Titan International Inc.
Transcript of Q1 2019 Earnings Call and Webcast
Friday, May 3, 2019 9:00 AM ET

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

Analysts and Other Participants
Steve Volkmann - Jefferies
Komal Patel - Goldman Sachs.
Joe Mondillo - Sidoti & Company
Larry DeMaria - William Blair
Alex Blanton - Clear Harbor Asset Management

Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the Titan International Inc. First Quarter 2019 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, Brandon. Good morning and welcome everyone to our first quarter 2019 earnings conference call. On the call with me today, I am pleased to have our President and CEO, Paul Reitz; and David Martin, Senior Vice President and CFO. I will begin with a 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 risks and 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 those 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-Q and Form 10-K, 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 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. A copy of today's 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 and appreciate everybody joining the call. Let's jump right into our business and Q1. Our first quarter was not the start to the year we had planned compared to our expectations. Number of factors impacting our business really across the board there. First major factor impacting North America right now is the weather conditions.
We have seen early season flooding in the parts of the Western farming area followed by late snow across much of the Midwest. Earlier this week, a levee broke in downtown Davenport, Iowa. This clearly highlights the extent of this issue. At this time, if you look at it, all major Ag states are reporting that planting is behind 5-year averages. In fact, Illinois, which is the second largest corn-producing state, is at approximately 10% corn planted versus a normal pace of 43% by late April. I realize most folks on this call spend their days on the inside looking out, but tough weather conditions in the spring hit farmers really hard. It has an almost immediate impact on our aftermarket business as farmers are going to be spending money when they can't get into their fields and they are really looking to start pushing out some of those expenses and purchases as long as they can. Overall, our North American sales relatively flat. However, we did implement pricing related incentives targeted at certain products to combat these weather conditions and the resulting slower pace of sales. Based on all - nearly all metrics pointing to pent-up demand in Ag sector along with our own internal knowledge and the external customer information we are receiving, we had expected higher sales to start this year and had built up the necessary trained staff ready to work along with some inventory to meet this forecasted uptick in demand. We believe implementing these targeted sales incentives was the right decision in these particular circumstances, but those actions did weigh on our Q1 margins to the tune of about 1.5% in our North American aftermarket tire business.

Now on a broader perspective, the global Ag sector continued to be hampered by lower commodity prices driven by the ongoing trade concerns, the unsettled Brexit issue, the big global issues that are on everybody's mind in the media outlets. However, farmers seem to be the collateral damage of that ongoing China-US trade dispute. The result is that, all these factors, including the weather, pushed farmer sentiment lower on a global basis as they have seen the foreseeable incomes take a hit.

Now I'm going to switch to a positive note. Considering the weather conditions that are ramped across the Midwest in the US, our LSW is the ideal solution for farmers that need to get into their fields in these tough conditions and we do continue to see our LSW sales perform well to the tune of over 40% growth in this quarter. Also, as farmers have been late to plant this season or this spring, that means they have a tight window in the fall to deal with for harvest. We believe this sets us up very well to continue to see the increased demand for our LSW products in the back half of this year.

There is also a couple of other factors impacting Q1 worth mentioning. First, the strong dollar continues to impact many multinational companies. However, for Titan, the negative foreign currency impacts from Europe and Brazil in particular this quarter is significant for us. As a smaller global company, it is significant and that represented the tune of about $25 million of negative or I should say negative impact of $25 million in sales and approximately $2.5 million in lost gross margin. Without the impact of FX, our sales would have grown over 2% this period. I'll let David dive further in his comments and he'll also touch on the short-term impact we experienced this period from some North America tighter inventory costs.

Changing gears, the Titan team has done a good job implementing changes over the past few years to build a stronger foundation and that is evidenced in the improvements you've seen in our operating results with adjusted EBITDA more than doubling over the past couple of years. Also, our Company has a long history of successfully handling situations like this when unexpected changes occur in our end markets. We recently celebrated our 25th year on the New York Stock Exchange and there aren't many companies operating in cyclical industries like ours that have accomplished that fact. The Titan management team has demonstrated in the recent past our ability to make effective and timely decisions as market conditions change. We've already taken actions in many of our business units to adjust to the first quarter being softer than we expected.

As discussed in prior calls, we've also implemented the 80-20 program for North American tire. We are in the process of implementing that in North America wheel. We are pleased with the results we are seeing with this program in our tire business and believe that had a positive impact with us being able to keep sales stable in North America in this tougher than expected market.

The one market that is different to what I just mentioned is Russia. As we've seen, their financial markets all but freeze up making capital a precious commodity. Our strategy has been in Russia to protect our premium pricing on products within the CIS region while also introducing sufficient sales incentives to protect volume. We are now seeing the dealer shelves are full. Sales incentives have less of an impact on volume than desired. We'll adjust our strategy accordingly in the short term to this factor, but the longer term opportunity in Russia is to improve our product mix from being roughly 95% aftermarket and highly localized in the CIS region to have more OEM sales and export-related sales coming out of our Titan Russia operation. We are working hard towards making that happen. We have improvements that have been implemented there. We're pleased with the recent progress and we got to continue to march forward to again make that shift in our sales mix happen there.

We went into this year expecting good growth out of the gate, that didn't happen. As I said earlier, the Titan team is experienced in managing through these changing conditions. We've already taken actions. We will continue to do more if needed. While the first quarter didn't reach our expectations, we believe that end markets are being hit by some soft - some shorter-term impacts and that the fundamentals haven't shifted to the point that we need to update our 2019 guidance.

I'd now like to turn the call over to David.

David Martin: Thanks Paul and good morning to everybody on the call.

I'll go through some of the important points for our first quarter 2019 performance, but also spend a little bit of time talking through some of the key issues that we are managing as we progress through the next few months.

Net sales for the first quarter of 2019 were $410 million, representing a decline of 3.5% from the prior year. Net sales were up on a reported basis by $47 million or 13% from the fourth quarter of 2018. It's also important to note on a constant currency basis, revenues would have been up roughly $10 million from the first quarter 2018 or 2.3%. The currency impact of $25 million or 5.8% was felt most in Latin America and Europe. Our ITM undercarriage business performed well notwithstanding some customer-directed deferrals to the second quarter that impacted the quarter in sales and profits. The North American sales were reasonably flat year-over-year while the start of the year was slow and it only picked up toward the end of the quarter. Our biggest sales challenges came in Russia, Europe and Latin America.

Our sales volume on a consolidated basis were lower about 3.5% from last year with the largest declines being in Russia and Europe due to market headwinds and agriculture. We're able to pick of sales from increased price/mix in the quarter by 5.8% resulting principally from the overall rise in raw material costs over the course of last year.

Our challenges were not so much in sales, but market headwinds and other temporal issues with gross margins through parts of the business globally. The reported gross profit for the first quarter was $45.3 million versus $59.6 million in the first quarter of 2018 and our gross margin for the first quarter of 2019 was 11% versus 14% last year. First, the impact of currency devaluation on gross profit was approximately $2.5 million versus the prior year. There were a number of larger impacts that were described in the earnings release that I'll spend a minute to delineate.

First, the North American tire business had challenges getting out of the gate early as Paul talked about. And we pushed through the focused sales incentives in an effort to stimulate demand, which translated into sales late in the quarter. We also had a short-term impact of higher cost of the inventories being sold into the market from production from the fourth quarter 2018 when we had much lower production levels and higher unit costs. This is largely behind us now. The combined impact of these items was approximately $4 million on gross profit for the quarter.

Second, our Latin American business has continued to experience headwinds, in particular, in the Argentinian and the Colombian markets which hurt export sales from our plant in Brazil. In addition, light truck tire sales saw some decline year-over-year. The combined impact of these headwinds was approximately $3 million on gross profit.

Finally, we continue to have challenges in Russia and Europe in the Ag markets, which not only impacted sales and gross profit, but also caused margin decline due to production inefficiencies. That was approximately $3 million in gross profit decline from last year on a combined basis. Paul talked about this earlier. But given the significant volatility that we've seen in our markets, we are and have been taking necessary actions to counteract these headwinds. We're taking costs

out of the operations globally where necessary and we'll manage the spend moving forward. However, many of these actions were not able to help us recover the first quarter profitability unfortunately. We believe we are building sufficient recovery plans to facilitate profit improvements through the course of the year to get us back on track.

Now I'll spend a few minutes on segment performance. Our Agricultural segment net sales were $192 million, down 1.3% on a year-over-year basis, but would have been up 4% if not for the negative currency impact. Volume in the segment was down 2.5% while favorable price and mix added 7% to segment net sales. Ag sales in North America were up 5% due primarily to OEM sales. Russian Ag sales were down 26% due to the continued market challenges. Dealer inventory levels have remained at very high levels for several quarters and no amount of incentives have been able to make a dent at this point. South American Ag sales were down 10% mainly due to the currency impacts, but would have been up without regard to that. European Ag sales have also lagged the prior year by 22% with a combination of the negative currency impacts that we saw in the quarter and volume declines as the market has become more challenging.

Our Agricultural segment gross profit for the first quarter was $22 million, down from $30 million in the comparable prior year period with a portion of this coming from lower currencies as well. The impact of the North American higher costed inventories and incentive programs had the biggest impact to profitability in the quarter followed by the headwinds felt in Russia, Europe and South America. Year-over-year margins declined over 390 basis points to 11.5%, again driven by these - all these factors I just talked about.

Continuing on to our Earthmoving and Construction segment, it experienced a decrease in sales of $12 million or 6.4% to $177 million. On a constant currency basis, net sales would have decreased less than 1% for the quarter. Volume was down by 4% while positive price and mix was 3% and negative currency impact in the segment by 5.5%. ITM's undercarriage business experienced a small decline in volume during the quarter, which was attributable to certain customer-directed deferrals of shipments into the second quarter. We saw slight gains in volume in Europe and South America in the EMC segment, as those markets remain solid.

Gross profit within the Earthmoving and Construction segment for the first quarter was $18 million, which represented a decline of a little over $4 million from a year ago. The biggest driver of the decline related to the North American tire margins along with tighter margins and ITM due to delays on shipping higher margin products into the second quarter.

Now to wrap up, the Consumer segment. Consumer segment's first quarter net sales were roughly $42 million, decreasing only slightly when compared to the last year. On a constant currency basis, net sales would have been up 6.7%. Volume declined by 5% while we gained some favorable price and mix of nearly 12%. There was a significant FX drag in this quarter with a negative impact of 8% from the prior year with the biggest impact felt in Latin America.

The segment's gross profit for the first quarter was $5 million, which represented - which was down $7 million from a year ago. We had very, very strong margins the first quarter last year. Gross margins were 11.9%, which was decline of almost 500 basis points over the same period

last year, which was reflective of lower sales volume in certain areas and the impact of fixed cost absorption in Latin America, particularly on light utility truck sales volume.

Now turning to our operating expenses. SG&A and R&D expenses for the first quarter were $38.5 million, which is higher than what we saw in the fourth quarter as well as the first quarter last year. This was an increase of $1 million from last year in the first quarter. And as a percentage of net sales, SG&A and R&D was 9.4% compared to 8.8% in the comparable prior period. Some of this is due to the sales decline, but we did have increases in spend relating to information technology investments that we're making with our Oracle Cloud ERP upgrades.

Tax expense for the quarter was $1.9 million in the quarter on the pre-tax basis income of $2.9 million, which appears to be unusual. With the proportion of our losses coming in tax jurisdictions where we have significant cumulative operating losses, we're not able to take the current year tax benefit. We've talked about this in prior calls but that causes an unusual outcome particularly in the quarter. For the full year of 2019, I would still anticipate our tax rate to fall between 25% and 30% given our expectation for the year of - in the mix of pre-tax income and the various tax jurisdictions.

The final item to note in the first quarter performance discussion relates to the redemption value adjustment of little lower $800,000, which decreased from the prior year Q1 of $2.3 million. All this adjustment related to the impact of the current period continuation of the OEP put option. The RDIF portion of the put option has either been satisfied or determined and there was no ongoing 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 balance sheet, liquidity and capital items.

Working capital grew in the first quarter again, but at a much lower rate than what we saw in the first quarter last year as sales ramped up. Our receivables were the key driver of the growth as our sales were more compressed towards the end of the quarter. In fact, nearly 40% of our sales for the quarter were in the month of March. Total AR increased $53 million during the first quarter from the fourth quarter and were on par with balances that we had at the end of the first quarter last year. Our ending inventory at the end of March grew by $17 million from the end of the year. This growth came in two principal areas of the business, our North American wheel operations and our undercarriage business. We built up inventory in the wheel business as we continue to ramp up production after significant challenges that we faced from the startup of our new Oracle Cloud ERP system in the fourth quarter. We fully expect to see inventory levels taper in the next several months as we continue to catch up on production. As it relates to the ITM undercarriage business, we have experienced dramatic growth in the business over the course of last year, and as we discussed in prior quarters. We did experience some customer deferrals on orders into the coming quarter. These orders are fully committed by customers but some shipments have been shifted out of the first quarter. While we experienced growth in working capital once again this quarter, we are making strides in key areas of the business in our focused efforts to increase capabilities to reduce lead times and to forecast production demand better for our plants.

Capital expenditures for the first quarter were $9.5 million versus little under $8 million in 2018 in the first quarter. We are in line with expectations for capital spending this year, which will be in the range of $40 million to $50 million. Again, we are targeting areas that can deliver the highest returns through increased plant efficiency and cost reductions while remaining prudent on timing due to the other cash needs in the business.

Now let's go through where we stand on the debt side of things.

Our combined current and long-term debt totaled $499 million at the end of the quarter, which increased primarily due to the line of credit borrowing to settle the RDIF option in March of $25 million. Current maturities due within one year totaled $66 million.

Significant portion of these current maturities relate to local overdraft and working capital facilities, which are generally considered on-demand for reporting purposes, but are expected to roll over without the use of cash during the year. All of the increase in the quarter in short-term borrowings related to these overdraft facilities in various countries. Our debt primarily consists of $400 million senior secured notes, which will mature in 2023.

Our cash balance declined by $13 million this quarter to $68 million. As we ramped up sales in the fourth quarter of '18 to the first quarter of 2019, this was anticipated and we expect to see a turnaround throughout the year as we trim working capital, AR and inventory through our improved focus and the natural seasonality in the business. It should be noted that in the first quarter of 2018 we experienced a much more significant decline in cash after a similar ramp-up in sales.

We have adequate cash on the global scale to manage the operations of the business on a daily basis. We also have the capacity to tap into our foreign bank lines and overdraft facilities from time to time to handle various working capital fluctuations for our international business. As we have over the course of last year, as our sales volumes have increased. Our US-based ABL line has been in place for some time and for the first time we utilized it to handle the RDIF put option obligation of $25 million in the first quarter of 2019. The limit on the credit facility is at $75 million today. But as we have discussed in the past, there is an accordion feature on the facility for us to upsize the facility to as much as $150 million with the appropriate and customary bank approvals. We maintained a healthy relationship with our banking partners and have been working with them to increase the size of the facility to meet the potential obligations of the Company relating to the put option. As we disclosed in the release, this week, The Board of Directors authorized management to proceed with upsizing of the facility from the current level to $125 million. Within the next few weeks, we expect to execute this increase in the facility and each of our banking partners have already confirmed their increased commitments.

As we stated in the past, with our anticipated cash flow trends throughout the year and our other potential cash flow events through sales of non-core assets that I described last quarter, coupled with this current and enhanced borrowing capacity, we maintained healthy liquidity to manage into the future and to continue to invest to grow the business appropriately.

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

Paul Reitz: Thanks David. I've got a couple of quick closing comments. First, regarding the Titan Russia put option. We continue to have discussions pertaining to the put, but nothing has been finalized yet. As David just stated, we have sufficient capital and credit availability to settle the put without impacting the plans for Titan.

In late February, we announced that we are evaluating strategic alternatives with respect to ITM, our undercarriage business. This decision was not driven by the situation with the put option, as may have been interpreted during our prior earnings call based on my response to a particular question. ITM is a well-managed business that we've been successful and making investments to spur a strong growth over the past few years. We've talked about that extensively. ITM would benefit from further investments or acquisitions to build upon these successes. However, we also believe that our wheel and tire businesses that have formed the backbone of Titan for many years have a strong future as well that would benefit from further investments or acquisitions to grow these businesses. Our current capital structure would have challenges in being able to do that for wheel, tire and undercarriage. Basically, all the business units of this Company. So, based on that, in early 2019, ITM CEO and myself started gathering information regarding ITM's potential valuation as a standalone enterprise. And indication were that ITM would be valued significantly higher than the bid we received in 2016. I then decided it was matter worthy for further discussion with our Board, and then as we disclosed in February, the Board approved Titan to engage Shore Capital as financial advisers to carry out further evaluation on ITM. Where we sit today with the ITM process is that we've made positive progress and we continue to move through the process towards a potential public listing. Ultimately, the Board will convene at appropriate time to analyze the situation and all pertinent information to make the best decision for our shareholders.

With that, Brandon, I'd like to now turn the call over to questions.

Question-and-Answer Session

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

Steve Volkmann: So a couple of topics to kick it off. Just first, if we can kind of go back to the liquidity discussion, I just want to make sure I kind of have the pieces right here. You have roughly $68 million in cash at quarter end I think. How much do you need to sort of run the company on a daily basis?

David Martin: We're certainly in the range of being able to do it. We manage this cash level throughout the first quarter. It's always I think our expectation that we'll continue to liquidate inventory and be able to operate at low higher level than what we have been, but we can still operate the company anywhere in the range of let's call it $60 million to $80 million.

Steve Volkmann: Okay. And then that was kind of my follow-on, I'm sorry if I missed it. But do you expect to be cash positive this year?

David Martin: Based on our current estimates and so forth, that will certainly be our expectation toward the end of the year. It won't necessarily happen in the first half of the year. But as we progress through the year, we believe we'll get to a full year expectation of positive cash flow.

Steve Volkmann: Okay. And then on the revolver I think right now you have availability in the $40 million range, but you're going to add another $50 million, so that gives us kind of $90 million there, right?

David Martin: That's right.

Steve Volkmann: And then last quarter I think we talked about some kind of non-core assets other than ITM that you were thinking about as having some market value that would bring cash in. Is that still the case and where do we stand with that?

David Martin: Yes, there's a variety of different things that we're looking at all of which can happen within the 3 to 4 month period. And so we're continuing to progress down that path.

Steve Volkmann: If I remember correctly, I think we're talking what $30 million or $40 million of potential there?

David Martin: I believe I said $30 million to $50 million but yes.

Steve Volkmann: Okay. And so you're still feeling good about that?

David Martin: I still feel like we - some of the timing may push a little bit but all the things that we described last quarter and may perhaps maybe a few other opportunities continue to present themselves. So yes.

Steve Volkmann: Okay. Great. And then on sort of the outflow side, you have not yet paid the $25 million to the Russian deal yet, is that correct?

David Martin: Yes, you mean under the stock settlement - part of the settlement?

Steve Volkmann: Right. And you have to pay $25 million for that?

David Martin: Yes, we paid the $25 million in cash. We used borrowings for that on the line. And the stock has not been issued yet. We're still awaiting final regulatory approval for the issuance of the stock.

Steve Volkmann: Got it. So cash has been paid, stock not yet?

David Martin: Correct.

Steve Volkmann: And then on the second put, do we have any update to what's happening there?

Paul Reitz: Yes, we continue to have discussions as David has highlighted, the Board - in our press release highlighted that our Board has authorized upsizing the ABL giving us sufficient capital and availability to handle the put when those discussions do reach a conclusion.

Steve Volkmann: Okay. All right. Thanks. And then just quickly on the margins side to switch gears a little bit. It sounds like a fair amount of the margin pressures you had in the quarter were kind of short term I think, but do we expect the incentives in the market to continue going forward or was that kind of a one quarter thing?

David Martin: I think the biggest portion of those incentives would probably push sales in the first quarter, but that is an ongoing program. So there could be some additional amounts in the second quarter as well. The - to answer your question about most of the issues being short term, a lot of them, particularly the largest ones in the quarter were what I would consider short term, particularly with the inventory in North America tire.

Steve Volkmann: Is it a leap too far to say that the gross margins should be flat to up each quarter going forward or we're not ready to say that yet?

David Martin: Well, I don't to make - quarterly is a tough thing to always predict. As you know, we had pretty - a lot of volatility this quarter. But if you go back to our original guidance for the year is that the expectation we would have some marginal improvements in margin year-over-year. So inherently, we're - we believe we can continue to drive margins better as we move forward.

Steve Volkmann: Okay. And then just a big picture and I'll pass it on. There's been some discussions in the press here about some impending settlement with China and maybe having some fairly positive impact on various Ag exports possibly. And I guess I'm just trying to get a sense of how you think the incremental margins can look if we actually start to see some improvement at some point finally in these end markets, I mean what should we be thinking about in terms of kind of operating leverage if we actually can get some reasonable growth here?

Paul Reitz: Yes, I think we demonstrated in the past when our business gets operating leverage going and we get the volume through our plants that our contribution margins are fairly good. Like you said, we need a catalyst though to make that happen. And as we were preparing for this year and really putting our plans in place near the tail end of '18, we certainly build up a well-trained staff that was looking at some growth going into the first part of this year. Then like you said, the unsettled trade issues and then you throw the weather on top of it has pushed that back.

So while sales were flat, we certainly have trained staff that are ready to go to work. So I think to answer your question, the incremental margins would be in that range of the mid-20% like we've demonstrated in the past when we get the volume running through our plants.

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

Steve Volkmann: Okay, Thank you I will pass it on.

Paul Reitz: Thank you Steve.

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

Komal Patel: Good morning thanks for the time. Just a follow-on from the earlier question. What's the upsizing of the credit facility? Does that imply the OEP settlement would more likely be settled in cash at this point or it's not fair for us to draw that conclusion?

David Martin: It's not fair to draw that conclusion. We obviously, as a management team, we want to be prepared for whatever settlement occurs. And so I want to maintain the right amount of flexibility in the business to run effectively and to manage that potential obligation.

Komal Patel: Okay. Got it. That's fair. And then just second, maybe you could provide a little more color on the cadence through the quarter. You had mentioned better performance in March. What were some of the signs that you're seeing? And then also just kind of your take on April and did the positive momentum from March continue? I know there's some tough weather in April as well. So just some thoughts there.

David Martin: Yes, obviously, there's a fewer working days and production days in April, but the trends are still fairly positive. March was a strong month for us. And so I believe, as we progress through the quarter, particularly in some of the areas that we saw some weakness, we believe we can get back on track.

Komal Patel: Got it. And then you mentioned some contracts were deferred into the second quarter. Is there a way to quantify how large of a deferral that was? And is there anything to call out on canceled orders?

David Martin: No canceled orders. It's just the timing is for delivery was pushed out a decent amount. I would say that looking at it on our profitability standpoint, it was about $1.5 million impact to us this quarter.

Komal Patel: Got it. That's helpful. And then last one for me. I guess maybe can you just touch on the $25 million share repurchase program that was announced in March, I guess how should we be thinking about it? Obviously, 1Q is weaker than expected and the stock is opening lower this morning, but then again you're kind of increasing your credit facility. So is it fair to be using the program right now or how you kind of balance the factors that are in motion here?

David Martin: Certainly, the Boards going to take into account where the stock price is at relative to where it's been trading, and obviously, our internal cash flow among other factors, but we want to be responsive and ready to support the stock appropriately at the right levels. So this program isn't intended to be a just a one quarter thing, it's over time and we're going to manage it appropriately and do what we feel is the best use for our cash.

Komal Patel: Got it. Thanks for your time.

David Martin: Thank you Komal.

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

Joe Mondillo: So you guys reported on March 7th your fourth quarter numbers, so you were pretty well into the first quarter. So I'm just curious when you reported and gave the guidance there in March, you must have had a pretty good picture of what the first quarter was sort of looking like. And so I'm just curious now that we have the results and you see everything, and you're maintaining the guidance, what was sort of surprise, whether it was positive or negative? And just given these gross margins that we see in the first quarter, it's sort of insinuating you for maintaining the guidance that you are going to make up a lot of whatever was a negative surprise in the first quarter later in the year, and I'm just wondering where that comes from?

David Martin: Yes, as we progressed through the first quarter, we obviously have seen the weakness that we saw in January and February, and we thought we could actually probably even have a better March than we actually did and there were some certainly some margin hits that we took in the quarter that ultimately presented themselves as we got through the end of the quarter versus early part of the quarter. And as we looked at the rest of the year is that we - if you look at each of the factors that presented themselves, there is certainly opportunity for us to recover. Certainly, we're going to need some cooperation in the weather category as well as the Ag markets themselves, but given what we see right now at the moment, we certainly believe we can produce the activity to be able to recover our margins and obviously our profitability. So we have to obviously going to watch it very, very carefully as we progress and update everybody as we get through the year. But – anyway.

Joe Mondillo: Okay. And the sales incentive that you called out this is an ongoing program like you mentioned I think on a quarterly basis. Did you quantify sort of I guess there is an abnormal amount of sales incentive in the first quarter because I'm assuming that there was some sort of sales incentive in the first quarter last year. So was there an abnormally large amount, and if so, can you quantify how much that was?

Paul Reitz: Joe, it wasn't that the sales incentives were abnormal. We definitely have planned it. And where that came from is looking at our strategic plans for North America related to aftermarkets were to introduce these sales incentives in the first quarter. Now with that we expected that to drive growth. What ended up happening instead is that the sales remain relatively stable and so we didn't get the volume and the additional margin that we expected from the incentives. So it's not like it was an unknown cost that we didn't expect it's just we didn't get the growth that we expected to go along with it. Again due to the weather events and it really that weighing of purchases from farmers at this time.

Joe Mondillo: Okay. And just in terms of I guess sort of related to my initial my first question. Could you talk about some factors that we see that are going to improve whether it's price-cost I'm assuming maybe you'll get back to maybe better volumes which leverages costs and could

you just talk about some of the factors that are going to maybe drive better margin compared to these the margins that we saw in the first quarter?

David Martin: If we talk about North American Tire expectation is we'll have stronger production which is obviously going to lead to we get very good incremental margins when we hit a certain production level. The cost of inventory that we experienced in Q1 is obviously largely behind us at this point. And the what we look at in terms of our standard cost of materials the actual raw material prices are a little bit lower than what we had in our plan. And so we certainly expect to see some incremental margin coming through on that. Now it comes over the course of the year as this doesn't happen one one quarter. But right now where raw prices are it's certainly favorable. If you look across other parts of the business some of these things were deferrals and certainly pushing the way of the year. Volume is obviously going to be the critical factor for our ability to drive sales and then ultimately the higher margins.

Joe Mondillo: Okay. And then what about sort of mix OE sales versus aftermarket in the first quarter? What were the trends sort of like as we go into May?

David Martin: If you look at OE, it trended higher in terms of the mix versus the aftermarket was fairly flat while we had expected increases in activity during the quarter. And as we progress through the year I think we'll get a better balance.

Joe Mondillo: Okay. And on the earthmoving/construction side of the of the business the volumes continue to sort of surprise me considering what Caterpillar is talking about and you guys mentioned ITM has been strong in the mining sector overall seems to be very strong. What's going on with the volumes, that you've seen over the last two quarters relative to what seems to be a pretty positive market?

David Martin: Well our international exposure certainly has not helped with the fact that currencies have impacted our overall volume. But this quarter was much more about the fact that we had some deferrals of revenues or sales in the next quarter. I think if not for that we would have seen an upmarket.

Joe Mondillo: Okay. So we should expect positive trends starting in the second quarter then if is that case?

David Martin: Certainly yeah if we don't continue to see any deferrals out of the quarter. I think the expectation was that we would see some incremental growth yes.

Joe Mondillo: Okay. And then just on the working capital and I'll jump back in the queue. Inventory increased $55 million last year due to the strong demand that you were seeing. We are short of seeing we're obviously trending slightly negative here but if we're seeing slightly positive say for the year, it seems like you have opportunity to what are you expecting for working capital the contribution to cash I guess what I am asking.

David Martin: As I stated earlier the expectation is that we're going to get be stronger in terms of our planning cycles to be able to trend the inventory the amount of days that we have an

inventory. I mean the big growth in working capital this quarter was really on AR. That's a timing thing with the majority of our billings happening at the end of the quarter.

So I'd expect as we progress through year and we have see more normal if you will trends in the market then we should be able to manage our working capital to drive cash flow. I think overall this is more of a longer-term project but obviously, as we continue to make appropriate changes in our planning schedules across the business we should be able to reduce the number of days that was required for inventory. And there's going to be pockets of the business that are going to be better than others given the mix between OEM aftermarkets. So I do expect to see some improvement as we go through the year.

Joe Mondillo: Okay, thanks. Appreciate it.

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

Larry DeMaria: You guys obviously talked about ITM. I just want to share what the message is the most likely scenario a public spend as opposed to cash generating sale at this point is that right or I'm I thinking about that wrong?

Paul Reitz: I think that's right. The financial advisers that we've hired engaged clearly the look at both potential outlets and where ever drives the highest valuation. But as part of the process that we're going through right now a public offering is part of that.

Larry DeMaria: That will be like a tax-free spin to shareholders?

David Martin: Well obviously, we're the shareholder today.

Larry DeMaria: Okay right. Well to split the company into equity to the shareholders on the call. Okay can you understand the help us understand the revenue and EBITDA size of ITM then this may come out?

Paul Reitz: Yes, I mean at this point I think we've given some general indications about the performance of ITM. I think we've been pretty clear with that over the last couple of years. It's been successful. Business has been growing. But at this time it just gets primarily folded into our earthmoving/ construction segment. Very high percentage of it falls directly in that segment with a much smaller percent that goes into Ag. But at this point Larry that's all we can disclose.

Larry DeMaria: Okay. And then OE versus aftermarkets sounds like OE production was obviously up and the markets were a little bit different given the weather especially. Have you changed your production plans moving forward as they've gotten through the first quarter and some hiccups obviously with the weather and farmer sentiment. How do you think about OE versus aftermarket production moving forward throughout the rest of the year have we maybe tweaked that down?

Paul Reitz: Well I think through the rest of the year it depends of the timing when you look at it. I think what David said we so March coming very strong looking to see that continuing to April.

Clearly as you look at things right now the weather is tough. I was talking to our legal counsel as I drove last night from Chicago where we're at to our plant in Bryan and you just looking water everywhere. I think right now Larry it's a tough question to answer as we kind of see what the rest of the spring goes how the planting cycle takes place. But fundamental that we believe in and we continue to hear from customers whether its OE or aftermarket is that there's a lot of pent-up demand in the system. We do believe that it's a timing issue versus a structural issue. And at this point we're going to have to kind of wait and see how the first the rest of the first half of the year plays out. But I do believe that it leads into a good-looking second half of the year especially with the advantages Titan has with our LSW products. The growth we saw in the first quarter was tremendous and I continue I believe that will continue on a very strong pace. These wet conditions are absolutely perfect for what Titan can deliver to our end users to help them with these tough conditions.

So again we all see the OEM forecast for the rest of the year. I mean we saw some reports yesterday. I think that's all fairly accurate. But again I think the aftermarket and weather is a wild card we're watching closely. But again I do think there is more time than it is structural.

Larry DeMaria: Okay. Maybe put it another way. The OEs are correct me if I'm wrong communicating to you any material change in production plans for you to expect?

Paul Reitz: No, I think different than it was reported publicly.

Larry DeMaria: Okay. Then when it comes to LSW Paul, which you guys called out again today is that mostly in the I'm assuming its aftermarket level or are you getting some traction on the OE level at all too?

Paul Reitz: Good improvements at the OE level. I think that's been a nice movement in trend that we seen here over recent months. It is primarily an aftermarket product like you stated. And I think for us it's been great about it being an aftermarket product is that they've done a tremendous job of handling the changeovers. If a farmer has a standard product already on their equipment they've done a great job of getting the standard assembly wheel tires taken off absorbed into the marketplace and really getting upgraded to LSW's. Once you get them upgraded to LSW's we feel the stickiness of that sale is really favorable. So but we are to answer your question Larry we are seeing some good trends in the OEs. We definitely want to get the OE market going on LSW. It's a different type of sale. I mean they have different things that they look at when they're putting an option on to a new piece of equipment versus where we are selling through the distribution channel and working directly more with end users.

Larry DeMaria: Okay, thank you and good luck.

Operator: Our next question comes from Alex Blanton with Clear Harbor Asset Management.

Alex Blanton: First do you have a slide deck with us I didn't see one on the website.

David Martin: Alex we have not prepared slides in the past or today.

Alex Blanton: Okay. All right. LSW what percentage of your aftermarket is that now?

Paul Reitz: At this point Alex we aren't disclosing that I guess for a number of different reasons and part of it is definitely competitive. We have a strength with our LSW products and competitively it's not something that we are disclosing them to the market. But we are trying to give you enough color on illustrating what the growth rates have been. But at this point Alex for competitive reasons we just can't talk any further what the exact number is.

Alex Blanton: Okay. And the deferrals into the second quarter of the ITM how much was that and why didn't happen and why would it continue? You mentioned there's possibility there might be some further deferrals but what's the reason for it?

David Martin: I'm not seeing any indication that they are any they were just pushing out there expectation for their own equipment deliveries.

Alex Blanton: So it had to do with the OE equipment deliveries?

David Martin: I believe it's a combination. There's probably some aftermarket on that too.

Alex Blanton: Well is there a possibility with inventory they had too much in inventory and reduced their inventory of it?

David Martin: They were obviously fairly these orders were firm and they just pushed out the timing of their expectation for us needing to get their plans to be able to put it on.

Alex Blanton: Well I understand it why did that happen that's what I'm asking why did that happen? Why did they need to do that?

David Martin: I mean it's just some the next some timing at the end of the quarter is all it was.

Alex Blanton: I understand it why was it different why did change from expectations why did they push it out?

Paul Reitz: Yes I think at this point Alex I think David's offered a lot of much information as we can about the situation. I mean there is.

David Martin: Customers made a decision about timing from one month to the next.

Alex Blanton: Right okay you don't know why they did that.

David Martin: There is a variety of different reasons.

Alex Blanton: The discounts that you mentioned the sales incentives did you tell us how much that was?

Paul Reitz: We cited about what $1 million $1.5 million?

David Martin: That was profit impact in the quarter.

Alex Blanton: Okay. This weather how is it affecting the OE deliveries that you are supplying in other words you do a lot of Deere tires and wheels. Now they normally build up a lot of dealer inventory in the first quarter that they usually they build up a lot of inventory in the first quarter in total in preparation for the selling season. Now what is that buildup today this year versus what normally is there a difference and how is that affecting you?

Paul Reitz: Well I think at this point there hasn't been enough market and intelligence out there to specify exactly what the dealer inventory levels are. I had some recent meetings with our OEM customers and yes there is a, an issue at the weather that it's impacting some timing of these orders of these orders and potential shipments. But I think if you look at one of the OEMs that reported yesterday there is still holding to their outlook for the full year. And so you look at it as a timing issue driven by the weather versus kind of a structural foundational issue that is it just lost demand. .

Alex Blanton: Which OEM reported?

Paul Reitz: AGCO reported yesterday.

Alex Blanton: Okay. You mentioned that you're trying to improve your OEM sales in Russia what is that going to take who's your competition there what do you have to do in Russia to get more OEM sales?

Paul Reitz: It goes to the basic premise of getting the Goodyear made product out of the Russian plant that can be put not just on the OEM equipment that’s being manufactured in Russia but also could be used as export into other Western European markets and areas that would be suitable for a Goodyear branded product. And so what my discussions have been there are a number of tractors built in Russia by large OEMs that import their tires from other markets primarily Europe. And there is a desire to have local content as most countries do. There is a desire to have local content. And so what we're working towards Alex is being able to provide from our Russian plant. So we have a number of changes in that have been implemented on the compounding side to address that a number of changes that have been implemented with equipment some of it new some of it coming a lot of it coming from the U.S.

We have our U.S. teams working with our Russian counterparts and again the goal is that we would be able to put if we’re going to put the Goodyear brand on it, it naturally has to be of the highest quality to support that premium label and really that's what we're looking to achieve. And when we do. we think there is a good market for us again both with OEMs and for export sales into other regions.

Alex Blanton: Well the OEMs in Russia must be short of foreign currency. Why wouldn't it be to their advantage to source locally rather than be exporting tires I mean importing tires from Europe that doesn't make a lot of sense.

Paul Reitz: That's what we're trying to do. I think that's exactly right what we're trying to do. We need to get the Goodyear brand on it and again that means we achieved a certain level of quality, which we are working hard to do that. But when we achieve that level and put the Goodyear brand on it then exactly what we said is we believe what can happen where the local market will start taking the Goodyear tires made the right of our Titan Russia plant.

Alex Blanton: Right that makes a lot of sense. So it's the quality issue that they feel that their quality coming from Europe has been good but if you can match it you get sales instead is that right?

Paul Reitz: You got it Alex. That's exactly right.

Alex Blanton: Okay. Let me see here. This guidance that you mentioned you're not changing you didn't mention what it was?

David Martin: I don't have everything in front of me here Alex but we stated our guidance in March 7th for the full year. We can go back and get that for you.

Alex Blanton: March 7th?

David Martin: Yes when we did our fourth quarter earnings announcement.

Alex Blanton: Okay whatever was in there has not change has not changed.

Paul Reitz: Yes. Glad to help you with that Alex if you want more.

Alex Blanton: Well thank you. I see we are almost out of time.

Operator: Our final question is a follow-up from Joe Mondillo with Sidoti & Company.

Joe Mondillo: Just two quick follow-ups. I know we're pretty late in the call here. First question hopefully a short answer. Just I noticed in the Q you had you highlighted that your Goodyear licensing agreement in Latin America expires in June of this year. I assume that is usually just re-contracted or is there any risk to that at all?

Paul Reitz: If the licensing agreement for the bias truck tires that we produce there. So it's not everybody is clear it's not related to the global farm licensing agreement that we have with Goodyear. That's under an automatic renewal process. So this one specifically we've again it is for the bias truck tires out of Latin America only. We began those discussions with Goodyear. I don't want to Goodyear but our relationship is strong with them and I see it as extremely low risk of anything detrimental to Titan happening from that.

Joe Mondillo: Okay. And then lastly your 80-20 restructuring you guys have talked about the over the last 18 months but I think there is still a lot more work to be done and I'm surprised it hasn't come up really on this call. Could you talk about where we're at in terms of everything that

you're focusing on and sort of given maybe an update on sort of how we think about timing of all the improvements that you're going to be making over the next year or more?

Paul Reitz: Yes with 80-20 on tire part of the strategic targeting incentive that we're putting in place we're able to do that because of 80-20. And what we've learned and garnered through that process. David has been talking about extensively working capital is a top priority and 80-20 is designed and will be helping us with that. But part of the rollout of 80-20 you go through the steps you get it introduced but it does take time for your customers to make the changes. You can't exactly tell your customers on day one these products are gone forever just live with it.

So all of our sales reps are working extensively with our customers to adopt the 80-20 premise. I would say almost universally it's been well accepted. People are clearly behind it. It streamlined their supply chain and their processes. But it takes time for them to rollout the old inventory and start bringing in the new. But the process is moving along well at tire. And again, what we've learned and what we have garnered from it has been tremendous and help us in more ways than just the obvious of getting rid of 20% of product I mean it's helping us make strategic decisions it's helping us with working capital it's going to help us with our plant staffing as we move forward.

But I think the big one for us that we're just getting into is going to be on the wheel side where working with the OEMs and if you look at the wheel plant Joe I know you have had a chance to do that to set up on wheel line is extension. What you go through a changeover and a tooling to manufacture wheel. As we streamlined that operation and make our runs more efficient I think we're going to see a very nice pick up wheel and almost immediately when we do that.

So what we're doing right now wheel going through the process of the analysis getting our plans put in place. We'll update you more as we move through the year but I'm really excited about what it can do with the efficiency and how we operate our wheel plant.

Joe Mondillo: Okay thanks, good luck.

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

Paul Reitz: Thank you Brandon. I appreciate everybody's time this morning. And will catch up with you again on the second quarter. Thank you.

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