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TRS - Q2 2015 TriMas Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2015 / 2:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day and welcome to the TriMas Corporation Second Quarter 2015 Earnings Conference Call. Today's call is being recorded. At this time, I would like to turn the conference over to Sherry Lauderback. Please go ahead.

Sherry Lauderback - *TriMas Corp. - VP, Investor Relations & Communications*

Thank you, and welcome to the TriMas Corporation second quarter 2015 earnings call. Participating on the call today are Dave Wathen, TriMas' President and CEO and Bob Zalupski, our Chief Financial Officer. Dave and Bob will review TriMas' second quarter 2015 results as well as provide our outlook reflecting the spin-off of our Cequent businesses. And after our prepared remarks, we'll open the call to your questions.

In order to assist with the review of our results, we've included the press release and PowerPoint presentation on our Company website www.trimascorp.com, under the Investors section. In addition, a replay of this call will be available later today by calling 888-203-1112, with replay code of 6793033.

Before we get started, I would like to remind everyone that our comments today, which are intended to supplement your understanding of TriMas, may contain forward-looking statements that are inherently subject to a number of risks and uncertainties. Please refer to our Form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statements.

Also, we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website where considerably more information may be found. I would also like to refer you to the Appendix in our press release issued this morning or included as a part of this presentation for the reconciliations between GAAP and non-GAAP financial measures used during the conference call. Today, the discussion on the call regarding our financial results will be on an excluded special items basis.

At this point, I would like to turn the call over to Dave Wathen, TriMas' President and CEO, Dave?

David Wathen - *TriMas Corp. - President, CEO & Director*

Thanks Sherry. Good morning, and thanks for your attention and interest in TriMas. As I mentioned on our last quarterly call, we remain focused on executing a series of initiatives at TriMas to enhance shareholder value, ranging from the spin-off of Cequent to multiple operational improvement projects. We continue to work on reorganizations or restructurings in the majority of our businesses, even those which have consistently achieved higher margins. We are seeing many of these initiatives taking hold, although the impact is currently being muted by the bottom line impact of a couple of significant external headwinds.

Our significant event during the second quarter was the successful completion of the tax-free spin-off of the Cequent businesses into the newly formed public company of Horizon Global. The June 30 transaction date confirmed the fine work of our team, completed on time and on budget despite a large set of tasks and many opportunities were to go off-track. I'm proud of our people and look forward to realizing the improvements in value this represents. Congratulations to the Horizon Global team and best wishes for their success.

As a reminder, our comments and discussions on this call today relate to TriMas without Cequent as all of the Q2 and historical numbers related to the Cequent businesses have been reclassified to discontinued operations for TriMas. Given the one-time cost incurred and cost allocations made to affect the spin-off, the results reported in our discontinued operations may not be reflective of Cequent's operating results. Horizon Global has announced that their earnings call is scheduled for Monday, August 10 and we'd expect them to address their operating performance at that time.

With this significant milestone behind us, we are now even more focused on the execution of our key initiatives in our remaining businesses. So, let me now turn to my quarterly opening remarks on slide four.

Our second quarter revenue of $225 million reflects the success of our ongoing organic growth programs and acquisitions, which were offset by the headwinds of very low oil related activity, unfavorable currency and a few business specific soft spots. Excluding a one-time legal settlement in our Energy segment, TriMas' EPS would have been approximately $0.34 for the quarter.

Regarding this legal settlement, we had a dispute related to a false advertising allegation made by a competitor last year regarding certain of our gaskets failing to meet industry specifications. Like many disputes, it was expensive and distracting and in weighing the cost benefits of settling versus litigating, I made the decision to proactively head off the issue, putting it behind us, even though it might have felt better to keep fighting and stand behind our product design.

The most important takeaway is that our product work exactly the way it was supposed to and there were no product failures. Given this settlement and the persisting external headwinds we faced, the second-quarter results overall were in line with our expectations. Our continued focus going forward is to identify and capture opportunities for growth and to grow margins through our mix of businesses, productivity products -- projects and business improvement actions. I will comment more on these priorities, but first, let me provide an update on the headwinds and tailwinds that have direct effect of our businesses on slide five.

Since our last call, oil prices have dropped by $10 a barrel and oil and gas field activity has declined as well, directly affecting revenues in our engine and the upstream portion of Energy segment. There is also a secondary effect of lower resin and steel costs passing through to our customers in packaging, Energy and the cylinders business. As I mentioned last quarter, we continue to see a top line headwind from our aerospace distribution customers.

In June, I accompanied our Aerospace team to the Paris Air Show, where we rolled out our full range fasteners line as one Company, with much positive feedback. I was able to meet with our top five fastener customers and came away with great reinforcement of our imports to them going forward and I remain very positive on this business. At the same time, I also heard the message from our two largest distributors that they are heavily overstocked in many products including fastener and it will likely be another year of lower, choppier demand as they realign inventory levels. We are certainly adjusting our plans accordingly.

While the issue of the West Coast port delays impacted several of our businesses during the first quarter, we saw some carry over impacts related to this headwind during Q2. The aftermath of the port delays was a surge of containers hitting our inventories, particularly in Energy, where we had been building replacement product in our higher cost factories to serve our customers. We are now in the process of working the supply chain to bring product cost back into balance.

And I'm sure you have heard plenty about the impacts of the strong US dollar. For us, it impacts the top line, export competitiveness and overall translation. There are many positives too, large commercial aircraft orders were strong, India and China continue to be solid markets for packaging, although the growth in that region is at lower rates, our all-new product programs continue with good results to help offset some of these headwinds.

Slide six is a reminder of our vision and strategic priorities post spin. These both short and long-term priorities that had formed had drive everything we do. Our top priorities remain; profitable growth, margin improvement, optimal capital allocation; and striving to be the workplace of choice. We have experienced significant change at TriMas in the past 12 months and I feel it's important to keep these messages well communicated throughout TriMas. These messages include how our priorities drive initiatives in each business, which are summarized on slide seven and should look familiar to those of you who attended our Investor Day in May.

Let me share with you our current report card on how we feel we are doing with these initiatives. Packaging is making steady progress on its conversion to a market focus from a product focus. While the sales ramp up in Asia is little slower than we'd like, our momentum is good. Consistent productivity is key to maintaining our high margins and being able to fund our planned growth. Our Aerospace business has launched itself as one business instead of four. The Aerospace new product pipeline is healthy and the combined processes are increasing new product development capacity. Margins are above last year through acquisition improvements and ongoing productivity projects, although increasing to above 20% may take into 2016.

Energy has been holding revenue despite headwinds, but margins need to dramatically improve and we have multiple aggressive actions underway and we'll do all it takes to achieve our margin targets here. In Engineered Components, our cylinders business has maintained solid performance with domestic growth offsetting lower exports and margins remain strong via multiple productivity projects. And although our oil related engine, compressor and parts business is at half of last year's sales run rate, Arrow management has done a fine job of right sizing their costs to adapt.

So, we have plenty to work on and improve, but I'm convinced that we have our arms around the issues and our initiatives are correct and we are keenly focused on execution. At this point, I will turn the call over to Bob to provide financial and segment information and then I'll return with some forward-looking comments.

Robert Zalupski - *TriMas Corp. - CFO*

Thanks, Dave. Before beginning my comments on the quarter, I wanted to update you on my areas of focus and that of the broader finance team. In addition to active involvement in the spin and financing-related activities, we've been partnering with the businesses to drive accountability for specific margin improvement actions. As evidenced by this quarter's results, some of these initiatives are taking hold, while other areas need additional work. We are assessing our plans to drive improved performance within a more aggressive time frame, primarily in the Energy business.

These efforts include assisting with resource allocation and improvement plans; providing financial analytics in support of daily operating decisions; evaluation of product lines, geographies, and customer segments; developing key metrics to track progress against specific plan; and ultimately understanding the financial implications and related timing to the Company overall.

With regard to the second quarter, I'll begin my comments by providing a brief summary of our total Company performance beginning on slide nine. TriMas reported second-quarter sales of $225 million, up slightly as compared to second quarter of 2014. The sales increases resulting from our 2014 acquisitions of approximately $16 million were largely offset by the sales decline related to lower oil prices, most notably in our engine and compressor business. In addition, sales growth via organic initiatives was primarily offset by the impact of unfavorable currency exchange of $4 million in both our Packaging and Energy segments.

Operating profit for the quarter decreased $24 million or 10.8% of sales. Q2 results were impacted by the $2.8 million charge to resolve the outstanding legal claim that Dave spoke about and higher costs related to West Coast port delays, both in our Energy business. We were also impacted by lower fixed cost absorption in Engineered Components, resulting from the sales volume decline due to lower oil. While we are beginning to see returns on many of our margin improvement actions, these benefits were overshadowed by the challenges in Energy and the oil price headwinds.

Our diluted EPS of $0.30 per share as compared to $0.37 during Q2, 2014 was in line with our expectations after consideration of the approximate $0.04 per share impact of the legal claim settlement. Second quarter 2015 free cash flow was also in line with expectations albeit lower than the comparable period a year ago due to the timing of certain tax payments and change in operating income between years.

On a year-to-date basis, financial results were fairly consistent with our Q2 results with revenue up slightly compared to the prior period and a Q2 year-to-date 2015 diluted EPS of $0.61 as compared to $0.65 in the comparable period a year ago.

We ended the period with approximately $464 million in total debt compared to $639 million as of December 31, 2014 and $362 million as of March 31, 2015. The increase from a year ago was related to the incremental term loan and additional borrowings on our revolving credit facility, which funded the acquisition of Allfast in October 2014. The decrease from year-end 2014 was due to the use of the cash dividend from Horizon Global to reduce outstanding borrowings.

In connection with the spin-off of the Cequent businesses, we amended our credit agreement to extend debt maturities and resize our credit facilities to better reflect our current operating needs. Our leverage ratio was 2.8 times at June 30, 2015 and we had $149 million of cash in aggregate availability under our credit facilities.

Moving on to slide 10, which provides an EPS bridge from Q2 2014 to Q2 2015. As illustrated, our operational improvements in the businesses have been significantly offset by the external headwinds related to oil prices as well as the legal claim settlement in Energy. In response to this challenging environment, we have prudently managed our corporate spending initiatives and we'll continue to maintain focus on execution of our key profitability initiatives, cost controls, and driving efficiencies throughout the businesses.

At this point, I would like to share a few highlights on our segments beginning with Packaging, on slide 12. While challenged by the impact of a strong US dollar, Packaging generated sales growth of nearly 4% as a result of higher specialty system sales, including the impact of the Lion Holdings acquisition. Packaging's operating profit margin decreased slightly to 23.4% due to higher SG&A related to the acquisition and investments in global growth initiatives. Packaging remains focused on sustainable operating profit margins in the 22% to 24% range, while funding ongoing initiatives such as the new Customer Innovation Center in India and the ramp up of lower cost manufacturing capabilities in Asia.

Turning to slide 13, Aerospace's sales increased primarily due to the acquisition of Allfast, partially offset by lower demand from distribution customers. Q2 operating profit margin expanded due to the higher margin profile of Allfast, which was still being impacted by purchase accounting adjustments for part of the quarter. The Aerospace leadership team has been heavily focused on optimizing the planning, scheduling and manufacturing capabilities of the Group to increase production throughput and quality, reduce order lead times, and improve on-time delivery as well as lower internal cost to manufacture. Also leveraging operating processes, revenue opportunities and cost synergies were available across the portfolio.

Moving on to slide 14, Energy. Sales decreased 4% in Q2 due to reduced upstream customer demand as a result of lower oil prices and unfavorable currency exchange. Lower sales in Brazil and China as a result of facility closures were more than offset by increases at our other international branches, most notably the newer branch in Belgium. Operating profit and related margins were negative due to the aforementioned legal settlement and impact of lower upstream customer demand.

We also incurred higher production and sourcing costs in Q2 to fulfill customer orders from our US- based facilities as inventory sourced from lower cost facilities were tied up by port delays. While certain of our operating improvement initiatives are beginning to take hold, we are not satisfied with the pace of progress and are planning more aggressive actions, including further restructuring of the geographic footprint and additional cost out actions.

We continue to focus on improving manufacturing efficiencies in our Houston facility, while relocating higher volume longer lead-time product manufacturing to a new facility in Mexico. From a commercial perspective, we are also focused on increasing sales of our more highly-engineered higher margin products. While these initiatives are proceeding, they require time to implement.

Moving on to slide 15, Engineered Components. As already discussed, we are facing significant headwinds as a result of lower oil prices, which dramatically impact the results of Arrow Engine. With a Q2 year-over-year sales decline of more than $13 million, this management team has taken swift actions to align Arrow's cost structure with the current level of business activity and remained marginally profitable during the quarter. The other business in this segment, Norris Cylinder experienced a slight increase in sales, while gaining additional operating leverage from our previous cylinder asset acquisitions.

Our focus remains on aggressively managing the cost structure at Arrow Engine in response to end market demand while diversifying its revenue base into additional well-side applications. Norris Cylinder will continue to expand product offerings and seek to better leverage its capacity and efficient manufacturing cost structure.

To conclude my prepared remarks, slide 16 is a summary of our segment performance in which we show current, prior-year and sequential quarterly results by segment. Our initiatives are gaining traction and beginning to deliver results. However, the benefits are being offset by the external headwinds we are facing and the additional operating inefficiencies experienced in Energy. We have a solid understanding of the challenges in this business and are focused on execution to improve Energy's financial performance and believe the operating margin target of 10% to 12% in this business remains achievable longer-term. That concludes my remarks. Now, Dave will provide you with some comments on our updated 2015 outlook. Dave?

David Wathen - *TriMas Corp. - President, CEO & Director*

Thanks Bob. Now I'll shift to talking about the future and address our outlook post spin-off of the Cequent businesses. Slide 18 provides an update of the revenue and margin assumptions we shared with you last quarter and told you that we would update each quarter. Packaging revenue was flat year-over-year in first half. Current order rates and product launches indicate higher revenue in the second half, which will result in low single-digit growth for the year. We are continuing our investments in new products and new technology centers and expect margins to remain above 22% for the year.

We are cautious on demand in China, but our new volume is driven by specific customer programs. We have industrial closures modeled lower than previously, based on lower US GDP forecasts. In Aerospace, we see revenue up 45% to 50%, slightly lower than we expected six months ago, due to continued softness and choppiness in order demand with our distribution customers. This also impacts our product mix unfavorably as we expect many of our higher margin products are directly impacted by the destocking. That said, our manufacturing improvement initiatives continue to gain traction and we expect operating margins to exceed 18% for the year on a positive trajectory towards our 20% shorter-term goal.

The impact of oil prices in our Energy's upstream revenue and capital expenditure cuts by customers are expected to put continued pressure on the segments top line, potentially offset by some positives in new products and potential project activity offsetting the oil weakness. This lower volume level combined with the impact of the port delays and the legal settlement in the second quarter will hold margins to low single digits for 2015.

While I'm seeing some improvements in operations, the financial performance given these current assumptions is not where we want them to be. We are reevaluating the cost structure in light of this as well as a broader restructuring of the global footprint to improve margins. We will continue to aggressively implement actions that are required to improve margins to our goals in this business, more to come on this topic.

While we are working to drive and improve performance for Engineered Components, our cylinder business has performed extremely well in the front half. We expect this business to see some softer order intake due to the strong US dollar in the back half, but we expect it to maintain its strong margin levels due to productivity. Our engine and compressors business is expecting lower revenues in the second half than the first half due to even lower anticipated oil activity overall, as we were able to work off some backlog coming into 2015.

There are some export and project orders in discussion, but it is not time to count on those. Cost take-outs have been intense in this business, but maintaining positive operating profit will be a significant challenge in the back half. What does this all mean for TriMas' outlook? We've provided that on slides 19.

As we expected we have removed Cequent from our outlook and adjusted our expectations for the increased headwinds, I discussed earlier. Revenue will be up slightly versus 2014, as our planned, organic, and acquisition growth of about 10% is mostly offset by the impact of dramatically lower oil prices and currency headwinds. Based on the current environment, we expect EPS to be $1.15 to $1.25 and free cash flow of $30 million to $35 million.

Slide 20 provides some additional assumptions to assist you with your modeling, since the spin-off of Cequent significantly changed some of these assumptions. In addition, understanding there are several moving parts, we included a bridge from our previous outlook, which included Cequent to where we believe we are today on slide 21. As you can see, the most significant changes is the adjustment for discontinuing Cequent in the numbers and the smaller changes we have discussed leading to our current $1.15 to $1.25 EPS outlook range.

And slide 22 is a reminder of our three-year targets that we shared at our Investor Day in May. I continue to feel confident in these longer-term targets and recognize the heavy lifting is in Energy. So in summary, on slide 23, we are continuing to focus on our operational improvement initiatives and realize the need to accelerate in Energy. We have intensified our capital allocation reviews and decisions and we're making sure we align our compensation and awards with the drivers of value for TriMas.

Overall, I'm quite upbeat on our new configuration of businesses, our potential upsides and our ability to increase shareholder value. We've accomplished a lot. We still have much more work to do in many fronts. Across all levels of the business, we are committed and focused on execution. We will continue to progress towards our strategic aspiration of being a high margin, highly engineered product and solutions Company as we continue to shift the portfolio in this direction. We were also focused on expansion and capitalizing on profitable growth opportunities while de-emphasizing and reducing less profitable business. And of course, we will always focus on positioning the businesses to mitigate external headwinds and risks by responding quickly and effectively to change. I feel we have a strong foundation to build upon and we are focused on those areas that we believe will drive value for our customers, shareholders and employees.

Now, we will gladly take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you very much. (Operator Instructions) Matt Koranda, ROTH Capital Partners.

Matt Koranda - *ROTH Capital Partners LLC - Analyst*

Just wanted to start out in the Aerospace segment and the outlook here. Is the primary delta here mainly the destocking phenomenon to distributors? How long do you expect that phenomenon to last? And how are you getting visibility into potential improvements within that channel?

David Wathen - *TriMas Corp. - President, CEO & Director*

I guess it's far and away the distribution, call it working capital reduction at the distributors and you know that a couple of the big distributors have gone public and all that. I did meet with their operating people at the Paris Air Show. The message was pretty clear. They have built inventory above levels that they think they want. They will reduce those. And I said in my script that I'd say a year. I mean, it may be two or three quarters and it may be five, but it's not a one quarter.

They've got pretty heavy inventories. (inaudible) it does explain why we've had a lot of this going on and we'd just react to it. I mean it's a -- ultimately it is good for us because it takes some of that out of the middle and gets us closer to the customer. But there will be a little bit of revenue pain for a while. That said, the commercial aircraft build rates, as you know, always keep climbing and our content tends to be higher. So overall, it looks great, but it's -- call it a year.

Matt Koranda - *ROTH Capital Partners LLC - Analyst*

Okay, about a year. Okay, got it. Just as a quick follow-up to that, what does that mean for the mix of business in Aerospace now given that the majority of it sounds like a larger mix is going to be going to the OEM channel. Talk about some of the changes you guys have made operationally there and the implications for margins going forward in Aerospace?

Robert Zalupski - *TriMas Corp. - CFO*

I think the mix question does impact up. So it's higher margin business that -- much of which flows through Allfast that is impacted here and as a result, we see our operating profit being a bit lower than what we had originally forecasted. We had talked about getting to plus 20% here on a run rate basis at the end of 2015 and it's looking -- it's going to be less than that. But we still believe, based on the operational improvements and initiatives that we got going in our other aerospace platform companies that near-term goal of 20% is achievable as we move into 2016.

Matt Koranda - *ROTH Capital Partners LLC - Analyst*

Okay, got it. And one more from me here in the Packaging segment. Looks like low-single digit growth outlook that was down, I think, from low-to-mid that you guys had guided to prior. Is it slower growth in Asia that's impacting this most or is it currency driven? If you could just help us understand some of the assumptions that went into the outlook there for the Packaging segment?

David Wathen - *TriMas Corp. - President, CEO & Director*

A little bit of it is Asia, although we're still not all that big in Asia. The currency translation hits directly and then the third thing is we -- if resin prices drop at some point, we have to drop selling prices accordingly, usually by contract. Margin percentages hold but dollars dropped below and of course that goes both directions. But call it the combination of a little slower in Asia, the translation currency and the reset of selling prices due to lower resin cost. And so the three of them together probably take just a little bit off of the Packaging revenue.

Operator

Andy Casey, Wells Fargo Securities.

Andrew Casey - *Wells Fargo Securities - Analyst*

Given your Q2 was consistent with your expectations, I'm trying to kind of frame what the revision to the second half views could imply for 2016. If I take the midpoint of the updated guidance, it implies something like a 51%, 49% first half, second half split. Is this what you would consider normal seasonality with the ongoing revenue mix?

Robert Zalupski - *TriMas Corp. - CFO*

I don't think so, Andy. I mean it's hard to sort of look at 2015 and characterize it as a normal or recurring mix, because much of the impact of the declining oil prices was felt in the first half of the year. And look, we tried to react to it as quickly as we could, but you can never quite take cost out as quickly as perhaps top line drops when you are in this kind of a situation. So, I would say it's not necessarily representative and what happens as we roll into 2016, I think in large measure that front half, back half split will be a function of, is there any rebound at all in the oil-related activity, A and B, when do we see the -- I guess the burn off of the extra inventory and channel that distribution customers.

Andrew Casey - *Wells Fargo Securities - Analyst*

Okay, thank you for that. And then, specifically on Energy within the 2015 guidance now low-single digit margin performance expected and that implies a positive margin performance in the second half. Do you expect, first, the port issue impact on material cost to be contained in Q2? And then secondly, should we expect second half margin to kind of ramp through year-end or be pretty consistent by quarter?

Robert Zalupski - *TriMas Corp. - CFO*

Yes, we do believe that the impacts of port delays have been sort of compartmentalized, if you will, to Q2. We do have available inventory as a result of having received that inventory that was stuck in the ports available for second half. I think the question of how quickly the margin percentages ramp will be function of two things. One, do we see an improvement in top line, so to speak, from the run rates that we're currently at.

And then secondly, obviously the effectiveness of the operational improvement initiatives that we have in process as well as additional footprint restructurings that Dave mentioned that are currently under review and more to come on progress on those fronts.

Andrew Casey - *Wells Fargo Securities - Analyst*

Okay, thanks Bob. And then, lastly on Energy. If I go back to the Investor Day, I believe some of the prior outlook included some turnaround activity that I think, at that time, there were some line of sight. A, is that right? And then B, has that been taken out of the second half expectations?

David Wathen - *TriMas Corp. - President, CEO & Director*

You're correct that we -- that Kirk talked about some turnaround activity and I wouldn't say we've taken it out of second half because we are seeing some turnaround activity. It is a combination of when does it hit because, remember, we had some large number of refineries being run by right counter workers while they were on strike and that is settling out. I mean, you put it altogether and it indicates that the turnaround season will be lot closer to normal in the tail-end of this year, when it tends to come on. That said, you can probably tell by our tone that we're being cautious and realistic about this business, because it has disappointed enough times.

So we're in a little bit of wait-and-see mode on the revenue. We will keep you updated when we see something. I mean, the optimist in me says, yes, there is turnarounds going on, there are some big projects cutting loose, our quote activity on big projects, but you heard me say that in previous quarters and I'm a little bit on the wait-and-see mode now, if that's fair.

Andrew Casey - *Wells Fargo Securities - Analyst*

It is, thanks a lot.

Operator

Steve Tusa, JPMorgan

Steve Tusa - *JP Morgan Securities - Analyst*

Just getting back to this Aerospace thing, so the distributors are destocking, I mean are they -- do they take -- is this an OE issue or an aftermarket issue? I mean, did they just take enough for the ramp in production and are they kind of maybe -- the airlines are repurposing some of this stuff for. I mean, I don't -- I'm not an aerospace analyst, so I'm just not sure how easy it is to move products around like that. I'm sure it is, I mean, they cannibalize spare parts from planes they park. So it seems to be a scene somewhat, but I guess I'm just wondering, is this OE or aftermarket in that division -- what's driving the destocking?

David Wathen - *TriMas Corp. - President, CEO & Director*

Of course the answer is always, it's both. It's -- generally we serve Boeing and Airbus direct. Generally, it feels like direct sales. The indirect orders and we see the line rates and all that and generally, smaller OEMs are served by distributions. So part of it is that and then it's the after-markets or the, what we'd call people who are rebuilding aircraft or refitting and that kind of thing and it's more of that second part of aftermarket distribution.

Though the companies are public, couple of them are public now, you can look at what they're saying about it and I assure what you're going to see is, they just, in a way, inherited more inventory that they think is reasonable across the board and they're working their way through it. And there is -- I mean, I can speculate, I mean there is no doubt that companies like us have always given discounts for bigger orders in order to try to get longer runs. There has been some conversion away from the longer runs that's still going on. We've caught up with being configured to where we can short runs a lot more efficiently and you're seeing that on our numbers. But we think we're going to see this short run short-term ordering patterns for quite a while as they work their working capitals down and get their terms up.

Steve Tusa - *JP Morgan Securities - Analyst*

Is there an element of, maybe they're reacting to a change in the environment from an inflation perspective that they see -- they don't really see the need to buy urgently because they feel like ultimately with materials prices coming down that this kind of pricing power that all you guys have enjoyed for a period of time is kind of fading here? Is that at all in their mindset? You know hey, I'll just buy or I'll just wait to buy because I know in three months from now, I'm going to get there is going to be a better deal because less of -- there is less of cost push from an inflation perspective.

David Wathen - *TriMas Corp. - President, CEO & Director*

I'd actually think it's probably more to do with people like us have pulled our lead times down a lot. And you think about what that means to -- if they know they can replenish in six weeks instead of 12, they kind of reset their whole supply chain and there is some of that in it for sure. And again, ultimately when it fleshes out, it's better for the manufacturer because we're ultimately closer to the customer and can take some of their stuff out in the middle. But it will take a lot of work. I would call it more lead time driven than price driven. It's still not really a price market like, less highly engineered products might be.

Robert Zalupski - *TriMas Corp. - CFO*

The other comment I would make, Stephen, is that clearly there is trends in the aerospace supplier channel or industry that are moving more toward OE supply, less to distribution. And if our sales mix today is 50-50 OE to distribution, we see that over a couple -- three-year timeframe move into more like 65-35. So how that reflects itself in ordering patterns quarter to quarter, I mean, are more to come, but there is clearly that overhang, if you will, in terms of general trend in the industry.

Steve Tusa - *JP Morgan Securities - Analyst*

Got it, okay. Sorry, one last question. On the power side, are you seeing aggressive behavior from your peers, the GEs of the world?

David Wathen - *TriMas Corp. - President, CEO & Director*

I'm sorry, like oil field activity?

Steve Tusa - *JP Morgan Securities - Analyst*

Pricing discounting going on and I mean I guess when your business is down 50% to 60%, it doesn't really matter what kind of price you're going to give somebody, they're not ordering it, but I guess have you seen competitors come in and get aggressive with price on that front yet?

David Wathen - *TriMas Corp. - President, CEO & Director*

You're right, human nature is human nature, you get hungrier. For a while, we have definitely seen, for example, people who build oil platforms and use several our high-end fasteners, they are purchasing, people were asking for 15% price reductions, just based on softness and that does permeate the industry. We are high share in a very narrowly defined set of products and so we're not quite as susceptible to that as some. But yes, those price pressures are there and it's -- sometimes, you got to make the choice of, would I'd rather run lower volume than way lower margins and I'm a little more of that focused. You give -- you lose price, it is the hardest thing to get it back.

Steve Tusa - *JP Morgan Securities - Analyst*

Right. Well, best of luck. It's a very tough environment, so best of luck.

Operator

Karen Lau, Deutsche Bank.

Karen Lau - *Deutsche Bank Securities, Inc - Anlayst*

So first off, Bob, could you walk us through what's in that free cash flow number, $30 million to $35 million, I think that implies 60% conversion on your adjusted net income. I wasn't sure if they are like spin cost and charges embedded in that number and it's also a lot lower year-over-year, even if I parse that sequence. So just want to understand the puts and takes there?

Robert Zalupski - *TriMas Corp. - CFO*

Yes, so first off on the spin cost, none of those are really reflected in our free cash flow guidance. Those were basically considered part of the discontinued operations and the majority of those were funded through the P&L of Horizon. There were a couple of refinance costs associated with TriMas' amendment of their credit facility, but nothing material. I think really the two big issues are the capital -- the capital expenditure plans. We're still guiding to an area of 3% to 4% of revenue and depending on the timing of certain customer programs and how that might shake out in terms of end markets and demand for our Packaging business, that number could flex a little bit higher or lower, depending on what the market circumstances dictate. I think the other piece that has impacted us is working capital. We have higher inventory levels primarily in Energy that we're going to work pretty aggressively to burn down as we move through the remainder of the year, but again, some of that is going to be dependent on the customer orders vis-a-vis the products that we have there and are we able to get that inventory burn in turn. So those are sort of the principal elements of what's going on with free cash flow.

Karen Lau - *Deutsche Bank Securities, Inc - Anlayst*

So, if you normalize for some of that inventory issues in Energy and sounds like CapEx could remain high into next year, given that you continue to be in an investment mode for packaging, is the 60% to 70% conversion sort of the -- like normalized conversion number that we should look at going forward?

Robert Zalupski - *TriMas Corp. - CFO*

Yes, I think it could be higher than that, Karen. I mean obviously, I think our goal will be to be closer to the 100 % conversion rate, but again, whether you're at 100% versus 80% or 90% will be a function of the timing of CapEx and then maybe specific investments in working capital that are going on depending on end market demand in various segments.

Karen Lau - *Deutsche Bank Securities, Inc - Anlayst*

Okay, makes sense. And then on Aerospace, Dave, I want to get your thoughts around your confidence level around maintaining margins at this level. If we do see further disruption in the supply chain, because you first got headway from Boeing sort of rationalizing their fastener purchasing and then now it sounds like it's more broad based destocking from the distributors. So I wasn't sure if Airbus would try to do the same thing. But what if they decide to rationalize their purchasing as well or do you think you now have the framework to handle more disruption and maintain margins at the high-teens level, at least?

David Wathen - *TriMas Corp. - President, CEO & Director*

Yes Karen, I have a lot of confidence in the changes we've made to our -- within manufacturing the team I've got running that business who are very used to that and the productivity goals we've got. So it's always a horse race of cost versus price and I think we are well positioned for that. So my confidence is high. We have definitely taken our speeds up our lot size abilities, weigh down on our set up times. I can see all that in our operating system reports and all the trends say that we can stay ahead of that curve.

Karen Lau - *Deutsche Bank Securities, Inc - Anlayst*

Okay, makes sense. And then just a quick one on Engineered Components. So you're forecasting Arrow to be down 50% to 60% so in line with the second quarter run rates, but you are guiding your full year margins to 10% to 12%, which, I think, implies high single-digit margins in the second half. So I was just curious, what's driving the sequentially lower margins in that segment?

Robert Zalupski - *TriMas Corp. - CFO*

There is really a couple of factors, Karen. First off, if we look at Arrow Engine, while we were marginally profitable in Q2, that becomes harder to do as your revenue levels stay depressed, so to speak and there's less absorption, if you will, into inventory and more of that gets reflected in P&L in terms of period costs. So that's part of what is driving the segment margin down.

The other is that in the cylinders business, Norris had a pretty solid first half of the year which, as Dave alluded to in his remarks, we're seeing some softening in terms of order intake particularly from an export market point of view and we don't have a lot of visibility into that channel. I mean, it maybe typically runs four weeks to six weeks and when you start to see a little bit of softness that of course pretends that there could be a little bit less revenue than we had in the first half. So that's the other contributing factor because our margins in that business are pretty good and when you lose top line, it impacts us accordingly.

Karen Lau - *Deutsche Bank Securities, Inc - Anlayst*

Okay, make sense. Thanks very much.

Operator

Bhupender Bohra, Jefferies.

Bhupender Bohra - *Jefferies - Anlayst*

So, just want to get on the previous commentary from Dave about the results were basically in line. I just wanted to see if you can explain which of the businesses actually were below expectations and kind of internal expectations on which were kind of above expectations and especially if you can talk about your Energy business, what actually caught you by surprise over there?

David Wathen - *TriMas Corp. - President, CEO & Director*

I would say, I mean if you allow me to take that legal settlement out, that $0.34 EPS number is where I get my -- it's about what we expected to be able to do, given what we know about tax rate and on operations, the -- I would say Packaging has performed as we'd expect first half was flat, but actually sequentially second quarter was above first quarter in revenue and we can see that kind of ramp, so I feel real good about that. I feel real good about the progress in Aerospace and partly it's our position in the market and there is nothing like meeting with your top customers and really getting it reinforced that the combination -- really the combination of Allfast plus Monogram makes us very important to customers and makes us into the tier that gets attention. So all that feels good and so I'd say performance in that business is what we expected.

Energy is behind what I expected the improvements to show. We have a tremendous amount of effort underway. I understand now better how much harms these port strike did to that business. Because again, think about it, you get a container load of product, standard products you made in India and China sitting out on the ocean, and so instead, you're making them in a plant like Houston, which by definition is more expensive. And that is painful from a margin standpoint. I mean it's a choice you make to serve your customers. So I would say that kind of thing made performance in Energy disappointing.

The cylinders business was stronger than I would have anticipated, that helped us. Headquarters costs were a little less than anticipated, so I'd say that helped us. And because it's hard to -- while we don't have a budget, we don't know how to track cost. a spin is a complex thing and we came through that well and then I got to say that the engines business, the engine compressors and parts business, in spite of a half run rate to a year ago certainly met expectations in being able to control its cost. So I mean when I put that altogether, work to do is in Energy. I feel good about the trajectory in Packaging and Aerospace which are our high-margin businesses and we need them to grow to mix our total margins up. Does that address it?

Bhupender Bohra - *Jefferies - Anlayst*

Yeah, that's actually a pretty good summary here. Now on the Energy side, you mentioned about the port strike. Right? Is there a way to size that? Like how much in terms of like dollars how much would be -- was beyond your expectations?

David Wathen - *TriMas Corp. - President, CEO & Director*

I mean is it -- I've been a Plant Manager, I've been a Division President. I was a foreman, back when supervisors were called that. So I have some hands-on feel for all this. It's a couple of million dollars, it's not $10 million, it's not a $100,000, it's that kind of number in extra cost that you take on when make a choice to build product, so call it that.

Bhupender Bohra - *Jefferies - Anlayst*

Okay, that's good. And my last question, at the last Analyst Day, you guys talked about moving some of the Energy business to Mexico and I believe the presentation actually talks about still on track to move by the fourth quarter. Can you just go through what kind of products will be moved from Houston to Mexico in terms of, I believe, you mentioned something -- products with longer lead times on your commentary?

David Wathen - *TriMas Corp. - President, CEO & Director*

Yes, the split is -- of course some of it is the type of equipment we put in and it's [Coil Winders] and that kind of thing. And then the real split, because it will be a, call it a satellite plant to Houston and things would take more than a certain number of days, probably start with a cut-off of five day and work it down a little, that says, we can schedule in Mexico instead of Houston and still fulfill customer orders.

So, it's not like it's a -- this is a tremendous opportunity. Right now when you schedule on China or India, it's six or eight or 10 weeks away. We're talking about six or eight or 10 days away in total production. So the split is based on lead time to fulfilling the customer order. So it's still building products that you might call specials, but it's things that can stand five or six days.

Bhupender Bohra - *Jefferies - Anlayst*

Okay, thanks a lot.

David Wathen - *TriMas Corp. - President, CEO & Director*

And we're doing all kinds of work on what fits, what equipment that needs and attempt to do longer runs during a plant ramp up and all that but it's all moving right along. I am staying very close to this business. They're having to put up with Bob and me on lots of conferences and Rob has been there a couple of times already in the last few weeks. Of course, it needs a lot of attention and so we are keeping on it.

Operator

(Operator Instructions) Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

I was hoping you could elaborate on your Aerospace comments. I understand how the Boeing BASN program hurts distribution and the distributors are reacting, but I guess what I wonder is in the quarter, would you describe the reason the distributors has been weak as more a function of them just destocking and kind of rightsizing for demand or was the pace of onboarding under the Boeing BASN program, did it pick up in any way? Did they onboard more kind of Boeing subcontract manufacturers or any particularly large ones that affected kind of the cadence of demand in the quarter?

David Wathen - *TriMas Corp. - President, CEO & Director*

I would -- I've not -- we didn't see that, but I am not sure we would. You've heard us talk before the effect of those changes at Boeing are kind of under our belt now and it's really hitting the first and second tier distributors more than anybody and the fastener stuff is pretty well done and they're working on other product, so I'm just not a good source of that. I will tell you Boeing is serious about it and they've got some impressive higher horsepower people working on it. But, it's hard for me to say did they accelerated or not? I think you would learn more from a couple of the big distributors.

Robert Zalupski - *TriMas Corp. - CFO*

Yes, I'd also add that coming into the second quarter, we did expect and had been signaled there would be lower orders coming from distribution and really the question mark was, was it just the second quarter thing or was it going to extend longer -- throughout 2015 and beyond. And I think what we've learned most recently is that this is going to be a longer-term trend we're going to be dealing with.

Gautam Khanna - *Cowen and Company - Analyst*

Understand, okay and to that point, do you think that the BASN program is fairly mature now, meaning incrementally, the number of Boeing Tier 1s and Tier 2s that join, is going to be fewer and fewer as we move forward meaning that they've already done the majority of the transfer?

David Wathen - *TriMas Corp. - President, CEO & Director*

Yes I've said at -- what I've seen of their reports I would say they've come a long way with it and most of the distributors are making their choices, but again, we're kind of -- [much lower] from that.

Gautam Khanna - *Cowen and Company - Analyst*

Yes, that's make sense. Last quarter, I think, you also made a comment about this being the season for Airbus fastener contracts. So I was wondering if you could update us on where you stand on your contract renewals with Airbus and if you're seeing a central procurement that's being used at Airbus relative to what they've done historically with distributors. Thanks.

David Wathen - *TriMas Corp. - President, CEO & Director*

I would say Airbus is not done. We've been through multiple rounds of contract negotiations with Airbus. But, we think we -- we know who have on the (inaudible). We think we understand what is swinging our way, it's as expected. It is a -- as you would know, it doesn't turn on immediately. It's not step function change in volumes [so once we ramp]. But yes, Airbus is doing what they've committed that they would do and we were in our due diligence about Allfast. So all that feels to be on schedule.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. And do you think there is opportunity to pick up share on the renewal?

David Wathen - *TriMas Corp. - President, CEO & Director*

We do, yes. We're also -- and I mentioned our product development capacity is higher by really merged by -- really it's because of merging the Monogram and Allfast capabilities where there were some overlap, it took our capacity up and so we are quite aggressive on new products, more colors every ⍰we intend to be the supplier that is out there with the next new product, and the next easier to use, and the next lighter weight and so we're pretty aggressive right now on product expansion.

Gautam Khanna - *Cowen and Company - Analyst*

Thanks a lot and good luck.

Operator

Walt Liptak, Global Hunter.

Walt Liptak - *Global Hunter - Analyst*

Hi, thanks. My question is on Aerospace. You mentioned purchase accounting, how much purchase accounting costs went through in the quarter?

Robert Zalupski - *TriMas Corp. - CFO*

It was about $1 million relative to the inventory step up burning off and then some higher intangible amortization, although that is recurring.

Walt Liptak - *Global Hunter - Analyst*

Okay. So if we back out that inventory step up, you'd be, I think, a little bit above the 20% level for margin, how much more purchase accounting rolls through in the back half of the year?

Robert Zalupski - *TriMas Corp. - CFO*

We should be set for the remainder of the year while all the one-time kind of impacts are -- worked their way through in the first six to eight months here.

Walt Liptak - *Global Hunter - Analyst*

Okay. So if we back out, where do you think the normalized margin is now? I know you said you were going to have trouble getting to the 20% level in the back half of the year, but it looks like you are already there with purchase accounting. Where is the incremental weaknesses? Is it on mix or is it on volumes?

Robert Zalupski - *TriMas Corp. - CFO*

Yeah, it's mix -- well mix and volume ultimately because of distribution but I would weight it more heavily towards mix.

Walt Liptak - *Global Hunter - Analyst*

Okay, and then on the corporate expense, it sounds like you are forecasting in millions of dollars, it's somewhat around $36 million for the year, is that right?

Robert Zalupski - *TriMas Corp. - CFO*

That's about right.

Walt Liptak - *Global Hunter - Analyst*

The 4%, can you explain to us how the Horizon charge back is going to work? And why that wouldn't be lower if you're going to be charging Horizon for taking care of their back office.

THOMSON REUTERS

Robert Zalupski - *TriMas Corp. - CFO*

Well the transition services agreement will scale over time. So while there will be higher levels of support provided near term, as time passes, that should diminish. The number that we're focused on here of about 4% currently considers what fees we'll be receiving from Horizon and I think as time passes Walt, and we understand sort of what are the recurring demands without the TSA, that will adjust accordingly? But I think longer term, our focus is -- we've stated we're focused on 3% of revenue and that's something I think we get to probably over a -- some future timeframe depending on what happens with both growth and acquisitions or anything of that nature.

Operator

And currently, we have no questions in the queue at this time. We will turn the conference over to our host for any additional comments.

David Wathen - *TriMas Corp. - President, CEO & Director*

We sure appreciate the attention. We are fully focused on the new configuration of TriMas and the upsize that we've got and while higher oil field activity would be great. We can get ourselves in shape to where we are the Company we want to be regardless of oil price. So, we're sure working on all that. So again, I feel quite upbeat about the new configuration of TriMas' businesses what our potential are. So we're on it and we sure appreciate your support and attention. Thank you.

Operator

And that does conclude today's conference call. Thank you for your participation.