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PRESENTATION

Operator

Greetings, and welcome to the TriMas Third Quarter 2023 Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Sherry Lauderback, Investor Relations and Communications. Thank you, ma'am. You may begin.

Sherry Lauderback - *TriMas Corporation - VP of IR & Communications*

Thank you, and welcome to TriMas Corporation's Third Quarter 2023 Earnings Call. Participating on the call today are Thomas Amato, TriMas' President and CEO; and Scott Mell, our Chief Financial Officer. We will provide our prepared remarks on our third quarter results and our outlook, and then we will open the call up for your questions.

In order to assist with the review of our results, we have included today's press release and presentation on our company website at trimas.com under the Investors section. In addition, a replay of this call will be available later today by calling (877) 660-6853 with a meeting ID of 137-41-938.

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

In addition, we would like to refer you to the appendix in our press release or our presentation for the reconciliations between GAAP and non-GAAP financial measures used during this call.

Today, the discussion on the call regarding our financial results will be on an adjusted basis, excluding the impact of special items. With that, I will turn the call over to Tom Amato, TriMas' President and CEO. Tom?

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

Thank you, Sherry. Good morning, and welcome to our third quarter earnings call. Before we get into our business update, I would like to begin by expressing our sincere and heartfelt concern regarding the new conflict in the Middle East. Although TriMas does not have any direct sales or operations in the region, we have raw material suppliers and energy partners that rely on trading activity within the broader region generally. As of this call, we have had no economic effect from this new conflict.

Now I would like to turn our attention to our TriMas Aerospace Group. As announced a few days ago, we are excited that Vitaliy Rusakov has agreed to join TriMas as our new President of TriMas Aerospace. Vitaliy comes to TriMas with years of successful operational excellence experience within the aerospace industry. He held positions of increasing responsibility at Howmet Aerospace and its predecessor companies, Arconic and Alcoa.

Most recently, he was the President of Howmet's Aerospace Fastener Group, a premier large supplier to the aerospace and defense industries. We welcome Vitaliy to the TriMas team, and we look forward to his future contributions.

In connection with this announcement, Bill Dickey, who I personally asked to step in to lead the TriMas Aerospace Group on an interim basis, will begin to transition the group's lead to Vitaliy. Bill has done an amazing job in a relatively short period of time, reigniting performance, driving a renewed commitment to operational excellence, and integrating the recent Weldmac acquisition.

Bill's deep operational excellence, experience and passion to improve operations is the reason we have been enjoying meaningful sequential performance improvement within the group. So I thank Bill for taking on this important project.

Also, Bill will continue to stay on with TriMas, and support Vitaliy to ensure a smooth transition, and help further increase our performance momentum as we move into 2024.

Let's turn to Slide 3. I would like to note for our investors that in late September, we presented at the William Blair, What's Next for Industrials Virtual Conference. While the full presentation is on our website under the Investors and Events and Presentations section, this slide was core to what we presented.

On this slide, we presented several examples and case studies on the many levers for growth for TriMas, ranging from the introduction of new and innovative products, to expanding into new geographies and new applications, to benefiting from market recoveries in some of our largest markets.

While I won't go through each of these growth levers on this call, we are particularly excited about the tangible gains emerging for TriMas in our expansion into [masstige] beauty applications in Western Europe and in Brazil, which we have advanced since our acquisition of Aarts Packaging.

Additionally, we are excited about continuing to gain traction in our Life Sciences products, more specifically in surgical and orthopedic applications. While program wins and Life Sciences applications currently tend to be lower in volume, we are beginning to expand our breadth and programs with high qualification requirements and with key Life Sciences customers, which we believe will benefit us in the future.

Let's turn to Slide 4. While Scott will cover each of our segments' performance, I would like to now discuss the quarter overall.

As a reminder, we believe the third quarter is the beginning of a better comparison quarter versus the prior year, since the end of Q3 2022 was when we started to experience a demand falloff within the consumer products applications within our TriMas Packaging Group.

As such, Q3 was largely in line with our expectations, and we are pleased with our continuing performance improvement momentum in this quarter. Within our TriMas Aerospace group, we are reporting significant improvement against the prior year quarter, as we continue to bring supply and production constraints into better balance with high demand. Although we still have much more work to do, we expect to enjoy future gains in 2024.

Within our Specialty Products Group, we continue to convert well on higher sales base compared to prior years.

And importantly, we are still experiencing lower demand than our annual planning model within TriMas Packaging, our cost savings actions have translated into significantly improved margin performance compared to the prior year quarter.

We also continue our consistent and disciplined cadence of returning capital to our shareholders through share buybacks and dividends, where combined, we are on track to return over 1% for the year.

I would also like to note that TriMas has $92 million remaining under our share repurchase authorization, and continue to purchase shares, given current valuations.

If we turn to Slide 5, I will now highlight our third quarter results. We are reporting sales of $235 million, up 7.7% as compared to the prior year quarter, where increased sales from our TriMas Aerospace and Specialty Products groups, more than offset consumer and industrial end market demand weakness as compared to Q3 2022 within our TriMas Packaging Group.

We increased our operating profit by $6.3 million to $27.9 million or 11.8% of sales. While still below our long-term target level, we are gaining traction as we convert on higher sales and from prior period operational excellence and cost savings efforts.

We are reporting $0.57 per share -- EPS of $0.57 per share, up 42.5% as compared to the prior year quarter, as we benefited from stronger earnings' performance in each of our business groups and the successful completion of a tax project, which reduced our tax expense for the quarter.

Finally, we are reporting EBITDA of $45.2 million or 19.2% of sales, up 200 basis points from the prior year quarter. I would also like to note that in the prior year quarter, we enjoyed a property sale gain, which benefited Q3 2022 by $4.8 million. When normalizing for this benefit, our EBITDA for Q3 2023 was up by over 400 basis points.

So while we believe we are operating below our full potential as compared to when in an improved TriMas Packaging demand environment, we are encouraged by gains we are making across each of our businesses.

At this point, I will now turn the call over to Scott, who will take us through TriMas' balance sheet and segment results. Scott?

Scott A. Mell - *TriMas Corporation - CFO & Principal Accounting Officer*

Thanks, Tom. Let's now turn to Slide 6 for an overview of our key credit statistics. We ended the quarter with $361 million of net debt, a net leverage ratio of 2.1x and more than $300 million of available liquidity.

As of September 30, we had repaid all of the outstanding borrowings under our revolving line of credit, which we used earlier in the year to help fund the acquisition of our TriMas Aerospace business, Weldmac Manufacturing.

We had another strong quarter of cash generation, with more than $25 million in free cash flow in Q3, and our free cash flow for the 9 months ending September 30 increased by 15% when compared to the same period last year.

We have ample liquidity to continue to invest in our businesses, take streamlining actions where appropriate, buy back shares, pay dividends and complete future strategic bolt-on acquisitions as opportunities present themselves.

Now let's turn to Slide 7 and I will begin my review of our segment results, starting with TriMas Packaging. Net sales were $117 million as compared to $130 million for the prior year quarter. Acquisitions contributed $6 million of sales, while the favorable impact of foreign currency translation contributed another $2.2 million of sales during the quarter.

As expected, organic sales were lower during the quarter, down 16.5% when compared to the previous year period. As Tom mentioned earlier, we believe the third quarter represents the last quarter, where we will experience a challenging comparison to the prior year, given the abrupt softening in demand which started late in Q3 of last year, with many of our Packaging customers deciding to bring their overstocked inventories into better balance given the uncertainty of future consumer demand.

We do remain encouraged by the increased commercial activity underway within this segment, which we believe will yield benefits as we move into 2024.

Operating profit for the quarter was $19.5 million, an increase of more than 7.5% on a year-over-year basis. Operating margin was 16.7% of net sales, a 280 basis point improvement when compared to Q3 of last year, as we are beginning to realize the benefits of our previous cost savings actions, including initiatives to reduce key input costs, such as raw materials and energy.

I will also highlight that as of the end of the quarter, we had shuttered all production activity at our Rohnert Park in Hangzhou China facilities, and have relocated certain of our key operating assets from those locations to other TriMas Packaging locations in China and the U.S. Adjusted EBITDA was $28.5 million or 24.5% of net sales, a 440 basis point improvement year-over-year.

Turning to Slide 8. I will now provide an update on our TriMas Aerospace segment. Net sales for the quarter increased by more than $22 million or 49% when compared to the same period a year ago. As we continue to see strong order intake for many of our Aerospace products, as general Aerospace volumes continue to recover ahead of market expectations.

Acquisitions contributed $9.7 million of sales during the quarter, while organic sales increased by $12.5 million or 27.5% when compared to the previous year period. Operating profit for the quarter was $8.3 million or 12.3% of net sales. This represents a 180 basis point improvement. And as Tom mentioned earlier, excluding the impact of a $4.8 million gain from a property sale in Q3 of 2022, operating margin for the quarter improved by more than 1,200 basis points.

As important, sequential quarterly operating margin improved by more than 600 basis points, as we are starting to see improved conversion rates on higher sales. Adjusted EBITDA for the quarter was $13 million, or 19.3% of net sales.

Now on Slide 9, let's review our Specialty Products segment. Net sales were $51 million as compared to $43 million for the prior year quarter, as demand for steel cylinders for industrial applications and remote power generation units remained strong during the quarter.

Operating profit in the quarter was $10.7 million or 20.9% of net sales as compared to $6.8 million in the previous year period, as Specialty products continued to positively benefit from significantly improved conversion on robust demand. Adjusted EBITDA for the quarter was $11.7 million or 22.8% of net sales.

While we are very pleased with the performance of Specialty Products during the third quarter, we are starting to see more moderation in our order book as compared to the high rate we've experienced throughout the year. We believe customers are seeking to bring their capital spending and inventories into better balance as they close out the year.

Of course, we continue to closely monitor our order changes, and will take appropriate flexing actions as necessary. At this point, I'd like to turn the call back over to Tom to review our 2023 outlook and for some closing remarks. Tom?

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

Thank you, Scott. Let's now turn to Slide 10. As noted in our press release issued this morning, we are reaffirming our outlook for the year. While we continue to model various scenarios, this outlook assumes no impact from the escalation of the conflict in the Middle East.

We are anticipating that the gains on conversion within each of our groups will continue through Q4 and as we enter 2024. Given reduced market lead times within our TriMas Packaging and Specialty Products groups, we are also taking a more measured view on near-term growth in these segments.

Let's turn to Slide 11. I would like to, again, thank our investors for their continued support. I will conclude our prepared remarks by providing just a few examples of why we remain excited about the long-term shareholder value creation prospects for TriMas.

First, we continue to believe there are attractive long-term characteristics within our TriMas Packaging and TriMas Life Sciences group through our multiple end markets, diverse geographic presence and improving demand. We also have many sustainable and innovative product solutions, such as mono-polymer dispensers and tether caps in the pipeline and coming to market in the future. And as noted earlier, we are gaining traction with some of the new TriMas medical applications.

We also have growing confidence in a sustained recovery within the commercial aerospace and defense end markets, and anticipate future increased spending in defense will benefit certain of TriMas Aerospace businesses, specifically RSA Engineered Products, Weldmac and Martinic. We continue to work through supply and remaining skilled labor constraints, and expect to take advantage of long-term operating leverage gains as we bring our production planning into better synchronization with customer demand into 2024.

Within TriMas Specialty Products Group, we expect to continue to convert well on sales, and assess new market and product adjacencies to drive future growth within our Norris Cylinder and Aero Engine businesses.

Given our relentless commitment to cash flow generation, we will continue to reinvest in our businesses for long-term growth, while also returning capital to our shareholders, both through dividends and share buybacks.

In addition, our leadership team remains committed to operating TriMas in a responsible way to contribute to society, particularly in the communities where we live and work. Again, we continue to believe TriMas is an exciting company to invest in. And with that, I'll turn the call back to Sherry. Sherry?

Sherry Lauderback - *TriMas Corporation - VP of IR & Communications*

Thanks, Tom. At this point, we'd like to open the call up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Hamed Khorsand with BWS Financial.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Could you just talk about the timing of these new products that you're talking about in Packaging, especially in the Life Sciences part. Is it -- when you're saying '24, is it going to ramp materially for you at the time? Or is there a larger detail?

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

It's a great question. I'm glad you asked it. I think, in total, we have a number of new exciting awards in Packaging that we'll launch for us beginning closer to the second half of next year, that we're investing in today. And they range from new innovative tether caps for one of our largest customers, Coca-Cola, new wins for dispensers with P&G, additional incremental volume in Brazil, additional applications with Henkel on a new jar award.

These are all programs that if our current base of sales in Packaging -- let's just say next year is flat or even to slow growth, that we should be able to power through a slow growth period layering on top these new wins that we have that we've got in our book today, but just haven't yet launched.

Within Life Sciences, it's a little bit different story. I mean these are not as large volume yet, we're ramping them up today. They're actually in some of our Q4 expectations. But what's nice about those new wins is they are extended penetration with some pretty important medical customers. And what we're seeing as a result is new opportunities for additional penetration with those customers, and that probably will take longer, maybe 2025 and into 2026. But those are very sticky programs, and we're pretty excited about that. As I bring -- as we win those programs, I'll bring them to our discussions.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

And my other question was just in Aerospace, given that you've seen improved labor and supply chain, does that create a linear kind of revenue growth for you given what Boeing Aerospace are saying, Airbus?

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

Yes, I don't think we're quite yet there. I think there's -- our backlog is still so strong that we should be able to grow above a more linear market growth rate, at least for 2024, we are not quite done with our forecasting yet, but my expectation is if the commercial -- production of commercial jets are in the 15% range for next year, plus or minus, my expectation is we should be able to at least be there because we have to still -- we have a backlog that we still have not fully fulfilled yet.

Operator

Our next question comes from Katie Fleischer with KeyBanc Capital Markets.

Katie Fleischer - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

I wanted to dig in on the guide a little bit. It seems like Packaging, this quarter, was a little bit weaker than you had originally anticipated. Can you just talk about what gives you confidence in your ability to achieve the guide for the full year? Because it implies a pretty big step-up within the Packaging segment for the fourth quarter. So just kind of wanted to understand some of the dynamics there and what you're seeing within your end markets?

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

Well, it's a bit -- each end market is a little bit different. We're still -- where we have the most weakness right now is still in personal care, dispensing and food closures and still a little bit on the industrial closure end.

Our Q4 -- Scott mentioned this, our Q4 base for Packaging was incredibly low. And this is what we -- it's hard to believe it was a year ago, now it's been a long year. But our expectation is that even if we stay sort of -- we started to see some trends on our win rates that have picked up a little bit. But even if we stay flat to that, and we're expecting a bit of a better outcome for Q4 that, that should be nicely above our organic -- should provide nice organic growth versus Q4 in our Packaging group.

I would say, Katie, the cycle time, we talked about this before or the lead time is greatly reduced in the market right now, because volumes are down, because there's available capacity, and what normally would have occurred as customers work through their inventory levels, you would normally see a pipeline refill. We're not seeing that necessarily. And I don't think we'll see that until and unless the market starts to snap back in a more meaningful way.

So lead times are down. It's a bit difficult to predict our revenue precisely, but we're coming off such a low base that we're pretty confident that we'll do better than we did in Q4 last year.

Katie Fleischer - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Okay. That's helpful. And then just switching to margins in Packaging. Should we assume -- I know you discussed the cost savings and the impact that you're getting from that on your margins. Is the operating margin that we saw within Packaging this quarter a pretty fair assumption going forward? Or do you think you'll be able to get additional leverage from those cost improvements for next year?

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

Well, I think for the nearest term, it's a pretty good assumption til Q4-ish. But as we go into 2024, I'm expecting that we'll start to see some operating leverage gains occur. We'll probably be pretty mindful about our assumptions when we give guidance there. But when I look back at Q3, I wasn't too surprised with our sales rate, but I was very pleased with our conversion.

And I've said this before in calls, we can see through nonfinancial indicators, things working. And typically, the numbers follow, and we started to see that because we started our cost savings efforts, I think, pretty early in the year. And the benefits started to come through for us nicely in Q3.

So we should experience a nice full year run rate in 2024. And assuming some revenue comes back, which we hope happens and as we launch new programs later in the year, I'd expect to get some operating leverage gains.

Katie Fleischer - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Okay. Great. And then -- just the last one on M&A. What does the pipeline look like right now? Have you had to shift your strategy at all given the high rate environment, has it become more or less attractive?

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

So I'll take that in reverse order. First of all, we are modeling things a bit differently. We've increased our cost of capital given the higher interest rates. That's a great question, and we've already adjusted for that.

With respect to the M&A market overall, first of all, we're not going to force anything. Strategically, we're looking at a number of companies. We're able to make very clear decisions on things that fit our strategy and things that are just -- interesting companies out there.

The M&A market, I would say, generally for the end markets we're in, the products we're in and where we want to grow, I mean there's not a lot -- there's not many, many opportunities as we would see, for example, 3 years ago, where it was a pretty hot market. But we are looking at some nice adds globally.

I think if interest rates tick down a bit, I think that will start catalyzing what companies start to come to market, because there's a lot of privately owned companies out there that I think those owners are more working with those companies and their capital structure than being interested in bringing them to market at this point in time.

Katie Fleischer - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Okay. Great. And then -- sorry, just one last quick question in terms of modeling. You talked about your tax -- the tax benefit this quarter. Can you just give a little bit more detail on that and if we should assume a lower level of taxes going forward?

Scott A. Mell - *TriMas Corporation - CFO & Principal Accounting Officer*

Yes. So the tax item for this quarter was related to a legacy entity in a foreign jurisdiction. We were able to repurpose that entity and leverage some of the tax assets given renewed activity in the region. I think you should view it as a onetime benefit and not necessarily -- we won't necessarily view -- continue to have that benefit as we go forward.

Operator

(Operator Instructions)

I see we have no further questions at this time. So I would like to turn the floor back over to management for closing comments.

Thomas A. Amato - *TriMas Corporation - President, CEO & Director*

Well, thank you all again for joining us on our earnings call, and we look forward to updating you again next quarter. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
