautiously optimistic about where things will go in 2019, but assuming that the political and commodity pressures that we've evolved in the focused on will remain in place, we still see our ag business growing in the 4% to 6% range, which I should add would represent some market share expansion in certain areas. As noted earlier, we are committed to driving further margin improvements over the next few years, and we see our 2019 gross margins in the 12.8% to 13.2% range, representing a solid improvement over the 12.4% in 2018, and the 11.6% on an adjusted for some impairment basis that we reported in 2017. As we did this year, we will continue to drive more leverage into our business and into our SG&A structure and therefore

forecast SG&A and R&D combined to be in approximately $150 million or less than 9% on a percentage basis. This all said results in projected 2019 Adjusted EBITDA in the range of $124 to $134 million. Again this compares favorably to the $119 million that we reported for 2018 and the $72 million that we reported in 2017. All these projections that we've discussed assume that no divestitures will have taken place.

In conclusion, we've worked hard as one Titan in the past couple of years, and I think 2018 is a strong reflection of what we've accomplished as we hit the targets we set for the year. We have more than doubled our EBITDA since 2016.

With that, I'd now like to turn the call over to David and then I'll follow up later with some comments on our recent strategic announcements.

David Martin: Thanks Paul, and good morning to everyone on the call. I will highlight some of the key items from our fourth quarter 2018 performance, while I don't want to repeat all the numbers from the release that we outlined last night.

Net sales for the fourth quarter of 2018 were $363 million, which represents a decline of 3% from the prior year, but on a constant currency basis, revenues would have been up nearly $8 million from the prior year or 2.1%. This currency impact of $20 million or 5.4% was felt most in the Latin America and the European geographies. Our ITM undercarriage business performed very well with revenues increasing 13% from Q4, 2017 absent currency evaluation that occurred during the quarter. Our North American business primarily tire experienced a decline in sales as a market softening in the aftermarket continued the trend that we saw throughout the second half of 2018 due to a variety of reasons that Paul described earlier.

I already talked about the negative impact of currency on net sales but our sales volume on a consolidated basis was essentially flat, while we had a pickup in sales from increased price and mix of 2%.

I'd like to take a just a second to discuss our fourth quarter performance relative to our own expectations. We experienced some market softening in Russia and Australia during the quarter which were the two largest drivers of underperformance against our expectations for the quarter in terms of revenue and gross profit. The impact on gross profit from these shortfalls approximated $4 million. Obviously, currency impacts also played a major part in the overall profitability versus expectations, which included the impact from currency losses reported in other expense from revaluation of our inter-company loans and balances which is another $4 million during the quarter. I'll discuss that more in a bit.

Our reported gross profit for the fourth quarter was approximately $37 million or 10.1% of net sales compared to $36 million or 9.6% of net sales in the same quarter a year ago. The impact from negative currency translation effects on gross profit was approximately $2 million for the quarter or 6%. In the prior year we recorded an impairment on assets related to the fire at our tire recycling business in Canada of $10 million. When comparing to Q4 2017 adjusted gross profit excluding the impairment loss gross profit would have been down. I already alluded to it, but in the fourth quarter of 2018 our North American aftermarket tire sales were slower than the prior

year, which also negatively impacted gross profit dollars and margin. Factors behind this were somewhat complex, while our customers have been very cautious after the market disruptions we have experienced due to global trade wars and other impacts on farm income. I want to point out that for the full year we experienced a 7% increase in net sales in North America. So some of the decline in Q4 relates to timing and relative dealer inventory levels. We also had some delays relating to shipments in our North American wheel business from temporary challenges related to the start-up of our new ERP system in November and December. These challenges are largely behind us now, and we should catch up majority of our sales shortfall in this quarter and next. Gross profit and margin both improved significantly in the earthmoving and construction segment primarily due to ITM's business. The impact year-over-year in gross profit from slower market conditions in Russia and Australia during the fourth quarter was approximately $4 million, which is similar to the impact of the quarter in terms of our own expectations that I described earlier.

Now let's take a little closer look at each of the three segments.

Our agriculture segment net sales were $150 million down 10% on a year-over-year basis that would have been down only 3.5% if not for the negative currency impact. Volume in this segment was down 4.5% while favorable price and mix added 1% at segment net sales. Sales in North America were down for the quarter, primarily due to the factors I just discussed. Latin America ag sales though were improved in the quarter by 36% year-over-year, absent currency headwinds and that is due to some recovery in the market, which experienced challenges for the most of the year.

Our agricultural segment gross profit for the fourth quarter was $17 million down from $21.5 in last year where the portion of this coming from lower currencies as well. Volume in North America was the largest factor in the decline from Q4 a year ago, while there were market headwinds from Russia as well. Year-over-year margins declined approximately 160 basis points in the fourth quarter to 11.4%, again driven by the same factors that I've just reviewed with you.

Continuing to our earthmoving and construction segment, this segment experienced an increase in net sales of nearly $8 million or 5% to $174 million. On a constant currency basis, net sales would have increased nearly 22% for the quarter. Volume gains in the segment were close to 6% while volume price and mix was 3%, and negative currency impacted of the segment by 4.5%. Again, the strongest areas of growth for this segment came in Europe with ITM undercarriage business as we've talked about all year as a trend. Australia experienced a decline in sales from what appears to be a short-term market softening.

Gross profit within the earthmoving and construction segment for the fourth quarter was $15.5 million, which represents a $7.9 billion increase from a year ago. Keeping in mind and in the prior year there was a $10 million asset impairment related to the 2017 fire at our tire reclamation operations in Canada.

Now to wrap up with the consumer segment, the segment fourth quarter net sales were $40 million decreased 10% when compared to last year. On a constant currency basis, net sales would have been down only 2%. Volume decreased by almost 5% while we gained some with

favorable price and mix of 3%. There was a significant FX drag again this quarter with negative impact of 4% from the prior year with the biggest impact felt in Latin America. This segment's gross profit for the fourth quarter was $4 million, which was down $2.8 million from a year ago. Gross margin was 10.3%, a decline of almost 500 basis points over the same period last year, which was really reflective of lower sales volume and the impact of fixed cost absorption in Latin America.

Turning over to our operating expenses, SG&A and R&D expenses for the fourth quarter were $35 million, a decrease of 2 million from the prior year. As a percentage of net sales, SG&A and R&D was 9.7% compared to 10% in the comparable period last year. This discrete in operating expense is primarily relates to lower legal spending.

Tax expense during the quarter was $3 million in the quarter on a pre-tax loss of $11 million, which appears to be unusual but with a portion of our losses coming in tax jurisdictions where we have significant cumulative operating losses, we're not able to take a current year tax benefit, which causes an unusual outcome particularly in the quarter. For the year the income tax provision was $6.8 million or 34% on pre-tax income of $19.8 million, which is more normalized. For 2019, I would anticipate our tax rate to fall between 25% and 30% given our expectation of mix of our pretax income in the various tax jurisdictions.

A final item of note for our fourth quarter performance discussion relates to the redemption value adjustment of $1.1 million, which decreased from the prior year amount of $2.4 million. Almost all of this adjustment relates to the impact of the current period, currency devaluation of the Russian ruble versus the U.S. dollar. The RDIF portion of the put option is now satisfied and there will no longer be any impact from the redeemable non-controlling interest in the Russian operation related to RDIF.

Now I'd like to move over to our financial condition and highlight a few key balance sheet liquidity and capital items.

Going into the fourth quarter, we had an expectation that we would see some turnaround in working capital levels in the business and we did see an appropriate decline in accounts receivable relative to sales levels as our DSOs remained steady at 61 days.
Our total AR dropped $17 million during the fourth quarter from the third quarter. However, our ending inventory in December grew by $14 million from the third quarter. This growth came in two principal areas of the business, our North American wheel operations and our undercarriage business. As discussed earlier, we had some temporary delays in shipments during the fourth quarter related to isolated challenges with the startup of our new ERP system. We have achieved stabilization subsequent to year-end and we anticipate being able to catch up substantially during the first half of the year. As it relates to ITM's undercarriage business, we have experienced dramatic growth in the business over the course of 2018 and they continue to see strong trends in the business climate requiring them to continue to build inventory to meet increased demands. Inventory turnover for the business has remained relatively steady during the year.

Obviously increases in working capital has continued to impact our cash balances throughout the year, our cash balance of approximately $82 million - was approximately $82 million at the end of the year declining $15 million from September 30, 2018.

Working capital growth at the rate we saw in 2018 is not sustainable and our management teams across the business are increasingly focused on improving our production planning processes some of this coming from improvements we are making in our financial systems. It also involves simply maintaining the appropriately disciplined and continuous focus by our finance, supply chain and operations management teams. We are certainly positioned well with our inventory levels to meet the anticipated increased demand in 2019 and with our reinvigorated focus on working capital management throughout the organization, we believe we should be able to see a turnaround in our operating cash flow for this year and beyond.

Now just a couple more items before I wrap up the discussion, starting with debt.

Our combined current and long-term debt totaled $461 million at the end of December, which was stable with where we were at the end of last quarter. Current maturities due within one year totaled $52 million. A significant portion of the current maturities relates to local overdraft and working capital facilities, which are generally considered on demand for reporting purposes, but are expect to be able to roll over with the use of cash during the year. Again as a reminder, our debt consists primarily of $400 million senior secured notes which will mature in 2023. We have increased our borrowing level in the first quarter of 2019 to manage the payment to RDIF related to the put option. While I anticipate we should improve our cash flow sufficiently in the coming year to pay it down. Some of this will come from improved operating cash flows while I also believe we will be able to shed some non-core or idle assets into cash in the near-term that could deliver between $30 and $50 million in cash. Given the improvements in cash flow, we expect to have sufficient liquidity to continue to invest in the business appropriately to foster the growth and profit improvement aspirations that we have.

Capital expenditures for 2018 were $39 million versus roughly $33 million in 2017. We came within our range of expectations for the year. Due to anticipated growth in 2019 and specific needs we have in the business, I anticipate to spend a bit more in the range of $40 million to $50 million for the year targeting areas that can deliver the highest returns through increased planned efficiency and cost reductions. It's important to note that our depreciation and amortization is running at a $58 million and we believe it will be in a similar range in 2019.

We now closed out the year and where we approved on all of our financial performance metrics and we believe that our outlook for 2019 is positive and balanced in the view of the global markets that remains unpredictable and volatile at times. The business is positioned to take advantage of our opportunities. We are committed to driving improved returns to our shareholders as we continue to get longstanding challenges behind us.

I want to conclude by restating a few priorities that remain in front of us in terms of financial improvement initiatives. I'll discuss this in some detail, but we have important initiatives underway across the business, focused on driving sales and improving margin performance across the business. The 80/20 program for our North American operation should be a significant

step to drive operational improvements. We're also focusing on components of their business that are incurring operating losses today but taking steps to eliminate them from the portfolio or by reducing our fixed cost to improve profitability. We have also started down a path to develop appropriate strategies aimed at reducing volatility in our financial performance related to the impacts of currency, fluctuations and strive stronger global treasury management practices. Last quarter I talked about focus on cash flow and while we didn't make the progress in fourth quarter that I expected, we are working hard to build improved visibility and accountability in the organization to drive improved working capital management practices. We are also focused on building our capability to deliver the significantly improved and more timely business analytics in the business through innovations in our base to ERP platform. All of these initiatives will take time, but we are committed to making significant progress during 2019.

Now I'd like to turn the call back over to Paul for a few more comments before we get into any questions that you might have.

Paul Reitz: Good job, David, appreciate it.

I want to close with a few comments on our strategic announcement last week regarding ITM. As you may recall, it was April of 2016 that Titan received a letter of interest for ITM that triggered the formation of a Special Committee to engage in advisory discussions with a leading investment bank. I won't repeat all that. The one thing that came out of it that we did then announce publicly in March of 2017 is that we announced Titan had determined that selling ITM was not in the best interest of our shareholders at that time. Our strategic focus then became to continue to pursue growth in ITM’s business and overall financial performance and as you've heard from both of us this morning, that's exactly what we have successfully done. Since 2016, ITM has been on a strong path that has continued to see excellent growth in sales, operating income and EBITDA. We don't divulge ITM's financial performance separately in our financial filings, but I will say, as a reminder, and this is what some of the comments we've made previously as well, our undercarriage business operates primarily outside North America, and predominantly in the earthmoving construction segment.

As we announced last week, we are now, once again, evaluating strategic alternatives for ITM, we've engaged advisors to assist us with that process. And this does now include the option of a public listing in Europe. I firmly believe that based on ITM's performance the past couple of years, ITM is now worth a much higher value than the offers we received in 2016. We are not declaring ITM a noncore asset and it's not a foregone conclusion that we'll dispose this business, but I want to add that ITM can be split apart from Titan without major disruption or cost. Regardless of our announcements, we continue to believe that ITM is an excellent business with a strong future. However, we also firmly believe it's in the best interest of our shareholders to evaluate our strategic options at this time.

Changing directions briefly from ITM, we've made a couple of recent announcements regarding our Russian put option with RDIF. First, we announced that we reached an agreement on the RDIF put for a total consideration of $50 million that included an immediate cash payment of $25 million and the issuance of $25 million of Titan's restricted stock that will mature in three years. Completely within our own discretion, we can buyback this stock in cash within 12

months and we would receive 10% of their ownership in Titan Russia that then would reduce RDIF's holdings to 25%. Our latest announcement on February 25th, stated that we closed the transaction by making the $25 million cash payment and we'll be issuing roughly $4 million excuse me 4 million shares of restricted stock that's still subject to regulatory approval.

Our other partner in Titan Russia, One Equity Partners has exercised the put option that would require Titan to pay OEP $46 million later this month in return for their approximately 21% equity interest. That would also be subject to a regulatory filing in Russia to approve Titan owning more than 50% of the Voltyre-Prom equity.

I want to wrap up by stating that on both these matters, our Board and myself and David, together with our financial advisers, will continue to work towards making the best decisions in the interest of our shareholders.

With that, I'd now like to turn the call over for your questions. Operator?

Question-and-Answer Session
Operator: [Operator Instructions] Our first question will come from Steve Volkmann of Jefferies. Please go ahead.

Steve Volkmann: So, I guess maybe lots of questions, but maybe I'll start Paul and David with some cash flow questions. And, I guess, I'm trying to figure out - it sounds like we're going to bring down working capital a little bit in 2019. I don't know if this is sort of an order of magnitude. Can we talk about maybe free cash flow relative to net income maybe as a way to think about that?

David Martin: Our expectation is that from a working capital perspective that while there'll be some sales growth that we will be able to drawdown to a certain extent from the levels that we saw last year, particularly in inventory. While you may not see a big downturn in it, but with the growth levels and the profit levels that we see increase, we should be able to see significantly different operating cash flow number. Then, of course, our targets are to see free cash flow in the range of 1x net income. And, I expect that we can potentially get pretty close to that this year.

Steve Volkmann: And then I think you mentioned $30 million to $50 million in idle assets that you could potentially dispose of, can you say a little bit more about what that is and is the $30 to $50 million what you'd expect in proceeds or just a little more detail there?

David Martin: Yes, that's a good question. We certainly have some properties and some assets that we have that have not been producing anything lately. And so there are some opportunities to make the sales of such properties, in addition to the potential for us as we look at TTRC operations in Canada.

Steve Volkmann: And again, is that $30 to $50 million what you're expecting in proceeds or is that what the value of the assets on the books are or…?

David Martin: That would be proceeds.

Steve Volkmann: Proceeds, okay, good right I'll pass that on and get back in line. Thanks.

Operator: Our next question will come from Joe Mondillo of Sidoti & Company. Please go ahead.

Joe Mondillo: So just sort of add-on to that questioning in terms of liquidity, just wondering if you could expand on the liquidity you went through sort of fast on the prepared commentary. So, it sounded like you owe some current debt of about $52 million, you paid the $25 million for RDIF and you have a probably some sort of a liability at 46 million to One Equity. Are those the biggest buckets of liability this year?

Paul Reitz: Yes, I think you outlined that correctly. OEP's for $46 million that would be settled at this time, I mean I guess we still have the optionality of stock or cash, but we have missed some deadlines. I guess I would say in regards to notifying OEP, we would use stock. So at this juncture that would be $46 million worth of cash.

With RDIF like you said, we've already paid them, the $25 million as announced. We will be issuing $25 million worth of restricted stock, but – the optionality exists to trade that restricted stock in using cash, which would be another $25 million. So the total cash exposure between the two would be right around that $70 million mark.

David Martin: And just add to that Joe, if you look at the $52 million in other debt that we have outside of any capital leases that we have or anything related to the senior notes. Those are demand on demand and there, obviously the working capital and overdraft facilities in our international locations and not expected to see any significant repayments of those because they're just ongoing demand type of lines of credit, if you will. So it's not immediately due and we often roll these over with cash flow each year.

Joe Mondillo: And so in terms of the paying for the RDIF in one equity in the beginning of the year, I imagine – if anything you'll ramp up working capital a little bit to seasonally, whether it's not as strong as last year what not what means, do you have to compensate I guess, the biggest portion being the RDIF in one equity?

David Martin: Yes.

Joe Mondillo: I'm just sort of looking at near-term liquidity?

David Martin: So we have the – opportunity under our lines of credit that we have in the United States. Overall, we have a $75 million ABL line that we can access and obviously we have, we work closely with our banks to be able to provide sufficient liquidity in the business for any spikes like what we're seeing with respect to these payments to our partners.

Joe Mondillo: Okay so overall…

David Martin: So near term that we can actually manage these payments through the accessing that and then as time moves on the cash flow continues to get better we can pay down.

Joe Mondillo: Could you guys repeat the volume price mix and FX for the Ag segment I missed that?

David Martin: Yes, the overall for the fourth quarter itself, we had a 1% improvement in price and mix and a decline of 4.5% related to volume in a currency negative income currency impact of 6%.

Joe Mondillo: So looking at I guess the volume at the Ag segment and just wanted to sort of expand on that. I think you touched on the aftermarket revenue was a little light there your guidance, certainly suggests that things will bounce back, but just sort of. Could you provide any more color regarding what happened in the fourth quarter and why you sort of have some confidence going into 2019 that things will get better than from where you were in the fourth quarter in terms of that growth rate there in terms of volumes?

Paul Reitz: Yes, I think Joe, David mentioned, one of the items that – impacted us is the implementation of the ERP systems. So we had some shipments that rolled over from the period into the next as we were going through that implementation process. And the other item of note in the fourth quarter on the volume side is that. If you recall back in Q4 of 2017, there was a much more aggressive ramp up going into 2018 with expectations of a stronger year that was pre-tariffs and commodity prices really doing what they did throughout 2018.

And so, we saw more of an inventory build coming from our OEM's in the last quarter of 2017 compared to where we sit today kind of leading into then 2019. Why we feel – good about where we're at and where we're going is that foundation for the Ag sector is still, it's still firm. In fact, I think most operators most dealers are used to this type of environment the good ones have gotten better. The weaker ones have continued to have problems and some of them been acquired by either larger farms or larger dealers. And so, what we're seeing from our customers is that cautiously optimistic outlook that even in this tougher environment, the business has continued – can continue to grow and then with that if you get some changes that are favorable. There is definitely pent-up demand. When you look at nearly every type of metric on the replacement side in North America that could drive things even further than what we projected.

But with all that being said, I think everybody's cautiously optimistic. We see ourselves outgrowing the market in certain areas. If I look back to some of the initiatives that we put in place that we've talked about and I look back at the dealer meetings that we hosted as we wrapped up 2018. We feel good that our dealer network is strong, the products we're producing our well received in the markets. We're working on how we can continue to push more products into the markets.

Again through the 80/20 initiatives and the different activities that we have going, but I think we're going to gain some market share here with our initiatives. And I feel like we're well positioned and definitely our dealers are feeling good about 2019. And so we put out the outlook

that I think reflects all that and it's again cautiously optimistic that 2019 will continue on a good path.

Joe Mondillo: And just a follow-up the volume, the share gains that you're referring to is mainly on the aftermarket side then, is that as a correct?

Paul Reitz: Yes, I would say that I think that's correct. Certainly we also see some opportunities where we position ourselves well with OEM's. And so, but yeah I would agree mainly your comments with 80/20 we'll have more of a direct impact – your comments are correct at 80/20 we'll have more of a direct impact on what we do with the aftermarket.

Joe Mondillo: And then on the price cost side, the price mix relative to revenue growth actually decelerated from the third quarter, which was I was a little surprised given that I think you put a price increase in September. So I was actually assuming that that might accelerate. I'm not sure what happened with the mix side of things, but on the price cost side of things. Where are we relative to sort of getting back to where we were five or six quarters ago. Do you still see a benefit starting in the first quarter, going forward in terms of that price cost spread?

Paul Reitz: I think what we projected and how we've built our models for 2019 is that it will be neutral, trying to predict all that is challenging. We've seen the market grow. If you look at the mix side of it, not necessarily price costs element, but just on the mix side, definitely over the last few years, we've seen a smaller horsepower grow quicker than the large. We are well positioned in that market. I think we've got a very good job servicing our customers that play heavy in that arena.

So for us, there has been some mix change that's taking place that's actually good as again because that's the part of the market that's been performing well and we've been doing a good job with our customers in that area. On price to mix, I mean I think we're at a better point now as far the lack of volatility in raw materials, I think they stabilized as far as price mix, excuse me price cost, we make the assumption that it's going to be neutral. I don't see us at this point being – getting a benefit or being hurt.

And again actually I saw some price increases come out from not competitors that in the off-road space, but on the on road tire space that we're pretty sizable. So, it's a tough question to answer because – at this point, we just don't know where raw materials are going to go. But we do have contracts within the OEM sector that help protect us on the raw materials within aftermarkets. I think at this point we're fairly neutral on pricing, and again, some of these guys stay on top on a regular basis.

Joe Mondillo: And then, so, in terms of price mix aspect relative to the revenue growth, I assume the mix off - the unfavorable mix. I guess, in the fourth quarter, offset the price increases that you put in September?

Paul Reitz: Yes, I think we - what were we, David? Was it 1%?

David Martin: Yes. Well, that was just for ag. It was 2% for the overall business. We saw a little bit better impact in our AMC segment. But yeah, I think it's fair to say any - a portion of our price increases was impacted by unfavorable mix.

Joe Mondillo: And just a clarification on the guidance in terms of the EBITDA; do you guys - is the other non-operating income included in that EBITDA guidance that you provided?

David Martin: Yes.

Joe Mondillo: And can you quantify how much you're sort of looking for, for that non-operating income?

David Martin: You're talking about other kind of below the line or the operating line?

Joe Mondillo: Yes.

David Martin: Yes, I would expect, obviously, last year we had some significant one-time things during the year, so that number is not reasonable. But I don't know, normal basis you would expect to see about $5 to $6 million.

Paul Reitz: We don't have built into our 2019 EBITDA expectation the large number that you see in 2018. We - what we forecast in the outlook would be the standardized routine things that are cemented by either cash flow or a contract, something like that.

David Martin: And the other thing would be our joint venture income and some of our minority investments that we have all over the world. So that's what that represents as well.

Operator: Our next question will come from Komal Patel of Goldman Sachs. Please go ahead.

Komal Patel: First, if I could just clarify, I might have misheard it earlier, but the missed deadlines on the OEP side, does that mean you're definitely using cash to settle it and not restricted stock or anything? Again, apologies, I might have missed it.

Paul Reitz: Yes, I mean, at this time it's really just, it's - we're in the middle of discussions. We've not settled with OEP. But what I meant by my comments is legally we had a deadline where if we were going to utilize stock, we had to notify OEP of that. And we did not make that notice to them. So, on a strict legal basis the answer would be, yes. It would have to be settled in cash.

Komal Patel: And I guess the follow-up question is that, could you consider settling them - with them in a manner similar to RDIF, as in trying to keep them in the business and maybe that's why discussions have been lasting longer than maybe originally anticipated?

Paul Reitz: At this point I can't make any comments on that.

Komal Patel: And I guess just maybe touch on the ITM business as well. What's kind of a rationale for selling the business now? Is it fair to think about it as a way to increase some of the liquidity that you need or just given how much growth that you've experienced already, are you expecting slower growth in Europe for next year or beyond?

Paul Reitz: No, I think it would be more of the liquidity question or liquidity issue. Clearly, as David has highlighted and what we've been talking about with the put option, we've made a lot of good investments in working capital that will translate into positive cash flows as we move to 2019. But clearly there is a lot of debt is required to settle the put options.

And so, you look at this business, we certainly see great prospects with ITM, not just what we've seen the last couple of years, but well into the future, the business has become very well positioned in the areas where we were seeking expansion, we do believe we can continue to grow in those areas.

We believe that the valuation is much higher than what it was in 2016. So, at this point, we just believe it's the right time to seek some strategic alternatives, possibly with ITM and have those discussions with the advisors. But clearly the liquidity issue is something that would drive us to make the announcement, that we did here last week.

Komal Patel: And then if I could just switch gears a bit, some of the cost cutting comments that you made, can you talk a little bit about the cadence of some of the cuts that you're expecting back half weighted, is it beyond that, any kind of just quarter-to-quarter information that you could share with us and what kind of cost do you expect to incur to achieve some of these savings?

David Martin: So, in terms of some of the cost reductions, we talk about are related to fixed cost absorption in our plans and so forth. So, that cadence is more ratable, if you will, as we go through the year. It wasn't - is anything significant that we have to do one quarter versus another one, it comes over time. And I'll also say that there's a 80/20 initiative, which is basically - basically helps us achieve better production runs, long production runs versus small runs that take up a lot of time in our facilities today, create a lot of indirect cost in the business and changeovers and so forth.

And so these are the kind of costs that we're looking to avoid moving forward. As far as SG&A costs go, we're not looking at any significant cuts here, but we are actually being more prudent with how we invest our SG&A and directing them towards those value-added activities. So you maybe see some trade-offs. As far as significant cost to achieve the savings, I wouldn't say it's anything significant at this point.

Komal Patel: And last one from me, have, I guess recent discussions politically on the tariff side of things changed or updated the outlook at all for your customers, any kind of willingness to invest in the equipment, any kind of change in sentiment that you've seen so far.

Paul Reitz: I wouldn't say there's any dramatic shift yet, but certainly I think there is some optimism that's coming back into the markets with the positive discussions that have been taking

place. And I think some of the other comments recently about other noted countries as well, including India and Turkey, are favorable for us and our business. So yes, there is some good trends, but I think overall the good customers, whether again its dealers investing in inventory or OEM's investing in expansion and seen a bright future. The end users that are willing to invest in equipment. I think overall the good ones are continuing to do that. Some of the results coming out of the Kansas City Fed are slightly painted the other way, where you see some debt being brought onto the books for end users to cover operating expenses and I think that's true for the weaker operators in all parts of our business. But I think overall nothing – things have the potential to get better and I think that's what we're reflecting in our guidance our overall guidance for 2019 reflects that.

Operator: Our next question will come from Justine Ho of Mesirow Financial. Please go ahead.

Justine Ho: Actually most of my questions have been answered but I just wanted to double check if I can get clarification. You mentioned that the deadline past regarding notifying OEP about if you were to do with restricted stock. So just to make sure I understand it that means you have decided to settle that all in cash the 46 million?

Paul Reitz: Yes, I mean at this point I really can't say anything more other than just from a legal standpoint. OEP has exercised the put option which means that we owe them $46 million of consideration up to a certain date a couple weeks ago we could settle that 46 million in either stock or cash. The Board of Directors and myself made a decision that we were not going to notify OPE that we we're going to utilize stock. So from a strict legal perspective we have let that date pass and so at this point soon as we start just like we do with RDFI as soon as we have a final conclusion on everything and we start transacting the final results with OEP. We certainly will make an update, but at this point, those are just strictly the legal situation is where we stand and we'll update you as soon as we can.

Justine Ho: And can you make any comments regarding ITM in terms of I guess your thoughts on – has there been any interest that you see so far right now or is it too early in the process?

Paul Reitz: Well we really can't say too much more than what we put in our press release, but clearly putting out the announcement reflects a strong belief that we see a good valuation, a very good valuation for the company. And that clearly we've engaged some advisors that feel pretty good about those prospects as well. But at this point, we won't be able to provide any more updates until we get to a further point in the process as we said in both our comments last week and even with our press release today. I think that's about all we can say at this point.

Justine Ho: And lastly, we are in two months into the first quarter, do you from what you're seeing now in current conditions, do you still, I guess I'm just wondering about – particularly the Ag business. Do you feel that it is still and cautiously optimistic that based on your guidance of growth there?

Paul Reitz: Yes, absolutely I think our outlook reflects that cautious optimism and what we're seeing is certainly reflected in our full year 2019 outlook, we are a cyclical business. So there'll be ups and downs throughout the year for different reasons, some of them are standard as far as

how our business flows throughout the year and some of them are going to be just as the market changes. But I think at this point yeah, we do see things that are moving in a positive direction. Again I think our revenue guidance for next year reflects that it's a good growth in all areas both earth moving construction. Obviously on a higher end with that single-digit range and then Ag being in the mid-point of it, but I think overall it's definitely good growth. And to answer your question, it reflects what we certainly feel and believe at this point in the year.

Operator: Our next question will come from Alex Blanton of Clear Harbor Asset Management. Please go ahead.

Alex Blanton: I was looking at your change in your gross profit from the third quarter and it was about a $7 million decline from the third quarter and a $21 million decline in sales. So that's 32.9%, which is about what one would expect on that kind of a sales decline 32.9% incremental. So it doesn't look like you had a much greater impact from raw material costs in that quarter then would be normal. Is that correct?

David Martin: I would say that's correct, yeah.

Alex Blanton: But how much impact is there, in total, let's say in the past year from the steel cost increases and the other raw materials and what's the prospect for offsetting that. I know you said that your cost increases and your price increases would be about at balance for this year. So, are you saying that there is no re-coping of those price increases?

David Martin: You got to take it two fold – certainly if you look at steel prices, and there certainly mechanisms built in for how we deal with steel pricing up or down on that. So for the most part, our work we are covered with respect to any changes in those prices quarter-to-quarter and so forth. So, but as far as the pricing that you see on other raw materials, we have to be very cautious about how we price our products all the time. And reflecting that in a given period of time, you could see some volatility, but based on what our expectations are and what we saw in the marketplace over the second half of last year we became much closer in line with what our expectations were. We saw some – the first half of the years, where we saw the significance steel price increases and synthetic rubber. The other prices kind of working together in terms of where we think, we can price our products in the market. So I don't if Paul wants to add anything to that, but it really is, and we feel like that the forecast for raw materials this year, we believe we can cover within the confines of how we're pricing today, particularly on the tire side.

Alex Blanton: Going back to the fourth quarter, that was a very negative quarter from many standpoints, the stock market was down and early October Fed came out and said that 25% of executive are expected to recession and by the end of 2019 and 8% expect in the recession by the end of 2020. Had a very negative frame of mind overall among corporate executives and I assume that that extended to your dealers and the people at your OEM's who were probably reducing inventory and so forth.

So how much impact was there on the sales because it looks like if you're not seeing a greater negative impact from raw materials increases and you're getting some improvements in efficiencies as indicated by the incremental results from third quarter if the sales improved it

ought to have a pretty good bottom line impact, it looks like your biggest problem here is really the sales volume.

Paul Reitz: Yes.

Alex Blanton: Is that correct?

Paul Reitz: I think, you're exactly right with that Alex. I mean just look at what we've done over the last couple of years on a – I think it's 27% revenue increase EBITDA has more than doubled. And that's because we've driven efficiencies, we've gotten better. We've driven efficiencies in the business we've reduced our cost of quality. We are very well setup, we managed our product portfolio better and we continue to do that as we talked about 80/20 program. And so you're right, I mean it becomes an issue of volume and then when you see that shift in volume.
As you mentioned in Q4, were there's a lot of heightened concern for a number of reasons. It seems like in Q4 and early 2019, it was one day they are saying we are going into recession and the next day, they say no, it's not going to happen. So it's just it creates that level of uncertainty, that does impact the order flow.

So for us, what we keep focus on is what we control which is getting as much volume as we can and that's exactly what we're doing, but also realizing we got to be prepared to manage a business that is operating in environment that is highly volatile. And again, we've done a good job. When you look at EBITDA in 2016 at $52 million and in 2018 we do a $119, and less than 30% revenue growth.

I think that continues to get lost at our Company is our stock is down half of what it was at that point and there has been so much focus on RDIF and the put option, the fire at TTRC, and all these negative issues. But if you look at the underlying business like what your question is alluding to, we've done a really good job.

And it gets frustrating because that message gets lost in all these other topics and it's unfortunate that the put option has us focusing on liquidity. And that's why we've made this announcement with ITM. We have ways to make sure we are solid. We have a great asset that, again, that we're seeing what the strategic options are. David mentioned that we got $30 to $50 million of additional liquidity that we can tap with some other assets.

We have a line of credit that is ample and that's only based upon North America assets. So AR on inventory. We have access to capital all around the world that we aren't tapping into. So, yeah, it's frustrating. What gets lost in all these comments is what we did in 2018 to leverage this business and do a damn good job growing and performing.

Alex Blanton: Well, at this point at the current price of the stock, your Company, its value in the marketplace less than $300 million. And you're the world leader in your business. In the business that's growing on the construction side and has tremendous rebound potential on the ag side. It's this tariff situation never gets revolved; is that a fair assessment?

Paul Reitz: Absolutely, I mean, like you said, we're $300 million valuation, that's doing a $119 million of EBITDA and we've stated today that we're going to grow that. Yes, again, that's the part that gets -- and the put option, look, it's tough to sit here today and not be able to give all of you clear indication of exactly what's going to happen and how this is going to be settled and what's going to take place, but we can't. And this is unfortunately it's been something we've been talking about for a long time. And it's, again, all these topics take away from the fact that the business has more than doubled and leveraged itself very well. And again, going back to your original question, less than 30% sales more than double in EBITDA, it's completely getting lost in the fact with all the other topics.

Alex Blanton: One more question. We haven't talked about Latin America, today. Could you just give us a summary of what's going on there?

Paul Reitz: Yes, David, you had some comments on Latin America. Why don't you kind of echo some of the things you mentioned earlier?

David Martin: Well, what I would say, and you can maybe give a backdrop to more to the market and what's happening down there with things. But as far as for the year, we held steady with our volume for the year, notwithstanding some of the challenges we saw in the first, call it, the first nine months of the year. We had a fairly significant increase in volume in Q4, which, kind of, offset some of the trends we saw earlier in the year. So, I think the way we look at it right now is that it's getting more steady and some of the uncertainty in the political climate is gone away and there is a little bit more investment going on. So, expectation is that the business is steady to growing now.

Paul Reitz: Yeah, and the team there, Alex, just to add one thing, I mean, we've done a good job really growing our share, something we've talked about before. But it's worth mentioning again, I mean, we've taken over the top spot in Latin America, done a really good job growing shares. So, amidst all that volatility in 2018, we continue to perform very well, build great products and got a good team out there representing ourselves with the customers there. So, we, like David said, we feel pretty good about the stability and continue to see good trend there.

Operator: And our final question today is a follow-up from Stephen Volkmann of Jefferies. Please go ahead.

Stephen Volkmann: So, your stocks now down 29% since we've been chatting here and obviously I think it's a focus on this whole liquidity issue. But I have to confess I'm kind of scratching my head a little bit. So, I was hoping we could just sort of do a little big picture review here. I mean, you guys had 82 million of cash at the end of the year, right?

David Martin: Yes.

Stephen Volkmann: And, we have $63 million of availability on your revolver, correct?

David Martin: That's correct, at the end of the year, yes.

Stephen Volkmann: So, as we stand here today, we must have roughly $145 million kind of liquidity; am I doing this right?

David Martin: Yes, you got that right.

Stephen Volkmann: And you basically said somewhere in the neighborhood of 1 to 1 free cash flow to net income. So it's something we're going to take in $30 to $35 million of cash this year from the business and then you have $30 to $50 million of these sort of idle assets where you think you can drive some cash inflows. And, I mean, those things by themselves are plenty to satisfy the $46 million that you owe to one equity. And the other $25 million potentially that goes to RDF. That's up to you. You don't have to do that, correct?

David Martin: Yes, it is in our sole discretion. Yes.

Stephen Volkmann: So, are there any other cash outflows in 2019, besides the $46 million that, I mean I'm assuming, basically you're covering CapEx with D&A. Is there anything else that's a cash outflow in 2019?

David Martin: No, nothing significant at all. You've outlined it quite well.

Stephen Volkmann: So you basically have 145 on the books of liquidity today, plus, call it $40 million in idle assets, that's $185 million, plus $30 million of free cash flow is, what's that, $215? I don't know, I'm not that good at math. But that seems like a fair amount of liquidity relative to the $46 million that you owe. And I guess I just wanted to make sure I had all that right because I don't understand why the stock would be down.

David Martin: Steve, I totally agree with you. I think - we feel like we have adequate liquidity to manage this business effectively and do the investments that we need to do in the business, and satisfy the obligations that we have for the year. What I - only thing I would extend to exactly that is, is that we also have access with the banks to do change or increase our line of credit if we needed to.

There is an accordion agreement that we have and we would look that to do whatever you need from a short-term perspective to get adequate liquidity that we would need just based on timing, but those things that you outlined in and of itself would be more than adequate to handle the things we need to do in the business.

Stephen Volkmann: So, I guess just a final point on that then is, you've talked about this ITM potential divestiture and, Paul, you said a couple times that it was driven by a focus on liquidity. But it doesn't seem like you actually need to do that relative to the numbers I just kind of laid out. So, maybe that's part of the mix message here?

Paul Reitz: It could be, it definitely could be. I think some of the headlines are picking up on some different issues. Yes, it's - all we announced is we're looking at strategically options with ITM, okay. With everything that we've talked about with the put option, and you've outlined it, David outlined it very well, liquidity. It's not a liquidity crunch.

And I guess you're right, it's not the way we shouldn't answer the question is liquidity to handle the issues to handle the ongoing liabilities. But to make sure we had - we're positioned well for the future and investing in the future. Like you said, we can handle CapEx through, I mean, everything is lining up very good. We're looking at options for ITM. Maybe I should just leave it at that.

Stephen Volkmann: Well, I mean I think it's fair for investors to ask you why you're doing that. But, I guess, again, I'll just put that back to you because I do think that's important. I mean if there's another reason, I don't know, are there other assets out there that you'd rather buy perhaps or something else that might focus you on using that as a source of liquidity?

Paul Reitz: Not at this point. I think we got to get into the process with ITM, and then we'll look at it, I mean, I think the answer to that could be, we simply shore up the balance sheet so that we can focus on acquisitions and growing the business.

So, I think really what I'm trying to say is liquidity, and I should phrase it differently, and I'll kind of just do that now. We're focusing on that we have a strong foundation with the balance sheet for the future. You walk through the equity side of it, we're not any reason to be heightened concern over liquidity. But we would firmly believe we need to have a foundation with a strong balance sheet so that we can continue to grow into the future. And that's what we're looking to do if the valuation is right with ITM.

We've made investments in ITM and they've been very good, but we want to continue investing in the business. So in our, our total global business, I mean it's really just having a fortress foundation with the balance sheet instead of liquidity and why we're looking at the strategic options for ITM. That's the best way I'd characterize it.

Operator: Ladies and gentlemen, this will conclude our question-and-answer session. At this time, I'd like to turn the conference back over to Mr. Reitz for any closing remarks.

Paul Reitz: I certainly appreciate everybody's attendance on the call today, and we look forward to catching up with you after the first quarter results. Thank you.

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