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PRESENTATION

Operator

Good day, and welcome to the TriMas Second Quarter 2022 Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Sherry Lauderback. Please go ahead.

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

Thank you, and welcome to TriMas Corporation's Second Quarter 2022 Earnings Call. Participating on the call today are Thomas Amato, TriMas' President and CEO; Scott Mell, our Chief Financial Officer; and Paul Swart, our Chief Accounting Officer.

We will provide a prepared remarks on our second quarter results and our 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 the press release and PowerPoint presentation on our company website at trimascorp.com under the Investors section. In addition, a replay of this call will be available later today by calling (888) 203-1112 with a replay code of 7250176.

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 and our second quarter 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 issued this morning or included as part of this presentation for the reconciliations between GAAP and non-GAAP financial measures used during this conference 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'll 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. Let's turn to Slide 3. As we reflect on our second quarter performance and taking into consideration the challenging economic period we are in, I would like to acknowledge and thank our global team members for their continued commitment and dedication. It will come as no surprise that our businesses are not immune to the lingering effects of the pandemic, inflationary pressures and other factors impacting production such as labor availability and supply constraints.

To add to these dynamics, we are experiencing in certain product lines, higher customer demand as compared to our planning models, while in other product lines, we are seeing softer demand, all driven by our customers seeking to bring in to balance their inventories in order to be responsive to their customers' needs. These effects translate in some cases to operating at less than our prepandemic efficiency levels in our production facilities as our daily and weekly scheduling is often adjusted to accommodate our available labor force or material constraints.

As we remain flexible in this economic environment, the relentless commitment of our local teams to support our customers, makes a significant performance difference. So again, I thank our global team for their continued strong efforts.

With that background, despite this very dynamic operating and demand environment, we are pleased to report adjusted earnings per share of $0.60, which is in line with our planning model for the quarter. Additionally, in light of the many actions we have taken over the past few years to strengthen our balance sheet, and given the recent dislocation in the equity markets, we have repurchased nearly 1 million shares since the beginning of the year, reducing our shares outstanding this year alone by approximately 1.8%. We have approximately $115 million available under our share repurchase authorization, which is adequate to allow us to opportunistically repurchase shares in combination with investing to execute against our long-term strategy.

I'd also like to note that we believe companies with a strong balance sheet and exceptional cash flow are the ones that will be best positioned to thrive in uncertain times. With that said, Scott will discuss in his section additional cash generation actions we are taking to ensure we maintain a strong balance sheet and to solidify second half performance.

Let's turn to Slide 4 where I'll cover our financial performance for the quarter. Sales were approximately $238 million, up 8.5% as compared to the prior year quarter, driven by organic sales of 3.5% and sales from acquisitions, which contributed 7.2%, partially offset by unfavorable foreign currency exchange of 2.2%. Sales increased in all 3 of our segments with the most significant increase in our Specialty Products segment, driven by continued industrial demand for products within our Norris Cylinder and aero engine businesses. Sales were also up within TriMas Packaging driven by acquisitions, and sales were up within TriMas Aerospace as we continue to see signs of returning demand in the aerospace market generally.

Adjusted operating profit for the quarter was $32 million or 13.5% of sales, which was $2.1 million higher than the prior year quarter, but 20 basis points lower in margin largely due to product mix and higher energy costs in Europe. Adjusted net income was $28.8 million or $0.60 per share, and this was slightly lower than the prior year quarter due to an approximately $3 million or $0.07 per share tax planning benefit that occurred in the second quarter of 2021.

Finally, adjusted EBITDA was $48.3 million in the quarter or 20.3% of sales, and on an LTM basis was $176.8 million, a $12.7 million increase over June 2021 adjusted LTM EBITDA of $164 million. We accomplished this earnings growth while also keeping net leverage in check and reducing our shares outstanding. We believe over time that our momentum in growing cash earnings, coupled with maintaining a strong balance sheet, will drive long-term shareholder value.

At this point, I will turn the call over to Scott, who will take us through our balance sheet and segment performance. Scott?

Scott A. Mell - *TriMas Corporation - CFO*

Thanks, Tom. Let's turn to Slide 5. As Tom mentioned in his opening comments, we continue to maintain a strong balance sheet and liquidity profile, which we believe will position us well to execute against our long-term strategy. As of June 30, we maintained $348.1 million of unrestricted cash and availability under our credit facilities, had net leverage of 2x even after recent acquisitions and share repurchases.

I will also highlight that Q2 '22 free cash flow of $15.5 million, which is slightly lower than the same period last year, is a result of proactive procurement actions in response to global supply chain disruptions as we actively managed our inventory balances to ensure continuity of supply for our customers.

Finally, and as mentioned earlier, we are actively taking steps to further bolster our balance sheet in support of executing our long-term strategy. For example, in July, we closed out deep in-the-money cross-currency swaps and are in the process of disposing excess land, which together should yield more than $30 million in cash proceeds before taxes. We will continue to assess additional opportunities to strengthen our balance sheet as they become available.

Now let's turn to Slide 6, and I will begin my review of our segment results, starting with TriMas Packaging. Our Packaging segment results for the second quarter included another record-setting sales performance. Net sales of $148.4 million increased $8.8 million or 6.2% as compared to the year ago period. Acquisitions contributed $14.4 million of sales during the quarter, while the impact of unfavorable foreign currency translation reduced sales by $4.8 million during the quarter.

Organic sales decreased by less than [1%] when compared to the prior year period, as we are comparing to the second quarter of 2021, which was the last quarter, which significantly benefited from the positive effects of the pandemic-related demand surge.

With respect to our dispensing product lines, while in Q2, we believe that our global CPG customers continued to work through existing inventory, we are starting to see indications that demand volumes are beginning to stabilize at a new higher post-COVID level.

During the second quarter of 2022, and consistent with our results for the previous 3 quarters, we continued to experience double-digit year-over-year organic growth for products used in food and beverage and industrial and agricultural applications as these end markets continue to deliver stable macroeconomic growth. It's also worth noting that our flexible food and beverage product lines, which we take to market under our Rapak brand, continued to see strong demand for their bag and box product solutions with sales increasing by more than 30% on a year-over-year basis.

While we are pleased with the sales performance for the quarter, given the challenging macroeconomic factors currently impacting many of the regions of the world in which we operate, we will continue to closely monitor our order book and production planning as our customers potentially bring late pandemic period inventories further in the balance over the second half of the year.

Operating profit when compared to Q2 2021 was up slightly to $29.2 million as the impacts of higher sales and less volatile resin costs were offset by inflationary pressure on other input costs, including energy cost in Europe, which continue to be meaningfully impacted by the ongoing hostilities in Eastern Europe as well as currency exchange rates. Operating margin was 19.7% compared to 20.2% a year ago, while adjusted EBITDA was $37 million, a 2.2% increase versus the prior year quarter.

As we look forward to the second half of 2022 and beyond, I'd like to highlight a few additional items. First, for the second half of 2022, we expect acquisition-related sales growth to continue to augment organic sales growth in that key input costs, including material cost and energy will stabilize. Next, we remain committed to expanding our offering of a fully recyclable dispensing product line with additional sales expected to ramp-up in late 2023 and into 2024 as we continue to see strong interest in these products from our global CPG customers.

Finally, we are pleased with the results of the ongoing integration efforts at our 2 recently acquired life sciences businesses, Omega Plastics and Intertech and expect future organic growth for both businesses as well as further bolt-on acquisitions into the TriMas Life Sciences platform.

Turning to Slide 7. I will now provide an update on our TriMas Aerospace segment. Net sales for the quarter increased $2.8 million, including $1.4 million from acquisitions to $47.4 million, a 6.4% increase when compared to the same period a year ago. As we've mentioned previously, sales and operating profit for TriMas Aerospace throughout 2021 were positively impacted...

(technical difficulty)

Paul A. Swart - *TriMas Corporation - CAO, VP of Business Planning & Controller*

Okay. This is Paul Swart.

Operator

You would like to continue?

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

Yes, we're going to continue.

Paul A. Swart - *TriMas Corporation - CAO, VP of Business Planning & Controller*

So continuing on, adjusting for the impact of the stocking orders on Q2 '21 sales, Q2 2022 sales were up more than 16%. In addition, order intake and backlog for our Aerospace product lines are exceeding our internal plans for 2022. And accordingly, we believe should positively impact 2023 given delivery timing.

Operating profit for the quarter was $3.3 million or 6.9% of sales as compared to $2.7 million or 6.1% in the prior year. This 19.3% year-over-year improvement in operating profit is primarily attributable to the increase in sales, which more than offset the higher product margin related to the prior period special stocking orders.

Adjusted EBITDA for the quarter was $8.2 million or 17.4% of sales, a 90 basis point improvement year-over-year compared to $7.4 million or 16.5% for the prior year period. While we expect the broader commercial aerospace market recovery to continue over the remainder of 2022, we also expect a challenging production environment related to continued labor shortages, lingering COVID outbreaks, raw material delays and dynamic customer order patterns to continue as well, at least through the second half of 2022.

Finally, I'd like to highlight that our TriMas Aerospace team will begin initial low rate production of components for the new Boeing T-7A trainer jet during the second half of 2022. As we announced previously, Boeing's T-7A Red Hawk is an all-new advanced pilot training system for the U.S. Air Force. Our RSA Engineered Products business was awarded several components used in the air ducting system, which is part of our efforts to expand our aerospace product offering further into space and defense-related applications.

Now on Slide 8, let's review our Specialty Products segment. Net sales in the second quarter increased $7.1 million to $41.9 million, a 20.5% increase when compared to the same period a year ago. This is now 5 consecutive quarters of 20% plus growth for our Specialty Products segment. Consistent with performance since second quarter of 2021, demand for steel cylinders and engines providing supplemental power each for the North American region were significantly higher in the quarter when compared to the same period in 2021.

The operating profit in the quarter was $6.8 million or 16.1% of sales as compared to $6 million in the previous year period. Operating profit increased by 12.6% as the impact of higher sales was slightly offset by higher material and energy costs when compared to second quarter of 2021. Adjusted EBITDA of $7.9 million or 18.8% of sales was also greater than the prior year's quarter of $7.2 million or 20.7% of sales.

In addition, at the end of the quarter, both Norris Cylinder and Arrow Engine's order books remained strong, which we believe is indicative of cautious optimism in the end markets which Specialty Products serves, including construction, HVAC, general industrial and upstream oil and gas. However, given the current macroeconomic environment, we will continue to closely monitor order changes and input costs and take appropriate actions as necessary. Finally, for this segment, we remain cautiously optimistic with regard to second half performance given our current backlog positions.

And at this point, I'd like to turn the call back over to Tom to discuss our outlook and for some closing remarks. Tom?

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

Thank you, Paul, and thank you, Scott. Scott is visiting one of our locations. We lost him on the line. And true to our TriMas business model, we always have contingencies ready to go, and we were ready to go.

So let's turn now to Slide 9. As we discussed on our April 28 earnings call, we continue to see our customer demand environment evolve differently than we planned for some of our product lines. Overall, given our diversified end market model and proactive continuous improvement actions, we are again reaffirming our sales, EPS and cash flow outlook for the year.

Our second half planning does assume that input cost of materials, materials availability stabilize while steel costs begin to ease. We also expect to see trends in our operations start to improve through the second half as we reduce labor bottlenecks and bring additional suppliers online, all to work through current production inefficiencies. Our outlook also considers successful execution of the project Scott mentioned previously, which will further strengthen our balance sheet and bolster performance. Lastly, we are assuming no additional geopolitical disruptions.

Let's turn to Slide 10, which summarizes TriMas' strategic value drivers. First, we will continue to build out TriMas Packaging as we believe there are attractive long-term characteristics in our diverse set of packaging end markets. We have a robust pipeline of innovative product solutions and are committed to augmenting this growth through acquisitions. At the same time, we are optimizing the higher demand we have been experiencing in our Specialty Products segment, leveraging the previous factory floor improvement actions we have taken.

Next, we are seeing positive trends emerge and reinforcing our thesis to have further long-term performance gains in our TriMas Aerospace Group as air travel and ultimately, commercial jet production recovers. And while we continue to reinvest in our businesses for long-term growth, we also anticipate continuing to return capital to our shareholders, both through quarterly dividends and share buybacks.

And in addition to our financial progress, our leadership team also remains committed to operating TriMas in a responsible way to positively contribute to society, particularly in the communities where we live and work.

Turning to Slide 11. Before wrapping up the call, I would like to highlight that over the past several weeks, a few of us from the TriMas leadership team attended both KeyBanc and William Blair investor conferences in Boston and Chicago, respectively, as well as attended several other direct investor meetings. These were the first in-person investor conferences and meetings we attended since the onset of the pandemic. We appreciate the attendance at our meetings, and it was great to reconnect and see so many familiar faces, meet new prospective investors and address questions as we further shape TriMas in the future.

On this slide, I would like to share with you what we believe all of the drivers on the previous slide mean for the future of TriMas. This highlights some of the performance targets as we continue to grow TriMas both organically and through acquisitions, further build out our Packaging platform and maintain our strong balance sheet. Of course, it is also our commitment to leverage our TriMas business model to adjust for market disruptions and drive performance while returning capital to shareholders along the way. 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 up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Ken Newman from KeyBanc Capital Markets.

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

For my first question, just looking at the segment-specific guidance you have on Slide 14. You bumped revenue growth for Aerospace and Specialty Products, but you kept the margin assumptions the same. I'm just curious, could you just walk through the puts and takes of what's offsetting what I think should be better absorption on higher volumes? And then maybe just a little bit of color on what's embedded in guidance from a price/cost perspective across all the segments?

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

Okay. Well, let me take those in reverse order. From a price and material cost point of view, we're assuming full coverage. Now there are some inflationary-related costs that were gets a little bit trickier for us to recover in an intra-period or even intra-year on an intra-year basis, and I think that's to be expected in normal.

With respect to the margin assumptions on higher revenue, largely related to some of the production inefficiencies that I referenced during my opening on the call. And these are things that I sort of view as a bit temporal, meaning that we hope to work through them as we exit this year and into next year. We don't have what I would call equipment capacity restraints. We might have constraints. We might have in certain production lines given some mix of customer demand, pinch points that we're working through related to some modest equipment. But for the most part, it's labor availability that is one of our constraints.

And that's the big -- probably the sort of the bigger story for the year is -- and we've seen this back if you look at the recovery period in 2009 and 2010, it was difficult for manufacturing companies as markets went down, and it was also difficult for manufacturing companies as markets came back up. I mean the good news is, as you look beyond the year and we look into 2023, I expect some of the trends that we're seeing in the top line will start to convert much better on as we get into next year.

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

Got it. I guess just keeping on this idea of inflation and higher commodity costs. I think we have seen a decent drop or moderation in commodity costs in recent months. I think that includes resins and polyethylene to a certain extent, maybe not so much as you've seen in the metals like steel. Maybe just talk about how -- the expectations for how those cost fluctuations kind of flow through the P&L in the back half? And where are the opportunities or risks from renegotiating pass-throughs here as we enter 2023?

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

Okay. So from a mix of polypropylene and polyethylene, I would say we're sort of in a stabilized market right now. If there's a little bit of softening, we're talking pretty minor in the overall scheme of things. So if -- and remember that one of the key input materials to make polypropylene and polyethylene is either natural gas or crude, and so we know what's happening there. So we're assuming for the second half basically stabilized polymer pricing, not a pullback.

On the steel front, however, a little bit different story. So we use a number of different metals ranging from special bar quality, billet type alloys to exotic metals and aluminum. So on the non-SBQ side, we're seeing metal pressure, which is not helpful to us. And we'd like to see that stabilize and ideally pull back at some point either in the second half or into 2023.

But on the SBQ side, which is a sizable purchase that feeds into predominantly our Specialty Products business and a little bit in Packaging. We're seeing some easing, as I said there. It's roughly -- market pricing roughly is $1,300 a ton in the U.S. That's still very high historically. And boy, it would be great that if that comes back down to $1,000 into 2023 or lower, that would be quite helpful to us.

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

Right. Just switching over real quickly. You touched on it a bit in your prepared remarks, but we've obviously seen some higher concerns from the market for potential softness around the consumer-facing end markets. Maybe just give a little bit more color about demand trends from your Packaging business as the quarter progressed? And what are you hearing in terms of major changes from customer behavior?

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

Yes, that's a great question. And we're seeing that as well. I know at one of the conferences, I spoke about this in detail. And one of my concerns as we talk about recessionary pressures, inflationary pressures is as we start to enter into a world of a self-fulfilling prophecy as we see consumer habits change. So we're definitely seeing some mix changes. And as we look at those mix changes are softening in certain segments -- sorry, certain end markets, and we talk to customers, the responses we're getting are demand from their customers, their end product demand as well as some of their inventory levels, which are related, right?

So we're staying close to our larger CPG customers, making sure that we're -- our production rates are in line with their demands and we'll flex appropriately. But that being said, as Scott noted, we're seeing higher demand pull in other product lines, industrial, food and beverage, for example, and in some other areas. So it's this mix shift, which is not normal, when I look at historically, the production rates of our product lines across TriMas. There's a wide range of variability, which is creating some secondary production issues, but we're working through them. We're staying close to our customers, watching our inventory levels and managing through this relying on our TriMas business model, which wants to move us from being reactive to proactive.

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

Right. Maybe just one more for me, and I'll get back in queue. But you talked about it was, I think, good to see the new order on the trainer jet. Obviously, I think we've also seen some incremental positives out of Boeing for new airplane orders in recent weeks and months. Can you just talk through the visibility you have in the Aerospace segment as it relates to [faster] inventories in the distribution channel?

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

Yes. Look, Ken, I'm glad you asked this question. And newer information since we visited together several weeks ago. And I'm just coming off of a visit of our -- all of our aerospace operations. We're definitely seeing an order intake that is stronger than we envisioned. Now we're booking today as an order comes in, unless it's a particularly unique product. But as we're booking -- as we take an order today, we're booking into 2023 already.

But our backlog is up. And we're seeing, based on our planning models to start the year a better trends than we envisioned. And that's good. It means we have to keep up with production, and we're taking those steps and putting the right plans in place now, and having met with the team, everyone is aligned to seek to get things into the appropriate balance as we exit 2022 and move into 2023, so we can convert well.

But almost across the board, we're seeing positive trends except for a few of the lines that you would expect that still are not being produced at prepandemic rates specifically the 787, which still is in a bit of a holding pattern. And to me, that just means as we look at 2023 and '24, we could have a tertiary effect, right? The secondary effect is the market that's recovering now.

The tertiary effect is the 787 coming back online at regular rate. So I'm excited about what's in front of us on the aerospace end and all that our team is doing to meet customer demand and pull and they're working really hard. And that's why I would have been remiss if I wouldn't would have opened this call without thanking them for their work.

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

Just a quick follow-up on that. With the order intake being stronger, maybe could you just give some commentary on how margin accretive? The pricing on some of these new orders you're taking are, is this something that you think could drive with a combination of better volumes, drive EBIT margins back to pre-COVID type of levels?

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

Well, first of all, many of the products that we're taking in are existing products that our customers are reordering. So these are -- the vast majority of the order intake are products that were somehow hampered from the COVID-related period. So we know what the margins are. Now we do have some material challenges.

But that being said, I've often said and continue to believe that our TriMas Aerospace business will return first return to the 2019 exit operating profit levels better to talk about EBITDA for us, but exit operating profit levels and through some of the restructuring efforts that we took during the pandemic period, somewhere between 100 and 150 basis point opportunity to gain some additional operating leverage as we grow that business beyond the 2019 levels.

Operator

(Operator Instructions) We will now take a follow-up question from Ken Newman from KeyBanc Capital Markets.

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

Just one more for me. Obviously, you've been much more active on the share repurchase. You reiterated your expectations to be more active on the M&A front as well. Maybe how should we think about the cadence of capital deployment here just given where we are in this uncertain type of environment? How do you prioritize capital deployment? And where do you see the best opportunities for each incremental dollar of free cash flow?

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

Again, Ken, great question. Right in line with our strategy. Our top priority is to invest in our factory floors innovation. We've always said that, and we're staying the course there. We have a great balance sheet, and we'll continue to do that. We certainly have to -- we want to continue to pay our dividend, return capital to shareholders through that mechanism that, we're very pleased is now in place.

Next up, I would put M&A. We strategically want to continue to add to our packaging platform. We have sufficient availability and cash generation, and we want to put that capital to work through growing and building out our packaging platform. And also where we see unique opportunities in aerospace, we'll continue to do that. We think the market there's dynamics in that market right now where entrepreneurs, for example, would like to get out. I mean, there's folks that are not getting younger along the way, and those create great opportunities for a company like TriMas to move an entrepreneurial business into our family of businesses.

And then we look at our cash availability after our strategic initiatives. We look at where our stock is trading. It's easy. We don't have to do due diligence, and we'll continue to take in stock if we see it trading at levels and that's -- where we're comfortable and that -- and given our cash availability.

So we've seen that throughout the year, and we're pleased to have returned -- use that mechanism to return capital to shareholders, which nearly is 2% of taking out shares this year. So I put it -- I sort of put it in that priority in that level. But from a treasury point of view, we look at our stock price frequently. And if we see opportunities, we'll take it out.

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

On the M&A, I mean, are you seeing the pipeline kind of open up or close a little bit? I would imagine the next deal to come across the desk is probably harder to find. But maybe just give a little bit of color about where you're seeing deals from a multiple perspective and the number of opportunities that are coming across?

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

Yes. Look, I mean, it's not going to be any surprise to you that larger deals have -- there's been a pause a bit on larger deals. And any deal that was -- and that's all driven by availability, not even the cost of debt, but availability of debt, which is the high-yield market, I think, is pretty locked down right now. But -- so on that front, we're seeing a pretty slim offering of larger deals, but that's okay because we're operating with an M&A focus at this point that has been predominantly on the bolt-on size range.

And on that front, we're still seeing a reasonable deal activity. Look, we have to look at a lot of deals to find high-quality companies. I think that is something that has been the trend over the past few years. But my expectation and given what we're seeing in the market today that sub-$20 million in EBITDA deals are not going to be affected by the current credit markets, and we're going to continue to see that pipeline come out there.

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

Yes. And then just last one for me. I know you're not ready to guide to 2023, but I think it's maybe worth kind of revisiting how you view the longer-term operating leverage across the 3 businesses. Obviously, I think Packaging has always been one that's been challenging for investors to a certain extent, just given the fact that you are doing more deals that are typically are fixer-uppers are maybe a bit more margin dilutive to the legacy business.

And then on top of that, we've got the fluctuations in raw material costs. But is there -- do you see a pathway to get operating margins back to pre-COVID levels in that low 20% range for Packaging? And then similarly for Specialty, just how do you view the pathway or the right kind of normalized run rate for operating leverage, given what's been a very strong market within those basket of businesses?

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

So on the Packaging front, if we did not have the effects of the high energy costs in Europe in 2022, there would be a materially different story on our margin. That is a big cost effect to us given our presence in Europe, we've got roughly 30% of our production and trading activity is in that region. So that's been the biggest negative driver.

We know that impacts material costs. We know we can get in time the right type of recovery, commercial recovery on that. But that has been just an absolute drag to performance. And you're right on some acquisitions, in some cases, they are fixer-uppers or modest turnarounds or integration plays and not assimilation because many of the companies we buy are great brands in and among themselves, and they have customers and long-standing relationships that we want to preserve.

But we also do see through acquisitions we have in the mix and acquisitions that we would bring in the drive to increase that operating performance. And certainly my and our team's objective to be north of that 20% bogey and operating profit within our Packaging group, and we're taking efforts to do that over time. And again, we were hit with some things this year that were completely outside of our control as when you look at the issues that occurred in Ukraine and Russia.

On the Specialty Products side, we're continuing to invest in automation, which will help us in relief pressure. What I'd like to do for the most part is continue to bring in incremental revenue. The next step in operating leverage pickup for us, believe it or not, we'll be in the Arrow Engine side perhaps. And that business is ramping up quarter-over-quarter, month-over-month as natural gas prices go up and the activity in exploration goes up in North America. So that will be a contributor as well.

But I want to make sure that we're taking advantage of all the orders that we can get produce them in a timely fashion and enjoy that pull through. So we'll look at continuing to invest in factory floor improving throughput, and that will give us a slight operating leverage. But if you look over the past 3 years, we've had some beautiful gains in operating leverage already there.

Operator

(Operator Instructions) There appears to be no further questions at this time. I would like to turn the conference back to the host for any additional or closing remarks.

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

Okay. Great. I know it's a very busy earnings day, and I'd like to thank everyone for joining us on our call, and we look forward to updating you again next quarter. Thank you.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
