

**Titan International, Inc. (TWI)**  
**Transcript of Q3 2019 Earnings Call and Webcast**  
**Thursday, November 7, 2019 9:00 AM ET**

***Company Participants***

*Paul Reitz - President and CEO*

*David Martin - SVP and CFO*

*Todd Shoot - SVP, IR and Treasurer*

***Conference Call Participants***

*Stephen Volkmann - Jefferies*

*Joseph Mondillo - Sidoti & Company*

*Larry De Maria - William Blair*

**Presentation**

**Operator:** Good morning, ladies and gentlemen, and welcome to the Titan International Incorporated Third Quarter 2019 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode. We will open the floor to your questions and comments after the presentation.

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

**Todd Shoot:** Thank you, Ben. Good morning and welcome, everyone to our Third Quarter 2019 Earnings Call. On the call with me today, I have, Titan's 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 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, during this call, 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 those 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. Today's earnings call is available on the company's -- release is available on the company's website within the Investor Relations section under News &

Events. Please note, today's call is being recorded. A copy of today's call transcript will be made available on our website. I would now like to turn the call over to Paul.

**Paul Reitz:** Thanks, Todd. Good morning, everyone, and I appreciate you joining our call. We've already seen other companies in our industry report that they've experienced declines in agriculture and construction sales, really stemming from the continuing effects of the tariff battle, the poor US Ag conditions, and then along with some concerns over the global GDP that are slowing investments. Many OEMs are producing below retail sales, and a number of large OEM dealers have stated that they significantly reduced inventory in recent months. This combined to deliver a hit to our sales this quarter.

This year has certainly been a wild ride. We started off with strong optimism about growth coming off a good 2018, and then it got turned in the opposite direction late in the first quarter. Our Q3 results have been significantly impacted by these softening market conditions, and we simply need to do better. I'll get into that plan further in a minute, but before that, I want to point out an issue that impacted Titan in this quarter, and really throughout 2019.

In late 2018, we embarked on an Oracle Cloud ERP implementation in our North American wheel business. The system is now up and running effectively after working through a number of challenging months from -- it really, many unexpected issues, but they primarily related to shipping in the EDI data transferred within OEMs. The issues with the Oracle Cloud implementation caused our North American wheel business to have somewhat limited forecast visibility within the system. And then, you combine that with the rapidly shifting market landscape, and that led our wheel team to purchase an excessive level of steel. Throughout 2019, then steel prices have come off significantly from the historic highs in late 2018. This resulted in us having to reduce prices to our customers. Unfortunately, this resulted in our Q3 costs for steel inventory being relieved from our inventory at a rate of about 15% higher than our customer pricing levels. This negatively impact our real business to the tune of approximately \$7 million in the third quarter alone and \$15 million for the year. I do want to say that we have analyzed the situation extensively, and believe the price versus cost differential is now largely behind us, and we won't have a negative impact in 2020.

Unfortunately, this steel purchasing issue is not a first time event within our North American real business unit. It has occurred a while ago, is over 10 years ago and when that happened, it cost the company millions of dollars, just like it did during this quarter. We thought that the proper corrective actions were put in place, and we believe the potential for a similar problem had really been nullified. I want to make clear today that the decisions and actions by certain members within our operational and finance teams the past few months are not acceptable. It goes against our One Titan operating model to emphasize the importance of communication, and the overall decision making process. We are taking strong actions to implement the necessary changes to ensure that this situation does not happen again within, specifically, our North American Wheel procurement operations and financial processes and personnel.

Well, we shift gears now. In last quarter we had discussed our multi-dimensional plan of attack to, first, deal effectively with the present cycle, and two, to protect the balance sheet, and then

three, to take actions to build for the future. I'd like to walk through an update on those elements now.

Let's start with what we're doing to deal with the downward arching trend that we've seen with Q3 sales down 10%. We've already reduced our headcount by more than 5% this year, and have developed plans to reduce headcount further by another 3% to 5% in coming months. These actions coupled with ones that we are making this quarter, have reduced our operational cost structure by about \$10 million on an annualized basis. Also, beyond that, we significantly reduced working hours in many locations by taking out additional days or even weeks out of our production schedule. Titan has been through many cycles. Our management team is experienced at taking quick actions, and I do have confidence in them being able to do so. We are familiar with these difficult situations, and we have and we will continue to adjust to these declining market trends.

It's fairly clear that in recent years, the North American tire market has become a more diverse market with competition from imports and really additional global capacity coming online admits really what's been a generally weaker markets with the Ag cycle for the last four or five years. Yeah, I want to state without a doubt, we have a strong brand and distribution channel in North America that makes Titan and Goodyear Ag a leader in the market. Along with those strengths, the past couple of years we have been effectively dealing with competition by dedicating resources to increasing our market intelligence along with deploying a market-based pricing model. In the midst of a slow market with pricing pressure, I do believe our market intelligence and pricing capabilities are some of the best in the industry, has been effective defense to deal with tough market conditions. David will talk about North American tire little bit specifically, but the results do prove that we've been very effective with that approach.

At Titan, we believe that product development is the heartbeat of our company. We've stated that before on previous calls, and we do live that on a daily basis. We continue to experience success with our market leading LSWs with continued growing success, in particular, in the aftermarket. The OEMs that have put LSWs in their option books is there -- it's been placed in the books, but it's at quite high price levels. So really, our focus has been in the aftermarket, which has been going very well in the past few years. But moving beyond LSW, we are not just an LSW company. We have another great recent product innovation that combines the aspects of an industrial Ag and turf tire into one hybrid tire, which makes it great for many situations and conditions. The early market acceptance of this hybrid tire with some of our key partners has been really strong. And we look to see more of that benefiting us really late into this quarter, into early 2020, but then also in the coming years.

These positive actions are crucial in North America as we deal with the poor weather, the tariffs, the reductions in OEM, and dealer inventory. I really do think we've done a good job this year on managing that, and it's really evidenced in our North American tire sales that are only down 5% so far this year in a tough market, which is better than some of the comps we're seeing coming out within the industry.

So next facet of our plan is to protect and to ultimately optimize the balance sheet. This includes eliminating the debt that we took on this year to settle the Russian put option. We've made

significant progress on this front this quarter. During the quarter alone, we generated operating cash flow in excess of \$40 million and drove down net working capital by over \$50 million, and this did lead to an improvement in our cash position. There is still definitely improvement in this -- room for improvement in this area as net working capital stands in the 26% to 27% range as a percent of sales, and we have targeted a level of 21% to 23% as our 2020 goal within our management team. We have made it abundantly clear to the entire management team around the world that working capital management is a priority. I do want to make mention with, specifically, within our North American tire business because they've really been relentless in their focus on managing working capital. They were able to drop inventory by \$16 million year-to-date. Also, in North American tire, we've launched a new ordering process for the aftermarket that will take hold in Q1 of next year, and that really give us improved visibility into prospective orders, which will of course, help us with our inventory planning process.

We have noted, in previous calls, the ability to generate \$30 million to \$50 million from non-core transactions. In early October, we sold a 10% stake in Wheels of India for \$19 million. We definitely continue to believe in the strength of the Wheels of India business and their management, and we still retain a 24% stake with two board seats. We have used -- I just want to make it clear to everybody. We have used the Wheels of India sales proceeds to pay down our debt in October, so that took place post the quarterly results.

Also during the last two quarters, we've sold nearly \$12 million of Australian inventory at mostly in product categories that we've been non-core. Some of these sales were completed at negative margins as we are prioritizing, generating cash and eliminating non-core inventory, in particular, in Australia, but and also in other locations.

We are currently in the due diligence phase related to the sale of our Brownsville facility. I know we've talked about that before. We are also finalizing negotiations on a settlement for the insurance claim related to our TTRC recycling facility up in Canada, and the fire that they had. We are proceeding and working toward settling also the business interruption piece related to TTRC. All these items that I mentioned with Brownsville and TTRC are included in the \$30 million to \$50 million of non-core assets mentioned previously.

So the last element I want to address here today is really the importance of consistently building for the future. Our core component of our strategy, as a company, is to make Goodyear in Titan Ag tire products a leading global brand. That means we need to move beyond our current positions in just North and South America. We've established a good distribution channel in Europe, and we've created a dedicated website for that business there. Our tire business, however, outside the Americas, will utilize an approach of distributing tires manufactured from multiple sources. So we're going to use all our plants Brazil, Russia and US, and combined that also with some off-takes from other non-Titan owned locations. We expect additional exported tires into Europe and beyond, just Europe will drive an additional \$12 million to \$15 million of sales in 2020. We are continuing to invest human capital from the US to help Titan Russia develop more products for these export markets. However, to grow sales at a quicker pace, we are not relying on only Titan Russia to build tires for these export markets.

Another element -- important element of building for the future is seen in our North American product portfolio simplification project, that's a mouthful. So we really referred to it as just 80-20 project. What 80-20 is doing -- is setting a good foundation for the tire and wheel businesses in '20 and '20 and beyond. For example, at North America Tire, the project is up and running, and it already making a difference as we now hold over 90% of our “A” products in our inventory, and we are producing at a rate of 95% of our total production in “A” products. We believe this project in 2020 result in \$3 million to \$5 million of operational savings through these efficiencies that will be gained. But I want to make clear that's just a tip of the iceberg. And these are just the savings that we know are in the bank sitting here today. 80-20 is a continuous improvement project that will deliver additional savings beyond that level in both production cost savings and in inventory management improvements.

As we build for the future, we also need to divest of or quickly improve our under-performing assets. With that in mind, our tire recycling business in Canada has made significant changes to reduce our cost base and operating losses, but we are still in the red, which is unacceptable. We currently sell the recycled oil and steel successfully into the market, but we are not able to do so in recovered carbon black at this point. Within the industry, there are a number of potential market developments in many resources being dedicated towards economically viable solutions for recovered carbon black. I believe there will be a viable solution that will eventually be found, but Titan is not going to accept continuing losses, and we will seek to divest the business, if that is in the best interest of our shareholders. As noted earlier, we are progressing towards an insurance settlement with TTRC, but I cannot disclose the expected settle amounts at this time, is that really would impact our settlement efforts in negotiations.

Moving over to Russia, it's clearly been a major challenge for us with the put option being settled this year, and really the overall economic situation there. As I've stated before, Titan Russia has a good management team, they have significantly improved their operational efficiencies, and definitely one of their strongest assets is the ability to produce tires at an attractive price point. But the fact is this business continues to struggle financially due to the extremely poor domestic market conditions. And so far, this year, they produced less than \$1 million in EBITDA, and they do have a small year-to-date net loss. The bottom line is we got to get that business into a profitable position and performing much better. We expect a much higher level of EBITDA to be generated from that business. The plan to accomplish that is done by continuing to make technical production and compounding improvements, which are coming from the aid of our US team, we are continuing to improve processes there through shared best practices. We are also continuing to improve the utilization in the equipment that we've added into their operation, and then ultimately, we are going to drive more export sales from there.

Moving down towards Australia. That business for us has made strong improvements in the past five years to not only improve on heavy losses, but to get into a profitable position in the past couple of years. Unfortunately, they slipped back into the red this year due to really some poor Ag conditions and then also some different events that have taken place internally there. So we've moved quickly to restructure the management operations, and we are only focusing on our core businesses to get Australia back on track. As we've noted earlier, we've sold \$12 million of non-core inventory already this year, and we have eliminated three locations. We must continue

to make these necessary moves in Australia and expect that business to be in a profitable position here in the near future.

Let me conclude one more area I want to touch on is within North America. I think everybody is aware; we have multiple locations that comprise about four million square feet of tire production capability, and that's not including our mixing facility. In today's market, our tire factory utilization in the US is simply too low. My reason for making that comment is to let stakeholders know that we fully understand that this situation needs to improve; it is on the top of our mind for both management and our Board. We have a number of options that we're exploring, and I expect to provide further updates on that in the future.

Just wrapping things up guys -- wrapping things up here. This was a difficult quarter for Titan and really many in our industry, as we just -- to declining market conditions that have put pressure, not only on sales, but also on pricing. We're taking actions to adjust our cost structure, while being keenly focused on optimizing our balance sheet. And I think, we've done a good job with that along with keeping our eye on the future -- on our future by continuing to invest in product development. We will see some improvements in, really the product and our sales from these products that we've been launching this year, so it will help us in early 2020 and beyond. We know that the AG world we operate in, we will get better at some point, and really, each day brings us closer to that. All you got to do is look at the 30-year trend lines and realize that we -- our industry is operating well below that in some key components of the business. But I want to make it clear, as a company, we are focused on making absolutely certain. We are ready to react accordingly and take a full advantage of when that date comes, and doing everything, we can today to manage our way through the cycle.

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

**David Martin:** Thanks, Paul, and good morning to everybody on the call. I'll try to be a little bit more brief today, and I'll go through some of the most important items from our third quarter performance, and I'll discuss current and ongoing actions to manage our financial position, which includes working capital management, which was a very good highlight from our Q3 performance.

To reiterate, net sales for the quarter were \$346 million, representing a decline of 10% from the prior year. On a constant currency basis, revenues would have been down 8.5% from the third quarter, or \$32.6 million. The negative currency impact of \$6 million, or 1.6%, was felt, mostly in Europe, just like the rest of the year so far. While Ag sales lagged the prior year about 4%, the biggest impact on sales this quarter was in our earthmoving/construction segment, where sales declined by \$25 million. The biggest driver of this was ITM undercarriage business. We also saw a decline in the Australian business, driven by weak market conditions, and a shift in our focus of the business away from tire distribution in the mining sector. The Consumer segment experienced a decline of \$7 million in the quarter, reflecting continued sluggishness in the utility truck tire sector in Latin America.

ITM's construction sales experienced a sharp decline in Q3 on lower OEM demand in Europe and Asia, resulting from the global construction slowdown. Our North American tire sales

declined 5% from Q3 of 2018, and our North American wheel business saw a decline in sales of 13% from the third quarter of 2018. For the tire sales as mostly a factor of volume, while a more significant impact from lower prices was a key driver for lower wheel sales. Latin America was on par with Ag and construction this quarter compared to the prior year and without negative currency impacts, it would have improved.

Our overall sales volume on a consolidated basis was down by 6.9% from last year with the largest declines being in undercarriage, Australia and Russia. While Russia made up some volume, an increased pricing reflective of higher raw material costs.

Price and mix in the quarter was mixed between geographies and businesses with an overall slight negative impact on sales of 1.6%. This is caused by an overall decline in raw material costs and lower surcharges on steel in North America. This is contrasted with an overall increase in price and mix in the undercarriage business and in Russia that I mentioned earlier from higher raw material costs.

The reported gross profiting for the third quarter was only \$27 million versus \$43.7 million in the third quarter of 2018, and our gross margin for the third quarter was 7.8% versus 11.4% last year.

So as described in our release and highlighted in Paul's remarks, the North American wheel business had significant margin challenges again in this quarter similar to the impact we had last quarter. As we have described in previous quarters, we experienced the issues that related to the new ERP system early on. For this reason, we elevated raw material purchases in the months prior to going live. There was also some pre-buying when there were indications that steel prices will continue to climb. Unfortunately, it did not happen and quite the contrary. Prices of steel have come down readily through the year. We also anticipated more elevated demand for our products in 2019, which has diminished due to the increasingly sluggish Ag market. Due to these challenges we faced, production was not as efficient as normal as we push through them in the last several quarters causing a serious unit cost increase all around for the business. The combination of these factors cause elevated inventory levels, and we have pushed these levels down in Q2 and Q3, and we experienced significant short-term margin pinches in the business. Inventory pounds on hand now are down to levels that we are expected to be at, and the average price of purchase steel has returned to more prevailing market levels. We've also taken actions to reduce the indirect cost of labor, which is has also reduced our overall cost of goods produced in the last couple of months, including October. The impact of the higher raw material costs in the third quarter results was \$7 million, and for the full year, or for the last two quarters, particularly, it's been \$15 million.

Putting the North American wheel issues aside, we would have seen gross profit margins near the 10% level, and given our low level of sales in the quarter would have been more normalized, while still below our expectations for the business.

In Australia, the market was very challenging for the quarter across both Ag and mining, and we also saw a compression of margins as we continue to liquidate our OTR tire inventories as we

shift away from this business. The decline in gross profit from the third quarter of 2018 to this year was over \$3 million, in Australia.

The highlights of the business for this quarter was the performance of the North American tire division, which experienced an improvement in gross margins of nearly 400 basis points, notwithstanding a decline in sales. This is reflective of improved efficiencies in our plants and improved pricing on raw materials, particularly synthetic rubber.

Let me spend a few minutes on segment performance. The Agricultural segment net sales were \$156 million, down 4% on a year-over-year basis. Currency negatively impacted the sales by 1.1% this quarter. Volume in this segment was down less than 1%, while we had unfavorable price and mix of 1.6%. Ag sales in North America and tire were down 8% for the quarter due primarily to lingering weather issues in the Midwest and the continued market malaise from global trade issues. Russian Ag sales were down 8% due to the sluggishness in the market as well. At the end of the quarter, we started seeing reversal of the trend in Russia, dealer inventory levels have dropped and there is more optimism in the market for the near-term. Latin America Ag sales were essentially flat this quarter, and European Ag sales also lag the prior year by 18% with the biggest impact coming from currency devaluation. Ag volume in Europe was actually up slightly.

The Agricultural segment gross profit for the quarter was \$10.4 million, down from \$19.9 million last year, portion of the decline relates to the decline in sales across North America, Europe and Russia, but obviously, the largest driver of lower performance relates to the North American wheel margins that I discussed earlier. Again, the issues that we experienced in North American wheel are largely behind us now and we should see return to recent historical margins as we progress towards 2020 in the segment.

Continuing on to earthmoving and construction. The segment experienced a decrease in net sales of \$25 million, or 13.7%. On a constant currency basis, net sales would have decreased 11.6%. Volume was down in the segment by 9%, and price and mix was unfavorable at 2.3%. ITM undercarriage business was the largest impact for the quarter as construction OEMs continued to sharp decline in volume. Many of our customers have announced reductions in production below current retail levels. We saw the biggest impacts in Europe and China, and we continue to see slight gains in volume in Europe wheel, in South America, in the earthmoving and construction segment as these markets remain reasonably stable.

Gross profit within our earthmoving and construction segment for the third quarter was \$10 million, which represents a \$9.5 million decline from a year ago. Biggest driver of this decline relates to lower volume and negative currency impacts on ITM's business, which is the largest component of the segment. In addition, we continued on the restructuring path for the Australian business, where our pricing was much more aggressive as we exit certain regions and reduced inventory. As Paul said earlier, we have reduced the inventory by nearly \$12 million since March, in Australia, with the most of the drop coming in OTR tire.

Now to wrap up with construction -- or with the consumer segment, rather, sorry. The consumer segment's third quarter net sales were \$33.6 million compared to 2018, of \$41 million, the



negative currency impact on-trend -- translation of currencies was 1% in the quarter and volume decreased by 21%, while we gained a little bit on the price and mix of 4%. The most significant impact on volume related to the lower demand in the Latin American utility truck segment, which has been the market trend all year.

This segment's gross profit for the third quarter was \$3.7 million, which was down \$2.2 million from last year. Gross margin was 11%, which was a decline from 14.5% in the third quarter of 2018. And this is reflective of lower sales volume and the impact on fixed cost absorption in Latin America, again, in the light utility truck sales volume.

Turning to our operating expenses. SG&A and R&D costs for the quarter was \$37 million, slightly lower than the level in the second quarter, while 2.7% higher than a year ago. During the third quarter of 2019, we incurred \$2.3 million in costs related to the proposed European listing for the ITM business. Without these costs, SG&A and R&D costs would have improved from the third quarter by \$1.3 million or 3.6%. Our SG&A and R&D costs also included about \$2 million of stabilization, and support costs related to the recent ERP upgrades in North America, along with other IT investments. If we exclude these items, we've been making -- we have been making the expected progress to trim our SG&A costs across the business, as outlined on our last call. I still expect to see full-year SG&A and R&D costs be in the range of \$150 million for the full year, which includes these non-recurring costs.

We recorded tax expense in the quarter of \$2.1 million on a pre-tax loss of \$18 million during the third quarter with the upheaval in the business in the current year, with market conditions, and other issues are mix of income, and losses in various factors have changed from the original anticipation. We also have, in cumulative tax losses in the US, Europe, Russia and Australia, and we can't record current year tax benefits on those losses causing unusual outcome in the tax rates, as I've explained in the past.

Final item of note in the third quarter performance discussion relates to the redemption value adjustment of \$0.5 million in the quarter, which decreased from the prior year Q3 amount of \$4 million. All of this adjustment related to the impact of the current period continuation of the OEP put option and accrued interest through the settlement date in the third quarter. This obligation is now extinguished, and we will no longer have any P&L impact from the put option. We anticipate issuing restricted stock of the \$25 million related to RDIFs in the near-term, and after we completing all the regulatory hurdles.

Let's move over to our financial condition and highlight a few key balance sheet and liquidity and capital items, are already alluded to the strong cash flow in the third quarter. We are now free cash flow positive for the year with the working capital improvements we drove in the third quarter, which is a strong turnaround from a year ago. Our overall cash balance improved by \$12 million from last quarter. Our receivables declined by \$51 million from the second quarter, and it is climbed \$21 million from one year ago. Of course, this is principally due to the sharp drop in sales. However, we have improved our DSOs by 5 days this quarter from June in 3 days from a year ago, reflecting focus of our collection teams. Our ending inventory at the end of September, declined by \$34 million from the end of June and \$30 million below the third quarter 2018 levels. Our inventory management programs are active and beginning to make a bigger impact

on the business, while there is still room for improvement across many parts of the business worldwide. Our inventory turnover levels in pockets of the business remain unacceptable, and we will continue to drive improvements where appropriate. Nonetheless, I am satisfied with the progress the teams have made this quarter.

Capital expenditures for the first nine months of 2019 were \$26 million versus roughly the same amount last year. We continue to track in line with full year expectations for capital to be spent this year, and for the year, I continue to anticipate capital spending to be near the \$40 million level, while it will likely come under that based on our latest forecast.

Now I'll wrap up as usual with a discussion on debt, and what we're doing to manage our cash and debt levels in the near term. During the third quarter, our debt level rose as a result from the settlement of put option with OEP. As of September, we had \$59 million outstanding on the domestic ABL line, with the completion of the sale of shares of Wheels India, in October, we paid down \$19 million on the line, and now we have \$40 million outstanding as of today. Earlier in the year, we increased our capacity on our domestic ABL credit line to \$125 million. Therefore, we have strong capacity in our credit line. Given our improving operating cash flow, we are not in a position of needing to borrow at this time. And it is our intent to continue to pay down over the next several months with a target of paying down the remaining \$40 million. Through the continued working capital management programs and the pursuit of the non-core asset sales that Paul talked about earlier, this should be achievable. I don't need to go any further details on the asset sales because Paul gave you a pretty good overview of that.

Given our current and anticipated near-term cash levels and our credit capacity on a global basis, we do have adequate liquidity to manage the business in a healthy way on a daily basis. It is clear that we need to continue to strengthen our financial position in light of the current and more challenging operating environment, and that is our focus every day here at Titan. At the same time, we are taking strong actions to strengthen our market positioning, and we are investing properly in the business to set it up for the long-term growth and success.

Now I'd like to turn the call back over to the operator for any questions that you have.

### **Question-and-Answer Session**

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Stephen Volkmann with Jefferies. Please go ahead.

**Stephen Volkmann:** Hi, good morning guys. So whole bunch of stuff here, but maybe -- let's just of dramatically, I guess, I'm trying to think about, obviously, there is a lot of moving pieces here, and I know you don't want to give guidance for 2020 yet, which is fine, but we'll make our own conclusions about sort of volume and so forth, but I guess, it feels like there is a number of costs and headwinds that sort of naturally should adjust as we go into 2020 regardless of volume. So I wanted to just kind of go through how we should think about that. So you talked about \$15 million year-to-date and kind of steel mismatch, it sounds like you won't have any of that in the fourth quarter. So the \$15 million is sort of the right number for the full year. Is that correct?

**David Martin:** Yeah, that would be a fair assumption for 2020. And that was -- that's largely behind us. And those were impacts that push through as we lowered the inventory levels. Inventory levels are now rightsized so.

**Stephen Volkmann:** Okay. So sort of -- in a sense, we get \$15 million back next year from that, and then you talked about \$10 million lower kind of cost basis. I think those were around head count, and there is probably a little more of that to come, is that correct?

**David Martin:** Yeah. And will be very -- that's principally in our indirect costs and some of our direct costs inside our plants. And so that's -- that would be helpful for the margin in gross margins in the plants.

**Stephen Volkmann:** But you won't get sort of a full 2020 benefit of \$10 million because you got some of it in 2019?

**David Martin:** Yeah. Lot of these actions are taking -- have taken place here in this last quarter, and even in the fourth quarter. So it will be largely accruing to 2020.

**Stephen Volkmann:** Okay, all right, fair enough. And then, what's happening like with Australia? It sounds like you're sort of consolidating over there. Will there be some cost saves in 2020 from all that?

**David Martin:** There will be, yes, definitely. On top of my head, I don't have that exact figure, but it's several million dollars.

**Stephen Volkmann:** Okay. Several million. And then, you talked about also having to spend some extra money. It sounded like around this whole ERP thing to make sure that it all worked fine. Will that be completed and over by the end of this year?

**David Martin:** Our stabilization efforts are largely behind us as well, yeah, then we had a couple of million in the quarter that we had and we probably had a couple million last quarter. So I would suggest that that we should see improvements on the SG&A costs associated with that. Now we do have some costs that will flow through next year related to amortization of the systems that we did implement, and so there may be a little bit of offset there, but, overall, I think it will be a net reduction.

**Stephen Volkmann:** All right. So a few million there then. What am I missing? Is there anything else that you feel that has sort of hit you this year that maybe goes away next year?

**David Martin:** Yeah. Obviously, we had the one-time ITM costs this quarter related. That was obviously shown. We pro forma that out in our non-GAAP adjustment, but that's -- that was \$2.3 million that we won't.

**Stephen Volkmann:** Yeah, okay. And then also this quarter, you had a gain, right? Was that on the gain of sale on Wheels India, was that?

**David Martin:** Yeah, that was reported in other income.

**Stephen Volkmann:** And why was that gain booked this quarter, but you didn't actually sell it?

**David Martin:** No. The transaction actually occurred in September, the sale actually occurred and the transaction closed. Cash hit the bank right after the month, though. So it happened right at the close of the quarter.

**Stephen Volkmann:** So you booked a gain in the third quarter, but you didn't get the cash for accounting purposes till the fourth quarter.

**David Martin:** That's correct.

**Stephen Volkmann:** Okay, all right. And let's see, with respect to the Russian put, I guess that is all done and behind us now. Does that change at all the accounting for what's included in consolidated sales and profit, or has that all been consolidated up till now anyway?

**David Martin:** It's always been consolidated. You see the residual non-controlling interest in the NCI line below. And the only thing that's changed now is obviously we have a higher ownership of that facility. So will be less of an adjustment at the NCI line now.

**Stephen Volkmann:** Okay, great. And then on Russia, you talked about that business. Can you give us a ballpark of how big that business is these days on a revenue base?

**Paul Reitz:** Yes, it's something we haven't disclosed exactly the revenue base on it. Clearly the exchange rate -- it had a big impact on that Steve, so, in the US dollar term, it's shrunk considerably. What I did try to disclose this period though is just where we're at on our operating profit line. And we've seen EBITDA condense over the last few years as the market has continued to shrink, really driven by just working capital constraints within our dealer channels. So it's not an issue where we've seen our business or our market share condense. It's really driven by, obviously, like I said, the currency, but also just the -- right now, the channels -- the capitals moving so slow through it that inventory is just moving at a very slow pace. So, definitely, we think it can come up from those levels. So as we look towards the future, I mentioned, export sales is a way to grow the business, but we definitely believe that you had -- the government has to protect their Ag economy, and they got to get more capital into that industry, and that will help accelerate things as well. But, sorry, for a long-winded answer, but we just can't disclose -- for competitive reasons, we can't disclose the sales level in Russia.

**Stephen Volkmann:** Okay, all right, fair enough. And then my final thing, and I'll pass it on is just -- I assume you have ongoing and often quest discussions with dealers. And I'm just curious what you're hearing from them relative to 2020, because I guess if we assume 2020 normalizes, you could have -- they might want a little bit more inventory to kind of be ready for the spring selling season, or maybe they already have enough, I don't know, but, just, what's the mood of the dealers relative to that?

**Paul Reitz:** It's kind of, what the mood of everything is these days. It's a tale of two worlds. The good dealers are strong, they're having a good year, they're optimistic for next year. They have the capital to bring in inventory, and they look at towards the future in a world that will definitely get better than where it's at now. And then you got dealers that are struggling. They have a lack of capital, they're shrinking inventory as the market's condensing, and I think they're shrinking it below where it needs to be. They're going well below retail sales levels and they're bringing it down to help preserve capital and they kind of have a pessimistic view. So it really depends on who you talk to. I think the consolidations that are going on are good for the industry when you're talking about the dealer consolidations. And I think what you're going to see at some point, Steve, is that inventory levels -- it's happened before in many of our other cycles we've been through, where inventory levels get pulled down too low, everybody get too pessimistic and too conservative, and then things ramp up really fast. And it's going to take, I think, it's going to take just a pretty small trigger to make that happen. I think we're at a point where corn prices are get a little bit more move in corn above four, and you get a little bit of relief on these tariffs, which -- it sounds like eventually that's China is going to have to import something from us. You get the weather conditions moderating. And I think you can get some optimism pretty quick, and at that point, you're going to have a lot of dealers where they're going to -- their inventory is going to be too low, and they're going to start order pretty quick.

**Stephen Volkmann:** Okay, thanks. I'll pass it on.

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

**Joseph Mondillo:** Hi guys, good morning.

**David Martin:** Good morning.

**Paul Reitz:** Morning Joe.

**Joseph Mondillo:** I just wanted to touch also on the steel issue. So last quarter, I recall asking you guys and talking about it. How was it a surprise last quarter, and it seems like the extent of the problem actually escalated in the third quarter, whereas, actually, I was under the assumption that it actually should have improved as we went into the third quarter. So could you just help us understand what the surprise was number one? And then number two, just to clarify exactly what happened because as I understand that you said that the new ERP system was implemented in 2014-ish, and you had a similar problem like this 10 years ago. So I'm just wondering why the new ERP system did not -- as you said, you thought you nullified it. Can you just talk a little bit more in detail of the issue, and why you have the confidence that it won't happen again, and then in terms of the surprise here in the third quarter because the margins were a lot worse than we were expecting, and I thought it was largely behind us in the first half of the year?

**Paul Reitz:** Yeah. I think David and I would agree with those comments, Joe. Look, we had some personnel that made some poor decisions in their decision-making process, for doing it was not at all, something that's acceptable. It is -- we're confident it will change because it's being addressed, and we are changing how we operate. And the reason why the comparison to 10

years ago to today and the reference with the ERP system is when you have a lot of moving pieces with the ERP system, it created a cloudy environment where some people were able to make some decisions in a vacuum, not communicate them necessarily effectively, and to some extent, to your point, we were dealing with some surprises in Q2, as we communicated. What we found in this quarter is kind of, unfortunately, a perfect storm that hit is we had lower prices because steel prices kept coming down in the market. So we had to reduce prices to our customers. And so what -- that continuing effect that you're referencing in Q3 really is just an impact of us having to continue to reduce prices, and we still have inventory that we are relieving from the books, from our inventory at a higher cost base. Things are going to change, and it's going to be addressed, Joe. That's probably all I can say on it for right now. But I can say from David and I, perspective, we are not going to tolerate the actions that took place, and we are going to make effective changes to address it.

**Joseph Mondillo:** Okay. And then in terms of the inventory of steel that you have on hand will we see still a little bit of the higher price steel going through cost of goods sold in the fourth quarter or is that fully behind us at this point?

**David Martin:** I would say it's largely behind us. But there are certainly -- the number of pounds on hand have significantly dropped from what we saw in Q1, and early part of Q2. So it's come down pretty nicely. But the overall unit cost of it is still somewhat elevated, but it's not going to -- it would be anywhere to the extent that what we saw in line, in Q2 and Q3. And so I wouldn't -- I would anticipate we may have -- we may not get back to historical margins in the quarter, but we are going to get back a significant amount from what we saw in Q3.

**Joseph Mondillo:** Okay. And then just in terms of general, overall inventory, last quarter you thought that you could reduce inventories by \$15 million to \$20 million in the second half, and then you did a little bit more than that expected in the third quarter, but it sounds like on your prepared commentary that inventories are sort of back to sort of a more normalized level?

**David Martin:** Yes, well, I would say that we still have opportunity. If you look at it on a strict turnover basis -- based on Q3 revenues, which was obviously artificially low, our turnover slowed down a little bit even. So I would expect that we have still more room for improvement. Obviously, that's just got to be played out with respect to what demand levels are in the next couple of quarters. But, yeah, we achieved better than I expected in the quarter, but it was certainly not something that we didn't think about. I thought it would just take us a number of different several quarters to get to where we are right now. And I'd say we have another \$30 million to -- \$30 million of inventory easily that we should be taking out over the course of the next year or so.

**Joseph Mondillo:** Okay. And then just going back to the gross margin just so, I'm clear, generally the fourth quarter -- you generally see a seasonal light, it's usually your weakest quarter in terms of gross margin, at least at the Ag segment, is it right to assume that it will not be the worst quarter of the year because of the third quarter we saw worse -- so weak?

**David Martin:** Yeah, I would suggest there are some things that come back to us in Q4 that the -- some of the issues that we saw in Q3 won't recur. So it will be a better margin quarter for us.

**Joseph Mondillo:** Okay. And then just on the SG&A side, I know you've called out the \$2 million regarding the ITM potential listing, what was the other, the second bucket of items, I sort of missed that in your prepared commentary, you mentioned some other sort of?

**David Martin:** Yeah, it was some of the support costs associated with after our go live on the Oracle Cloud. It's about \$2 million of support costs. And that number will come down in Q4 largely.

**Joseph Mondillo:** Okay. And then I guess just high level, Paul, you called out the \$4 million -- 4 million square footage of North America tire manufacturing. We've been talking for several years now, and I know you've been looking at it consistently on a regular basis in terms of trying to maximize the efficiency in terms of the square footage. Maybe you could just talk about -- or just try to give us an idea of how complex this business is if you're -- from our advantage point it's easy, your utilization rates are well below under expectations, and you should just start closing consolidating facilities, but maybe you can give us some more color on what the challenges are, what you're thinking timing of certain things? Or anything that you can provide in terms of sort of restructuring the business a little to make it more efficient?

**Paul Reitz:** Right. All three of our plants produce different products. And so that's where the challenge is really come into play. So when you look at it from the outside you see three locations 4 million square feet, and you go, why can't you just move one, do something and just increase the utilization, and the challenge really comes to all three plants make different products. And so there are some very complex decisions and analysis that goes around change in the utilization rates, how you could do things differently to improve the flow through the plant and drive greater volumes, etc. There are a number of different ways to approach this, Joe, and the comments I want to make today is that we realize -- it's important, and we realized we need to do something about it. And in due course, we'll certainly share more information. But to answer your question, the complexities come because each plant makes different products. And so, yeah, that's what we're taking a look at. But, what we've done -- the points I want to make earlier today though, I mean, on the cost side, on the efficiencies, I mean, our plants have come a long ways in the last few years. I mean we have driven significant efficiencies when you look at the output per man hour. We've driven down cost of quality that has saved us millions of dollars a year, and now what we're doing with 80-20 to really streamline our inventory management, to streamline our production. What we're doing on the pricing side to make sure that our pricing within the market, we're maximizing the potential that we have to gain volume and margin. I mean, we've taken a number of measures over the last few years, but the one thing we still got to tackle our utilization rates.

**Joseph Mondillo:** Okay. And then just two more quick questions from me. The consumer segment volumes were down 20%. Could you just talk about what's going on there? And then lastly on the RDIF put option, the 4 million -- I thought there was sort of 4 million shares that you're issuing to them, but I read in the Q, that there were maybe some regulatory issues. Could you just update what exactly happened with that sort of agreement?

**Paul Reitz:** Yeah, so on the consumer piece, Joe, a lot of the activity that goes through there is related to our bias truck business in Brazil. That business has been experiencing weaker sales with the domestic markets shrinking this year. But also, what's going on is the market is really underperforming because of the broader economy. It's -- there is increase in pressure coming from imports on the radial side. So within the marketplace, there is a lot of radial inventory, competitors are selling the radial inventory prices that are closer to bias than they historically have been. And so, you're seeing some shift from bias into radial that's higher than what we've seen in prior years. And so it's something that unfortunate, right now, there's a lot of market forces that are going against us, and you're seeing that the volume through the consumer, now it's a small part of our business. But at the same time, we're looking at what we can do in Brazil to increase the output of the plant and may not come in consumer products. We continue to add OTR products to our line up. We're continuing to utilize that facility in more effective ways. We're increasing our radial Ag output. So the utilization rates in the plant necessarily aren't changing as fast as the sales that you're seeing -- the sales results you're seeing in consumer because where we're adding products and improving the performance of the plant is coming to the other segments.

**David Martin:** And Joe, to answer your question about the RDIF, the shares have not actually been issued yet, they are still waiting final regulatory approval to be issued to RDIF. So that obligation remains in redeemable NCI, so and when at such time the shares get issued or get converted to equity.

**Joseph Mondillo:** Okay, all right, great. Thanks for taking my questions today.

**David Martin:** Thank you, Joe.

**Operator:** Our last question today will come from Larry De Maria with William Blair. Please go ahead.

**Larry De Maria:** Thanks, good morning.

**Paul Reitz:** Good morning.

**Larry De Maria:** Actually, I wanted to beat a dead horse on the ERP thing. But it sounded like previously when you guys discussed it, you're building out inventory ahead of the rollout, which sounded kinda like normal risk management. Now it almost sounds like stakes you made, you had bad information, and now you have to take corrective actions and there was anomaly, so it's different in tone of what you said before, is that right, because it stands a lot worse.

**Paul Reitz:** Yeah, I mean it's -- you have the ERP issue that we talked about earlier in the year. And now what you have in this quarter is, in the ERP situation that is really kind of parlay that also some decision making by certain personnel. And part of that is from a lack of information from the ERP, and part of it is that when you take some actions to improve the processes and how some behaviors within just really a small group of people over there, and that's going to be taken care of. So I think when we say it's an anomaly, we're confident that's anomaly because of those reasons. And it's an issue that we had, unfortunately, as a company over 10 years ago. And



the reasons behind these are similar, and we know where to fix it, we know how to address it. And we're pretty confident that we'll be taking care of.

**Larry De Maria:** So in other words, people -- small group people made a mistake and overbought, but that would not have flowed up to CEO, CFO level to help make that decision, they are able to make that decision before, in other words, the process didn't work?

**Paul Reitz:** It's not necessarily just the process. But, and you right, plants have to have the ability to run the plant. And there are certain -- there are certain boundaries that they can make decisions within, and procuring raw materials up to certain levels is definitely within the scope of a typical plant operation, and so what we're going to do is centralize that function more. We're going to have greater oversight over the operations of the business and the purchases that they can make.

**Larry De Maria:** Got it. Thanks.

**David Martin:** The one thing to keep in mind, Larry, too -- not only we had elevated costs associated with it, we had -- we are pretty inefficient in the plant in terms of trying to catch up on production when we had some shortages. And that coupled with the fact there, actually, our prices to customers are lower now, because of the lower surcharges on the current prevailing prices in the market. It had a double whammy effect on it. And that was more -- it was a bigger impact in the quarter than we anticipated.

**Larry De Maria:** Got you. So obviously, if pricing was might be able to get by again.

**Paul Reitz:** Yes, that's actually a key point right there, Larry, what you just said, as I think.

**Larry De Maria:** Yes.

**Paul Reitz:** I think there are some thoughts that you could just -- without the pricing changes that you could just skate by and lead the inventory often. That didn't happen.

**Larry De Maria:** Got you. Okay. Now you have talked -- having that great market intelligence now and say, you have a better view on pricing, etc. and competition has come online, new capacities come online. Do you guys have a good handle, I'm curious, about industry capacity utilization, and your capacity utilization, given that there's has been more online because I was just trying to understand how, if the business is structurally changing, let's say, for the next cycle than the past cycle?

**Paul Reitz:** Yes, I mean, it's a good question and I would say this, I mean, some of the announcements that you see on capacity coming online are not reality. It's easy to do a press release, it's a hell of a lot harder to make the investments into tooling and technical product development to put a full product portfolio out there in the marketplace. And so I think some of what you see or read is deceiving. I think the core competitors are still the core competitors. I think there is more that's come online, in particular, from one location, but I don't think the business is at a point where margins and cannot be back at a healthy level as the business

improves, in particular, in the Ag and the high horsepower. I would say the competitors for the most part, in those conditions, operate rationally, and they are looking to increase their margins as well every now, and then you're going to get irrational decisions by competitors, and it's typically in small lots where they're trying to get rid of excessive inventory in a particular product size. I believe strongly in what we have at Titan, which is we have a strong brand and we have an extremely good distribution channel, and we're very connected to the end users. And so our overall value proposition is good as anybody in the industry. You just get a lot of moving pieces in a down market, where pricing is fluctuating all over the place. And so what we've done extremely, while in the last couple of years, is we're understanding those fluctuations real time. We have built intelligence into our organization where information is flowing on pricing and what's going on in the market on a really, really rapid basis. And so that's where I feel confident that as the market shifts, we can shift, you combine that with 80-20, where we're producing the right products, we're holding the right inventory. And so I don't think it's going to take a lot in this marketplace or in the Ag marketplace, specifically, to help drive incremental margins that are pretty positive, but you got to have volume. And I think all the competitors in our industry right now are kind of have seen the stagnant volume, and that's going to put a little pressure on pricing, obviously.

**Larry De Maria:** Understood. And thanks for that color. Last question, and then we'll hang up. The Australia business, when you talked about it, I think losing a little bit of money. What is an annual, I don't know, this year sales and EBITDA kind of look like for Australia, remind us what's in that? Is that mostly mining tire service business or is there other stuff there now?

**David Martin:** Yeah. So the mix of the business is we do wheel servicing. We actually produce and distribute wheels into the Ag sector as well as the mining sector in Australia. We also have in the last few years, taking on a tire distribution strategy, primarily, in the OTR segment over there. So that's been the mix. We're shifting back towards our wheel, and wheel servicing business as a primary part of the core business, if you will. The business is -- let's just call it from \$60 million to \$80 million in revenue, on a regular basis, and it has shrunk. And it -- I would say it's a barely positive EBITDA this year with the expectation we get back to a pretty reasonable margin going forward.

**Larry De Maria:** And is that competitor -- considered core business that's not one that's on the potential for monetization, correct?

**David Martin:** I would say our core Ag wheel business is there. I mean that is considered core for us as a company, obviously. So that would be the one thing that we want to continue to protect and grow.

**Larry De Maria:** Understood. Okay, thank you very much.

**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:** I certainly appreciate everybody's attention in joining us for the call today. And we'll look forward to talk to you again when we get year-end results. Thank you.

**David Martin:** 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 & Events. Thank you for attending today's presentation. The conference is now concluded. You may disconnect.