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Zacks Small-Cap Research

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Titan International Inc. (NYSE: TWI)

TWI: Titan announces 2nd quarter 2024 results and provides update on industry conditions in the Agricultural and Earth Moving / Construction markets.

Utilizing a Discounted Cash Flow process containing conservative estimates combined with other valuation methodologies, we believe TWI stock could be worth **$16.00** per share.

Current Price (8/5/24)	$7.68
Valuation	**$16.00**

OUTLOOK

Titan International is a global manufacturer of off-the-road tires, wheels and undercarriages. The company serves the agricultural, earthmoving / construction, and consumer markets. Recent strategic actions have created higher margins in recent years and brought the leverage ratio down to 1.8x. Long-term secular tailwinds exist in the global agricultural, infrastructure and construction markets. The outlook is for positive revenue and earnings growth on average over the long term. On February 29, 2024, the company acquired Carlstar Group for approximately $296 million which is expected to add significant diversity to the company's product lines. We believe TWI stock to be undervalued at this time.

SUMMARY DATA

52-Week High	**$15.33**
52-Week Low	**$6.71**
One-Year Return (%)	**-36.9**
Beta	**1.86**
Average Daily Volume (sh)	**764,520**
Shares Outstanding (mil)	**72.1**
Market Capitalization ($mil)	**$556.7**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**80**
Insider Ownership (%)	**18**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**5.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**7.4**
P/E using 2024 Estimate	**17.5**
P/E using 2025 Estimate	**8.0**

Risk Level	**Average**
Type of Stock	**Midcap Value**
Industry	**Wheels & Tires**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	556 A	573 A	531 A	510 A	2,169 A
2023	549 A	481 A	402 A	390 A	1,822 A
2024	482 A	532 A	477 E	470 E	1,960 E
2025					2,205 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	$0.44 A	$0.79 A	$0.54 A	$0.44 A	$2.21 A
2023	$0.50 A	$0.48 A	$0.31 A	$0.34 A	$1.59 A
2024	$0.29 A	$0.10 A	$0.02 E	$0.03 E	$0.44 E
2025					$0.96 E

Quarterly revenues may not equal annual revenues due to rounding.
Quarterly EPS may not equal annual EPS due to rounding or dilution.
EPS may include adjusted, non-GAAP figures.

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WHATS NEW

2nd Quarter 2024 Financial and Operating Results

Titan International reported 2nd quarter 2024 financial results which continued to reflect a difficult macro environment in most of its end markets. Net sales for the 2nd quarter were $532.2 million compared to $481.2 million in the prior year period. The increase was primarily due to the Carlstar acquisition in which the 2nd quarter was the first full quarter of recognizing Carlstar revenues. Revenues declined in the agricultural and earthmoving/construction segments where lower levels of end customer demand occurred due to macro issues including major economic softness in Brazil.

The Agricultural segment showed the largest sales decline at 19.6% with sales of $216.3 million compared to $269.1 million in the prior year period. The sales decline was primarily due to significantly reduced global demand for agricultural equipment, particularly in North America and Brazil. High interest rates continue to negatively affect large equipment purchases. High-horsepower agricultural equipment represents a significant purchase for farmers, and they are highly sensitive to higher financing costs. With the possibility of interest rate cuts happening soon, many farmers are choosing to defer major purchases. Agricultural gross profits declined to $32.3 million from $48.7 million and gross margins decreased to 14.9% from 18.1%. The decline in gross profit was attributed to reduced sales volume, lower fixed cost leverage, negative price/mix, higher material costs and an inventory revaluation step-up associated with the Carlstar purchase price allocation. Excluding the impact of the Carlstar purchase price allocation, adjusted gross margins in the Agricultural segment were 15.5%.

The Earthmoving/Construction segment generated revenues of $165.6 million which was a decrease of 5.2% from $174.7 million in the prior year period. Sales volume was actually higher during the period driven by increased sales in the undercarriage business led by strength in the mining industry. There was also a positive contribution from the Carlstar acquisition. However, these increases were offset by the impact of contractual price givebacks resulting from lower raw material costs, particularly lower steel prices in Europe, as well as the unfavorable impact of foreign currency of 1.5%. Gross profits declined to $21.3 million from $29.1 million in the prior year period. Gross margins deteriorated to 12.9% from 16.7% in the prior year period. The decrease in gross profit was attributed to lower sales volume in North America and reduced fixed cost leverage.

The Consumer segment generated revenues of $150.3 million which was an increase of 302.4% when compared to $37.3 million in the prior year period. The increase was largely attributed to a full quarter of revenue contribution from Carlstar.

Approximately 75% of Carlstar revenues generated during the quarter were in the Consumer segment and 20% in the Agricultural segment with the remaining in the EMC segment.

Gross profits increased to $26.8 million compared to $8.1 million for the prior year period and was largely driven by the positive effects of the Carlstar acquisition. Gross margin declined to 17.9% from 21.6%, The decline in profit margin was influenced by an inventory revaluation step-up of $6.0 million related to the Carlstar purchase price allocation as well as reduced fixed cost leverage resulting from lower sales volumes in the Americas. Excluding the impact of the Carlstar purchase price allocation, adjusted gross margin in the Consumer segment was 21.8% in the quarter.

Adjusted EBITDA was $48.8 million in the 2nd quarter compared to $59.0 million in the prior year period. GAAP earnings per share in the 2nd quarter was $0.03 and adjusted non-GAAP EPS was $0.10. Adjusted EPS excludes the Carlstar inventory step-up and a property insurance settlement gain. The adjusted net income of $7.1 million, and adjusted EPS of $0.10 for the quarter were negatively impacted by higher than normal tax expense of $15.5 million. With lower profitability in the U.S.

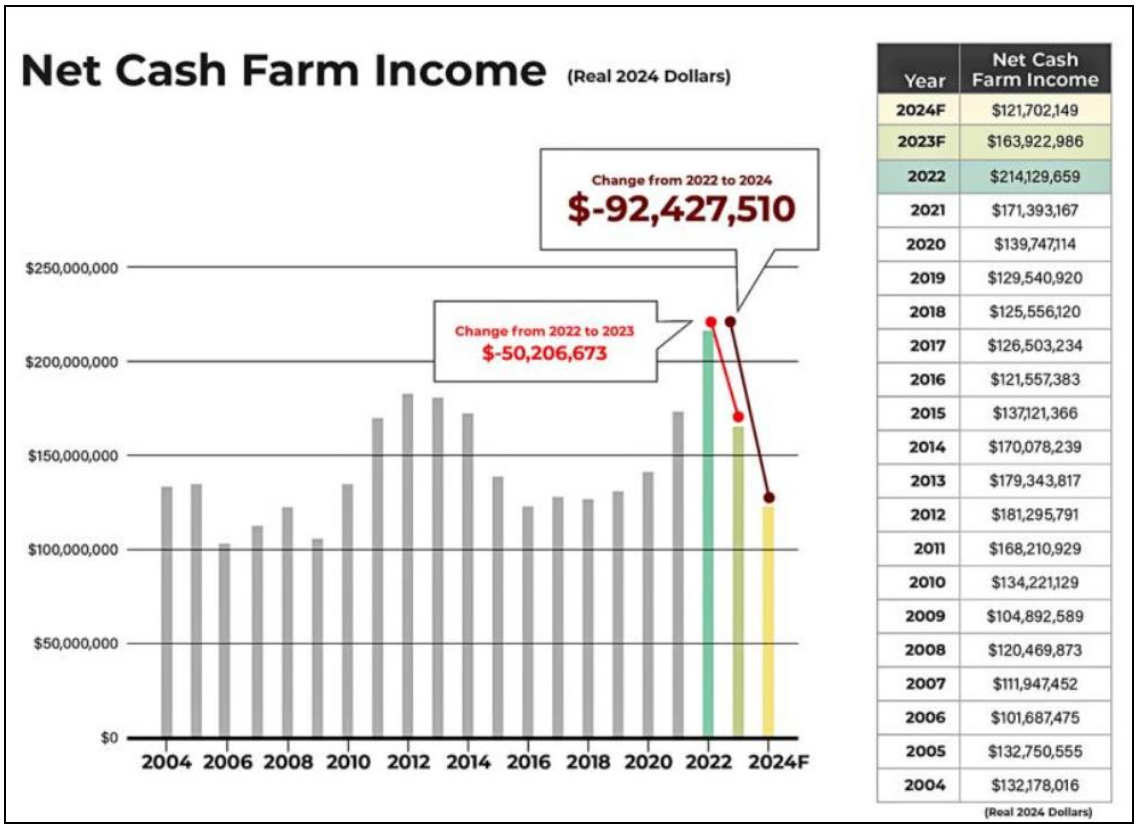
operations in 2024, the company now faces additional non-deductible interest expense. There are temporary negative impacts from the tax structure of Carlstar.

The company continues to maintain a safe and liquid balance sheet with cash of $224.1 million and total debt of $550.5 million as of 6/30/24. Working capital was net positive at $638.2 million at the end of the 2nd quarter. Operating cash flow was $70.8 million in the 2nd quarter and capital expenditures were $17.6 million, which produced free cash flow of $53.2 million. The trailing 12-month leverage ratio declined to 1.8x compared to 2.0x in the 1st quarter of 2024. In addition, the company purchased 775,000 shares of TWI stock during the 2nd quarter. As of 6/30/24, Titan had approximately $9.6 million remaining under the current $50 million share repurchase program.

Current Industry Outlook

Management also commented on current industry conditions. As mentioned above, Interest rates continue to weigh negatively on most of the industries they serve. Large horsepower agricultural equipment represents a significant purchase for farmers and they are highly sensitive to higher financing costs. With the possibility of interest rate cuts on the horizon, farmers are choosing to defer major purchases. Similarly, high interest rates also impact the cost of working capital for both OEMs and Aftermarket dealers who are being extremely cautious about the levels of inventory they are carrying.

The decline in farmer incomes is also negatively affecting the agricultural markets. It is believed that 2023 and 2024 may represent the two largest declines ever in farmer income. The USDA showed in its June 2024 Grain Stocks report that farmers are still holding much of their 2023 crop inventory. The USDA thinks on-farm storage may be the highest since the 1980s. This is because as commodity prices fall, farmers are reluctant to sell below the cost of production.



Year	Net Cash Farm Income
2024F	$121,702,149
2023F	$163,922,986
2022	$214,129,659
2021	$171,393,167
2020	$139,747,114
2019	$129,540,920
2018	$125,556,120
2017	$126,503,234
2016	$121,557,383
2015	$137,121,366
2014	$170,078,239
2013	$179,343,817
2012	$181,295,791
2011	$168,210,929
2010	$134,221,129
2009	$104,892,589
2008	$120,469,873
2007	$111,947,452
2006	$101,687,475
2005	$132,750,555
2004	$132,178,016

(Real 2024 Dollars)

Source: USDA

On a positive note, equipment currently operating in the field continues to be used and will ultimately need to be replaced. Additionally, as Agriculture OEMs (Deere, Caterpillar, AGCO, etc.) continue to introduce new technologies into their products, the Return on Investment that new equipment can produce, including the latest tire technology, will begin to outweigh the higher financing costs and help drive long term demand.

In the EMC segment, sales held up relatively well compared to the prior year. Volume in important steel undercarriage business saw an increase year over year in the quarter. Resource industries like mining continue to be active as a technology dependent world demands an ever-increasing supply of rare earth elements which should underpin solid demand over the mid to long term. In the construction business, the global need for long-term infrastructure investments also supports long-term growth.

CEO Paul Reitz stated, *"Identifying the cyclical bottom for our industries in advance is virtually impossible to do with any precision. Even so, as we continue to work through the current trough, we are confident that the long term, structural demand drivers for the industries we serve are very much intact. Our team also has extensive experience navigating through these cycles and we are confident in our strategy. Recognition of the cyclicality of our business was one of the reasons we worked hard to de-lever when buoyant market conditions afforded us the opportunity to do so the last few years. As a result, we entered this down part of the cycle with the ability to continue generating free cash flow, which, when compared to the first quarter of 2024, allowed us to reduce our net debt by $43 million, increase our cash position by more than $20 million, and deliver value to our shareholders through additional share repurchases. As conditions improve, which they unquestionably will, we expect to be well positioned to drive organic revenue growth with accelerating profitability."*

Most major agricultural OEMs who are customers of Titan have also provided a difficult outlook for 2024. Most of these companies are calling for double-digit declines in production and sales as the production outlooks deteriorated throughout 2024. The earth-moving and construction equipment markets are all calling for lesser declines, or even small volume increases, which is being driven by government infrastructure projects and ongoing activity in the mining industry.

LSW Technology

The company provided additional detailed commentary on its Low-Side Wall Technology (LSW) in the 2nd quarter press release.

Mr. Reitz stated, *"Our results over the past few years speak for themselves. An integral piece of that success is our Low-Side Wall ("LSW") wheel/tire assemblies that were developed back in 1997 when my old boss had the crazy idea to increase the outside diameter of the wheel and reduce the inside diameter of the tire on farm tire/wheel assemblies. He worked hard to get the OEMs to bite on that concept but didn't get any takers. Now that LSW design is on nearly every pickup truck and SUV around the world. When I became CEO in 2017, LSW was still seen by some inside Titan as concept that was not meant for Ag equipment. We have since proven to not just ourselves, but throughout the farming community the real benefits of LSW, especially its ability to make them more money by saving fuel and improving yields while tackling the most difficult conditions and enjoying a more comfortable ride in the field and on the road. We have proven this with thousands of farmers and have seen our LSW sales significantly grow since 2017. We believe that growth is nowhere near its pinnacle."*

Mr. Reitz added*, "In August, I was invited to visit a couple large farmers in central Canada that recently started using Titan's 1400 LSWs and are ecstatic with the fuel efficiency and overall performance of their LSWs. These farmers have a lot of influence among their peers, and we expect the leading OEMs will be listening closely to hear what they are saying about LSWs. This opportunity in Canada is an example of how Titan sees a continuing growth path ahead for LSWs to increase market penetration there and in Brazil while continuing to also grow our base in the US. Farmers are seeing the benefits of LSW just as the rest of us have all seen the benefits in our trucks and SUVs, so it's easy to see how nearly all Agriculture and Construction equipment could perform better with LSWs."*

Mr. Reitz continued*, "Our team has developed a deep connection with farmers which has led to dealers developing a strong aftermarket channel to get LSWs to end-users in order to make their equipment perform better. That aftermarket demand created the pull to where we now have OEMs offering LSWs across their equipment portfolio. A 6% savings on fuel costs along with superior performance in the field and lower maintenance costs gets peoples' attention. Today we estimate that approximately 80% of tractors run a dual tire configuration that could benefit by converting to LSWs. Looking towards the future, we have a deep drop rim that will only make LSWs perform better and further excites our team. We're also excited about other, non-farm opportunities, such as the military. I just met a retired military general that handled procurement and he was ecstatic about working with us to get LSWs introduced to the military branches. The government is a substantial buyer of trucks and we are going to chase that volume with LSWs. If it works in the heartland, it will work on the front lines."*

Valuation and Estimates

The company did not provide 2024 annual guidance due to industry and macroeconomic uncertainties but did provide an outlook for the 3rd quarter of 2024. The company expects revenues in the 3rd quarter between $450-$500 million and adjusted EBITDA between $25-$30 million. Free cash flow is expected to be between $20-$30 million. Capital expenditures are expected to be in the range of $10-$15 million.

We adjust our 2024 estimates due to recent management commentary, industry conditions, and a temporarily elevated tax rate. Our 2024 full year EPS estimate is now $0.44 and our total revenue estimate is $1.96 billion. That puts TWI stock selling at 17.5x current year EPS estimates. Our 2025 revenue estimate is $2.2 billion, and our 2025 EPS estimate is $0.96. The forward looking P/E ratio is approximately 8.0x.

These transitory depressed earnings in the 2nd half of 2024 are not reflective of the steady generation of positive EBITDA and free cash flow that is expected. The company has positioned itself in recent years to not only survive cyclical downturns but to also thrive and continue to develop advanced technologies that position them as the industry leader.

We adjust our price target to **$16.00** based on industry and macroeconomic uncertainty in most of Titan's markets in which it operates.

The company recently provided a framework for what a normal year could look like financially post the Carlstar acquisition, when expected synergies occur, and when a rebound in its end markets happens. Adjusted EBITDA could range between $250-$300 million and free cash flow of at least $125 million could be generated.

Carlstar Acquisition

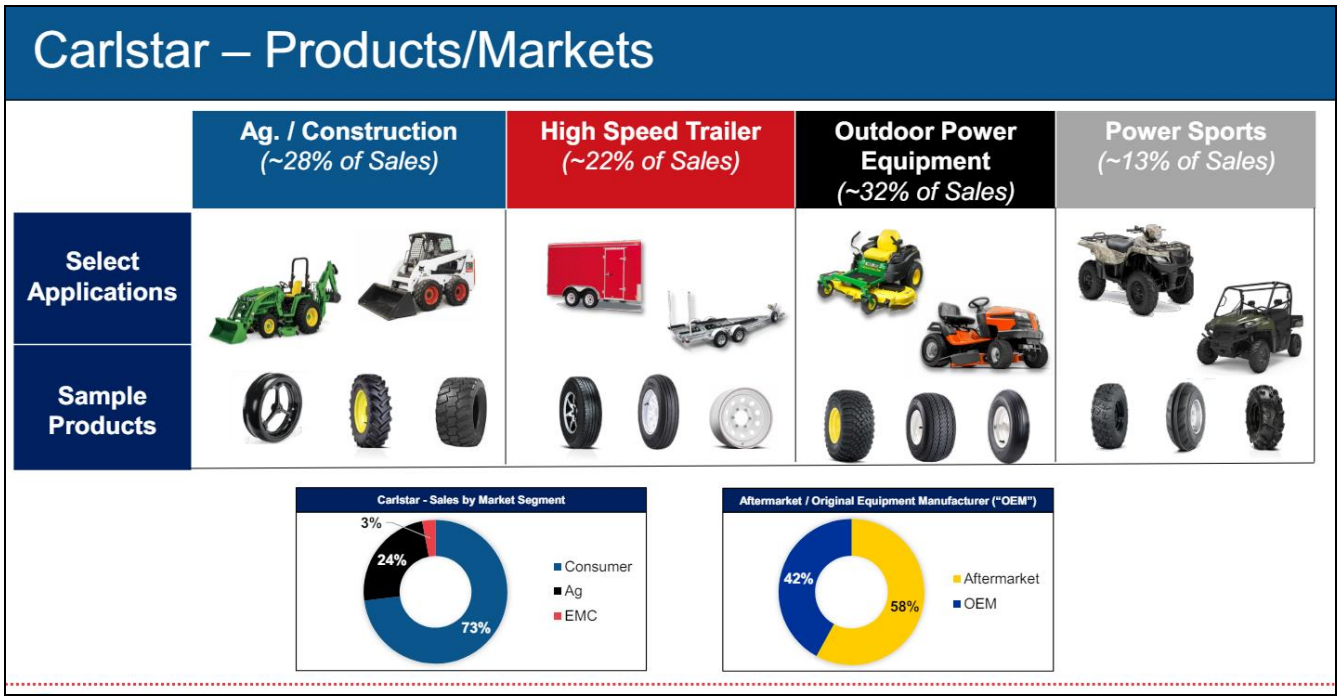
On February 29, 2024, Titan announced the acquisition of Carlstar Group LLC for approximately $296 million in a transaction consisting of cash and stock, which closed on the same day. The transaction price represents a multiple of approximately 4x Carlstar's full year 2023 adjusted EBITDA of $73 Million and is expected to be immediately accretive to earnings per share and operating margins in 2024.

Carlstar is a global manufacturer and distributor of specialty tires and wheels for a variety of end-market verticals including outdoor power equipment, power sports, trailers, and small to midsize agricultural and construction equipment. Carlstar operates three manufacturing facilities in the U.S. and one in China. Carlstar also internally manages twelve distribution facilities on a global basis. Carlstar's total 2023 revenues were approximately $615 million.

Carlstar brings significant new customer relationships in multiple channels, including leading wholesale distributors, national retailers, commercial servicing dealers, and OEMs. The acquisition adds further

diversification to Titan's product portfolio, especially in outdoor power equipment, power sports and high-speed trailers, where Titan does not currently have a presence.

The combination of Titan and Carlstar will create what the company believes to be the largest pure play specialty tire manufacturer covering commercial and consumer end markets. Carlstar expands Titan's existing wheel/tire assembly capabilities, providing further value for existing and new customers. The acquisition also adds four manufacturing facilities - Aiken, SC; Jackson and Clinton, TN; and Meizhou, China – along with twelve internally managed distribution centers in North America and Europe.



Source: titan-intl.com

KEY INVESTMENT POINTS

Source: ir.titan-intl.com/

- Titan International, Inc. (NYSE: TWI) is a global wheel, tire, and undercarriage industrial manufacturer and supplier that services agriculture, construction and consumer customers around the world.

- Titan produces a broad range of products to meet the specifications of original equipment manufacturers (OEMs) and aftermarket customers in the agricultural, earthmoving/construction, and consumer markets. Titan manufactures and sells tires under the Goodyear Farm Tire, Titan Tire and Voltyre-Prom Tire brands as well as undercarriages and components, including steel tracks, under the ITM brand.

- On February 29, 2024, the company acquired Carlstar Group LLC for approximately $296 million. The acquisition is expected to add significant diversity to the company's product lines and the acquisition is expected to be accretive in the first full year of operations.

- The Agricultural segment manufactures and markets wheels, tires, and components used on various agricultural equipment such as tractors, combines, skidders, plows, planters, and irrigation equipment. This segment comprises approximately 45% of consolidated revenues.

- The Earth Moving / Construction segment manufactures undercarriage systems and related components as well as wheels and tires for various types of off-the-road vehicles and equipment such as skid steers, aerial lifts, cranes, graders and levelers, scrapers, dump trucks and crawler tractors. This segment comprises approximately 30% of consolidated revenues.

- The Consumer segment manufactures bias truck tires and light truck tires outside of the US, customer mixing of rubber stock in the US, and high speed brakes in Europe. The company also offers various tire products to vehicle and equipment types such as ATVs, side-by-sides, rock climbers, turf, and lawn and garden equipment. After the acquisition of Carlstar, this segment comprises approximately 25% of consolidated revenues.

- The company has very longstanding and developed relationships with global OEMs such as Deere & Co, Caterpillar Inc., AGCO Corporation, Hitachi Ltd, and Kubota Corporation. The company's products are in high demand due to population growth and the increased food demand as a greater portion of the 3rd world population rises out of poverty. Also, global infrastructure is aging and in need of upgrading which creates demand for construction and earthmoving equipment.

- The company has undergone strategic actions in recent years including optimizing the product portfolio, investing in operational efficiencies, and enhancing working capital management. This is expected to increase baseline gross margins over time.

- The company maintains a strong balance sheet with $224.1 million in cash and $550.5 million in debt as of 6/30/24. The trailing 12-month leverage ratio is 1.8x, which is a significant reduction from over 10.0x four years ago. The company continues to generate free cash flow in this difficult cyclical downturn in the agricultural markets.

- TWI stock is selling at low valuation levels relative to its peers in the agriculture and construction space. We believe TWI stock is worth **$16.00** based on a conservative discounted cash flow (DCF) calculation and a peer multiple comparison.

OVERVIEW



Source: ir.titan-intl.com/

Titan International, Inc. is a global wheel, tire, and undercarriage industrial manufacturer and supplier that primarily serves agriculture and construction customers in both the U.S. and international markets. Titan traces its roots to the Electric Wheel Company in Quincy, Illinois, which was founded in 1890.

Titan manufactures wheels, tires, and components for use on various agricultural equipment such as tractors, combines, skidders, plows, planters, and irrigation equipment. These products are sold primarily to large equipment manufacturers such as Deere, CNH, and AGCO.

Titan also manufactures undercarriage systems, tires and wheels for various types of Off-The-Road (OTR) earthmoving, mining, military, construction, and forestry equipment. This includes equipment such as skid steers, aerial lifts, cranes, graders and levelers, scrapers, self-propelled shovel loaders, articulated dump trucks, load transporters, haul trucks, backhoe loaders, and hydraulic excavators.

In addition, Titan manufactures bias truck tires in Latin America and also offers select products for ATVs, side-by-sides, rock climbers, turf, and other products for the lawn and garden segment. The focus for future growth in this segment will be the development of third-party customer mixing of rubber stock which has strong market potential and has a higher margin profile.

The company has undergone a strategic transformation over the past four years in which EBITDA has increased from $38 million in 2019 to over $200 million in 2023 (estimated). The leverage ratio has decreased from 11.5x in 2019 to approximately 2.0x currently. This transformation included optimizing the product portfolio, selling underperforming assets, strengthening the supply chain, and new product innovation.

The company is experiencing strong secular tailwinds driven by strong agricultural and commodity demand, replacement cycles in agriculture and construction equipment, improving farmer income, and increased infrastructure spending by governments around the world.

As of the end of 2023, the company employed approximately 6,900 people worldwide, including approximately 4,500 located outside the U.S. Approximately 42% of these employees based in the U.S. are covered under collective bargaining agreements which expire on November 16, 2024.

PRODUCT DESCRIPTIONS

Agricultural Segment

Titan manufactures wheels, tires, and components for use on various agricultural equipment such as tractors, combines, skidders, plows, planters, and irrigation equipment. These products are sold directly to OEMs such as Deere, CNH, and AGCO and to the aftermarket as well as through distributors, dealers, and Titan’s distribution centers.

The wheels range in diameter from nine inches to 54 inches, with the 54-inch diameter being the largest agricultural wheel manufactured in North America. Basic wheel configurations are combined with different variations such as different centers and a wide range of material thickness, which allows the company to offer a broad line of products to meet customer specifications. Titan’s agricultural tires range from approximately one foot to approximately seven feet in outside diameter and from five inches to 55 inches in width. Agricultural tires are sold under the Titan, Goodyear, and Votyre brands with a full portfolio of sizes, load carrying capabilities, and tread patterns necessary for the markets served. The company offers the added value of delivering a complete wheel and tire assembly to OEM and aftermarket customers.





Source: titan-intl.com

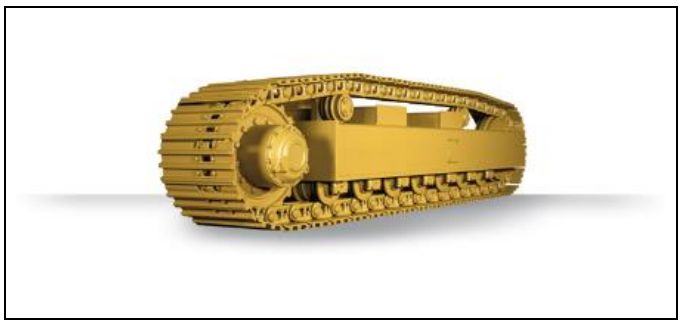
Specific business drivers in this segment include strong retail demand due to replacement needs for aging equipment fleets, strong North American farmer sentiment, and net farm income well above historical levels due to high crop prices. In Europe, pent-up demand levels provide support into 2024 and beyond. The Latin American market remains strong with a significant runway for continued growth due to low inventory levels and positive trends for the global agricultural economy in that region.

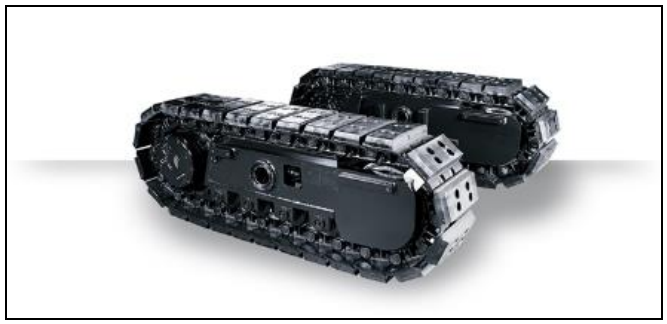
For the calendar year 2023, the agricultural segment represented 54% of total sales and 56% of segment operating income.

Earth Moving / Construction Segment

Source: titan-intl.com

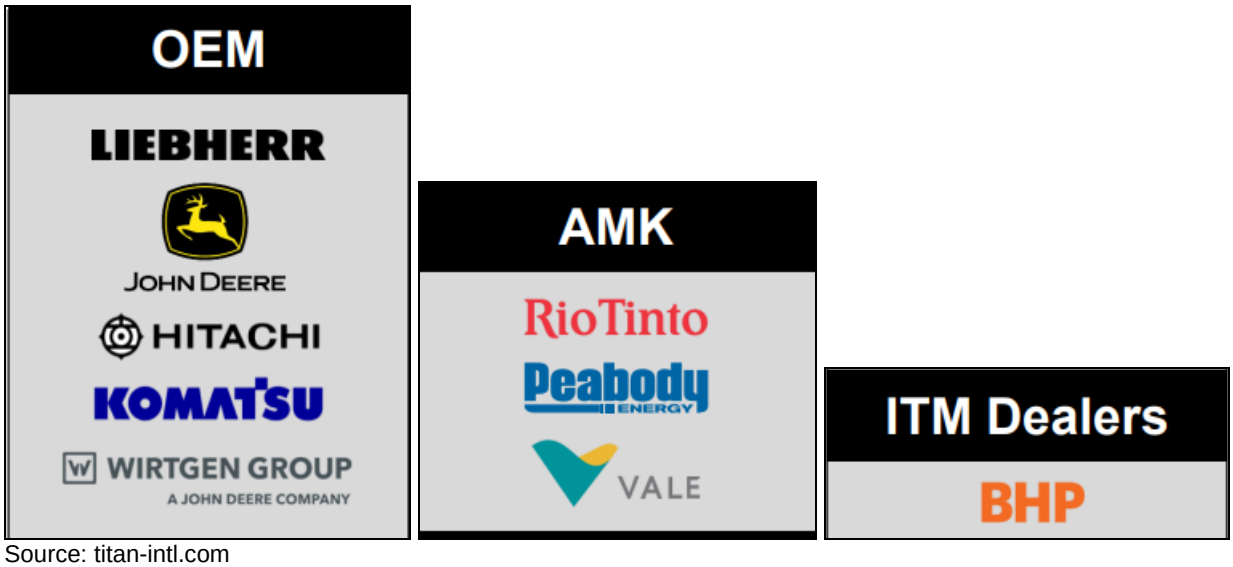
The largest product set in this segment (approximately 60% of revenues) are undercarriage components such as track groups, track and carrier rollers, idler assemblies, and sprockets which are sold under the ITM brand. These products serve a full range and lifecycle of applications for crawling machines primarily in the construction, mining, forestry, road building and agriculture industries. The company has a significant blue-chip OEM customer base in this product line as well as strong relationships in mining aftermarket channels and is expanding into forestry markets.





Source: titan-intl.com

Revenues for undercarriage components are approximately 70% OEM and 30% after-market. All tractor type track groups (up to 250 ton class) produced by the company are built from five major parts: shoes, right and left hand links, pins, bushings and bolts and nuts.



Source: titan-intl.com

Also in the EMC segment, Titan manufactures wheels and tires for various types of OTR earthmoving, mining, military, construction, and forestry equipment. This equipment includes skid steers, aerial lifts, cranes, graders and levelers, scrapers, self-propelled shovel loaders, articulated dump trucks, load transporters, haul trucks, and backhoe loaders.

The company offers a wide range of products in this segment with wheels ranging in diameter from 15 to 63 inches and in weight from 125 pounds to 7,000 pounds. The 63-inch diameter wheel is the largest manufactured for the global earthmoving/construction market. Titan's earthmoving/construction tires are offered in the Titan brand and range from approximately three feet to approximately 13 feet in outside diameter and in weight from 50 pounds to 12,500 pounds. Earthmoving/construction tires produced by Titan serve almost every off-road application in the industry with some of the highest load requirements in the most severe environments and applications.




Source: titan-intl.com

Key drivers in this segment include high levels of construction demand driven by road construction, infrastructure upgrades, government appropriations, and housing starts. The Construction and Earthmoving markets are in a good position for growth due to expected low inventory levels, solid non-residential construction and mineral commodity prices at relatively high levels. For the calendar year 2023, the EMC segment represented 38% of total sales and 31% of segment operating income.

Consumer Segment

Titan manufactures bias truck tires outside of the U.S. and also manufactures select products for ATVs, side-by-sides, rock climbers, turf, and also offers products in the lawn and garden segment. This segment also includes sales that do not fall into the other segments, such as custom rubber stock mixing sales to a variety of OEMs in related industries. After the acquisition of Carlstar, this segment also includes outdoor power equipment such as lawn mowers and utility task vehicles (UTV).



Source: titan-intl.com

After the inclusion of Carlstar products, this segment should represent approximately 25% of sales going forward.

PRODUCT INNOVATION

LSW Technology

The company has a history of advanced product innovation in the tire and wheel space. One of the most prominent examples is the company's development of Low Sidewall Technology (LSW). LSW assemblies feature a larger rim diameter and smaller tire sidewall than traditional tire and wheel assemblies. LSW technology is helping to eliminate problems that farmers face including road lope, power hop and soil compaction. The lower air pressure on LSW tires and subsequent increased footprint allows the equipment to stay higher and not compact the soil which can negatively affect plantings. Titan is the only company able to design, test and produce both wheels and tires for the agriculture markets.



Source: titan-intl.com

Since the introduction of LSWs in the markets, the company has seen them prove to be a win-win solution to dealer partners, the OEMs, and the company itself. LSW equipped machines create 38% less compaction, can road 30% faster, ride a lot smoother and can save up to 30% in fuel costs compared to conventional tracks. In addition, LSW tires distribute the weight of the tractor over a larger footprint which reduces compaction and the need for tillage, resulting in reduced tractor operating hours and a lower carbon footprint. This increases crop yields for farmers which results in a relatively quick payback from the purchase of LSW tires. The LSW technology also creates a higher margin product for the company.

LSWs can be a great retrofit for used equipment because it will simply improve the performance of that equipment. Lastly, it will help underpin a strong aftermarket business for Titan in future years.



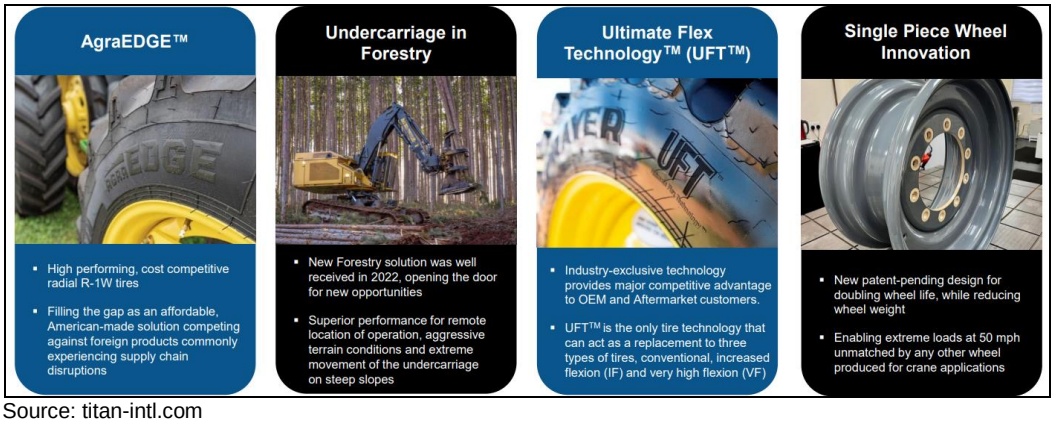
Source: titan-intl.com

Other Innovations

Other product innovations include AgraEDGE, which is a high performing, cost competitive radial R-1W tire that fills the gap as an affordable, American-made solution competing against foreign products recently experiencing supply chain disruptions. The company has also led advancements in undercarriage components for the forestry industry. These products were introduced in 2022 and were well received by the industry. The undercarriage creates superior performance for remote locations of operation, aggressive terrain conditions and extreme movement of the undercarriage on steep slopes.

Ultimate Flex TechnologyTM (UFTTM) is an industry-exclusive tire technology that provides a major competitive advantage to OEM and aftermarket customers. UFTTM is the only tire technology that can act as a replacement for three types of tires - conventional, increased flexion (IF) and very high flexion (VF). IF and VF tires aid in reducing topsoil and upper subsoil compaction by allowing a given weight needed at a much lower tire pressure. Excessive soil compaction can cause reduced crop yields, extra fuel costs, decreased water pressure, and decreased fertilizer efficiency. Reduced tire pressures can also have the positive effect of increasing traction.

The company has also been innovative in single wheel technology applications. The company created a new patent-pending design for doubling wheel life, while reducing wheel weight. This enables extreme loads at 50 mph which appears to be unmatched by any other wheel produced for crane applications.



Source: titan-intl.com

RISKS

- The company's business is exposed to price fluctuations of key commodities such as steel, natural rubber, synthetic rubber, carbon black, bead wire, and fabric. The company does not generally enter into long-term commodity contracts and does not use derivative commodity instruments to hedge exposures to market price fluctuations. The business is also susceptible to increases in other costs such as energy and natural gas prices to run manufacturing facilities.

- The company has international operations and purchases raw materials from foreign suppliers as well. Total aggregate net sales outside the U.S. were approximately $1.1 billion, $944.2 million, and $675.9 million for calendar years 2022, 2021, and 2020, respectively. International sales are a significant proportion of total net sales, accounting for 50%, 53% and 54% for the calendar years 2022, 2021, and 2020, respectively.

- The company's revenues are substantially dependent on three major industries: agricultural equipment, earthmoving/construction equipment, and consumer products. The business activity levels in these industries are subject to specific industry and general economic cycles. Any downturn in these industries or the general economy could have a material adverse effect on Titan's business.

- The company's customer base is relatively concentrated and its ten largest customers, which are primarily original equipment manufacturers (OEMs), accounted for 43%, 40%, and 35% of Titan's net sales for 2022, 2021, and 2020, respectively. Sales to Deere & Company represented 15%, 12%, and 11% of Titan's net sales for 2022, 2021, and 2020 respectively. There is also continuing pressure from OEMs to reduce costs, including the cost of products and services purchased from outside suppliers such as Titan, and in that regard, OEMs may develop in-house tire and wheel capabilities.

INSIDER TRADING AND OWNERSHIP

The following table shows information regarding the beneficial ownership of the company's common stock as of the Record Date by:

(i) each director and nominee for director,
(ii) each of the named executive officers, and
(iii) all directors and executive officers as a group.

	Shares Beneficially Owned	
Name	Number[a]	Percent
Kim A. Marvin	11,921,766 [b]	16.4%
Mark H. Rachesky, MD	8,317,291 [c]	11.4%
Anthony L. Soave	1,229,666 [d]	1.7%
Richard M. Cashin Jr.	735,172	1.0%
Maurice M. Taylor Jr.	657,874	*
Paul G. Reitz	329,399	*
Max A. Guinn	121,379	*
Laura K. Thompson	25,037	*
Michael G. Troyanovich	168,785	*
David A. Martin	228,605	*
Anthony C. Eheli	52,918	*
All executive officers & directors as a group (11 persons)	**23,787,892**	**32.5%**

Source: Titan SEC filings

SUMMARY

We believe Titan has the potential to generate substantial levels of free cash flow in upcoming years as secular tailwinds continue to drive revenue growth. A continued focus on operational efficiencies has the potential to increase margins going forward. In addition, the company may also be able to enhance shareholder value through selective, value-added acquisitions. Despite the difficult cyclical trough the industry is currently in, the company continues to generate free cash flow.

The company has longstanding and established relationships with global OEMs such as Deere & Co, Caterpillar Inc., AGCO Corporation, Hitachi Ltd, and Kubota Corporation which provide a relatively stable source of long-term revenues. The company's recent acquisition of Carlstar appears to be a transformative transaction which will diversify the company's products lines significantly and reduce some of the inherent cyclicality of the agricultural and construction markets.

The company's current stock price does not likely reflect that potential level of profitable growth going forward and we believe the stock to be undervalued at this time, particularly when compared to competitors. We believe multiple valuation methodologies support our DCF valuation which provides a target price of **$16.00** per share.



Source: titan-intl.com

PROJECTED ANNUAL INCOME STATEMENT

Income Statement	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
Net Sales	**2,169,380**	**1,821,800**	**1,961,391**	**2,205,683**	**2,355,847**
Growth	*21.9%*	*-16.0%*	*7.7%*	*12.5%*	*6.8%*
Cost of Goods Sold	**1,765,923**	**1,473,517**	**1,589,824**	**1,783,977**	**1,904,253**
%	*81.4%*	*80.9%*	*81.1%*	*80.9%*	*80.8%*
Depreciation & Amort	**42,747**	**42,434**	**55,423**	**56,809**	**56,809**
Gross Profit	**360,710**	**305,849**	**316,144**	**364,897**	**394,785**
Margin	*16.6%*	*16.8%*	*16.1%*	*16.5%*	*16.8%*
SG&A Expenses	**132,792**	**133,301**	**192,106**	**212,848**	**224,983**
% of sales	*6.1%*	*7.3%*	*9.8%*	*9.7%*	*9.6%*
Research & Development	**10,404**	**12,539**	**14,789**	**16,631**	**17,763**
% of sales	*0.5%*	*0.7%*	*0.8%*	*0.8%*	*0.8%*
Royalty Expenses	**11,712**	**9,645**	**9,985**	**10,484**	**11,008**
% of sales	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Amortization	**0**	**0**	**0**	**0**	**0**
% of sales	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating Income	**205,802**	**150,364**	**99,265**	**124,934**	**141,030**
Margin	*9.5%*	*8.3%*	*5.1%*	*5.7%*	*6.0%*
EBITDA	**248,549**	**192,798**	**154,688**	**181,742**	**197,839**
Margin	*11.5%*	*10.6%*	*7.9%*	*8.2%*	*8.4%*
Other Expenses/(Income)	**(26,347)**	**(5,774)**	**(7,585)**	**(3,031)**	**(3,827)**
%	*-1.2%*	*-0.3%*	*-0.4%*	*-0.1%*	*-0.2%*
EBIT	**232,149**	**156,138**	**106,850**	**127,965**	**144,857**
%	*10.7%*	*8.6%*	*5.4%*	*5.8%*	*6.1%*
Total Interest Exp (net)	**29,796**	**18,785**	**29,708**	**28,149**	**28,149**
%	*1.4%*	*1.0%*	*1.5%*	*1.3%*	*1.2%*
Net Profit Before Tax	**202,353**	**137,353**	**77,142**	**99,816**	**116,708**
%	*9.3%*	*7.5%*	*3.9%*	*4.5%*	*5.0%*
Income Tax	**23,167**	**32,580**	**44,142**	**26,451**	**30,928**
% Effective Rate	*11.4%*	*23.7%*	*57.2%*	*26.5%*	*26.5%*
% Cash Tax Rate	*11.4%*	*23.7%*	*57.2%*	*26.5%*	*26.5%*
Minority Interests or Preferred Stock	**2,884**	**4,956**	**3,746**	**3,746**	**3,746**
Net Profit	**176,302**	**99,817**	**29,253**	**69,618**	**82,034**
%	*8.1%*	*5.5%*	*1.5%*	*3.2%*	*3.5%*
Non-recurring income (expense)	(36,117)	(24,140)	(4,623)		
Average Diluted Shares Outstanding	63,691	62,961	68,100	72,500	72,500
Reported FD EPS	2.77	1.29	0.23		
Zacks EPS	**2.21**	**1.59**	**0.44**	**0.96**	**1.13**

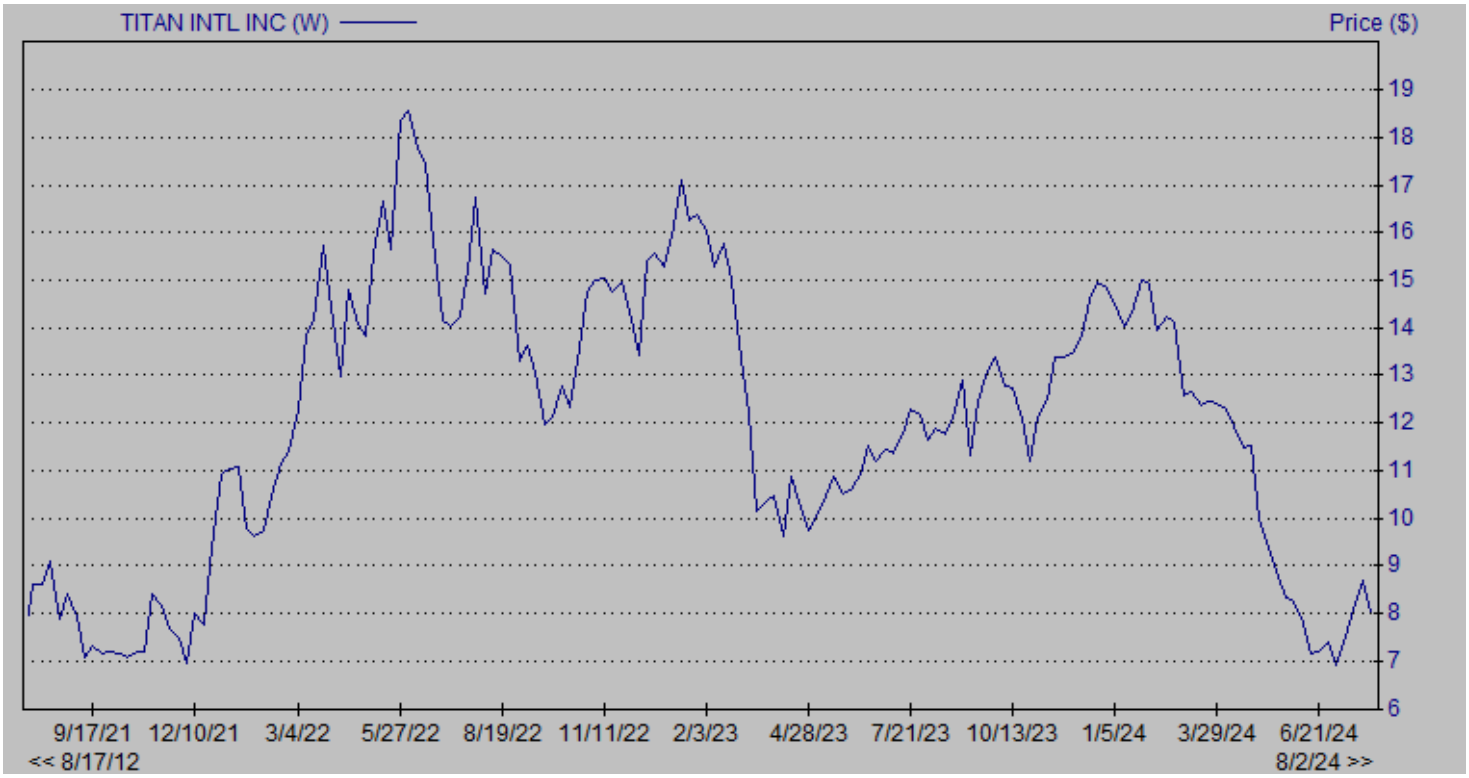
Source: Zacks analyst
Zacks EBITDA may not match Titan EBITDA

PROJECTED QUARTERLY INCOME STATEMENT

Income Statement	Q1/24A	Q2/24A	Q3/24E	Q4/23E
Net Sales	**482,209**	**532,170**	**477,000**	**470,012**
Cost of Goods Sold	**389,462**	**428,982**	**391,140**	**380,240**
%	*80.8%*	*80.6%*	*82.0%*	*80.9%*
Depreciation	**12,001**	**15,422**	**14,000**	**14,000**
Gross Profit	**80,746**	**87,766**	**71,860**	**75,772**
%	*16.7%*	*16.5%*	*15.1%*	*16.1%*
SG&A Expenses	**39,420**	**51,583**	**50,551**	**50,551**
%	*8.2%*	*9.7%*	*10.6%*	*10.8%*
Research & Development	**3,654**	**4,218**	**3,467**	**3,450**
%	*0.8%*	*0.8%*	*0.7%*	*0.7%*
Royalty Expenses	**3,028**	**2,319**	**2,319**	**2,319**
%	*0.6%*	*0.4%*	*0.5%*	*0.5%*
Amortization	**0**	**0**	**0**	**0**
%	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating Income	**34,644**	**29,646**	**15,523**	**19,452**
%	*7.2%*	*5.6%*	*3.3%*	*4.1%*
EBITDA	**46,645**	**45,068**	**29,523**	**33,452**
%	*9.7%*	*8.5%*	*6.2%*	*7.1%*
Other Expenses/(Income)	**(2,785)**	**(1,364)**	**(1,432)**	**(2,004)**
%	*-0.6%*	*-0.3%*	*-0.3%*	*-0.4%*
EBIT	**37,429**	**31,010**	**16,955**	**21,456**
%	*7.8%*	*5.8%*	*3.6%*	*4.6%*
Total Interest Exp. (net)	**8,147**	**7,187**	**7,187**	**7,187**
%	*1.7%*	*1.4%*	*1.5%*	*1.5%*
Net Profit Before Tax	**29,282**	**23,823**	**9,768**	**14,269**
%	*6.1%*	*4.5%*	*2.0%*	*3.0%*
Income Tax	**9,461**	**15,452**	**7,814**	**11,415**
% Effect Rate	*32.3%*	*64.9%*	*80.0%*	*80.0%*
Minority Interest & Preferred Stock	**773**	**1,273**	**750**	**950**
Net Profit	**19,048**	**7,098**	**1,204**	**1,904**
%	*4.0%*	*1.3%*	*0.3%*	*0.4%*
Non-recurring income (expense)	(9,572)	4,949		
Shares Outst.	65,704	73,078	72,159	72,000
Reported FD EPS	**0.14**	**0.03**		
Fully Diluted Adjusted EPS	**0.29**	**0.10**	**0.02**	**0.03**

Source: Zacks analyst
Zacks EBITDA may not match Titan EBITDA

HISTORICAL STOCK PRICE



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