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PRESENTATION

Operator

Greetings, and welcome to the TriMas Second 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, Sherry. You may begin.

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

Thank you, and welcome to TriMas Corporation's Second 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 second quarter results and outlook, and then we will open up the call for your questions. In order to assist with the review of our results, we have included today's press release and PowerPoint presentation on our company's website at trimascorp.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 13739841.

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-Q that will be filed later today 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 the call.

Today, this discussion on the call regarding our financial results will be on an adjusted basis, which is 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 second quarter earnings call. As we reflect on the quarter, I want to first thank our TriMas team for their increased efforts this year as we continue to navigate a very dynamic and changing global market environment.

In certain product lines, we are adding capacity, ramping up production volumes, enhancing skilled labor and alleviating supply bottlenecks, all to support robust customer demand.

At the same time, in other product lines, we are rebalancing our manufacturing footprint and securing procurement savings to prepare certain businesses for improved conversion as end markets recover.

Overall, irrespective of markets being strong or soft, each TriMas local team is working diligently to satisfy market demand or offset market disruptions while remaining focused on gaining momentum against our longer-term strategies.

In relation to this quarter, I would like to personally thank our Specialty Products team for delivering strong results. Our Specialty Products performance is the result of making investment decisions in our businesses when market demand was challenged on the premise that demand would rebound. Market improvement did occur as we are witnessing today, and we were prepared to satisfy higher customer demand, all while also converting well.

So in summary, we decided to invest in and take advantage of prior disruption in our Specialty Products end markets, which has benefited investors today. We are also leveraging our current momentum to position our Specialty Products Group to capture future growth through new innovations such as ultra-high purity cylinders for packaged gas applications and EPA-certified remote power generation units.

So again, I would like to thank our Specialty Products team for their strong performance this year. I would also like to highlight that while our performance within TriMas Aerospace is well below our internal standards and potential, we are starting to make some significant progress in bringing the supply of super alloy raw materials, skilled labor and production capacity into better balance. As we make strides to achieve improved synchronization with our production planning and customer requirements, we anticipate achieving financial results much improved from current levels. In fact, our second quarter results were sequentially better than our first quarter results. And I would like to note that in Q2, we had a settlement charge unique to the quarter that otherwise would have had our operating margin percent ahead of the prior year quarter as well. So while we are still below our overall potential, we are starting to achieve momentum in this group.

Finally, our TriMas Packaging and TriMas Life Sciences teams are working diligently to prepare for improved market conditions as we move forward. Within TriMas Packaging, while we have seen some sequential monthly increases in our order backlog, they are at a more moderated rate than we had hoped to achieve at this point in the year.

As we move into the second half, we now believe a market recovery in certain consumer products and packaging industrial submarkets will be more gradual than we assumed to start the year.

As such, we made the decision to take advantage of this lower demand period to reposition productive assets and streamline our manufacturing footprint, and we are taking other procurement savings actions which we anticipate will generate more than 10 million or 200 basis points of annual run rate savings once implemented.

Additionally, our TriMas Packaging commercial team is gaining momentum, leveraging our global supply model to expand -- by expanding our business into new geographic markets with new customers, particularly in South America. And of course, we continue to make progress marketing the characteristics and benefits to our CPG customers of our patented and commercial-ready single polymer dispenser for personal care, beauty and other applications.

We anticipate highlighting these advancements as we move into 2024. Within TriMas Life Sciences, we are ramping up and launching new programs for polymerase chain reaction from oral test kits and electrosurgery component applications.

While some of our life science applications are currently lower in volume, we remain excited about the new channels and newer customers for growth in areas that once qualified, have a strong moat. Again, I think our TriMas Packaging and TriMas Life Sciences teams were taking actions today to position us for improved performance in the future.

With that background we delivered adjusted earnings per share for the quarter of $0.50, which compared to the first quarter of 2023 of $0.20 -- sorry, of $0.30 represents sequential improvement and was in line with our internal planning models. With that said, while we continue to assume a recovery in certain of our packaging end markets in the back half of 2023, we anticipate that these will be at a more gradual rate than originally modeled and I'll discuss this further in a few slides. At this point, I would like to turn the call over to Scott, who will take us through our consolidated and segment results. Scott?

Scott A. Mell - *TriMas Corporation - CFO*

Thanks, Tom. Let's now turn to Slide 4 where I'll summarize our financial results for the quarter. Sales for the quarter were $233.2 million, as compared to $237.7 million for the prior year quarter as organic growth in the TriMas Specialty Products and TriMas Aerospace groups and acquisition-related sales were more than offset by lower market demand for TriMas Packaging dispenser and closure products used in personal care, food and industrial applications. We continue to believe the packaging market softness primarily relates to continuing overstock positions at certain large CPG customers, more conservative purchasing patterns and lingering inflationary concerns.

Operating profit for the quarter was $27.3 million as compared to $15.5 million for the first quarter of this year, and $32.1 million for the prior year quarter. EBITDA for the quarter was $45.5 million or 19.5% of sales as compared to $31.7 million or 14.7% of sales for the first quarter of this year and 20.3% of sales for the prior year quarter.

As Tom mentioned in his opening remarks, the performance for the quarter was in line with our planning models and we continue to expect our performance to sequentially improve over the second half of the year, albeit at a more gradual rate than originally expected.

Finally, adjusted earnings per share for the quarter were $0.50, which was a 67% increase when compared to the first quarter of this year.

Now let's turn to Slide 5, and I will briefly review our balance sheet and credit statistics. Net debt, after funding the acquisition of Weldmac, paying a dividend and completing share repurchases was $375 million, with a net leverage ratio of 2.3x.

As previously discussed, we grew approximately $40 million on our revolving line of credit to fund the April acquisition of Weldmac, of which $22 million remains outstanding at the end of the quarter. We expect to repay the remaining outstanding balance by the end of the year with cash flows generated from operating activities. Free cash flow of $11 million for the quarter was in line with expectations, and we continue to have ample liquidity to continue to invest in our businesses, take streamlining actions where appropriate, buy back shares, pay dividends, the complete future strategic bolt-on acquisitions as opportunities present themselves.

Now let's turn to Slide 6, and I will begin my review of our segment results, starting with TriMas Packaging. First quarter net sales were $117 million as compared to $148 million for the prior year quarter and up slightly when compared to the first quarter of this year. Acquisitions contributed $7.5 million of sales during the quarter, while the impact of foreign currency was immaterial. As expected, organic sales were lower during the quarter, down 26% when compared to the previous year period. This decline is primarily attributable to lower demand, most notably for consumer goods with applications in the personal care, food and certain industrial submarkets. We continue to closely monitor the commercial environment and will take as necessary, additional streamlining actions as a hedge against any potential further market demand softness.

Operating profit in the quarter increased by $6.7 million to $21.9 million when compared to the first quarter of this year, but was lower on a year-over-year basis, primarily on account of the impact of lower sales.

Operating margin was 18.7% of net sales, while adjusted EBITDA was $30.3 million or 25.8% of net sales, a 90 basis point improvement year-over-year and a more than 600 basis point improvement when compared to the first quarter of this year.

Turning to Slide 7. I will now provide an update on our TriMas Aerospace segment. Net sales for the quarter increased by $12.4 million or 26% 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 $7.3 million of sales during the quarter while organic sales increased by more than $5 million or 11% when compared to the previous year period. Operating profit for the quarter was $3.7 million or 6.2% of net sales as compared to $3.3 million or 6.9% in the prior year.

As Tom mentioned earlier, absent a onetime settlement charge unique to the quarter, operating margin for the quarter would have been higher on a year-over-year basis.

More importantly, sequential quarterly operating margin improved by more than 300 basis points as we are starting to see improved conversion rates on higher sales. Adjusted EBITDA for the quarter was $8.6 million or 14.4% of net sales.

Now on Slide 8, let's review our Specialty Products segment. Net sales in the second quarter increased by more than $14 million to $56 million, a 34% increase when compared to the same period a year ago. This is now 9 consecutive quarters of double-digit percentage growth for our Specialty Products segment. Demand for steel cylinders for packaged gas applications and remote power generation units and related spare parts, each for the North America region remains robust with moderately high levels of backlog for both businesses. Operating profit in the quarter was $12.1 million or 21.6% of net sales as compared to $6.8 million in the previous year period. This record-setting margin level for Specialty Products, as a result of continuing robust demand and the impact of previous factory floor improvement actions.

Adjusted EBITDA for the quarter was $13.2 million or 23.5% of net sales. While our Specialty Products businesses, order books remain strong, which we believe is indicative of continuing resilience in certain end markets for which they sell into, we will continue to closely monitor order changes and input costs and take appropriate actions if necessary.

At this point, I would 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 9. We continue to model potential scenarios for 2023, especially given some of the uncertainty in a few of our end markets. As noted in our earnings release, we are modifying our full year outlook. There are a few important considerations I'd like to note. The most significant driver is our view of the recovery in certain packaging end markets. Specifically, while we have estimated continued sequential demand recovery as customers work through inventories, we now believe that, that recovery rate will be more moderated than originally forecasted. Therefore, we are modifying our consolidated sales growth range to a new rate of 5% to 10%, compared to 2022 and an adjusted EPS range of $1.80 to $1.95.

It is worth noting that on a comparison basis, when normalizing 2022 and for 2 discrete special projects that we completed last year, our base adjusted EPS for 2022 would have been $1.73. Therefore, even at the revised adjusted EPS midpoint, we are forecasting sequential momentum in our performance. Our revised outlook also assumes continued strong demand within our Specialty Products group, continued progress against bringing supply and production into better balance within our TriMas Aerospace Group and continued moderated sequential demand increases within TriMas Packaging. We also continue to forecast our full year free cash flow to be greater than 100% of net income.

So let's turn to Slide 10. I would like to thank -- I would like to again thank our investors for their continued support as we navigate through what we believe is a prolonged but temporary softer demand period. With that said, I will conclude our prepared remarks by providing just a few examples of why we remain excited about the long-term 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 product solutions such as mono polymer, tethered caps, and child-resistant closures in the pipeline and coming to market in the future, and we are gaining traction with some new to TriMas medical applications.

We also have growing confidence in the sustained recovery within the commercial aerospace and defense end markets and anticipate future increases -- increased spending in defense will benefit TriMas Aerospace. We are working through supply and remaining skilled labor constraints and expect to take advantage of long-term operating leverage gains as we bring our supply and production planning into better synchronization with customer demand.

Within our TriMas Specialty Products group, we expect demand to remain robust given our strong order backlog. We will also continue to assess new market and product adjacencies to drive future growth within our Specialty Products 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 positively 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 would like to open the call up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ken Newman with KeyBanc Capital Markets.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Maybe first to start off. Can you just talk a little bit about the confidence that you have in the packaging guide and just where your visibility with customers in the end market is today?

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

Yes. I mean, look, that's a great question. What's happening -- the best way for me to explain what's happening in the market today where we've had overstock positions that we've been -- our customers have been working through.

The best way for me to describe it is, we've seen a number of our customers that have had overstock positions, not all, but many, make progress as we've gone through the year burning down those inventory positions. What's happened, Ken, as a result, is given that we started the year with this position, given the capacity that's available in the market, we're seeing lead times significantly reduced in several of our product lines. So what that means is, previously suppliers like our packaging group as well as other suppliers we would compete with would normally quote 8 weeks to deliver certain products, 6 to 8 weeks. That's down substantially. So customers are benefiting from available capacity, shorter lead times, which means the market has shifted to a shorter cycle supply scenario.

That's a long way to say that our visibility is pretty short. So there still is uncertainty where we feel a little bit comfortable because we saw our order book pick up in the second quarter on a month-over-month basis. But we're also in what I would call a shorter cycle period. So I think that's the best way for us to answer the question at this point. We are making outstanding progress on booking what I would call larger orders for our Packaging group, but several of those don't hit until next year, given that there were newer innovations or specific programs. So we really can't count on them for 2023.

So we're really looking at our current order cadence, trying to make some predictions around that. And that's where we're coming up with our revised outlook for the top line for packaging. That being said, on a consolidated basis, we have the order book in TriMas Aerospace. And we have strong orders in TriMas Specialty Products. So for us, it's a matter of getting the product out the door. So we have a little mini hedge versus a pure packaging company.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Right. I guess the things that we're trying to get comfortable with is does the lower end of that packaging revenue guide, how much conservatism is kind of built-in there? Do you -- should we expect that sales are up year-over-year in the third quarter? Or is this truly a fourth quarter type of heavy revenue growth kind of gets you to that midpoint?

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

Yes. Good question. We're expecting Q3 sales to be moderately up versus last quarter. Last quarter, sales were very low and fourth quarter was very low. And then we would expect a bit of a pickup in fourth quarter. We do expect to have a seasonal selling period occurred this year, which didn't occur last year. If you remember some of our conversations, orders were dropped that were in our system and they did not -- the orders just never took place in the year. So we do expect there will be some reversion to somewhat of a seasonal selling period not yet at normalized rates, but certainly not what we saw last year.

Scott A. Mell - *TriMas Corporation - CFO*

Ken, I'd also point you to Slide 13 of our earnings presentation, where we highlight the revised sales growth for packaging for the year, which is on the low end, minus 8% year-over-year and on the high end, minus 2%.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Right. No, I get that. I think it still implies up double digits in the back half year-over-year, right, for just that segment. And so I guess that kind of leads me to the next question because that leads the margin profile also implies a pretty sizable ramp in operating leverage for the back half. That probably makes sense just given the commentary you made, Tom, on the easier comps from last year and the selling period, any way that we can kind of think about the cadence of incremental margin 3Q to 4Q?

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

Yes. Look, I mean that -- I think that's -- I don't want to write the story, but in terms of the value proposition for TriMas right now, as aerospace as we bring into synchronization and we're making progress every day, it will come through the numbers based on the nonfinancials that we're seeing as we're making progress in aerospace and as revenue comes back in packaging, the conversion rates should come up nicely. So I think that at our current run rate for packaging, it's abnormally low.

We're keeping infrastructure in place to some extent, right? We're doing some footprint rationalization. We're taking some costs out. But we're not positioning the business as if this is the new run rate for sales. We are positioning the business for a recovery. So I'm confident, as I sit here today, that as we get incremental sales within packaging, we'll convert very well.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Right. Maybe just one more on Packaging. Sorry if I missed this, but the -- did you say how much these consolidations are expected to cost within packaging? And a sense of the timing of realizing those benefits. I think you mentioned $10 million in benefits are expected. Any color there?

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

Yes. I don't know, Scott. We do have some restructuring charges in the quarter that largely relate to anticipated costs to make those moves. So the payback on that, I think, is pretty swift, but also will help us with our conversion rates.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay. And then the existing facilities, do they need to be retooled in any way to kind of move that capacity over? Or what's involved from an operational or logistics perspective in consolidating that capacity? And is there a risk that even since the visibility is so low right now, is there a risk that you can kind of get caught flat-footed as you try to consolidate the manufacturing space?

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

I don't think so. I think, I understand what you're saying, but the one point I'd like to make here, having in my career reposition more manufacturing operations than I can even recount at this moment. The move that we're making within the U.S., which is exiting a California operation, we're moving existing production assets into existing plants where we -- so we actually -- we don't even have to build a bank in many ways. So we're able to just move tools over, put them into presses that are existing and then the presses will follow. So if there's a further prolonged softness in the market, we'll still get some savings because we're taking the infrastructure costs out of one plant in California.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Right.

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

And then so a little more -- I just want to say, it's a little more complex in what we're doing in China in terms of bringing 2 plants into 1 because that involves a new facility, but we're -- our estimates are based on their current demand levels. So we're not really even forecasting a pickup in demand there and we're moving some assets to other parts of the world. So I look at both of those restructuring steps is safer launches as compared to like launching a brand new plant.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Right. Maybe just switching over to the Specialty segment. Obviously, very strong margins here. Just longer term, I mean, how sustainable are margins at this level? I mean, is this the new baseline for that business through the cycle, do you think?

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

Well, I think it sort of depends on overall market demand and what cylinders we sell. There is a big mix characteristic here. So I've been talking for the past few quarters on ultrahigh purity cylinders. For us, that's a good product line, it goes into a specialized application, specifically with the movement of localizing microchips into U.S., those types of cylinders would go into those types of applications and we can typically command a higher -- better pricing and, therefore, better margins. So look, we're -- we do recognize we're getting into some historical high ranges for margin here, and that's both a good thing and it also has us looking behind us and making sure we're doing what we can to protect that.

A lot of the driver though has been improving our cost structure. So we've taken a lot of actions over. Like I said, I mean, the time -- sometimes it's difficult. When times are tough to invest in a business, those are -- you're taking a risk, and we did that here, and we did it on the best that the market would come back and it did and it's paid off. So it's a fair point. I just certainly don't want to conclude that there's risk here, but we're cognizant of what you're saying.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay. Maybe just switching over to Arrow really quick. Boeing's are ramping monthly production with 737. Just curious how you think about that impact and the visibility for faster production.

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

Yes. Look, if you ask a question on 777?

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

I think the 737, but any...

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

737, okay. So look, I mean, we're -- it's -- all of that helps. The order book for us is there. The aerospace industry has something very unique to it in terms of annual gathering that is everyone you could possibly want to meet with and talk to. And that air show just took place a few weeks ago, very upbeat. The types of production issues that we're having, we're not alone, not only in the faster space, but in some of the hard part supply space.

So the key theme for us with our customers, with our suppliers is getting -- as the big aerospace wheel starts to turn again, getting alignment in the supply, base in the sub-supply production-base, skilled labor, labor, et cetera. So that's why I'm pretty excited that as we go forward and certainly into 2024, we'll convert well.

I also think longer term, I thought you asked a question about the 777, but longer term, as the 777 comes back online, so maybe that's 2025 plus, there's very little to no activity in our numbers related to that. And that's a -- we've got a nice presence on that as well.

Kenneth H. Newman - *KeyBanc Capital Markets Inc., Research Division - Associate*

Yes. Maybe the last one for me. Just on the free cash flow guide, greater than 100%. I know that's excluding some restructuring costs, so maybe not completely apples-to-apples, but even, I think, through the first half, even on an adjusted basis, we're around 60% conversion. So any big onetime thing? How much of that is seasonality? Or is there anything that we need to kind of be paying attention to in terms of how that free cash starts to flow through here in the back half, just given all the issues with packaging?

Scott A. Mell - *TriMas Corporation - CFO*

Yes. I mean that's our traditional cycle of cash generation as we invest typically in the first half of the year with -- to working capital and then we unwind it as we get into the third quarter and really into the fourth quarter. So there's nothing really unique there, Ken, other than just our traditional expectations on unwinding of working capital. Plus, obviously, the incremental earnings in the second half of the year versus the first half.

Operator

Our next question comes from the line of Hamed Khorsand with BWS Financial.

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

So the first question I have was on the Packaging side. Do you think you might be in a situation where you don't have capacity if orders come back quicker than you're thinking on the consolidation side?

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

No. We actually have been studying. That's a great question. And it's something that we've explored intently, especially given what we have seen take place within aerospace, right? So it certainly was a wake-up call for us. But we can add shifts to several of our plants where we would have pinch points. We're not yet running -- I mean we're not running all of our plants within packaging on a 3-shift basis or in many cases, not even a 2-shift basis. So we can scale up on our productive assets and get some incredible operating margin -- or operating leverage.

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

Okay. And then as far as the customers are concerned, are they adjusting as far as making new products to attract the customer again? Or is this purely they're just stuck with inventory and they're just waiting it for it to clear out through the channel?

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

Well, I understand the question. Look, I think within -- what's exciting about the packaging segment for us generally, is there's always innovation that is at the core of what our customers are doing, what we're doing with them, especially when you think about the consumer product space and what attracts at point of purchase, point of sale, the consumer to select one item versus another. And there's a lot of science that goes into that with our customers, and we support that effort intently.

You're right, though, to the extent that inventory was high or overstocked coming into this year on simple -- like a simple pump, for example, like a simple 2 cc dispenser, yes, that would have to get burned through. It probably would -- it wouldn't get disposed of because there's a significant amount of consumption of 2 cc simple dispensers that are here today have been here for a while, and going forward will always be there.

They're lower cost less fancy pumps that, frankly, do a fine job of getting liquid out of a container to a consumer's hands.

Operator

There are no further questions at this time. I'd like to turn the floor back over to Tom for closing comments.

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

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

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.
