

**Titan International, Inc. (TWI)**  
**Transcript of Q4 2020 Earnings Call and Webcast**  
**Thursday, March 4, 2021 9:00AM ET**

***Company Participants***

*Paul Reitz - President and Chief Executive Officer*

*David Martin - Senior Vice President and Chief Financial Officer*

*Todd Shoot - Senior Vice President, Investor Relations and Treasurer*

***Conference Call Participants***

*Steve Volkmann - Jefferies*

*Steve Feranzi - Sidoti & Company*

*Larry De Maria – William Blair*

*Kirk Ludtke – Imperial Capital*

**Presentation**

**Operator:** Good morning, ladies and gentlemen, and welcome to the Titan International, Inc. Fourth Quarter 2020 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, Senior Vice President, Investor Relations and Treasurer for Titan. Mr. Shoot, the floor is yours, sir.

**Todd Shoot:** Thank you, Rocco. Good morning, and welcome everyone to our fourth quarter 2020 earnings call. On the call with me today, we also have Titan's President and CEO, Paul Reitz; and Titan's Senior Vice President and Chief Financial Officer, David Martin.

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-K, which has been filed with the Securities and Exchange Commission. 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 the forward-looking information.

Additional information concerning factors that, either individually or in the aggregate could cause actual results to differ materially from these forward-looking statements can be found within 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 SEC. In addition,

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

The earnings release, which accompanies today's call contains financial and other quantitative information to be discussed today as well as a reconciliation of the non-GAAP measures to the most comparable GAAP measures. Today's earnings release is available on the Company's website within the Investor Relations section under News & Events.

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

**Paul Reitz:** Thank you, Todd. Good morning, everybody. We're only at March 4th and this year is already looking like a completely different story, compared to 2020. Late in the fourth quarter, we started to see demands trend in a positive direction, and that's really evidenced in our Q4 results that exceeded expectations.

And 2021 has really kept on rolling and as we've seen, the U.S. farmers' sentiment and farmers' capital investment index levels spiked to all-time highs already. The \$25 billion of government payments late in 2020 certainly helped move these indexes in a favorable manner combined with of course strong commodity prices with corn hovering around \$5.50 and soybeans up above \$14.

Another significant positive indicator for 2021 is the low levels of inventory that exists in most channels, especially in the dealer networks. Therefore, our market uptick at the retail level should get that additional boost from inventory replenishment. It's definitely great to see AG moving in a positive direction in 2021 and it seems that the market upturn shared some pretty good legs on it as well.

Looking back a year ago, I don't think there is many people who thought that coronavirus would turn into a global pandemic that impacted really every country, in every facet of society. I do want to take a second and reiterate our Titan team did an excellent job working hard to continually safely operating our businesses during the pandemic and our 2020 performance positively reflects those efforts of our team around the world.

It also demonstrates the strength and resiliency of our people and our products. During times like that, those items really show, and again, it's our people and our products that make Titan unique in our industries. However, I think it's important to go a step further with those comments to give credit for how well Titan remained focused on our imperative that we really had at the beginning of the year to improve

our financial position. It was clear. We didn't enter the pandemic in a position that allowed us much room for error.

Our 2020 results clearly illustrate that Titan has strengthened our financial position and we were able to make those improvements while dealing with the onslaught of the challenges from the pandemic. I think the success of that is seen in our 2023 bonds, which have been trading around par at recent months. It also gives us an opportunity to explore the potential of a refinancing.

Now let's take a step back and look at the fourth quarter. We finished the year with a significant turnaround, especially in AG as demand for many of our customers continued to strengthen as the quarter progressed. During the quarter, our adjusted gross margin of 11.8% was the strongest margin achieved over the previous ten quarters.

Also, our adjusted EBITDA over \$17 million was our highest since the first quarter of 2019. A lot of these gains and financial performance, our continuing efforts and focus to improve our financial position, resulted in a strengthening cash position along with net debt. We delivered our sixth consecutive quarter with positive operating and free cash flow and reached levels of cash and net debt that haven't been achieved since the end of 2017.

Now as we look deeper into the business going forward, the positive trends in AG that we saw in late 2020 especially in North and South America have only increased during the first couple of months of 2021. In North America, the growth in our small AG customer base continues at a rapid pace as we've seen our customers increase orders to address the need to restock inventory on top of their already expected growth this year.

Large AG is historically a strength of Titans, as our plants and tooling are well equipped to handle the volume and complexity of SKUs related to that business. The signs are forming that suggest large AG is beginning to move in a favorable direction as well. The challenge for us, which is similar to many manufacturers these days as that coming off the lower production levels of the pandemic, the surge in demand has created a high degree of volatility for our customer base and for Titan as well.

We are dealing with the constraints in labor as we are hiring rapidly, we're dealing with raw material issues pretty much all over the map, and we're dealing with logistical challenges that pertain to shipping containers and trucking that have sprung up as of late. Titan has, and I will make this clear, Titan has a

long history of being flexible to adjust to market volatility. And we have the robust production capabilities that can meet the needs of our customers.

In order to do that, we are hiring aggressively at all of our AG and wheel and tire plants in the U.S., along with South America, and we will continue to do that throughout this year. However, there is a training curve to on-boarding people into our operations. Therefore, we need to hire systematically during the ramp-up process to mitigate our training liability as our positions do require a vigorous training program.

The flexibility and scalability in Titan's production base is a core strength, and we do expect to earn a good return on providing this to our customers during the times that we are in and currently entering deeper into. Anyone who has seen our plants, especially our real -- our tooling for our real business would understand what I'm saying. We are currently in discussions with major OEMs on long-term supply agreements that would be a win-win for both sides in today's changing world.

So now turning over to South America, we've seen the market really jump to life in Q4 and then really proceed to keep on running into 2021. Since we acquired Titan Brazil in 2010, we've consistently invested in large radio ag and OTR capacity that at the time of the acquisition was really only a small part of the portfolio. We see the rewards from those investments through the years as we've significantly grown our output in both those areas along with expanding our market share.

The reality is that this rapid increase in orders coming off the back of the pandemic means that we do have to allocate our production across our customer base. We will continue to invest in capacity and we are investing in capacity, I should say in 2021, and we'll do that through both hiring, but as capital investments as well, as we do believe the favorable volume trends that we are seeing will continue.

Now looking over at earthmoving and construction. The full year 2020 results show a drop in sales, driven by the pandemic, but I do want to state that we finished the year with fourth quarter sales really moving in a positive direction, and we continue to see those trends in the first quarter as sales in our undercarriage business have exceeded budget by over double-digits.

This is really good to see early in 2021 as our thoughts were more for growth that come later in the second half of the year when the pandemic effects on this sector start to fade away and you start to see infrastructure and development spending kick into gear.

So, these early gains in construction, mining for undercarriage really only point to an even stronger year as it progresses. Now coming back to AG, over the past five to six years, we've been in a softer AG

market that has put pressure on our pricing and margins. So these market improvements are really a welcome from a pricing perspective for Titan.

Now, when I say pricing, I'm looking at it from three angles. First, recovering your raw material cost; second, recovering other production related costs; and then third, pricing leverage. We do have some raw material agreements with key OEMs that automatically modify pricing based upon raw materials. However, I don't think I have found anyone that can recall a time when we've see steel go from \$445 a ton to \$1,200 in such a short duration and then also be in short supply as well.

So the challenge for us is that our raw material agreements don't always protect us in these rapidly changing moments, and we will work to ensure we get raw material cost recovery throughout 2021. Our agreements in North America and Europe typically only pertain to raw material fluctuations. So the next piece of our pricing strategy focuses on the recovery of other production costs related to over time shipping energy, etc.

Again, we believe this market provides us an opportunity to tack pricing beyond just raw materials to address areas of production that are also facing cost increases. The third piece of pricing that we look at is related to leverage as demand improves. We certainly feel that Titan produces valuable products and with strong production capabilities that are quite unique in our space, and we believe as the market continues to progressively improve, we should see an opportunity to approach pricing with more leverage than we've seen in recent years.

Now looking at the market again, the market is really moving in a positive direction. There is no doubt about that, but it has shifted quickly in such a short time period that it is difficult to provide a reasonable full year 2021 forecast for sales and EBITDA like we've done in prior years. Based on our strong finish in the fourth quarter and what we're seeing already in 2021, we are targeting good growth in sales, EBITDA, along with margin expansion. We intend, and we will remain diligently focused on protecting our balance sheet and realize that cash is going to be needed to fund inventory.

As noted in the pricing discussion that I referenced, the market landscape gives us opportunity to do things differently than we have in prior years, and we intend to set production schedules using payment terms as a criteria, therefore we'll be looking for customers to adjust their payment terms. So wrapping up here, I just want to conclude once again by thanking Titan's 6,000 people around the world for their continuing hard work during these challenging times, and really their determination has enabled us to improve our financial position and performance.

And most importantly, support our customers throughout the pandemic and now beyond. These efforts have enabled Titan to be in a really good position for 2021 as the markets are moving in a very positive direction.

So with that, I'd like to turn the call over to David.

**David Martin:** Thanks, Paul and good morning to everybody. I appreciate all of those who are participating in the call and those that are following Titan's progress. Wow! My how times have changed in a flash. While we're still very much in an uncertain time and while the pandemic and other global volatility and economic uncertainty continues, Titan's world is changing rapidly.

Our response to the crisis last year was critical as we now head into the recovery that is upon us. I'll focus most of my discussion today on the fourth quarter performance, but what is important and what we accomplished in the quarter and for the year puts us in a stronger position as we manage 2021 and beyond.

First, our cash position ended \$117 million for the year, up \$51 million from last year-end and we accomplished this through strong operating cash flow in Q4 and for the full year, along with our efforts to secure liquidity through non-core asset sales and related transaction. Operating cash flow for the fourth quarter was \$10 million, which pushed full-year operating cash flow to \$57 million. As anticipated, we completed further transactions in non-core -- of non-core assets of \$16 million in Q4 and for the full year, it's up \$53 million.

Second, related to the cash improvement, our net debt position at the end of the year was \$347 million, down from \$366 million at the end of last quarter and \$433 million at the end of last year. As we stated in the release, we haven't seen this level since 2017. Third, we took another important step forward last week with the extension of our domestic ABL facility. This facility now has runway for two more years and are now closer to maturity on our overall debt structure.

So there are several other takeaways from our P&L performance for the fourth quarter that I want to pay attention to. And normally our fourth quarter is traditionally or seasonally a low quarter, but this year was not normal. We had quarter-over-quarter and sequential sales growth in both AG and EMC. Second, we also continued our strong adjusted gross margin trend with 11.8% for the quarter, best margin performance, we've seen in ten quarters.

Before I head into this normal review of sales, gross profit and SG&A, I want to get into some of the non-operating items that occurred in the fourth quarter. During Q4, we recorded impairments related to two sets of long-term asset categories for a portion of our smaller operations. First, we broke down certain equipment to fair value related to our entire recycling operations in Canada and this resulted in a charge of \$11.2 million.

Secondly, we wrote off intangible assets related to our customer relationships from our acquisition of the Australian operation many years ago and it resulted in a charge of \$6 million. Both of these resulted from recent trends and market conditions, triggering a review of our fair value of our long-term assets, specifically into these businesses. In October, we sold our facility in Brownsville, Texas garnering net proceeds of approximately \$11 million and a gain on sale of \$4.9 million.

And finally, in November we received further recovery related to an insurance claim from the fire in our Canadian Tire recycling operation from 2017 of \$3.6 million. Now, each of these items were included in our reconciliation of our non-GAAP financial measures in the earnings release. From here forward, I will review the results of the fourth quarter and for the full year excluding these items, and the other unusual and non-operational transaction that occurred during the year.

Net sales for the fourth quarter were up over 8% from Q4 2019 representing a nice turnaround in a year where we saw an overall decrease in sales of 13%. As the fourth quarter progressed, the stronger operations became -- particularly as our OE customers began increasing production and demand for our product. What is even more impressive is on a constant currency basis, total sales would have been up nearly 15% from Q4 last year or \$45 million. The negative currency impact was approximately \$19 million or 6% with most of the impact coming in Latin America and Russia, as we saw throughout 2020.

Our overall sales volume on a consolidated basis was up over 20% from last year and price and mix in the fourth quarter was down about 6%, mostly reflecting lower raw material costs and related material pricing mechanisms with our OE customers, consolidated net sales in the agriculture segment improved by 15% in the fourth quarter, with growth coming from all parts of the world.

On a constant currency basis, agricultural sales were -- would have been up 25% in Q4, led by North America, Latin America and Europe. For the full year, the agricultural segment experienced growth on a constant currency basis of 4% on the healthy turnaround in the second half of the year. These trends are accelerating as we progress into 2021.

The EMC segment saw a nice turnaround in the quarter, in what was a soft year for the market. During Q4, the EMC segment showed growth of 4.5% on a reported basis and on a constant currency basis, it grew by over 6%. The largest driver of the rebound came from ITM, our undercarriage business as construction markets in Asia and parts of Europe began to wake up from the effects of the pandemic.

To say that we're seeing a recovery in the global construction markets may be premature, but our order decks for the businesses are stronger than they were three, six and even nine months ago across the global business.

Our overall North American sales were up over 6% relative to last year, all of this growth coming from agriculture, while the EMC segment was down slightly reflecting a slower recovery. Our aftermarket tire sales, in North America in Q4, were up relative to the prior year and for the full year were slightly better than full year 2019 levels.

Our Latin America operations have seen a sharp turn upward in the market in recent months. Our aftermarket business was resilient throughout the pandemic but our OE sales rebounded sharply in Q4. Reported sales for Latin America in Q4 were up almost 16% while on a constant currency basis, sales would have increased by over 41%.

Our gross margin performance in the segment continued to be important driver overall, I should say for our financial improvement and our stability in 2020. Adjusted gross profit for the fourth quarter was \$38 million versus \$18 million in the fourth quarter of 2019, representing a 110% improvement.

Our adjusted gross profit margin in the fourth quarter was 11.8% versus only 6% last year. And this performance was the best of any quarters since Q2 2018. We continue to manage our factory overhead costs aggressively during the fourth quarter as sales have trended more strongly, we have necessarily calibrated our labor force to meet rising demand while it has been more challenging given certain marketplace constraints and the surge of demand that we've seen in recent months.

We have plans in place to grow our production levels up to meet with what we see from our customer forecast and our current order deck. It is important to note that in recent months, raw materials have risen sharply across all market sectors from the more favorable cost that we saw in 2020, and as Paul indicated earlier, we're putting through corresponding price increases to customers to reflect these increases along with other rising costs including labor and shipping costs.



We are responding to the significant forces in the market that are moving very rapidly and we're working carefully to calibrate all our actions.

Now, let's go through segment performance. Our agricultural segment net sales were up \$21.5 million or 15.3% from Q4 2019. Currency translation was significant in the fourth quarter and affected sales by 9.4%, particularly in Latin America and to a lesser extent the Russia.

Volume in this segment was up 32% while we had a decline in pricing of 7.6%, relating primarily to lower raw material costs. Our aftermarket sales have continued to be strong, while the big driver was the turnaround in OE sales during the Q4, particularly late in the period. Overall Ag sales in North America were up 16%, our Russia AG sales were up somewhat from a year ago, and on a constant currency basis.

And our European AG sales were up almost 30% from Q4 2019. Reported AG sales in Latin America were up 22% from last year, and while on a constant currency basis, they were up 47%. Once again, the weak Reai distorts the real contribution of Latin American business, again the AG markets have shown resilience throughout 2020 through the challenging times earlier in the year and now we're in totally different volume with solid tailwinds across the markets.

The agricultural segment's adjusted gross profit for the fourth quarter was \$21 million, up from \$9.2 million a year ago, representing a 127% increase. The gross profit margins in Q4 were 13% for AG, which was a significant improvement from the margin we saw in Q4 2019 of 6.6%. This was the strongest margin quarter since Q3 of 2018 for our AG segment.

We discussed it last quarter as well, but we have seen improvements in plant efficiencies from our strong internal actions along with raw material costs enabling this improvement. A key component of this improvement came from our North America wheel operations as we continue to improve performance after significant headwinds that existed in 2019 surrounding raw material and inventory management.

The trends have been increasingly stronger throughout 2020 as the new management team's actions and operational strategy began to take hold. Similar to Q3 2020 performance, each of our geographic businesses experienced expansion of gross profit and margins in the fourth quarter compared to the prior year. Our Earthmoving and Construction segment rebounded in the fourth quarter after seeing the most impact earlier in the year from the economic downturns and the construction market volatility.

Overall, the EMC segment experienced an increase in net sales in Q4 of \$6 million or 4.5% from last year, and on currency -- constant currency basis, net sales was an increase by 6.3% versus a year ago,

which meant that currency was only a minor impact of 1.8% for the quarter. Volume was up in the EMC segment by a 11% while the impact of price and mix was negative at 4.6%.

North America experienced a small decline in Q4, reflecting a slower market recovery than other parts of the world. ITM's undercarriage business saw an increase in EMC sales by almost 12% from the fourth quarter of last year. Now, on a constant currency basis, the increase was almost 14%.

Again, global construction markets are only beginning to wake up, and while the order books are steadily improving, we believe that there will be a stronger recovery in the latter part of 2021 and beyond.

Adjusted gross profit within the EMC segment for the fourth quarter was \$14 million representing an improvement of \$6.9 million or 109% from Q4 2019. The entirety of the TTRC impairment of \$11.2 million was recorded in this segment in the fourth quarter.

The adjusted gross profit margin in the EMC segment was 10.4% versus 5.2% of last year. And this was the best quarterly performance in over a year. Again, the largest driver of the increased profitability came on the increase in sales in the ITM undercarriage business, while there were also increases seen in Australia and Latin America.

Consumer segments, Q4 sales were down 7.7% from last year. The negative impact from currency translation was 13%. So volume increased by 8% and price and mix was down by almost 3%. The rebound in the business in the fourth quarter, primarily related to the Latin America utility truck segment as the markets began to fall out after the pandemic effects.

This recent rebound is expected to continue in 2021. This segments gross profit for the fourth quarter was \$3.2 million, a healthy improvement from Q4 2019 and gross margins were 11.5%, which was an improvement from 7.6% in the fourth quarter of last year, reflecting improved production efficiencies from the increased volume.

Selling, General and Administrative and R&D expenses for the fourth quarter were \$39.3 million, but this includes \$6 million in impairment charges related to the Australian customer relationships I described earlier. Excluding this, we spent about \$33 million in the quarter, which was a bit higher than our Q3 level.

Costs related to investments improving our supply chain and logistics processes totaled approximately \$1.3 million in the quarter. We will have approximately the same amount of investment in Q1 '21 and we

anticipate that this will drive savings in future quarters on a sustainable basis, well in excess of these investments.

For the full year, excluding the unusual charges in 2020 of \$11 million, our SG&A and R&D costs were \$129 million coming in below the low end of our range of expectation about \$130 million to \$135 million. Foreign currency revaluation was less of a factor on the results in Q4 and a \$1.3 million loss in fourth -- but for the full year, the total negative impact from foreign exchange revaluation totaled \$11 million compared to a gain of \$4 million in 2019.

We recorded tax expenses in the quarter of \$4.6 million on a pre-tax loss of \$14.9 million during the fourth quarter. For the full year, tax expense was \$6.9 million on a pre-tax loss of \$58 million. There were additional tax expenses recorded in Q4 related to the growth in income from our foreign operations during the latter part of the year.

Now let's talk of Q4 and fiscal 2020 cash flow. I realize that I'm beating the cash flow drum a lot lately, but it was one of the most paramount actions to take at Titan during 2020 and we achieved the targets we set out at the beginning and perhaps a bit more. Again cash improved another \$18.5 million in Q4 versus Q3 and for the year it improved by almost \$51 million. This has put us much in a more stabilized position to manage the business, particularly as the markets recover as we've only begun to see in Q4.

Cash levels were the strongest since early 2018 coming from stronger operating cash flow and cash generated from non-core operations and related transaction as I stated earlier. We generated approximately \$57 million in operating cash flow for the full year of 2020, a strong improvement over 2019, and again this came from our focus on working capital management.

Obviously, it was important to manage our inventories in a year of declining sales. With the Company back to strong operating cash flow and those non-core transactions, we generated \$89 million of free cash flow for 2020. I continue to have confidence in our ability to manage cash levels from focus on working capital in 2021, and that will come from improved, continued improvements in our inventory management across the business.

We have strong focus with our operating teams to manage inventory very closely, and we collectively know that there is a balance between managing lack of long-term visibility of our customer demand. Very healthy increases in sales are expected in 2021, and I do expect inventories to rise, but at a healthy ratio in

sales. We continue to improve our forecasting processes to manage demand within our production systems and expect to get better, even as we progressed through 2021.

Capital expenditures for the fourth quarter were \$8.3 million, which was more in line with our quarterly historical levels for capital spending. As normal, we put through maintenance spending and other investments to foster efficient operations. For the full year of 2020, we've spent nearly \$22 million on CapEx, again reflecting the needs to control our investments in amid the pandemic. This compares to \$36 million spent in 2019.

We anticipate spending to increase in 2021 to roughly \$35 million to \$40 million, but we will carefully calibrate these investments to work closely with our cash flow from operations through the year. I want to stress the fact that while we trimmed our investments, we in no way cut the necessary investments to keep us in front of the innovations to maintain and increase our market leadership.

We are in a strong position with our capital program for 2021 to do this as well. Our overall debt level at the end of the year was in a stable position relative to the end of the third quarter and while for the year debt declined by \$35 million from the end of 2019. As of the end of the year, there were no borrowings on the domestic ABL credit line because of the continued, because of the strong operating cash flow and results from the non-core asset sales during the first nine months of the year.

Short-term debt at the end of December was \$31 million, which is down over \$30 million since last year end. This decline is primarily due to repayments of our normal maturities of loan arrangements in certain of our foreign operations, primarily Russia and Europe.

A portion of this decline also relates to extending loans on favorable terms in Latin America, in response to liquidity initiatives during the pandemic, earlier in the year. The vast majority of our current maturities at the end of 2020 relate to foreign credit facilities and term loans, which will likely get rolled over and extended as needed in the coming year.

Just to restate, we took an important step last week to further secure our liquidity in the future with the extension of our domestic ABL facility. The maturity is now February of 2023. We have the flexibility to manage our U.S. and our corporate operations after freeing up borrowing capacity of the domestic credit facility and increasing our cash reserves to a certain extent in Q4.

At the end of December, the borrowing capacity, when you take away the letters of credit and adjusting for the borrowing base calculations of AR and inventory was at \$51 million on the ABL line. We also

anticipate some letters of credits to expire in the first half of the year, which could free up an additional \$8 million to \$13 million in capacity. We also anticipate additional capacity coming on as our borrowing base grows with the business activity.

Our 2020 was a repositioning year for Titan and it was critical to take the swift and decisive actions in the midst of the pandemic, as the world has turned back on our improved and stabilized liquidity position enables us to have the flexibility to manage our business. We are staying focused on managing our working capital this year as well. The real job is ahead of us as we managed growth in the business. We have to keep a relentless focus on what has gotten us here.

Last thing I want to discuss relates to our bonds. The confidence in our Titan's financial position has improved and our markets have gotten better. We are now in a stronger position to review our options for refinancing in a more reasonable fashion. In the days ahead, we'll be actively reviewing the opportunities there in front of us for potential refinancing. And that concludes my remarks today.

So, I'll turn it over back to the operator for any questions you may have.

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

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] Today's first question comes from Steve Volkmann with Jefferies. Please go ahead.

**Steve Volkmann:** So sounds like things there are definitely sort of -- gears are switching here, I guess that's good. Maybe my first question, maybe this is a Paul question, a big picture question. Most of your OE customers have now kind of gotten to the point where they are able to provide us some thoughts around volumes and profitability in 2021. What's different about you guys that you still can't do that?

**Paul Reitz:** Well, I think what's different, Steve is, we touched a lot of different markets with really three different core products, and so there is a different response that would be -- and different response or different movements going on in the market as we sit here today. You look at where we were at the end of December, what we thought was going to be a pretty good forecast for Q1, we're exceeding that quite rapidly.

And so, the challenge for us is that we see the market trend, we know they're there, they're going in a good direction, we are hiring as fast as we can. We are also seeing indications in the market, Steve, and I kind of talked about it in my comments with certain customers where the inventory replenishment cycle is not necessarily what you see in some of the numbers they're putting out in their forecast.

And so, there are some discrepancies in forecasts that we get or orders that we're getting that exceed what is out there in the market. And so, we are adjusting our -- as I said in our comments, we're adjusting our allocation, we're hiring, we are moving rapidly. And so, it's just really difficult to pinpoint exactly where those order levels are going to be across all our different geographies and market products that we produce, but also just with the amount of labor that we're going to have available.

Quite frankly, in South America, you just can't bring on enough people fast enough to meet all the demand that's there, and similarly in certain situations as well in North America. So, we are working on building a better forecast and getting more visibility to the year. But right now it's moving rapidly and it's moving rapidly in a good direction.

**David Martin:** Just to restate that in a way that we're forecasting almost every couple of weeks and the forecasts are improving, I will say that, and I didn't want to get us into a position where we liking something and we have to change it pretty rapidly as we get out of Q1. And these things are all moving in a positive direction, and I'm not going to say it's a negative direction in any way. So, we will come out of Q1 and probably have better clarity about where the year will be, and we can talk to you again about it then.

**Steve Volkmann:** So, let's leave the volume aside and assume that that is going to be better, but a little bit unforecastable, but it sounded Paul like in your commentary that there were a number of potential headwinds on profitability and you talked about price cost, you talked about labor availability, it sounds like you're actually trying to capacity constraint from what you're describing, but that it would take some time to get new people sort of ramped up. So maybe the right way to ask it is, I'll make my own forecast for volume, but how should I be thinking about incremental margins?

**Paul Reitz:** Well, my comments about pricing are in a positive manner related to where the market is moving. Pricing is complicated, Steve you know, because of steel going from \$445 to \$1,200 because of volatility with other costs related to production areas, trucking, etc. And so, pricing is complicated, so my comments were, we are adjusting pricing for raw materials, but also then looking at adjusting pricing for other production costs. And then on top of it where -- to what you just noted, where demand exceeds capacity in the marketplace, then thirdly adjusting pricing to leverage where the market sits. And so, again kind of tying back to your question about forecasting, there is a lot of moving pieces. They are favorable. I mean, sitting here at any point in the last few years, just that first phase of pricing recovery raw material costs, at times could be a challenge and we've referenced that in prior year's comments.

What I'm saying is, we are going to recover raw material costs in 2021. But if you look at some of the price increases we've had to introduce in Q1 for steel again going from \$445 to \$1,200, you're talking very sizable price increases.

So again, it makes it difficult to pinpoint exactly where your incremental margins are going to be with all those moving pieces, but I think the point that David and I are really illustrating is that they are moving in a very positive direction, better than we had expected when we're putting together our own internal forecast and plans for 2021 in mid-December.

We know, and we believe we will manage all those pieces successfully because of the market strength. But I can't sit here and tell you today that there is not a tremendous amount of work that's going on at Titan to manage all these variables to hire people, train them, meet the demand, so again, just makes it difficult to pinpoint exactly where it's going to fall. Those are all positive things, but challenges that we need to overcome.

**Steve Volkmann:** So last time we saw a spike in commodity prices, there was some timing issues on your side in terms of when you could pass them through and how much inventory you were working off, etc., is there any scenario where we have a quarter that has like down margin quarter because we're sort of absorbing some of the stuff before we get the price increases through or is that kind of what you're flagging for us, or would we expect margin improvement each quarter?

**David Martin:** I think there could be certainly a -- certain quarterly variations to these things. But just marginally off of that, I don't expect to see significant swings in margin, because I do believe we have carefully calibrated how we go to our customers and get more swift reaction to pricing versus where in the past mechanisms may not allow for us of that because we are very unprecedented time with the rapid recovery in the market.

So we're going to move much quicker with respect to decisions and actions that we have to take. And if you look at our Q4 results, let's just look at that for a second, 11.8% is a good barometer for where we're going to calibrate around in terms of -- we should get incremental margins as volume increases, and there may be some variations from that related to pricing in a given quarter. But overall the trend will be positive.

**Operator:** And our next question today comes from Steve Ferazani with Sidoti. Please go ahead.

**Steve Ferazani:** Hi, good morning everyone. I'm just trying to get -- obviously surprised about the strength in Earthmoving and Construction, trying to see if you could provide a little bit more detail and color in terms of where the strength was for end markets and geography? And just sort of where do you see that going?

**Paul Reitz:** Yes. We're seeing it come out of certain segments in Europe where they're getting ahead of putting more spending into the marketplace than we see here in North America. We're seeing strength coming out of China. And again, I think both David and I said it, we expected that strength more in the back half of the year, certainly as infrastructure builds kicked into gear and even here in North America we still plan on second half of the year to be moving in a much better direction. But I think what surprised us is it's early already both coming out of the gate in January and February already, again we put together what we thought was a really good forecast in December and were double-digits above that forecast.

So it's moving in a very positive direction. I think we're seeing it in a couple of key areas, but as we move into the back half of the year it'll become more broad based. And we certainly feel that, that momentum in the first half of the year is just really a good sign for the second half of the year, so. To answer your question kind of primarily Europe and Asia right now, out of the gate is where we're seeing that exceeding budget. Really out of our ITM business just to be clear with you, when we talk about Earthmoving and construction, it's really our undercarriage business that I'm referencing.

**Steve Ferazani:** So in terms of ITM, you're obviously seriously explored or closed on options for that, or for the market downturn. Is it too early to reconsider those options?

**Paul Reitz:** Yes. I think that's a fair statement. I mean, we're sitting here in early March, and it's definitely positive where that business is going. We've always believed in the core strength that ITM has in the marketplace. They've build great high quality products with a strong brand. We've been expanding their aftermarket presence through a number of efforts over the last few years. And so Steve, to really answer that question, I think the cards are moving in a positive direction for what ITM is capable of doing in a good market and we're in a good position to sit back now and really reap those benefits.

So really no thoughts at all right now of how we would position in the marketplace like we have in the past of seeing if there is any potential interest. It's a good quality business. It's a core business for us. And again it is moments like this where you really see the value of ITM, or how quickly when the market is starting to turn, how quickly they can go and grab that share of the market and really turn it into the sales quite rapidly, so now looking forward to a really good year out of undercarriage.



**Steve Ferazani:** And then I know you both mentioned potential for debt refinancing early. At this point given your improving cash flow profile and improving industry fundamentals, are you engaging with your credit rating agencies at all? I would think an improvement there could be to refinancing that much more positive.

**David Martin:** We have regular discussions with the credit agencies every quarter and those will continue for sure. And that's certainly part and parcel to the entire process of going out there.

**Steve Ferazani:** And then last one would just be on low sidewall, given that if we're going into a replacement cycle for AG, is this the time for seeing more market share in terms of new equipment used in low sidewall and what's your success rate you're seeing there, potentially granting that new replacement cycle?

**Paul Reitz:** Absolutely, it's always a good time for low sidewall, Steve, the benefits it brings to the marketplace have proven themselves. Our aftermarket business in North and South America has done very well over the last four or five years. As you illustrated, I think the opportunity is to continue to get more low sidewall placements, will only grow as farmer income goes up. The ability to look at the premium products just only enhances. And then the next frontier for us as well is getting more low sidewall out of South America. You know, those farms out there are massive and our low sidewall penetration in South America has got a lot of opportunity in the future.

So I think we got to take a lot of what we learned in North America and it does take some time. I can't sit here and tell you these -- turn the switch on and you go sell low sidewall a couple of months later. But I do look forward to what we can do in South America with those sidewalls as well, so a very small presence right now. And again I think as farmer income goes up and the markets really moving a good direction, it's a good time to go try to chase more share of the South American market, but North America great time to low sidewall, absolutely.

**Operator:** And our next question today comes from Larry De Maria with William Blair. Please go ahead.

**Larry De Maria:** Thanks, good morning everybody. First I just wanted to clarify ITM is now considered core and we're not considering any alternatives including a listing, is that a done decision than listings off the table, etc. And we should just assume ITM stays part of Titan for a long time now?

**Paul Reitz:** Yes, that's been off the table for over a year and a half.

**Larry De Maria:** Well, it's been off the table, but it's been on-again, off-again and now the market is better, so it's in a better valuation standpoint, which is what we are waiting for and for waiting for that now is the time. So think about, but you're saying obviously it's -- it's core. Okay, can you talk about --

**Paul Reitz:** It's a really good business. We pulled the listing as we said over a year and a half ago where we started to go with the Board in the future is the value of the business goes up if not all the table right now here today, what's here today is it's a really good business that's performing well. That's really what we've been emphasizing for a period of time. I don't think we've talked publicly about another listing with ITM for quite a while.

**Larry De Maria:** No, I agree. I just thought we're waiting for better market environment to reconsider that, which obviously we're in now. But can you guys talk about the possible debt refi timing for rates that are available to you guys and how you're thinking about that debt refinance?

**David Martin:** Larry, I'd say it's premature to even talk about that, given we're kind of just coming off the year and now we're obviously have some good momentum in front of us in the expectations for the year. We'll have these discussions at the appropriate times with our advisors, and look at the market and we'll know, obviously know in the coming days what that would look like. It's a little early to say.

**Larry De Maria:** Okay, thanks. And then last question, in order that the dealer channel short -- and obviously you are going to refill that, but obviously OEMs are still strong. So the question is, can you fill the OEM demand that you made to your customers or you had to divert some of that aftermarket, and maybe you could talk about what mix was between OEM and aftermarket in 2020 and what that looks like in 2021?

**Paul Reitz:** Yes. I mean our goal as a Company is to keep that split very consistent from '19 to '20 and '20 to '21. Clearly demand is accelerating in all areas, especially the OEM, the aftermarket is moving strongly as well. So, our work and our job and what we've been doing aggressively every day is how we allocate our production and how we allocate our labor constraints across that production portfolio.

Now, what we are doing is hiring and training rapidly, very aggressively. So my comments were only to illustrate that in our business, if you need 60 people, you don't go hire 60 people and bring them in on Monday as actually our production levels would go down for about the next three months. So really what I'm trying to illustrate is if you need 60 people, you have to bring them in systematically, train them, get them off the speed and then bring in some more.

It's the nature of business, we build complicated products, and so it's true within our industry across the Board. Us being a public Company, we talk about it more, obviously openly in the marketplace. But it's a good thing. It's not a bad thing. If you could just go hire 100 people and move to switch all over the place that it kind of devalues our products.

And so, from my perspective, it adds value to our products, there is a way you have to bring people in and train them and that's what we've been doing. So it's a lot of work, we're getting there. But during that time period where you're hiring and training, you are going to have to make some allocation decisions. And so, we're trying to make those allocation decisions to answer your question is to remain very consistent with how we've done in prior years.

And then from there, as I said in my comments as well, we're pursuing opportunities to make it a win-win relationship with an OEM where if they want to pursue more allocation, then those opportunities are available through a win-win scenario for both the customer and for Titan. Clearly in the last four or five years when the market is down, you're not in that position where you have available capacity, whether it be labor or production available at all times. That's not the market we're in right now in North or South America.

And so, I do think those -- again, those are all positives, and I welcome those discussions and we're having those discussions with the OEMs of how we can allocate our product potentially differently, but in the broad sense, the aftermarket is a great business for us. We have strong brands, good distribution channels, we got to honor those dealers and make sure they have product as well.

**Larry De Maria:** Okay, I get it. You're in a much better position and as you're ramping. I guess, but the question really is, are you in position to satisfy the OE demand as the companies that have publicly given their guidance have given? Can you satisfy that demand this year? Or is that, do you have to really build to that? In other words, we're going to have a problem already in 1Q satisfying that demand, which you have strong sales, but obviously won't flow through all the way, and there'll be supply chains in the industry issues.

**Paul Reitz:** Well, I think everybody in the industry is facing supply chain constraints of some sort. Again in our industry specifically, when you look at where we were in December, so what both David and I said about what we are forecasting where we are today, it's moving better than we expected. Let's take Brazil, for example, David said fourth quarter was up over 40%. It's moving even stronger now in the first part of this quarter. The reality is, Larry, you can't go from the tails of the pandemic where you have reduced

head count to that type of growth in three months. I think that's the part that's getting overlooked is that the surge in demand is about three months old.

So we -- and that's part of the reason why we curtailed our forecast, because we see the demand is growing. We will by the end of the year be able to meet that demand. Are you going to have hiccups as you move along through that stages? Absolutely. We don't -- our plants don't go from zero to 120 miles an hour that fast. We will get to 120 miles an hour. We will be capable of running that fast, we're just not going to be there that quickly coming off the end of a pandemic.

I think that's the key that -- Brazil still has a pandemic, sitting here in North America, we're starting to feel it fade away. Again, I want to -- I don't want to make that comment, it's a broad comment, not specific. Brazil still has the pandemic, if you look at their hospitalization, what's going on there. So yes, there is a lot of things you got to manage. It's all positive, but are you guys having hiccups in the first quarter, as you are ramping up hiring, and you're not going to be able to meet all the demand? Absolutely, there'll be carryover demand from the first quarter into the second.

**Operator:** And your next question comes from Kirk Ludtke with Imperial Capital. Please go ahead.

**Kirk Ludtke:** Great. Well, thank you for the call, and for squeezing my question in. It sounds like we're headed in the right direction, but as you said, a lot of moving pieces, maybe stepping back for a second, Titan generated over \$100 million of EBITDA as recently as 2018. Just putting steel and staffing cost aside for a second, how would you compare the overall demand of our environment now versus then, and how much structural cost do you think you've taken out between 2018 and now?

**Paul Reitz:** Well, I think, as we sit here now, the surge in demand is much better than what we saw in 2018. Now looking at it from a broader perspective, we are still at what I would say below, kind of mid-cycle. So there is plenty of room to run, and I think that's what we're all looking forward to, as the year progresses. Is that you kind of buzz through those mid cycle levels and keep expanding. I mean, as much as Brazil has surged in the last three, four months, it's still 45% below where it was running six, seven years ago. And I mean, Brazil's agriculture market not Titan. So I think the opportunities are definitely there.

And so I think what is going on now is the surge very quickly, again, very positive and I think if you take that and extrapolate through the rest of the year, then you start buzzing through some mid cycle levels and you get some pretty long tails on it, where with the government incentives, the strength of commodity

prices, the low level of the dealer inventory that now you're looking into an opportunity for the market to run favorable for not just the first half of this year. But you're looking at a couple of multiple two, three year run on this if you just take all those factors combined. So I think it's dealing with the surge now, and then extrapolating that into the future, that's really positive.

**Kirk Ludtke:** Great, that's helpful. And on the cost side, is there a -- ballpark, how much you've taken out in terms of structural cost over the last couple of years?

**David Martin:** There is a lot of moving parts to that situation obviously replacing unfavorable with favorable things that we do within our plants and everything. But I would say it's pretty close to \$20 million between SG&A cost that we've taken out as well as some of the costs in some of our operations, both domestically and internationally, it's at least that.

**Kirk Ludtke:** Got it. Thank you. And on the steel side, how far out can you lock in or are you locking in steel?

**David Martin:** Yes. So, if you're looking at, just steel, it did vary by location and operation on domestic basis where we're locking in where we are with -- there is a lead lag on the contracts, if you will, in terms of how pricing versus locking in volume goes in -- it's a quarter.

**Kirk Ludtke:** Okay. And in terms of -- and the last one, in terms of your orders, how far out are you booked? I mean what month are you taking orders for at this point? I suspect it varies by business, but can you give us some sense for that?

**Paul Reitz:** It does vary so much by business and all of our businesses have different lead times. We are booked very solid. I'll just kind of leave it there. I know it's a very generic answer to specific question, but we're booked very solid. We're looking at aggressively again how we're going to ramp up to take on higher production levels, but we are allocating product right now. I can't sit here today and tell you we're not.

**Operator:** And ladies and gentleman, this concludes our question-and-answer session. I'd like to turn the conference back over to Ms. Reitz for any closing remarks.

**Paul Reitz:** I just want to thank everybody for their attention and time today and look forward to talking again in the future.

Thank you.

**Operator:** And thank you, sir. Please note that a webcast replay of this presentation will be available soon within the Investor Relations section on our website under News & Events.

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