

**Titan International, Inc. (TWI)**  
**Transcript of Q4 2021 Earnings Call and Webcast**  
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***Company Participants***

*Todd Shoot - Senior Vice President, Investor Relations and Treasurer*  
*Paul G. Reitz - President and Chief Executive Officer*  
*David A. Martin - Senior Vice President and Chief Financial Officer*

***Conference Call Participants***

*Steve Feranzi - Sidoti & Company*  
*Komal Patel - Goldman Sachs*  
*Kirk Ludtke - Imperial Capital*  
*DeForest Hinman - Walthausen & Co.*  
*Alex Blanton - Clear Harbor Asset Management*  
*Jack Voigt - Balyasny Asset Management*

**Presentation**

**Operator:** Good morning, ladies and gentlemen. And welcome to the Titan International, Inc. Fourth Quarter 2021 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 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.

**Todd Shoot:** Thank you, Victoria. Good morning and welcome everyone to our fourth quarter 2021 earnings call. On the call today, we also have Titan's President and CEO, Paul Reitz; and Titan's Senior Vice President and CFO, David Martin.

I will begin with a reminder that the results we are about to review were presented in the earnings release issued yesterday along with our Form 10-K, which has also been 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 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 the 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, the reconciliation of the non-GAAP measures to the most comparable GAAP measures. The Q4 earnings release is available on the company's website within the Investor Relations section under News and Events.

Please note, today's call is being recorded. A replay of this presentation will be available soon after the call within the Investor Relations section on the company's website. A copy of today's call transcript will also be made available on our Investor Relations website. In addition, our latest quarterly investor presentation is available on our website.

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

**Paul Reitz:** Thanks, Todd. Good morning, everyone. Titan had a great finish to the year with our fourth quarter to what adds up to be tremendous 2021 for us. The days really go by fast as we are already sitting here into March and we see numerous positive aspects our business lining up well for 2022 and beyond that. I really want to comment though that I am very pleased with what our Titan team has accomplished over the past couple of years and those efforts have put us in a good position as we head into 2022. Today I'd like to share some thoughts on markets and our expectations for this year. But before that I do want quickly want to go over a few financial highlights from 2021 and David will of course dive in deeper to the financials and cover that from all angles.

So as we look at the year, we grew our sales over \$520 million, with a solid \$120 million that or 23% of that flowing into operating income gains, that led to our 2021 adjusted EBITDA growing 2.5 times over 2020 to \$135 million.

It's only happened one other time in Titan history that we have had sequential sales growth each quarter throughout the year, but that is exactly what occurred this year. I also want to note that our fourth quarter gross margin percentage was 300-basis-point higher than our Q4 average over the past 10 years.

David will share more financial information later. But as I said, I am very pleased with what type has accomplished in 2021. But what's more important is that we feel well positioned going into 2022 to keep riding that tsunami tidal wave that's out there. In the world of agriculture, which is our breadbasket comprising 53% of our sales, we believe the market forces are aligning well to create momentum driving a multiyear strong demand cycle. Some items to note, farmer income and balance sheets around the world are looking good from higher commodity prices, prior crop yields had been strong, and government's support programs have been very accommodating. These forces will continue to pull through strong demand along with the fact that dealer used a new equipment. Inventories are at or near all-time lows. Also let throw in there, there is a continuing momentum from a replacement cycle that still has legs as North America large AG volume remains approximately 15% below historical average even after the recent growth. You start looking at future crop prices. The weather conditions in South America are helping to keep prices at higher levels. It's placing increased demand our U.S. grains where reserves are light to start the year. The point being, of all this, there are clearly a good number of positive forces in the AG sector. For example, at the National Farm Show just a couple of weeks ago, the comments I heard from management teams in particular our small AG customers where they see current demand and future forecast was really nothing but positive. So sitting here today Titan's AG order books are strong and we are continuing to pursue increases to our head count and our capacity to meet this demand.

So looking further down the road, it doesn't appear that 2022 OEM production levels are going to put much of a dent in the low inventories -- low deal inventories. So if you are looking at 2023 really before you are going to start getting meaningful inventory replenishment that could start taking place. Plus on top of that I think you will see unmet 2022 retail demand that's going to carry forward into 2023 as well. It does appear that positive AG weight is going to keep flowing a multiyear cycle.

So moving from farm over to Earthmoving and Construction where our undercarriage business is a major global player. We continue to see demand orders that are really good levels. We stated last quarter and still believe that our EMC segment continues to look promising as you had the expected infrastructure investments kicking into gear really this year. More likely than not, you are going to see more of that continue to flow into next year as well, that will just add further support to the current strong demand levels that we see.

On a global basis Titan was able to be there for our customers in 2021. We have increased our output with our global production footprint, but I want to remind everybody it is the best and largest in the off-road yield tire and undercarriage industry. I believe that with our production capabilities and our quality products along with the innovation that we continue to drive it in the marketplace that we are prepared to serve our global customer base well in 2022 and beyond. As companies look at further de risk their supply chains, Titan is definitely better suited in the competition to meet our customers' needs.

We understand that in today's world, there are questions surrounding global volatility and uncertainty for material prices to supply chain, labor challenges global logistics and then the recent events in Ukraine. As we have noted before and you see evidenced in our 2021 results, Titan is accustomed to solving problems in overcoming challenges and we have proven that. We have a strong focus within our management team to meet our customer expectations, along with solid pricing and cost discipline, and innovative products that will drive further margin and profitability improvements.

It's been great to see how our company has taken strong actions and really come a long way in improving our balance sheet in recent years, as obviously crucial to protecting the heartbeat of future of Titan. As I have stated before, during that period, we have continued to invest our CapEx wisely to drive innovative products into the marketplace and increase our capacity, we are really it's needed in our core businesses and it fits with our long-term strategy. That fact combined with our large global production footprint and the capacity that we have put Titan in a position of strength within our industries and really makes us well suited to meet our customers' needs for the foreseeable future. I also want to add a comment in there that, in recent years we have improved and removed businesses and product lines that were a drag on our financial results. And along with increasing our portfolio of innovative products, we have streamlined our product portfolio to remove certain SKU's and improve our operational efficiencies. All of these facts illustrate our capabilities and our future potential, but really what speak the loudest is our result of this quarter and really for all of 2021 for that matter. That demonstrates that the Titan team has been successful in managing through a dynamic business environment and that we are well prepared for 2022 and beyond.

Titan has built a good foundation for the future and we have put an operating plan in place to deliver another good financial performance in 2022, with sales over \$2 billion, which is 14% over 2021 and adjusted EBITDA around \$175 million or up \$40 million or 30% if you look at it that way.

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

**David Martin:** Thanks, Paul, and good morning to everybody on the call today. The fourth quarter concluded very strongly and it capped off a year that we at Titan will all remember. In the midst of unprecedented volatility, we have set a course towards a bright future for the organization as a result of our collective decisions that we made in 2021 and even prior. There are many foundational pieces that we established that will bear fruit for the years to come and our 2021 results are just the start.

As usual, I will begin with the major highlights for the quarter and the year.

For the fourth quarter we had a six quarter in a row of sequential sales growth. This doesn't happen by accident, as we put everything together to deliver increased production with our labor and our supply chain.

Net sales grew 8% sequentially from Q3 and almost 50% from Q4 last year. This was led by the AG segment, which grew 64% in the fourth quarter from last year and our gross profit grew 68% from last year and our margins remained strong.

The adjusted EBITDA for the quarter was \$36 million, representing the strongest fourth quarter performance since 2013. Our fiscal year adjusted EBITDA was \$135 million, which grew by an incredible \$81 million. This implies incremental adjusted EBITDA margins of 15.6%.

On the cash flow and balance sheet side, our fourth quarter operating cash flow was \$13 million, making the second quarter in a row where we generated positive operating cash flow, despite the large increases in sales and the corresponding working capital requirements.

And then, finally, our net debt leverage fell to 2.9 times at year end. We expect an even stronger year in 2022, which Paul already discussed and I will touch on that a bit more in a few minutes.

Now let's hit the important points relative to segment performance in the quarter starting with Agriculture. Our Agricultural segment net sales were \$265 million, an increase of over \$103 million from Q4 last year and it was up sequentially from Q3 by over \$20 million, representing 8.3% sequential growth.

We saw a very good balance between OE and aftermarket sales again this quarter. While OE's continue to be the largest driver of increases year-over-year. There was also a very good balance between growth in volume and the impact of higher pricing related to cost of raw materials and other inflationary costs. Each of our global regional businesses experienced significant growth in the segment year-over-year and for the year the AG segment grew by over 50% or \$350 million in growth.

The Agricultural segment gross profit for the fourth quarter was \$37.5 million, up from only \$20 million in the prior year, representing a 92% improvement. The gross margins were 14.2% for AG in Q4, up from 13.6% in Q3 this year and 12.1% last year. And this is reflective of the increased volume and the effect on efficiency along with continued strong cost control actions we have taken over the last year. We are using our productive capacity and a strong way to support the demand in the market, reinforcing our value to customers and that will continue in 2022.

Moving over to Earthmoving and Construction, the segment experienced another strong quarter as well. Overall, net sales for the EMC segment grew by \$46 million or 33% from last year in Q4. This also compares favorably to the third quarter, the sequential growth of \$15 million or 9%, very similar to the AG growth.

Again, all the major geographies experienced year-over-year growth during the quarter, with the largest dollar growth from ITM's undercarriage business, which grew 35% from the fourth quarter last year and 11% sequentially from the third quarter. Similar to AG, the growth was driven by a balance of volume and increased pricing relative to higher raw material costs and other costs of inflation during the quarter and it was slightly offset by currency devaluation of about 2%.

Gross profit within our Earthmoving and Construction segment for the fourth quarter was \$20.4 million, which represented an improvement of \$6.1 million or 42% from adjusted gross profit last year after eliminating one-time charges for asset impairments last year. The gross profit margin for the EMC segment was 11.1% versus an adjusted gross margin from the prior year of 10.4%. Again, the largest driver of increased profitability came from the increase in sales and ITM, while growth occurred across all of our businesses and geographies across the globe year-over-year.

The Consumer segment's Q4 net sales were up 41% or \$11.5 million compared to last year. Much like the rest of the year, volume was up nicely in the segment, while currency was a slight drag in the quarter. Our growth was balanced across all of our global businesses with the largest proportion coming in North America this quarter.

This segment's gross profit for the fourth quarter was \$4.6 million or \$1.4 million increase from last year. Gross margins were 11.7% again improved from Q4 2020 margins, reflecting some positive mix and pricing improvements in our products.

Our selling, general, administrative and R&D expenses for the fourth quarter were \$35.6 million, representing only 7.3% of net sales for the quarter. For the year, adjusted SG&A and R&D costs were 8% of net sales. This year's expenses included some variable spending and compensation, reflecting the significant increase in sales and profitability during the period. But we controlled our spending very well and as a percent of sales it dropped 220 basis points year-over-year after adjusting for one-time items last year.

Our reported taxes on income in the fourth quarter bears some color. As a result of recent efforts to restructure our intercompany loan structure and realign our legal entities, which reflect our operating model, along with improved profitability in certain tax jurisdictions we reversed previously recorded valuation allowances against net operating loss carry-forwards in amount of \$16 million in the quarter. Therefore, on a net basis recorded a tax benefit in the quarter of \$8.8 million and tax expense of only \$1.1 million for the full year. Our cash taxes in the year were approximately \$16 million in the range that I had communicated last quarter.

Let's move over to cash flow. Let's start with the fact that our net debt level remained stable at \$387 million from last quarter. Our cash balances increased to \$98 million, an increase of about \$3 million from the end of Q3. We generated \$13 million in operating cash flow in the quarter, almost breakeven free cash flow as well. After a tremendous growth in sales this year, we naturally invested in working capital, notably inventory to meet demand. Despite these increases, we were able to generate positive operating cash flow of \$28 million in the back half of the year.

Another important metric for our management team relates to liquid working capital, meaning our AR plus inventory less AP. At year-end, our liquid working capital as a percent of annualized net sales based on the most recent quarter was 19%. This compares favorably versus the end of the third quarter when it was 21% and our last yearend figure was 24%. We are making measurable progress with discipline and focus across the business.

Our debt leverage at the end of December was 2.9 times trailing 12 months adjusted EBITDA, down from 3.3 times last quarter. We are in a comfortable position with leverage in this range with earnings growing in 2022 expect the gain on leverage ratio throughout the year. We have flexibilities around the business at these levels, including organic and inorganic growth initiatives.

We are in the March now and it really feels like 2021 is far behind us, but it is important to look back and reflect on the progress that we made during the year and how that sets the table for this year and beyond. As Paul talked about earlier, our markets are strong and our position unit is as good as it's ever been. We expect another great year at Titan and we are off to a great start in the first quarter. It bears repeating that we expect sales to exceed \$2 billion and an EBITDA target is \$175 million. This implies that gross margins will continue to expand and this comes with discipline that we have around our controllable costs, our pricing to match inflation and raw material fluctuations that are inherent in our markets. We expect SG&A and R&D costs, not including royalties to be controlled as well and about 7.5% of net sales for the year. We also will remain very disciplined and focused on working capital management, and as I have reviewed earlier, and our targeted capital investments for 2022 based on our operating plan approved by the Board, we expect to spend approximately \$45 million to \$50 million in capital investments, which is somewhat higher than last year, but relative to sales remains in the range of spending that we believe appropriate for the business.

One of the most important takeaways from today's conversation is that what we expect to generate meaningful free cash flow in the business this year. Our current expectations are that we should generate between \$35 million and \$45 million in free cash flow in 2022 based on current expectations and profitability, working capital assumptions and our capital investments. We should start to see positive momentum in free cash flow generation, as we progress through the year, following our traditional seasonality with working capital requirements. Positive free cash flow is important and this affords us the optionality to balance growth initiatives with potential debt pay downs and even the potential for cash to shareholders.

Well, that's our story for now and I am happy to take Q&A in a minute and I will turn it back over to Victoria for any questions you have today.

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

**Operator:** Thank you. [Operator Instructions] And our first question comes from Steve Ferazani from Sidoti & Company. Please go ahead. Your line is open.

**Steve Ferazani:** Good morning, everyone. Paul, David appreciate all the detail on the call. I want to get a sense on the much stronger sales in 4Q versus even 3Q, typically you have got some holidays there, how much you have caught up on the labor front in the production capacity as you go into what could be a stronger 2022. How you are prepared to manage the stronger sales and how you did in 4Q?

**Paul Reitz:** Well, we continue to execute on increasing our labor force by most importantly along with that is our labor force continues to get stronger as the training continues to sync in and their output levels increase.

And then the other element I would throw on top of that Steve is that we did get some new union contract signed that have an incentive clause in North America. So look to continue to drive further improvements on output as we move into 2022.

So I think it's a combination of just really executing on what we already have in place. We have a good team that knows how to continue to recruit and retain people. We work hard at it and then you throw in the union contracts on top of that with incentive clauses to help driving further output for this year.

**Steve Ferazani:** Okay. When I think about David the guidance you gave for free cash flow, I am trying to sort of, I am looking at my model and clearly there's going to be the build in working capital won't be as steep even though you are going to have sales growth. I am just trying to think how you get there? What are you going to do on the working capital side unless my other margin -- assumptions on margins are way off?

**David Martin:** Well, as you look through the -- how you model, we can certainly talk about that later, but we do have some impact from working capital. We have some working capital growth built in. But we don't believe that our inventory levels are require significantly more investment than where we have been.

We have been working really hard to determine that balance to manage inventory and we are in pretty good shape. And we will see some growth in the first part of the year just because of the natural climate we will have, but we will be able to start to see the benefits of that and start generating some good operating cash flow as we progress through the year.

**Steve Ferazani:** Great. Thanks. And then just. I have been getting a lot of questions, I am sure you have as well in terms of. I mean one, if you can just walk with the RDIF stock transaction, where your Russian venture stands now and just your general perspective thoughts on the Russian venture given the current Russia-Ukraine conflict?

**David Martin:** Yeah. Steve, its David. I will take the first part. We did execute the stock repurchase earlier in the month with RDIF it was all according to everything that we needed to do from a regulatory standpoint and obviously it was well before this -- the conflict started and we are in compliance with anything that relates to any regulatory matters, sorry, and we were able to complete that in early February.

**Paul Reitz:** And then, Steve, when you look at our business there, as we have stated on prior calls and we have a really strong management team. They are always been good at handling challenges, including the one they face now. We got a business that has a strong market share within the CIS region.

We don't export a lot outside that region. I think that's an item of note that is important as well. We have talked about long-term exporting more, but really our business has a high market share within that region.

The one item that I really think is important is what we have seen throughout the last couple of years around the world is the products that we produce are critical to not just the customers that we serve, but really the societies in the overall food supply of the territories that we operate in and certainly that is true there.

At this moment we are in compliance with all current sanctions relating to the Ukrainian situation. There is no material impact to our Russian operation or really our other Titan facilities at this time and we will continue to move forward from there.

**Steve Ferazani:** Great. Thanks for that. I will turn it over and get back in queue if I have addition questions. Thanks very much guys.

**Paul Reitz:** Thank you.

**Operator:** Perfect. Thank you, Steve, for your question. Our next question comes from Komal Patel from Goldman Sachs. Please go ahead. Your line is open.

**Komal Patel:** Hi. Thanks so much and nice show this quarter and in 2021. Thinking about 2022 and the visibility that you have, after the consecutive quarters of strength that you have experienced, are you seeing any deceleration in your order books at this stage. I know the backlog still pretty strong, but if you could comment on the visibility and the rate of orders that are still coming in?

**Paul Reitz:** The visibility is strong. The order book is strong. And we are going to continue to work hard to produce as much as we can.

**Komal Patel:** That works. Maybe the second question is, in light of some of the continuing challenges on raw material, supply chain, labor, etc. If you could touch on pricing, any need to take on additional pricing, any kind of capacity that you think that you have additional room versus peers to pull that lever further if needed? Thanks.

**David Martin:** Yes. Obviously, as we progress through 2021, there were required adjustments that we needed to make to pricing relative to not just raw material cost, but the logistics costs, energy costs, labor, all the different inflationary components.

And I would tell you that, we have -- we work really well with our customers on giving them that transparency around our pricing relative to those costs and we worked really well in 2021 and we fully expect that we are going to be able to do the same thing in 2022.

**Paul Reitz:** Yeah. And I think as far as our footprint is extremely strong in relation to meeting the needs of our customers and further de-risking their supply chains. And so as we continue to add volumes clearly at the benefit into our efficiencies and we see that we need to continue to add capacity, we need to add labor, continue to add that capacity in the key core strategic areas. We are not trying to veer off into anything new or different or take volumes that maybe in the past we haven't been focused on.

So I think we just remain disciplined. As David said, with our costs in relation to our pricing, we will continue to work hard to, as I said in my previous response to increase our output to meet the needs of our customers and we see good order books for 2022. But really, when you look at all the positive forces out there especially in AG sector, we think the tidal wave has got a multiyear leg to it and we see this continuing into 2023 and beyond as well.

**Komal Patel:** Great. If I could squeeze one more in, leverage has come down a lot. The 2.9 versus your 3 times or 4 times range. Again, it sounds like your comments are pretty positive on the outlook there. I know in the capital allocation comments you had mentioned some potential share repurchase, if you could just elaborate on that, could that be potentially debt funded. If you could shed some light there that would be great.

**David Martin:** Yes. Komal, we still need to have conversations and make decisions around that as the cash flow warrants. We haven't made any decisions one way or another at this point in time. Yeah. The point is that we have the optionality to work around the variety of components. Obviously, investing in the business. Paying down debt where we feel it is warranted or opportunistic and then the potential for shareholder returns.

**Komal Patel:** Got it. That's fair. Thanks so much for the color.

**Operator:** Thank you so much for your question. And our next question comes from Kirk Ludtke from Imperial Capital. Please go ahead.



**Kirk Ludtke:** Good morning, guys.

**David Martin:** Hi. Good morning.

**Kirk Ludtke:** Thanks for the call and the updated presentation. Very helpful. And just a quick follow-up on the capital allocation topic, is 3 times to 4 still your target range?

**David Martin:** I would just say that we are in a very healthy range and we have the opportunities to do the right things for all of our constituents. We do feel obviously a lot more comfortable with 3 times to 4 times and we are going to be in the low 3 times here for a bit of time as well and we are obviously look at the right things to try to drive returns in a better way with that comfortable level.

**Kirk Ludtke:** Great. Thank you. So there was a time when you were hoping to get to 3 times to 4 times. Now you are below it, look if I am doing the math right, without any distributions to shareholders, you will be closer at 2 times at the end of 2022. So does that 3 times to 4 times move down, would you prefer to run the business as a, say, a BB as opposed to a B type growth?

**David Martin:** Well, obviously, a love better credit and as a CFO I always love and I want to be in a comfortable range. But again, I want to think and make sure that we and our Board are totally aligned as to what we are doing to try to drive returns for the long-term and so that may need some investments in the business to try to drive that. And -- but, again, I feel like if we stay in this 3 times range, we have the options to do that.

**Kirk Ludtke:** Right. Do you think of leverage as over the cycle or I mean how do you think about your leverage, it is still...even though you are in an upswing and you think it's a multiyear run, I mean, you are still, it is a business where earnings have been volatile historically. I mean, just curious how you think about leverage?

**David Martin:** I want to be able to maintain their levels of leverage that we have done through a cycle. We haven't had a long cycle of any sort over the last number of years. It's been more challenging. So I do view it over the cycle versus just a moment in time, so.

**Kirk Ludtke:** Okay. Got it. Thank you. And I think there is a lot of concern about maybe a recession in Europe and I -- slide four is very helpful. It shows where your facilities are located and none of them other than the Russian tire plant are in the -- look to be in a Warzone. But do you have a sense for, at this point, you might not have this visibility, but do you know, your facilities are, obviously, you know where your facilities are. But where does your equipment -- where is it actually use, do you have any visibility into that?

**Paul Reitz:** We know where our products are shipped to. I think you would have to look at the follow through from our main customers to see exactly where it's used. We are going to follow those trends as to where the equipment actually gets used within our main customers. But to answer your question specifically, no, we ship directly to their point of manufacturing and assembly.

**Kirk Ludtke:** Got it. Any comments on what you see or what you expect to see in the Ukraine this planting season, is it just too early to say what's happening there?

**Paul Reitz:** Yeah. It really is, I mean, it's too early to say. I think what we are looking at is obviously the commodity prices, you look at the current inventories in the U.S. are light. You look at the South American situation where their yields are going to put some pressure on other areas.

So I think in a broader scope we are looking at farmer incomes, we are looking at commodity prices and all that is very strong. How that all gets sorted out with production and where the production ends up getting exported to, it's just still too early to tell on that.

**Kirk Ludtke:** Got it. Then lastly -- thank you. And then lastly, does the agreement with Kubota, does that improve utilization rates or how does that affect your financials and then I will hand it off. I appreciate it. Thank you.

**Paul Reitz:** Yes. It's a win-win for both sides. I think that we are very excited about Kubota has a product that will be.... We have a new product, let's say, differently, we have a new product that we are going to be partnering with Kubota, it will be private label with Kubota.

So it will be good for not just their end users but also their dealers. It's a good win-win for us as far as our plants and improving our efficiencies for them improving their capability to connect with their customers. Again, all around a really good deal something we are excited about and it's a great way for us to position new product into the marketplace with a leading customer in that space as well.

**Kirk Ludtke:** Great. Thank you very much.

**Operator:** Perfect. Thank you, Kirk, for your question. Our next question comes from DeForest Hinman from Walthausen & Co. Please go ahead.

**DeForest Hinman:** Hey. Thank you for taking questions from shareholders. Can you talk about this 10,000 foot in question, 10 years ago we had over \$2 billion in sales and the EBITDA profile, those sales were different, and obviously, 10 years have passed. But can you just help people understand what the difference is now versus 10 years ago and how it aligns your thinking around the \$175 billion of EBITDA?

**Paul Reitz:** Yeah. Absolutely. When you look at our company today, our breadbasket is agriculture. And as we stated, it's 53% of our sales is coming from that. Back 10 years ago, you would have seen more coming from the EMC segment as far as our profitability goes.

So when you look at our EMC segment today is primarily driven by ITM, our undercarriage business. So ITM and undercarriage is a strong global leader, tremendous OEM brand and product, good aftermarket presence that continues to grow, a strong foundry there in Spain, and so it's a good diversified business that you see now picking up the bulk of our EMC sales and earnings.

And when you look at our AG sales and earnings, you see good strong businesses that have very solid market-leading products and market share, so it's primarily going to be based upon wheels and tires. So there is definitely a different mix, what you see today versus what you see 10 years ago. Where I see things today is our earnings are coming from good strong core businesses. And so these are not areas that we are stretching out into a limb. We are trying to reach in the cracks in the marketplace. We are growing our business around our core businesses and that's where I see things today and certainly where we see things going forward in the near future as we have outlined with our guidance for 2022.

**DeForest Hinman:** Okay. That's helpful. Separate topic, I think, a lot of industrial companies that have reported, we have been hearing lots and things about supply chains, raw material availability, labor issues are still dealing with, I don't think we spoke at length about those. But maybe can you help us understand what makes Titan have in an ability to execute well in 2022. You spoke about unions in the past, labor availability there, can you talk about how your security from a labor perspective and by no means simplify your business, but making a tire, making a wheel, making metal parts. It seems like we have got a lot of steel, we have got a lot of rubber, lot of butadiene, steel cord is readily available. So can you just update us in terms of your view of the logistics, supply chain and labor, as it relates to 2022 and how it's going to allow you execute well going forward?

**Paul Reitz:** I mean, it starts with the team that we have. We have a really strong one Titan global team. We have been talking about that for a number of years even during the downtimes, what we kept references, we were building a good strong foundation with the team that we have.

And as I noted on, not just today's call but in prior calls, I could not be more pleased with how our team has operated across a very dynamic business environment as you illustrated, there is a lot of moving pieces out there in today's world and here at Titan our secret sauce just starts with our people and our team. We have done a very good job over the last couple of years with the challenges that are put in front of us. We continue to see these challenges on a weekly basis, just like every other company.

But as a team we are very good at dealing with those issues. We are managing our customers well. We are here to serve our customers with our strong production footprint. The strong quality innovative products that we have and it's all wrapped around the umbrella of a really good global one Titan team.

Really what I would point to you see evidence in our 2021 results, how we have been able to perform through these challenging times and we continue to believe that the one Titan team will continue to execute as we have.

**DeForest Hinman:** Okay. That's helpful. And as it relates to the guidance and I understand things are probably changing in real time, historically you have disclosed revenue contribution from the Russian operations. But as it relates to \$175 million EBITDA guidance, are you willing to disclose your expectation through the EBITDA mix within that \$175 million if that relates to the Russian operation?

**David Martin:** We only report based upon the segment as you see in our results. In our 10-K we disclose that the Russian business comprises roughly 5% of our overall total sales. But as the general practice completely unrelated to what's currently going on with that situation. We just do not disclose by business units any information beyond what you would see the 10-K related to sales.

So, really how we look at our business is based upon Farm, Earthmoving Construction and Consumer. So at this time, we can really just refer you to the 10-K, where you see 5% of our sales come from Russia.

**DeForest Hinman:** Thanks for taking my question.

**Paul Reitz:** But certainly, one comment I will make is, yeah, certainly it's all factored into our 2022 guidance though. We were taking all that into account.

**DeForest Hinman:** Okay. Thank you for taking my question.

**Operator:** Perfect. Thank you for your question. [Operator Instructions] And our next question comes from Alex Blanton from Clear Harbor Asset Management. Please go ahead.

**Alex Blanton:** Hi. Good morning. Congratulations on the quarter. I just wanted to clarify the tax benefit, what would your taxes have been without the benefit?

**David Martin:** For the quarter it would have been roughly about \$4 million to \$5 million I believe without the...

**Alex Blanton:** Did you say \$4.5 million.

**David Martin:** No. I said I just got clarification from our Chief Accounting Officer. So I -- he told me it would have been \$8 million for the quarter.

**Alex Blanton:** \$8 point -- \$8 million even.

**David Martin:** \$8 million roughly.

**Alex Blanton:** And when it is expected -- what's your tax rate is expected to be this year?

**David Martin:** Well, here's what I would say, because there can always be variation with respect to book taxes because of the valuation allowances and those kinds of things. I do expect cash taxes, which is the most important piece of this to be around \$16 million, roughly.

**Alex Blanton:** Well, I guess, this is in... I wonder what taxes will be? What taxes will be for tax rate will be in the income statement?

**David Martin:** I don't have that out of the top of my head. I can get it for you later. But like I said about \$16 million is the lower -- the expectation here.

**Alex Blanton:** Well, now what you are paying? What's going to be in income statements is what I am interested in?

**David Martin:** Yeah. That's roughly it before any special allowances that might be able to take or any benefits that we can take as well. So that...

**Alex Blanton:** Okay. That's a...

**David Martin:** That is the expectation I am giving for now Alex, \$16 million.

**Alex Blanton:** Okay. That's not tax, that's sort of rate, that's not tax rate.

**David Martin:** I understand. You can do the calculation in your modeling, okay, so.

**Alex Blanton:** Well, I have to know which pre-taxes are going to be to get the rate.

**David Martin:** That's not part of our guidance, so.

**Alex Blanton:** Okay. Well, let's go on. The tax benefit then is included in the adjusted earnings?

**David Martin:** Yes.

**Alex Blanton:** Yeah. So if I apply 25% tax rate to the income, earnings come out about \$0.18, correct?

**David Martin:** I believe that's the math, yeah.

**Alex Blanton:** Yeah. So why didn't you adjust the earnings for the tax benefit.

**David Martin:** We could have.

**Alex Blanton:** But why didn't you.

**David Martin:** Yeah. I mean we have had variation in adjustments related to valuation allowances in 1048 adjustments for a long time. So it's not -- it's just not...

**Alex Blanton:** But those variations grow your earnings out of short-term. The purpose of adjusted earnings is to smooth out these earnings and present a more realistic number. So I am just wondering, why you didn't you do that.

**David Martin:** Standard practice has not been to adjust it, so that I just leave it at that and it is clear in the numbers that we outlined there in our remarks and the press release.

**Alex Blanton:** Okay. Let's go on. The incremental 22% for the year in the upper earnings that we talked about at the beginning, do you think that's sustainable going forward or do you expect it might increase?

**David Martin:** Inherently in our guidance for 2022 that is the case, it could vary around that number, but we have good expectations for continued efficiencies across the business as a result of all the things we have put in place last year, and yes, that's implied in our guidance that margins will continue to expand.

**Alex Blanton:** Yeah. That's an operating incremental is pretty good. So you think you can sustain that going forward at least for a while?

**David Martin:** Yes.

**Alex Blanton:** I mean clearly when you get close to peak capacity that tends to go down, but...Just what your capacity is?

**Paul Reitz:** Well, Alex, I think that's the point we are trying to illustrate with some of our comments, and certainly, I know our customers appreciate this, but we do have the production footprint and the capacity to continue to grow, get more efficient. So inherent in what we talked about in 2022 is that we will continue to improve as a company with our efficiencies. As I mentioned earlier as well and we put out a press release out on it. We very much look forward to our North American union contracts with some new incentive clauses that we put in there that will only help improve the output that we can get from our plants on again a more effective efficient basis as well.

**Alex Blanton:** Yeah. On the commodity front, commodity prices are benefiting from the fact that Russia and Ukraine major producers of grain, wheat and even corn, soybean oil and those are obviously going to be in shorter supply than they would have been. Do you see that -- are you taking that into account in your guidance that the commodity prices are going to be higher as a result of what's going on in Russia at least for now?

**Paul Reitz:** Right. I think what's implied in our guidance is not just based upon one particular characteristic and that's what we see in the marketplace with our comments referencing being a multiyear cycle. There are a number of positive attributes that exist that will continue to propel this market forward. So there is not one is not one pillar that could fall that crumbles the entire agricultural space at this point.

So I think you really got to look at it in its totality instead of trying to predict where commodity prices are going, and is that going to have a direct immediate impact on demand that you got to look at the big picture and just see all those positive forces that are out there, Alex, whether you talk about just commodity prices, inventory levels, retail demand, this has got some legs on it because of there were number of forces.

So I think regardless of where commodity prices go instead of trying to predict that precise level. I think my comments would just -- my belief, I should say, not my comments, my belief is commodity prices are going to remain at very good levels that will continue to provide a supportive environment for agriculture, not to mention the balance sheets of farmers are already strong. So, again, I think, you got to look at the big picture on that, Alex, and the answer becomes pretty evident.

**Alex Blanton:** Yes. I am not sure you said that you are not going to really comment on the -- what might happen there?

**Paul Reitz:** What I look at and we have said this before, I mean, we did have a really good leadership team over there. We've worked together now for a number of years. Our business has high market share. And as we have seen throughout the pandemic, our products are critical to the infrastructure in the agricultural needs of that, not just that society there, but the whole CIS region. So we are in compliance and it's an evolving situation, we will continue to monitor, but really don't see anything more beyond that, Alex.

**Alex Blanton:** Yeah. Just one more thing on that, those -- that business, is it mainly domestic, it would be affected by export controls?

**Paul Reitz:** That's correct. We primarily operate in the CIS region. That is correct.

**Alex Blanton:** Yeah. So would it be affected as well if there are sanctions against exports that wouldn't affect you?

**Paul Reitz:** No. We primarily operate within the strong agricultural region there in the CIS. So we have talked on previous calls, to be clear about the ability for that operation to export more in the future, but at this time, the demand has been very strong in the CIS region in recent times and so that's primarily where our production and our footprint is.

**Alex Blanton:** Yeah. Okay. All right. Thank you very much.

**Paul Reitz:** Thanks, Alex.

**Operator:** Perfect. Thank you, Alex, for your question. And our final question comes from Jack Voigt from Balyasny Asset Management. Please go ahead.

**Jack Voigt:** Hey, guys. Thanks for taking the question. You dived into this a little bit, but 5% of sales came from Russia in 2021, is that all rubber? And then my second question is, you disclosed 22% of sales come from Europe, does that include any Russia or Ukraine exposure?

**David Martin:** Go back to your first question Jack, you said that you would start, Russia is about 5% of our sales, again, that is rubber, those are tires. And then if you look at Europe, there is very little, if any, Ukrainian sales that were in 2021, is just not a big part of what we grew. Our sales are really within the Western Europe and then within the CIS region for tires.

**Jack Voigt:** Got it. So you mentioned you don't export a lot out of Russia, I'd assume that means finished product. Are you guys exporting rubber out of Russia to other continents to make finished product and if so what percentage of your rubber production is Russia?

**David Martin:** Yeah. We do not export rubber for other parts of the world, simply put.

**Jack Voigt:** Got it. And then you talked about capital allocation, your 2022 guidance is implying pretty significant amount of leverage for cash flow, talked about returning that to shareholders over time. So how do you think about potentially implementing a dividend versus buyback stock?

**David Martin:** There are options around the table. We have not made any decisions at this point in time, but again we have that optionality and we will make in consult with our Board, we will make the right decision at the appropriate time.

**Jack Voigt:** Got it. Helpful. Thanks for the time. Congrats.

**David Martin:** Thank you.

**Operator:** Perfect. Thank you, Jack, for your question. This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Reitz for any closing remarks.

**Paul Reitz:** Well, I just wanted to thank everybody for their participation in our Q4 earnings call and look forward to touching base with you soon. Thank you.

**Operator:** Thank you for attending today's presentation. The conference call has now concluded.