

**Titan International Inc. (TWI)**  
**Transcript of Q2 2019 Earnings Call and Webcast**  
**Thursday, August 1, 2019 9:00 AM ET**

***Company Participants***

*Paul Reitz - President & CEO*  
*David Martin - SVP & CFO*  
*Todd Shoot – SVP, IR & Treasurer*  
*Maurice Taylor – Chairman*

***Conference Call Participants***

Chirag Patel - Jefferies  
Joseph Mondillo - Sidoti & Company  
Larry De Maria - William Blair

**Presentation**

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

It's 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. Brandon. Good morning and welcome everyone to our second quarter 2019 earnings conference call. On the call with me today, I am pleased to have our President and CEO, Paul Reitz; David Martin, Senior Vice President and CFO; and Morry Taylor, Chairman of Titan's Board of Directors. Mr. Taylor will be available to respond to any questions concerning the company's update on ITM strategic evaluation.

I will begin with a reminder that the results we are about to review were presented in the earnings release issued this morning, along with our Form 10-Q, which was also filed with the Securities and Exchange Commission this morning.

As a reminder, this morning, we will be discussing certain forward-looking information, including the company's plans and projections for the future, that involve risks, uncertainties and assumptions that could cause our actual results to differ materially from the forward-looking information.

Additional information concerning factors that either individually or in the aggregate could cause actual results to differ materially from those. These forward-looking statements can be found in the safe harbor statement included in today's earnings release attached to the company's Form 8-K filed earlier today as well as our Form 10-K and forms 10-Q, all of which have been filed with the Securities and Exchange Commission.

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

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

Please note, today's call is being recorded. A copy of today's call transcript will be made available on our website.

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

**Paul Reitz:** Thanks, Todd. Good morning, everyone and appreciate you listening to our call.

Unfortunately, our second quarter was a continuation of the difficulties we have seen from the global trade battles and more specifically this quarter from the poor conditions in the U.S. farming sector. This was a tough and disappointing quarter as we experienced decreases in operating income in all of our businesses. The downturn in Ag conditions particularly accelerated as we got into late May and definitely hard into June. This reverse the moderate improvements that we had seen in March and had noted on our first quarter call.

I spent a bit of time driving throughout the Midwest over the past month and it's shocking what the fields look like out there. In a quarter mile, you'll see a field of weeds that wasn't even attempted to be planted. Next to it, you'll see a field that is silking corn already and then follow a quarter mile down the road, you'll see field with corn is not even knee high. It has been brutal on current demand, but it has driven corn prices above \$4 and soybean prices into the \$9 range. We entered this year believing that the Ag market had pent-up demand and higher horsepower equipment. That's our sweet spot. That was sitting there, waiting to be released this year. And these higher prices should bear well for that to happen in the not too distant future.

Looking at Titan's business, we saw a 5% decrease in revenues on a constant currency basis that was driven by a 6.5% decrease in Ag volumes. A big reason for that was our North American tire aftermarket business that experienced a significant drop off in demand in the back half of Q2, as demand really stalled along with the deteriorating weather and crop conditions. We do not believe we are losing share in the aftermarket and then our position with our customers remain strong. Our North American tire margin on a positive note held steady as a percentage of sales with last year. So we did a good job of managing our margins and cost against that revenue decline in our aftermarket tire business.

The margin differential for the quarter came in our North American wheel business, which I think many of you are aware, has been our bellwether franchise of Titan for many years. Revenue in North America wheel held steady for the quarter, but we experienced a significant decline in margins as steel prices decreased and we weren't able to fully realize these lower costs as we work to reduce elevated inventory levels. There were really two reasons for these higher inventory levels. First, a buildup prior to and during our ERP implementation. And second, our expectations for growth in the first half of this year, which did not occur as expected. David will highlight this further in his comments, but I do want to make it clear this margin degradation

doesn't represent a permanent shift in the margin profile of our North America wheel business, and we do expect margins to normalize in due course.

Our Latin America business held fairly steady in operating income with currency impacting the sales level. The reported sales, I should say as you translate that from local currency to US dollars. Brazil and Argentina have been benefiting from improved grain production and increased demand coming from China, but that was impacted by delays in the Brazilian government Ag program, and then the weak macroeconomic conditions in Argentina that persist. Longer term, we are optimistic about Latin America as supported by the broader market, but also combined with the improvements we've made at Titan Brazil through the years.

In Europe and Russia, the ag market conditions impacted by the factors I've noted previously, and combined with probably what you would call just general European market malaise have resulted in a significant decline in our Q2 wheel volumes. As a result, we are taking targeted actions to mitigate this impact and adapt to a lower level of demand.

Moving over to our earthmoving/construction segment. We lost a few points in volume, primarily from certain construction OEM customers in regions that have been pushing out some orders. David will highlight some of that later, but our mining business held up quite well and did grow during the second quarter.

With that being said, the ongoing tariff battle, the Brexit concerns, the weather-related uncertainty in the Ag sector has made near-term visibility challenging for Titan and of course, others within our industry. While the weather and crop-related issues are a significant negative in the short term for farm income, and then the related sales in the farm segment, the forecast for lower crop production and lower ending inventories of major grains have moved commodity prices in a fairly big positive manner. And as I noted earlier, it's going to be a positive for global farm income and Titan in the coming future. With the volatility -- however, with the volatility in the market, particularly near the end of the second quarter, we do need to revise our outlook for 2019. Assuming currency remains at current rates, we now anticipate our 2019 sales to be in a range between flat to down 3% compared to 2018. We anticipate gross margin to improve in the second half of the year and expect them to be in the range of 11.2% to 11.6% for the full year 2019. This reflects improvements we are expecting relative to lower North American production costs in relation to material costs and then other improvements that will drive throughout our global businesses. This leads to expectations for adjusted EBITDA to be in the range of \$75 million to \$90 million for 2019. We started 2019 believing there was pent-up demand in lower and larger Ag equipment. We can now layer in pent-up demand in the Ag tire replacement market, combined with our belief that higher commodity prices are expected to help unleash that demand later this year and then into 2020 when you look at the farm sector.

This year and particularly this quarter has been tough for us and many in our industry. We started the year with optimism about growth coming off a good 2018 campaign and have had to adjust quickly to a rapidly changing environment. However, the bottom line is that our results are not acceptable and need to get better. Titan's management team is going to drive improvements to our company through a multi-dimensional plan of attack that first deals effectively with the

present cycle. Secondly, protect the balance sheet for the long-term and third, builds for our future.

So let's start with the first facet of dealing with the current cycle. Titan is clearly used to handling market cycle in our 25 plus years of experience as a publicly traded company operating in cyclical end markets. The 2019 second quarter events were certainly more sudden than most cycles and nobody could have predicted the massive weather-related issues that we've -- that have been experienced in the farm sector, but we are and will continue to react to the current changes and demand by reducing costs. Again, we have plenty of experience in doing exactly that. We had expected to see growth this year and had been training a workforce to handle that increased demand. We still believe that growth will come from the higher commodity prices. So we are managing our labor costs through working hours and not by mass layoffs. We believe this is the most efficient and effective manner to manage our skilled labor force for the present and the future. We also will be reducing our variable spending across business units and at the corporate level.

The next facet of our approach is to protect the balance sheet. Our primary \$400 million notes don't mature until 2023 and have no operating-related financial covenants, so Titan is well protected from that perspective. However, due to the Russian put options and other global working capital lines, we have approximately another \$150 million of debt on the balance sheet. We will relentlessly pursue the extraction of non-core assets and improve working capital to protect our balance sheet. We have mentioned the opportunities to sell non-core assets on previous calls in the \$30 million to \$50 million range and believe we have the opportunities beyond that level and we'll pursue them. The analysis of non-core assets will also include looking at excess capacity and potential plant consolidation.

The last element of our business approach is that while focusing on the current cycle and the balance sheet, we won't lose our focus on building for the future. Titan has and will continue to be a leader in innovation in our industries. We have unique assets in our business portfolio that give us capability that nobody else in our industry has. Our business model has and will continue to be utilizing these assets to develop new products to lead the way and exceeding the needs of our end users. We have talked about our product development and the great strides that we continue to make, not just with LSW, but in other product areas like the R14's. So these are just recent develop -- they continue to grow, but the bottom line is product development is the heartbeat of our company and we simply can't allow that to stop beating.

We also believe that our wheel and tire business that have formed the backbone of Titan for many years had a strong future that would benefit from further investments to grow these businesses. Along with the existing opportunities, that we've mentioned previously for ITM to grow and that was part of the reason why we considered ITM for divestiture.

We have already have a product portfolio that is world-class and is well positioned to grow sales and market conditions improve. However, the last facet of our approach goes beyond what we've already built as a foundation for today and is critical as we grow and build a healthy company for the future. We must continue to invest capital into our products and our businesses to grow and

succeed in the future and we can do that by first managing through the current cycle effectively, while also taking actions to protect our balance sheet.

Now shifting gears to a couple announcements that you saw in our disclosures in our press release. We've now reached a final agreement regarding the Russian put option with One Equity Partners. Titan has recently paid OEP \$30.7 million in cash, which together with Titan's prior payments to OEP of \$16 million is a full satisfaction of the put option as exercised by OEP. OEP now has no ownership stake, I should say, in Voltyre-Prom and Titan is at 64% with RDIF owning the remaining shares. We're satisfied to get the put option settled and the noise of all that behind us. It has been a long road. Our Titan Russia operation has certainly experienced significant challenges in the domestic economy and the financial markets. We've talked about that before, but I still and we still believe our management team there is strong and has done a good job battling through these challenges. We recently had our Titan Russian dealer meeting and there is strong enthusiasm regarding our current business and the products we're developing for that local market. We will continue on a path to having a strong market share within the CIS. However, I want to make this point, the future strength for this business will come from creating products for export into other regions. We're utilizing our global Titan resources to assist them in Russia, exact with that process and we are in the testing phases of product development that would be exported again into other regions outside the CIS.

As we've said, I'm going to switch gears now to the last comment I want to make on today's call, which is related to ITM. As we've stated earlier this year in prior releases and calls, Titan's board has authorized the evaluation of strategic alternatives with respect to ITM, which is our global undercarriage business. And we engaged a financial advisor to assist in carrying out that evaluation. We also noted, more specifically that we've been pursuing a potential listing of ITM shared on the London AIM Market. Titan has made good strategic investments into ITM. We've talked about that and shared that information over the last couple of years. And so with that Titan has performed very well to reach 2018 revenues of nearly \$450 million. With that strong performance over the last few years, Titan's board and our financial advisors expected an IPO valuation in excess of \$300 million. As noted in our press release Morry Taylor, Titan's Chairman stated that the recent softer conditions of the financial markets in Europe due to Brexit continued great global trade concerns have impacted our ability to obtain evaluation at a suitable level. And therefore, our Board of Directors has determined to postpone the AIM listing of ITM.

We continue to believe that ITM has a strong future, continued growth and Titan will execute a plan that is in the best interest of our shareholders. Again, as Todd noted, we do have Morry available for questions regarding ITM and the decision that was made on the board to postpone the potential AIM listing.

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

**David Martin:** Thanks, Paul and good morning to everyone on the call. As usual, I'll go through some of the most important items for the second quarter performance, and I'll discuss some key issues that we're managing as we progressed over the second half of the year, particularly how we're going to aggressively manage cash flow for the future stability of the company.

Net sales in the second quarter of 2019 were \$391 million, representing a decline of almost 9%. On a constant currency basis, however, revenues would have been down roughly \$22 million from the second quarter of 2018 or 5%. The currency impact of \$16.5 million or 3.8% was the most dramatic in Europe. The overarching story of this quarter related to the issues that Paul underscored in his discussion in agriculture, particularly in the US.

Our ITM undercarriage business performed well once again this quarter and while we continue to see OEMs push out orders due to isolated regional inventory surpluses in Asia and Europe, coupled with what is believed to be short-term tempered demand. Our North American tire sales declined 12% from Q2 of 2018 and it was primarily isolated to the last month of the quarter, as Paul described. This was the most significant in the aftermarket. Our sales challenges always -- also came from Russia and Europe, and with continued Ag market sluggishness as well. One bright spot was in Latin America, which is up for the quarter but before negative currency impacts in the Ag segment.

Our sales volume on a consolidated basis was lowered by 4.3% from last year with the largest declines being in North American tire, Russia and Europe due to the market headwinds in Ag.

Overall, we saw a slight decline in sales due to price and mix in the quarter, resulting principally from the overall declining raw material costs and lower surcharges on steel. This is mostly in our North American wheel business and Australia, where we increased our efforts to move slower moving tire inventories, which we've been rationalizing. The rest of the business experienced slightly higher pricing from a year ago.

Much like our performance in the first quarter, our challenges not only came from the sluggish sales, but we also saw a serious decline in margin. Reported gross profit for the second quarter was \$38 million versus \$58 million in the second quarter of 2018. And our gross margin for the second quarter of 2019 was 9.8% versus 13% -- 13.6% last year. There are a number of larger impacts that we experienced in the quarter and that was in -- those primary things significantly reduced the margin.

First, our North American wheel business had significant margin challenges this quarter. As we've described in previous quarters, we experienced issues regarding the first few months after going live on our new ERP system. We elevated our raw material purchases as we prepared to go live, and as we push into the first quarter when steel prices were higher. We also anticipated more elevated demand for 2019, which was -- has been somewhat diminished due to the sluggish Ag market. Due to the challenges we face, production was not as efficient as normal as we push them through them in Q1, 1,000 unit cost increases. The combination of these factors caused elevated inventory levels and we pushed these levels down in Q2 and we experienced a significant short-term margin pinch on the business. We expect production costs to be more normalized in the second half as we have stabilized in the business now. The impact from this factor was approximately \$8 million in terms of gross profit comparability in the second quarter of 2018.

Secondly, just like we saw in the first quarter we had large challenges in Russia and Europe in the Ag market, which not only impacted sales and gross profit, but also caused the margin

decline due to the production inefficiencies created with this lower volume. That was approximately \$4 million in gross profit decline from last year from these impacts.

Thirdly, our operation in Australia had significantly lower performance year-over-year from several factors, much like the rest of the world, the first half of the year has been more challenging for us on the Ag side. In addition, we've been taking measures to reduce our exposure on the mining side for our tire distribution business, as our margin levels haven't been at the adequate level to sustain the business. And it's caused us to maintain very high levels of inventory as well to satisfy our customer needs. We've been reducing our footprint in the branches and had necessarily sold tires at lower level to reduce our inventory. The combined impact of these factors was approximately \$2.5 million on our gross profit in Australia from the second quarter of 2018.

The remainder of gross profit decline came in from other areas where sales were down due to sluggishness in the market most notably, our North American tire business, along with a portion of the decline coming from lower currencies, primarily in Europe. I would like to note that as Paul said earlier that we had described an anomaly on margins in North American tire in the first quarter. Notwithstanding the lower sales in the second quarter, gross profit margins in the business returned to similar margins that we have experienced in the prior year.

Now, let's spend a few minutes on segment performance.

Our agriculture segment net sales were \$164 million, down 12% on a year-over-year basis. Currency impacted sales by 3.6% this quarter. Volume in the segment was down 6.5% and we had unfavorable price and mix of 2%, Ag sales in North American tire were down 15% for the quarter due primarily to the issues in the sector that we have discussed, with the largest decline coming in aftermarket sale. Russian Ag sales were down 35% due to the continued market challenges. Dealer inventory levels have remained at high levels in Russia for several quarters and no amount of incentives have been able to make it dent at this point. If there is good news, though here it appears that the dealer sales are starting to diminish and there is an expectation of improvement in the second half across Russia. South American Ag sales were up 2.5%, mainly due to volume and mix. European Ag sales also lagged the prior year about 22%. With the combination of negative currency impacts and volume declines as the market has continued to be challenging.

Our agriculture segment gross profit for the second quarter was \$14 million, down from \$27 million in the comparable prior period. A portion of this decline relates to the decline in sales across North America, Europe and Russia. But the largest driver again was the lower performance related to North American wheel margins that I discussed earlier. Year-over-year gross margins declined by 590 basis points in the second quarter to 8.7%. Again, the issues that we've experienced in North America were largely behind us and we should see a return of recent historical margins in the second half of the year in this segment.

Continuing on to earthmoving and construction. Our earthmoving/construction segment sales decreased by 7% to a \$184 million. On a constant currency basis, net sales would have decreased 3% from a year ago, but sales actually improved sequentially from the first quarter by 4.5%.

Volume was down in the segment year-over-year by 3%, while positive price and mix was negligible. ITM experienced a decline in volume during the quarter, which was attributable to continued OEM shifts and delivery schedules given the short-term demand changes in certain markets, again, most notably in Europe and China. We saw slight gains in volume in Europe wheel and South America in this segment, as those markets remained steady.

Gross profit within earthmoving and construction for the second quarter was close to \$20 million, which represents a \$4.6 million decline year -- from a year ago. The biggest driver of this decline related to lower currency and volume. The volume impacts on ITM's business, which is the largest component of the segment. In addition, we have undertaken the restructuring of the business in Australia as I described earlier, which has driven more aggressive pricing as we've exited certain branch service centers and reduced inventory.

Now to wrap up on consumer.

Consumer segment, second quarter sales were roughly \$41 million, similar to net sales in the first quarter and 3.6% down from the second quarter last year. On a constant currency basis, net sales would have been up slightly, volume decreased by 1% and we gained some with favorable price and mix of around 1.6%. The volume change year-over-year with somewhat misleading overall, as we saw volume in Latin America, dropped by 23% where we had gains in other markets, mostly offsetting. This is more meaningful when it comes to our business segment margin performance.

With that said, second quarter consumer gross profit was \$4.4 million in the second quarter, which was down \$2.4 million from a year ago. Gross margins were 10.5%, which is a decline of 520 basis points over the same period last year, which was reflected in a lower sales volume and the impact on fixed cost absorption in Latin America, particularly in light utility truck tire sales volume. While we had gains in sales in other areas, our margins are much lower than what we see in Latin America around this area of the business.

Turning over to operating expenses, SG&A and R&D expenses in the second quarter were \$38 million, slightly lower than the level in the first quarter, but 4.3% higher than a year ago. This is an increase of \$1.6 million from last year. As a percentage of net sales, SG&A and R&D was 9.8% compared to 8.6% last year. The increase in this -- in operating expenses, primarily related to spending -- increased spending in information technology related to ERP upgrades and other investments underway. As most of the expense related to stabilization efforts, after our first phase of implementation that took place in the fourth quarter of 2018. We also saw an increase in legal spending in the quarter versus a year ago, mainly due to international business matters, including our review of potential strategic alternatives for ITM. During the second half of the year, I expect to see a moderation of expenses from the level that we saw in the first half. We're also targeting areas to trim spending by \$2 million to \$3 million in the near term, which largely benefit second half performance. Therefore, I believe, SG&A and R&D spending for the full year will be at our original guidance level of \$150 million.



During the quarter, we recorded a tax benefit of \$3.2 million on pre-tax losses of \$9.9 million during the quarter. During the quarter, we were able to realize certain tax benefits from resolved tax matters.

The final item of note in our second quarter performance discussion relates to the redemption value adjustment of \$0.7 million, which decreased from the prior year level of \$4.7 million. All of this adjustment principally related to the impact of the current period continuation of the OEP put option and accrued interest. As we have discussed, we paid a portion of the obligation in the second quarter and the remainder was paid yesterday. This obligation has now been fully extinguished. Both of these payments were funded by drawing down on our expanded ABL line and cash balances. The RDIF portion of the put option has been satisfied and there's no ongoing impact from the redeemable non-controlling interest in the Russian operation related to RDIF or OEP with our P&L after July. We anticipate issuing restricted stock of \$25 million related to RDIF in the near term, after completing regulatory hurdles. As of today, our ownership in Voltyre-Prom is 64% with the remaining 36% with RDIF.

Let's move on to our financial condition and highlight a few balance sheet, liquidity and capital items.

Our cash held fairly steady this quarter as we were able to reduce receivables and inventory balances. We started to reverse the trend of working capital growth this quarter and I anticipate that we will be continuing this trend over the course of the second half as we continue to focus on managing inventory levels. Our receivables declined by \$23 million from the first quarter this year, while it is still elevated versus year-end by \$30 million from normal seasonality. Our day's sales outstanding ticked up two days since year-end, reflecting certain pockets for customers extended payments due to more challenging time. We're working closely with our customers and I expect that we'll make some headway in the second half. Our inventory at the end of June has declined by \$27 million from March, and \$10 million below 2018 levels. We have active inventory reduction programs throughout the company and focus is high with our operating managers to sustainably increase our inventory turnover in the business. We are including working capital targets in our operating manager scorecards and incentive programs and action plans are vigorously managed on a monthly basis now, which has been enhanced during this year. It's notable that the largest decrease in inventory during the quarter was in our North American wheel operation, which obviously had the negative impact on margins in Q2. So we're back to more historical levels in terms of day's stock on hand. After the challenging period that we experienced with our ERP implementation, we're back to more normalized operations there.

CapEx in the first half of the 2019 was \$17 million versus \$18.4 million a year ago at this time. We are in line with expectations for capital to be spent this year, while we have begun to curtail some of our larger spending programs due to market conditions and current performance. For the year, I now anticipate capital spending to be at or below \$40 million. Our original expectation was to be in the range of \$40 million to \$50 million and there is a necessary areas for us to spend in order to ensure that our plants are operating efficiently and are reviewing those carefully as we progress during the year.

Now I'll wrap with a discussion on debt and what we're doing to manage our cash and debt levels in the near term.

There is no doubt that we have elevated debt levels after satisfaction of the put option and our profitability has been reduced in the first half. We believe that we will weather the short-term market conditions and profitability levels should improve over the course of the remainder of 2019 and into 2020. As a reminder, our debt primarily consists of \$400 million senior notes, which matures in 2023. A significant portion of our current maturities relates to local overdrafts and working capital facilities, which are generally considered on demand for reporting purposes, but are expected to roll over without the use of cash during the year. We increased our capacity on our domestic ABL credit line to \$125 million from \$75 million during the second quarter as we discussed on our last call. As of today, we have \$62 million outstanding on the loan, which was utilized entirely due to fund our obligations from the Russian put option. We were able to fund a portion of the payments to OEC from cash balances in July. We are very focused on reducing our debt level in the near term from several vantage point. First, we'll continue to actively manage our working capital levels as we showed this last quarter, we expect to reduce the level of receivables in the third quarter and as I said earlier, we have active programs to manage inventories across the business.

Second, we continue to pursue the sales of non-core assets that should deliver between \$30 million and \$50 million in cash. This represents the sales of property, collections on certain insurance claims that are in the final stages of settlement and other asset sales. There is no doubt, these opportunities have been slower to reach conclusion than I originally contemplated. But I'm still confident that we will complete these transactions. We're also looking at other structural opportunities within the business to manage excess plant capacity utilization and that will be very important from the standpoint of managing our fixed costs in the future and our invested capital base. Any cash flow secured from these opportunities will be first applied to debt and then to replenish cash levels, which have been lower than historical levels.

Given our cash levels and our credit capacity on a global basis, we have adequate liquidity to manage the business in a healthy way, but we're very focused on getting tightened to a stronger position for the future. The put option overhang created more challenging situation for us, but now that the payments have been completed and this is behind us, we'll make the appropriate swift decisions to improve our position as quickly as possible.

With that, I'll turn the call back over to the operator for any questions you have.

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

**Operator:** [Operator Instructions] Our first question comes from Chirag Patel with Jefferies.

**Chirag Patel:** Thanks and good morning. I just want to get into a little bit of the guidance for the topline there, the revenue guide of flat to down 3%. The way I was looking at this is that kind of implies the idea of the back-end being either up by 1% on the low end of the guide or about 12% on the high end. Can you just walk me through the cadence of that and by segment as well, if you

could, just to kind of get a better sense for where you're seeing that growth and where you're seeing that opportunity?

**David Martin:** Yes. So I think on the high end, we expect to see a little bit at the similar levels to what we saw in terms of volume -- sales volume in the first half of the year. That does represent a bit of an uptick from what we saw last year, but particularly as a comparability to Q4, we had pretty low sales volume than Q4 last year. And as we saw that things got -- kept getting pushed out.

I would say that, overall, we're expecting to see a little bit of improvement in AG particularly as we do -- go through Q4 construction and earthmoving and construction should be fairly close to what we -- in terms of volume that we saw in the first half as well. So -- but as far as the range of guidance, we want to be very careful on the Ag side. And so any downside levels that we have built into our forecast really relates to that and not construction.

**Chirag Patel:** Okay. And then...

**David Martin:** Consumers are so small; it doesn't really play a big part in it.

**Chirag Patel:** Right, right. How much of that guide for that flat to down 3%? What was the price mix kind of baked into that piece of the pie?

**David Martin:** Well, we expect pricing to be fairly stable. Mix can get -- we do expect a bit of a better mix, and when I say that, the impact of price and all that has a pretty good impact on our margin, right. So I think the margins will be dramatically better because of the one-off or the anomalies that we saw in production in the first half are largely behind us. So with steady pricing and with no material changes in our raw material prices and our production cost, we expect to see improved margins.

**Chirag Patel:** So you are looking at from the gross margin standpoint, you're looking at it as being roughly flattish for the next quarter and then maybe about a little bit of an uptick into the fourth quarter, or am I think about that incorrectly?

**David Martin:** I think in terms of margins, I would expect to be fairly -- we're certainly not seeing improved margins both quarters, but it's going to be more noticeable against what we experienced last year. We saw margins dropped around 10% last year in the fourth quarter. And I don't anticipate it dropping any significant amount this year at this point.

**Chirag Patel:** Just given where the raw material pricing is coming going forward?

**David Martin:** And that's a big part of the improvement, because if you look at last year, we had elevated steel price as it still rolling through everything at this point in time last year.

**Chirag Patel:** I will get back in que. Thanks.

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

**Larry De Maria:** Thanks, good morning. A few questions, but first on -- related to the wheel inventory build, which, as far as I understand was 90% plus OEM, just curious I understand maybe some of the build with peak of the year the ERP implementation, but you also said because of the growth. So did you guys build inventory on spec anticipating growth? Because couldn't you have visibility from the OEMs and exactly what you should be building? So just trying to understand why that happened?

**Paul Reitz:** We were not building on spec, we build to order in the wheel business, Larry. What happened there is that you have a lead time that requires you to start bringing in the raw materials for the specific steels that are required for the various components in there. So no it didn't have anything to do with spec, it had to do with the expectations that we and many others in the industry believed we're going to be pretty favorable as we started this year and then you combined it. As we noted with the ERP implementation, where we are carrying some extra cushion, as we worked or navigated our way through that implementation to make sure that we weren't going to miss any orders and that is just kind of married itself up there with the changes in the steel prices. So it was up kind of a perfect storm of various events that came together and impacted what has always been a very stable business for us through many years.

**Larry De Maria:** Therefore, I assume OEM changes there, production builds and orders would you guys through the quarter, which affected that is that right. And how are the second half builds, are they stable changing positive negative, given that obviously there's a lot going on in the market and potential for upside later in the year?

**Paul Reitz:** Right. I'd say, right now it's stable. And as we move into the back half of the year, kind of looking to looking at the market very carefully to see some -- while we believe and again what many others believe are some potential favorable conditions that would come from the higher commodity prices.

**Larry De Maria:** Okay. OEMs haven't changed anything yet, I guess. And at least the ITM business, that's been on kind of hold now. We're moving into a potential cyclical peak for probably some of their end markets, especially in Europe and even here in the US maybe the exception of mining, but how they also -- therefore with the window kind of closed, given the Brexit uncertainty et cetera.

That window maybe closed for a while now. Are you guys prepared to keep this for a long period of time, or how do we think about really the timing of monetizing ITM and are we definitely going to monetize this in the relative near to medium term future?

**Paul Reitz:** Yeah, I mean what I'll say, and I'll turn it over to Morry to talk on behalf of the board, I'll say as a business, we're very pleased with how Titan, or excuse me ITM has performed as part of Titan through the years, and we fully believe it will continue on a good path. I'll turn the floor over to Morry now to talk on behalf of the board in the postponement.

**Maurice Taylor:** Thanks, Paul. Larry. The situation with ITM if you, just go back to the '16 -- in the end of '16 and we were putting it out at that time. And at that time, everybody remembers

that there was concern of liquidity referenced the bonds back then. And what happened was Goldman was the one that was handling that sale and they basically gave a report to the Board that their recommendation was, you shouldn't sell this, you're better off to redo your bonds and hold this for a couple of years because the orders and what they were coming out with new. If you remember back then ITM was real big into OE sales. Your aftermarket they had not really attempted to go strong, so what happened in those 2016 as they were approved at various mines around the world, the larger crawlers and shovels and everything else and the product was outstanding. So what's happened is, they have increased their sales, they've increased their EBITDA, so when the Board met and looked at putting it back-out because the future looks so good, the situation was that's where we decided to go. The range they have -- the Board was given a range and the minimum was around the 300 and it went up. Now, what happened is like, you know that ITM moves and we were going on the AIM, which is all of different than what's going on in American markets. Well what transpired was there was a delay that was caused in getting all the -- setting it up as the stand-alone and everything else. That 30-day delay, which we were trying to get done by before the first of June, so that we could go off and then make the end of June the cut-off to switch the half a year, well we got missed.

And with that, the market because of the Brits and the trade, everything kind of like started to slow. So, you could give it away, which is still better than, I mean you've got more money than you before. But we don't think that's a smart thing to do because the future for it is very, very good and the reason being, as they started big into the aftermarket and a real acceptance. The other negative though as you should know, is an awful lot of OE's don't really think that we should and of course, those OE's, are wheels and tires.

So we think the long-term we -- it's better to move them off and let them grow, and we think that everything is shining light for them. So what we're going to try to do the board looked at it. They know there's interest, some other companies and that's going to move forward and we're looking at if so-called Brexit-- whether it's a hard deal or negotiated at the last one point, one way or another it's going to end in October. And at that point, it could be a really nice event. So it's smart for us to turnaround and to have a postponement. We think and if you look at it, the situation -- those numbers run all the way up to almost 400 mil. And they're going to do better this year, even with all the other stuff that's happen because their aftermarket has been pretty decent. So into the big items and that's where we're looking at it. So, the Board is pretty unanimous in what to do there. So that's the situation.

There is other things that Paul mentioned and David what they're doing on other items. So all the pieces -- there's a lot of pieces we put together over the last 30 some years and they're doing a, Paul's team they're doing a good job and I think it's going to be a very rosy future. So do most of the other Board members and that's where we are going.

**Larry De Maria:** So it's not put often definitely, we just have to get through this kind of periods now. Okay, I understand. Morry, while I have you and then I'll jump off and obviously, their representing the Board. Is the board considering any other kind of more drastic actions such as I don't know selling company, hiring somebody to come in and help turn around the company because obviously the performance hasn't been that great. Not all your fault, the market there

hasn't been great. But I think more drastic things, the board is considering at this point, given where the stock prices to get it going.

**Maurice Taylor:** Well, if you look over the history, and I've been with it since over the history, the situation is, it's a cyclical business, but you know the investments in what we bought over all the years. Paul and the team are basically taking a different look at everything and if someone came with – you know we're a public business. So there is no question that if someone come, they will probably look at it. In fact if you look, with our current president, he's basically taken the trade we have watched most of your life, you watch the American industry get the hell kicked out of it, Larry, and so, he said, enough was enough and it is true and what happen people forget it was back in '11. Titan is the one that stepped up and sued the Chinese, they were dumping tires in here and we won five to one vote and duties from 30% to 200%. So it was little 25% that present along is the – doesn't really mean nothing and that got everybody's attention, but a year ago -- but as soon as that went into effect the Indians they opened 2 factories over there, brand new for Europe and the US that where these tires go.

And so the Indians where you can't ship nothing to there, they will charge you 40% or more. So what's happened is, I think that the President's already let everybody notified he's going to straighten up the mess everybody else created, Democrats and Republicans and so I think in the future, you know this business a little bit. There is only two large manufacturing facilities in the US that make large farm and OTR there's more, but basically farm is two Firestone and Titan,. So, if all the rest of the world players are play in this market, we are in -- what our Board thinks is a very unique situation.

Someone there is negotiations that people want to do joint ventures all the rest. Then when it becomes attractive to, well we think it was fair for the Titan shareholders, then I think Paul's team will make that happen. But at this stage, right now, we can't talk about too much as you already know. So when you look at our Board, our Board is not a board of relatives or anything like that. Pretty strong Board. Lot of opinions on what to do and how to do it. So, I think Titan the future's really good. Everybody thought the future looks like pretty bad when we were at one time \$0.62, but there was a lot of Board members, but they couldn't go buy the stock. And if you tried to do it public, everybody in the world would be suing you.

So there is a lot of that talk, there's a lot of everybody's looking which way. You're just up and say Oh hell, let's give a -- someone buy it for \$6 that's a 100% on the winner price. So what the hell you call sell ITM – and we're still a billion two, but we don't control the price of the stock. And we don't look at it, 1 year out. If you look at what's it's gonna be in a couple of years and we went through a 5-year just a downward market in what we do, and I think they did a hell of a job. So that's all I can say on it.

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

**Joseph Mondillo:** I just wanted to follow up on the wheel one of the major issues to the quarter was the higher cost of goods sold related to the inventory or the revenue that you sold in the wheels in the quarter. I'm just curious I understand the lag in steel prices and how you build up inventory early in the year and you don't realize the current spot prices, which are much lower

than compared to when you're buying that inventory and how that works? My sort of question is in May when you were a month into the quarter already how are we surprised today of this, I would think, how did you guys not know that this is going to be an issue in the second quarter?

**David Martin:** Well, I guess the way I look at it, we looked at, we knew we had elevated levels, and we kind of -- I kind of consider that we have had additional sales in June and I think this will be spread out over time. It's really it is all came to roost in 1 quarter. We also thought with -- there would be a better blending, if you will, in terms of current production versus old production. So there was a potential overhang, but it really wasn't necessarily going to all hit at once.

**Joseph Mondillo:** All right, and then, so that on the segment levels price/mix missed my estimates. Is that weakness, especially in the Ag segment price/mix, is that related to the wheels?

**David Martin:** Because we also because of steel prices being down, our prices took a hit because of surcharges being down.

**Joseph Mondillo:** All right. And then, so that brings me to, I guess pricing. If steel prices continue to -- you're talking about how gross margins are going to be better in the back half or maybe in the fourth quarter with steel prices falling, but doesn't your pricing get reset, so that you really don't make up the higher steel prices from last year, the way your business is positioned. You have to reset your pricing with the OEs. And so, will your pricing be in line with the lower steel prices, so you wouldn't recognize that?

**David Martin:** It's closer to a certain extent, yes. But in our projections, we are not projecting margins at the same level that we saw a year ago.

**Joseph Mondillo:** Okay, All right. Okay. So, and then I wanted to ask how much was your Ag aftermarket down in the first half of the year, percentage wise?

**David Martin:** I don't have that exactly. We have some business, but I want to say that I think digits down in the second quarter. I don't have first half. I would --

**Joseph Mondillo:** Okay.

**David Martin:** I think aftermarket was pretty on par in the first quarter. So this time actually this quarter anyway.

**Joseph Mondillo:** All right. And, how are you thinking about the back half of the year, do you think, I mean I wouldn't expect you make up all that sort of aftermarket but because some of the farmers, there was a late spring and then on top of that, there was certain locations where flooding caused the late spring and prevented farmers to get out there until maybe now that the water drying up, so do you anticipate now that there more sort of equipment usage that you'll make up a little bit of what you lost in terms of aftermarket in the back half of the year?

**Paul Reitz:** Yes, Joe. We do believe that will happen. We've been working very closely with our dealer network, which we certainly know is the strongest in the industry. And so we haven't lost position with our dealers. We have certainly kept close to them and what we're hearing is that farmers with all the concerns they're seeing looking out there window into the fields. Business just dried up and so after they get done working through this cycle, it's kind of a question of timing, when you get the harvest outlook. I think right now we're all still trying to figure out exactly what that means like I noted in my comments, when you drive around you just see so many different scenarios, it's really tough to pinpoint exactly what their harvest is going to be right now.

You combine that with the government and their talk on a different form of programs, they'll have to assist the farmers, then of course the insurance that will kick in. So what we believe is those scenarios start to become clearer to the end users, their pent-up demand that has to get filled in the aftermarket.

As David said, were down in that mid-teen range for aftermarket, it's still the show, they got to take care of business and it will happen, it's just has not been happening in the back half of Q2 dramatically.

**Joseph Mondillo:** Okay. And I would imagine, looking at the first half of 2020, I know you're not going to put out guidance or anything, but I would imagine it's safe to say, if we are even close to sort of a normal year in terms of weather that the aftermarket and maybe even probably even on the OE, but certainly on the aftermarket side of the business, you should have a very easy comp. Would you agree with that?

**Paul Reitz:** Yes, definitely.

**Joseph Mondillo:** All right. And then just go and sort of back to pricing. I understand you're not going to make up much pricing or sort of what you lost in terms of wheels business in terms of sale prices, but what are you seeing within synthetic and natural rubber, which is your main raw materials for tires?

**David Martin:** Both of those are down relative to where we were at this time last year and actually down from the first quarter. Synthetic obviously is based on oil prices primarily sold at and fluctuate a little bit more, but natural rubber is down as well. I would say most of our raw materials are down; steel is down as well with the exception of carbon black.

**Joseph Mondillo:** Okay. And sort of any sort of degree that you can sort of help us understand synthetic and natural rubber? How much are they down, roughly?

**David Martin:** I don't have it off the top my head, but I can get that to you.

**Joseph Mondillo:** Okay. And so if aftermarket does, that revenue sort of starts to improve, and you should get a good spread on the price cost situation in terms of aftermarket tires with volume and that spread being nice, that should be certainly a gross margin benefit in the back half of the year?



**Paul Reitz:** Yeah, that's correct and that's what we've built into the outlook for the second half of the year that there is a combination of improvements in the market and then the pricing in relation to our costs and again. So, you highlighted it correctly about there is a direct pass-throughs, but we're talking about as we had a higher than normal production costs that will normalize and we'll get back to a normal relationship between our production costs and pricing. And when I say production cost, obviously I include raw materials in that mix as well. So, I agree with what you've stated.

**Joseph Mondillo:** Okay. And then I wanted to just follow-up on the issues in the earthmoving/construction business. I thought it was -- I thought those issues in the first quarter were related to the mining business, but I guess is on the construction side regardless, maybe you can clear that up and then also, I'm really just want curious of sort of what your sort of update there is, I mean you made it seem like the delays are continuing, but do you think we'll actually see them in the third quarter, potentially on the back half of the year or is it sort of an indefinite delay?

**Paul Reitz:** Right. Well, on the first part of it, yes, it was in relation to construction and we brought in shortfalls, and it's as David mentioned in his comments I mean it's specific to certain regions and customers, it's not a widespread issue, but it was in that part of the business that we did see the shortfalls. Mining has grown and continues to grow, especially our mining aftermarket business and so that part of again we combine them into one segment, as you know but when you bifurcate in those 2 categories, it's construction that did cause the shortfall. We've been talking about the delay of orders. The way we've approached our outlook for this year is that, we're pushing those orders back into 2020 and kind of looking at 2019 as still too much uncertainty to really include that in our estimates for this year. So we, again I think we've talked about that now for the last two quarters.

We don't have enough visibility to say that we see those coming back in there in Q3 or Q4, to answer your question. So our outlook, basically looks at that is a pushing into 2010.

**Joseph Mondillo:** Okay. Last question from me, I just wanted to sort of an update on the reorganization, restructuring or however you sort of whatever terminology you sort of use for the improving of the efficiency in the business. You mentioned in your prepared commentary that includes reconciling the footprint of the company and square footage. Where are we within this overall strategy? It seems like it's been sort of an ongoing living, breathing, types of thing where you don't necessarily have a set strategy or maybe you do. I'm not really certain, but could you just provide an update on sort of the overall strategy -- growth strategy of the company?

**Paul Reitz:** Well, it's been living and breathing for a while, because it's been part of our strategy. We've closed a major facility in Italy. We've closed locations in Australia. We sold off two branches in Australia this year already. We've been looking at rightsizing that footprint for a while. So the reason why we're talking about it is because we've been doing it.

In relation to the comment that I made today, is we're looking more specifically at what I would say going beyond just lower hanging fruit that we've already addressed. And so those discussions

involve the board. They involve significant changes to how we may look at our business and so I would say to update you on where we stand with that clearly by talking about on the call today and making it part of the strategy that we're rolling out that means we are having ongoing discussions with the board.

And as Morry said, we have a strong board that certainly will gear us in the right direction. So when I say, it goes to the board, that means they're going to look at all the facts and all the information and collectively, we will make the best decision for the shareholders. And so, yes, so I want to make sure you understand that. I mean we've been talking about, we've been doing it, and we've been taking the proper action. But now we're going to that next level of consideration and that's not impossible.

**Joseph Mondillo:** Okay. Over the last -- just a follow-up real quick over the last year and a half totally, I agree that SG&A -- certainly looking at the SG&A relative to the topline, it's been reflected in what you've been doing. Is there any point in time where we should expect that some -- many companies sort of do coming out and say, we're going to be doing this, this and this, restructuring plan and we could see this kind of savings? Is that a possibility down the line just to see what the potential is and quantify it for us? Or are you sort of handling this on a quarter-to-quarter basis and you'll continue to improve and maybe we won't necessarily hear any quantified numbers? Just wondering how you're directing that to the Street?

**Paul Reitz:** Well, there is probably a few parts of that answer. And the first off, the first part of that Morry did address in his comments where he referenced the strategic reviews that are ongoing with the board and I think we're having so. As far as bringing in the outside look and kind of putting out a public announcement, which is, if you noted companies respond, I think Morry addressed that in his comments.

So I won't comment on that any further, but for us, different than other companies is that many of our plants make different distinctive products. So the decisions to close the plant are not consolidation plants or you can just close the facility and manufacture everything elsewhere and that's what we've already tackled in the past. So now, when we talk about making changes to our footprint, it involves us potentially making changes to our strategy.

And so we're different than other companies in that aspect and so it's nothing we can do. Close the facility in one location, manufacture it elsewhere, and just keep on going down the road, like nothing happens. So that's why it does involve the board and really a higher-level discussion to address that. As far as that is quantified and put it out there in the market again as soon as we get that through the board, we will. And I could really don't think we can add much more than what we've said, David and I both commented about the what we believe the range of value of selling non-core assets represents.

I did mention that I think we can go beyond that which I do, but we are actively pursuing all those avenues and there is a level of discussion taking place at many different facets, and we know we'll take care of the current cycle, we will work very diligently to protect the balance sheet and at the same time, we'll also make sure that we're making the proper investment for the future and building the right product portfolio on a global basis, both our leadership position. So

we're addressing it from all the angles, but we'll continue to put information out there, I think as quickly as we can and I think today is a good job of it.

**Operator:** I'm sorry. Go ahead, sir.

**Paul Reitz:** No. I let you know to close it. I was just going to say the same thing.

**Operator:** All right. Well this concludes our question-and-answer session. And I would like to turn it back over to Mr. Reitz for any closing remarks.

**Paul Reitz:** I certainly appreciate everybody's time and participation in today's call, and we will talk to you again at the end of the third quarter. Thank you.

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