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# EDITED TRANSCRIPT

TRS - Q3 2016 TriMas Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Sherry Lauderback** *TriMas Corporation - VP, IR and Global Communications*

**Tom Amato** *TriMas Corporation - President and CEO*

**Bob Zalupski** *TriMas Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Andy Casey** *Wells Fargo - Analyst*

**Karen Lau** *Deutsche Bank - Analyst*

**Matt Koranda** *ROTH Capital Partners - Analyst*

**Bhupender Bohra** *Jefferies - Analyst*

**Steve Barger** *KeyBanc Capital Markets - Analyst*

**Steve Tusa** *JPMorgan - Analyst*

## PRESENTATION

**Operator**

Good day, everyone. Welcome to TriMas third-quarter 2016 earnings conference. Just as a reminder, today's call is being recorded. At this time, I would like to turn the call over to your host for today, Ms. Sherry Louderback. Please go ahead, ma'am.

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**Sherry Lauderback** - *TriMas Corporation - VP, IR and Global Communications*

Thank you and welcome to the TriMas Corporation third-quarter 2016 earnings call. Participating on the call today are Tom Amato, TriMas's President and CEO, and Bob Zalupski, our Chief Financial Officer. Tom and Bob will review TriMas's third-quarter 2016 results, as well as provide an update on our 2016 outlook. After our prepared remarks, we will open the call up to 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, www.trimascorp.com under the Investors section.

In addition, a replay of this call will be available later today by calling 888-203-1112 with a replay code of 653-2559.

Before we get started, I would like to remind everyone that our comments today, which are intended to supplement your understanding of TriMas, may contain forward-looking statements that are inherently subject to a number of risks and uncertainties.

Please refer to our Form 10-K for a list of factors that could cause our results to differ from those anticipated in any such forward-looking statement.

Also, we undertake no obligation to publicly update or revise any forward-looking statement, except as required by law. We would also direct your attention to our website where considerably more information may be found.

I would also like to refer you to the appendix in our press release issued this morning or included as part of this presentation which is available on our website 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 excluding special items basis.

At this point, I would like to turn the call over to Tom Amato, TriMas's President and CEO. Tom?



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**Tom Amato** - *TriMas Corporation - President and CEO*

Thank you, Sherry, and good morning. As many of you are aware, I joined TriMas as President and CEO in late July, and I am very excited to be here. It has been a busy few months, but over that time I have had the opportunity to meet many great TriMas employees, investors and customers, as well as other key stakeholders. I have learned a lot about our businesses, and I am even more excited about our future.

At our core, we are a great company with strong brand names that our customers value. Yet, at the same time, there are many opportunities to improve our performance. With that said, I would like to now share with you an update on my 100-day plan, including some key areas of focus to date, actions implemented, and key observations.

Immediately after joining the Company, I began visiting our facilities. In my experience, this is one of the best ways to understand opportunities and issues facing a business. In fact, I completed 17 facility visits since August. From these visits and additional studies, we decided to accelerate several incremental rationalization activities, which included the facility actions we announced on September 28.

As part of our reduced focus and sense of urgency to drive performance, we will continue to assess and optimize our manufacturing footprint. In fact, leaving no stone unturned. We are exploring reducing the physical size and, hence, cost of our headquarters facility, taking advantage of an expiring lease.

We also reviewed the existing business model, organizational and reporting approach, along with the cadence of operational reviews. We immediately introduced a more data-driven, analytical review of TriMas's businesses. In certain high impact areas, we are communicating on a daily metrics to assess performance improvements. We are confident that this approach will provide a better opportunity to be nimbler in response to changing markets.

I also visited with a number of our larger customers in our aerospace segment. I view this as an important step as well to ensure that we are leaning into any opportunity to accelerate growth, along with addressing any customer concerns that may exist. I was very pleased with these visits and look forward to continuing this process.

Next, we kicked off a much more rigorous and analytical approach to the TriMas budgeting and strategic planning process. We are beginning the process for 2017 now and look forward to sharing more on this process during our next earnings call.

I have also spoken with many investors since I started and look forward to talking with the rest of you over the next few months. I have found the feedback helpful and constructive and appreciate the continued support of the Company. I also look forward to our future discussions as we make progress on our continuous improvement and performance initiatives.

Turning now to slide 6, throughout my travels and conversations, I often get the question, why TriMas? I thought I would conclude my opening remarks by sharing some of my key observations about the Company and, as I wrap up my first 100 days, I am very pleased to report how excited I am about the prospects for TriMas.

To sum up, TriMas businesses have excellent and strong brand names, recognized in the industries they serve. We have unique barriers to entry as a result of our product and process technologies, often coupled with customer and governmental qualifications and approvals. Employees at every facility I visited demonstrated a deep pride in their business with a strong work ethic and a commitment to success, and our cash flow profile allows for alternatives to reinvest in our business and deleverage even in software general industrial markets.

Most importantly, I believe TriMas has many opportunities for enhanced performance. We will drive a culture of continuous improvement across everything we do.

I would like to now shift gears and discuss our third-quarter performance on slide 8. As a reminder, all of my comments will be on an excluding special items basis.



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We reported third-quarter net sales of $202 million, a decrease of 9% year over year. We had higher year-over-year sales in our packaging and aerospace segments. However, this was more than offset by the sales declines related to softness in the oil and gas and industrial end markets and the impact of unfavorable currency.

We would also like to note that our Q3 sales level was consistent with Q1 and Q2 of this year, so we are hopeful that further significant declines in the oil and gas end markets may be less likely in the near term.

Operating profit margin for the quarter was $28 million or 13.9% of sales, representing a 50 basis point improvement compared to Q3 of 2015, a positive result driven by TriMas's commitment to continuous improvement, even in challenging markets.

As a result of these factors, we delivered Q3 EPS of $0.35 a share, driven primarily by the operating margin performance noted previously.

Moving on to slide 9. We prepare a bridge which illustrates the factors impacting our Q3 2016 earnings result as compared to the prior year. In short, you could see that the cost savings realized from our financial improvement plan, plus other operating improvements helped mitigate the impact of year-over-year sales declines related to softness in the oil and gas end markets.

Let's now turn to slide 10 to look at cash flow and certain balance sheet changes. We generated free cash flow of $11.2 million during Q3, net of capital expenditures. This included investments in a new plant in Mexico for our packaging segment and installing a reconditioned forging line for our engineered component segment.

Our free cash flow represents 90% of income. While the quarter was solid, we must do a better job on managing and reducing inventory levels. As such, we are intensifying our focus on inventory management and net working capital as key performance indicators in the new TriMas business model.

We reduced total debt by 11% or by $50.7 million versus the prior year level and ended the quarter with just over $100 million of cash and available liquidity, which we believe is adequate for our business.

As mentioned earlier, we believe our capital structure provides us with a competitive advantage as we are able to generate meaningful cash flow, reinvest in our businesses, and deleverage, even when faced with challenging end markets.

At this point, I will turn the call over to Bob to go through our segment results. Bob?

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**Bob Zalupski** - *TriMas Corporation - CFO*

Thank you, Tom, and good morning all. I would like to start by sharing a few comments on third-quarter segment performance, beginning with packaging of slide 12. Third-quarter net sales were $90.3 million, an increase of nearly 3% compared to the prior year period as we experienced improved sales demand the health, beauty, and homecare in industrial end markets. Excluding the $2.3 million impact of unfavorable currency, sales would have increased more than 5% year over year.

Packaging continues to generate strong margins, reporting a Q3 operating margin of approximately 24%, which is at the high end of this segment's targeted market margin range. We continue to invest in growth initiatives and expanding global capabilities. The buildout of our new lower-cost plant in Mexico continues, which will provide state-of-the-art manufacturing capacity to supply our customers in North America, with significantly shorter lead times and continued development of customer-focused product applications will remain key to future growth.

Turning to slide 13, our aerospace segment. Third-quarter net sales increased 4.5% to $47.4 million versus $45.4 million in the year ago period. Of that amount, $3 million was due to the acquisition of a machine component facility on November 2015, and $1 million was due to higher sales to OE customers. These amounts were partially offset by $2 million in lower sales to distribution customers as reductions of inventory in channel continued to impact end market demand.



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Order intake from OE customers remains solid. We increased production and shipment levels of key fastener products sequentially over the past two quarters, consistent with our recovery plan.

We have also improved operating margins sequentially from Q2 2016 by 530 basis points, although operating profitability did decline on a year-over-year basis. We demonstrated solid progress against our recovery plan goals of meeting increasing customer demand and reducing past-due orders while achieving higher profitability in two of our key fastener plants.

We also continued to make progress with respect to our machine components business. The team continues to address both pricing and costing matters on certain LTA part numbers in cooperation with our customer and continues to qualify incremental part numbers under our existing LTA, as well as additional part numbers with new customers.

So while there is more work yet to do, we have maintained the confidence of key customers and continue to work with them to develop new product applications to address both current and future needs.

In summary, despite these near-term challenges, we continue to believe our aerospace business is well positioned for growth and margin expansion.

Moving on to slide 14, sales in our energy segment declined more than 25% compared to the year ago period as we experienced lower demand from upstream and downstream oil and gas customers, lower sales from international branches, and lower levels of engineering and construction activity. The results of our restructuring actions are showing, however, as we achieved an operating profit margin of 4.6% during the quarter, a slight margin improvement over Q3 2015, despite significantly lower sales.

We are benefiting from the impact of our global sourcing and inventory planning initiatives, despite lower revenues year over year and continue to reduce the fixed and variable cost structure of this business by consolidating facilities and ramping up our new, lower-cost manufacturing plant in Reynosa, Mexico.

We have also increased investment in the quick turnaround manufacturing capabilities in our Houston facility and made significant improvement in our on-time delivery performance. We continue to evaluate our manufacturing strategy, global footprint, and fixed cost structure to ensure profitability of this segment given current market conditions.

Moving on to slide 15, engineered components. Our Arrow Engine business experienced a further decline in sales year over year as a result of continued low oil prices, which dramatically impacts oil field drilling activity and demand for Arrow's engine and compression products. Net sales in the quarter were down more than 50% compared with the prior year period, which were already significantly reduced from historical levels.

Despite the significant decline in revenue, further reduction in Arrow's cost structure allowed this business to remain approximately breakeven during the quarter.

The other business in this segment, Norris Cylinder, experienced sales declines of approximately $6 million, due to weakness in its industrial end markets and the impact of customer consolidation on order activity. Norris has offset much of the impact of lower sales by flexing its cost structure in response to reduced demand while continuing to implement productivity improvements. Our focus remains on managing the cost structure in each of these businesses in response to end market demand.

Slide 16 provides a summary of our segment performance, which compares current year, prior year, and sequential quarterly results. Sales pressures continued in all of our segments relative to the prior year and previous expectations, although we did see some sequential and year-over-year quarterly improvement in the packaging and aerospace segments.

Notwithstanding the continued sales pressures, we were able to improve our operating profit margins on a sequential basis in three of our four segments. So while there is more work yet to do, TriMas's overall segment operating profit margin improved by 110 basis points as compared to Q2 2016 and improved by 50 basis points as compared to the prior year.



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Moving on to outlook. Slide 18 provides an updated view of our 2016 sales and margin expectations by segment. As noted, the majority of our segment assumptions did not change from our prior guidance. We did produce our sales growth expectations, however, for our packaging and engineered component segments based on their year-to-date performance and current market trends.

Packaging's 2016 full-year sales growth is now expected to be between 2% and 3%, due to continued currency pressures and certain customer product launches being delayed into 2017. Engineered components sales are now expected to be down 20% to 25% for the full year due to the lower demand levels related to continued weekend markets. Despite the top-line pressures in these two segments, we are maintaining our previous operating profit margin guidance.

Slide 19 summarizes our full-year outlook. While we modestly revised our full-year sales outlook to be down 6% to 8% as a result of the updated segment assumptions, we tightened our diluted EPS guidance around the previous midpoint. We revised the 2016 full-year diluted EPS outlook range to $1.24 to $1.28 per share from the previous range of $1.22 to $1.30. We expect we will be able to mitigate the impact of lower sales volumes through cost reductions and continuous improvement initiatives as we continued to align our cost structure consistent with the current business environment.

In addition, we have reaffirmed our previous free cash flow guidance of $55 million to $65 million, keeping our target at approximately 100% of net income. We are committed to protecting earnings and cash flow, despite the challenging end markets we are facing.

On slide 20, I would like to share our preliminary thoughts on 2017 for each segment. Overall, we expect sales growth to be driven by our packaging and aerospace segments and anticipate low to mid single-digit growth in each of these businesses. There are, of course, a number of macro and other external factors that ultimately will influence where we fall within these ranges.

We will continue to closely monitor and evaluate the impact of these factors. And while we are not yet counting on growth in our energy and engineered components segments, given the uncertainty in their respective end markets, improvement in oil and gas pricing and related oil drilling and production activity could present additional sales opportunities.

That said, we will continue to focus on what we can control. Namely, optimizing our cost structure relative to end market demand and opportunities for organic growth. We expect to maintain our targeted operating profit margin performance in packaging through a variety of productivity and continuous improvement initiatives, while driving increased profitability in aerospace through improved execution in all phases of operations.

In energy, we will focus on margin improvement by exiting less profitable business while better leveraging our lower cost structure. In engineered components, we expect to maintain margins through continued cost structure management in light of anticipated weekend markets. And, of course, we will continue to assess the corporate structure necessary to efficiently support our business's operational requirements. We would expect to provide our full outlook and 2017 guidance in connection with our Q4 and full-year 2016 earnings results.

Now I will turn the call back to Tom to provide his summary comments and to wrap up. Tom?

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**Tom Amato** - *TriMas Corporation - President and CEO*

Thank you, Bob. In summary, I am pleased with the renewed sense of urgency and focus by the management team to improve TriMas, and I expect we will continue to get better over time. We will do this by transitioning to a new TriMas business model and by accelerating performance improvement actions primarily in the energy and aerospace segments. We will increase our focus on management of inventory levels and cash flow generation.

As part of the new TriMas business model, we will ensure our manufacturing plants are performing well and enhance our assessment of process technology, capacity, and our innovation pipeline to unleash growth potential, and we intend to do this in a fact-based analytical culture of continuous improvement built on a foundation of employee engagement.

I appreciate your time and attention and hope you share with our team the enthusiasm we have for value creation opportunities at TriMas.



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Thank you and now we would like to open up the line for questions. Operator?

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Andy Casey, Wells Fargo.

**Andy Casey** - *Wells Fargo - Analyst*

A question on aerospace. It showed good sequential margin improvement. First, do you think that segment can get back to the mid-20% margin range with its current mix of business? And that had been previously included in the longer term goals for 2018. Do you think that is achievable, and do you think it could be achieved in that timeframe?

**Tom Amato** - *TriMas Corporation - President and CEO*

Well, look, we are going to assess that in connection with our 2017 budget and planning process, and we will communicate that guidance when we are together next -- at the next earnings call.

I will say this. I am very excited about the prospects for that business. I see opportunities for improvement. The technology that we have there is quite incredible. We have got -- some could look as perhaps a pretty simple fastener. Some of the best fasteners that we make might go through 20 operations. They are highly technical, highly innovated. Very few can do what we do, and I'm just excited about the prospects.

**Andy Casey** - *Wells Fargo - Analyst*

Okay. Thanks, Tom. And then, kind of a broader question. Interpreting one of your comments as kind of product portfolio refresh or reinvigoration, is your intent to use some of the savings, if you will, to reinvest in the business? And, if so, what do you think an appropriate level of R&D investment would be?

**Tom Amato** - *TriMas Corporation - President and CEO*

Well, first of all, the appropriate level of R&D investment, will be based on the type of business that we are looking at within our group. Some of our businesses had in place capacity that we can grow from and others we need to invest further to add some capacity for growth. And you are seeing that in our Rieke business and our packaging segment where we have invested in innovation centers in US, Europe and Asia, along with modifying the organizational structure to accelerate growth in that product line.

**Andy Casey** - *Wells Fargo - Analyst*

Okay. I will jump back in queue. Thanks.

**Operator**

Karen Lau, Deutsche Bank.



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**Karen Lau** - *Deutsche Bank - Analyst*

Thank you. Tom, you mentioned increasing the frequency of management reviews in your prepared remarks. I am curious to get your thoughts on how you assess the feasibility -- the business's feasibility to customers activity and pipeline. Because that has been -- I guess that has been an issue, particularly in aerospace, where some of the -- a lot of movements going on in the distribution customer base. So maybe you can talk about how you feel about the visibility to customer activities.

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**Tom Amato** - *TriMas Corporation - President and CEO*

It is a good question. I could firsthand tell you about some experience I had by visiting some of those customers. It is a tricky environment. There is some dislocation that has occurred and still is occurring. I asked a number of our customers this question and tried to get at some of the calculus of what is happening out there. And I guess if there is any (inaudible), I take it as they, too, struggled with some of the dislocation that is occurring. Hey, our customers are managing inventory. We have all got to do as manufacturers a better job in managing our inventories. But, at the end of the day, there is going to be a point where we achieved steady-state. I don't want to say exactly when, but I am a little more optimistic that much of it has gone through the pipeline already.

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**Bob Zalupski** - *TriMas Corporation - CFO*

And I don't think we know when that steady-state will occur, but it is our job to prepare operationally for what patterns of behavior we are seeing, whether that is shorter lead times, whether that is smaller lot sizes, whatever the case may be. It is up to us to adjust our process to capitalize on those trends and those circumstances.

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**Karen Lau** - *Deutsche Bank - Analyst*

Okay. Thanks. And then, maybe just sticking to aerospace. Could you remind us how big your exposure is to BizJet? I realize there is some in monogram, and there might be some in the business as they go through a distribution channel. Could you remind us how big that is?

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**Tom Amato** - *TriMas Corporation - President and CEO*

It is a relatively small portion. I can't quantify it for you, Karen, but, to your point, it does go through the distribution channel. So it is very hard for us to see the visibility. But, historically, that has not been a significant part of any of our businesses top lines.

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**Karen Lau** - *Deutsche Bank - Analyst*

Okay. So all in aerospace, when you look at the distribution customers, do you feel like their destocking activities has sort of anniversaried or stabilized, or from the conversation you had with them, do you feel like there is more to come? Because I guess the end market or the aftermarket activities has to come down a little more.

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**Bob Zalupski** - *TriMas Corporation - CFO*

I would just say it is specific product line dependent. Some product lines they are ordering we are seeing reasonably good order intakes, and others they are line items. So it is product line dependent.

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**Tom Amato** - *TriMas Corporation - President and CEO*

Yes. I don't think we have seen any trends across the portfolio, Karen, that would suggest we have hit what I will call steady-state. So, again, until we start to see that, it is probably premature to conclude that the issues are behind us.



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**Karen Lau** - *Deutsche Bank - Analyst*

Okay. Thank you. And then, maybe last question. How are you thinking about restructuring into next year? Do you feel like you need more large programs to get you to where you want to be in terms of margins based on because of the macro remains kind of choppy, or do you feel like the actions that you have communicated has enough traction to get you to where you want to be?

**Tom Amato** - *TriMas Corporation - President and CEO*

Well, look, I will take that Bob. I am a person who likes to manage a business through what I will call every day getting better. Every day continuous improvement. So I don't look at the businesses we have now across the board that the team has done a great job taking some big restructuring steps in helping us for the future, but there are opportunities that remain and we talk about these opportunities every day. And some operations, I would say, every shift, every day, we need to get better.

So I expect there will be some further opportunities that we will pursue, which will just strengthen us, and as markets lift up, we will gain from the operating leverage.

**Karen Lau** - *Deutsche Bank - Analyst*

But nothing like moving additional things to Mexico. Nothing like large scale. It is more kind of tuck-in type operations, right?

**Tom Amato** - *TriMas Corporation - President and CEO*

Pretty much on that and in connection with what we have already announced.

**Karen Lau** - *Deutsche Bank - Analyst*

Okay. Thank you very much.

**Operator**

(Operator Instructions) Matt Koranda, ROTH Capital Partners.

**Matt Koranda** - *ROTH Capital Partners - Analyst*

On packaging, just wanted to cover essentially the revised guidance. You said there were launches that were pushed out in packaging as well as currency. Maybe, could you just try to quantify the impact from each of those items for the year?

**Bob Zalupski** - *TriMas Corporation - CFO*

Well, on a year-to-date basis, the currency impact is probably 4% to 5% in terms of top line. So that is pretty sizable. And, look, I think as we go forward through fourth quarter and the remainder of the year, we are going to continue to see the currency pressures, particularly related to the euro and the pound.





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But beyond that, in terms of the customer launches, we have talked for several quarters now about this. I do think that for a couple of key product launches, we do have confirmation now that those will be ramping up in the first quarter of 2017. So, in that sense, I think that issue will be behind us, and that is really what resulted in the overall guidance reduction on a full-year basis.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay. Got it. And so you get the pickup in 2017 from those items that pushed out from Q4 into next year. So then, essentially, maybe thinking just a little bit longer-term, how do you guys -- I mean, margins there are still running very healthy and still kind of in the target range that you guys have highlighted before. How do you think about the trade-off between margin and growth? Are you willing to trade off a bit of margin in future years to reaccelerate that growth and get it back into maybe the high single digits or even low double digits?

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**Bob Zalupski** - *TriMas Corporation - CFO*

I mean, these are questions that we are taking into our 2017 budget and strategic planning sessions. Clearly, that business has great opportunities and potential, and we will look at returns. Returns on investment. And if we can garner above average returns and the margin is a little bit lighter than where we are at today, we will take that growth.

Now, clearly, we want to be mindful of the business we have and we don't want significant erosion there. But we want to also make sure that we are taking advantage of products and new opportunities where we can get above normal returns.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay. Got it. And last one here for me. Just in corporate, notice more severance and restructuring than usual in past periods. Is some of that associated with the lease change, or can maybe drill down a little bit and provide some granularity on what exactly that $3.6 million was?

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**Tom Amato** - *TriMas Corporation - President and CEO*

Most of that related to the transition at the CEO level.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay. All right. Got it. I will jump back in queue, then. Thanks.

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**Operator**

Bhupender Bohra, Jefferies.

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**Bhupender Bohra** - *Jefferies - Analyst*

I just wanted to get a sense of the lower guidance on the engineered components business here. If you can just give us some color on -- you kind of maintain your open margin here, but the sales will actually go down to 20%, 25%. From your customer perspective any -- where do you see the weakness and any particular end markets over there?

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**Tom Amato** - *TriMas Corporation - President and CEO*

Well, as we noted, clearly, the Arrow Engine business continues to have declines year over year due to continued oil pricing low. A year ago, we still had some backlog that we were working through that helped us at least top line wise have a little stronger business in that area.

I think probably the more recent issue we have experienced in that segment relates to the Norris Cylinder business and the impacts of inventory and channel due to some of the customer consolidations that have occurred. And, look, like any other business, our customers in that end market are adjusting their inventory levels and doing what they need to do to be responsive and competitive to their end market conditions.

So some of that is sort of rolling through and impacting us. We see it in the order demand levels and, really, much shorter lead times than I think we have experienced in that business historically. So, at this juncture, at least, that is what led us to drop the top-line guidance in the engineered components segment.

Now, that being said, both businesses -- Arrow and Norris -- are extremely effective at flexing their cost structures and have done a great job in terms of maintaining profitability, despite the lower top lines.

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**Bhupender Bohra** - *Jefferies - Analyst*

On the customer consolidation here, as we see those larger customers doing consolidation on the commuter side, do you think that the destocking which you just talked about, as your customers are adjusting inventories at their level, it is going to take some time before we see kind of normalized order pattern from them?

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**Tom Amato** - *TriMas Corporation - President and CEO*

Yes. Absolutely. And I think it also depends on what goes on in their end markets. So, if we see strengthening -- a significant strengthening in the industrial economy, in fact, their demand would likely pick up, despite the fact that they are perhaps consolidating inventory levels across the two companies.

So, look, it is something that it is very difficult to precisely put a number on because this is not just a North America phenomenon. It is a global sort of business, a global end market, and it varies by region, and I don't think we are going to know the full impacts until we are into 2017.

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**Bhupender Bohra** - *Jefferies - Analyst*

Okay. Just a question for Tom here. A broad-based question. I know you have done your 100 days plan here, and how do you -- I don't know if you have any thoughts on when you look at TriMas portfolio, four or five years back, we used to have the (inaudible) business and now we have these four businesses here with -- have you thought about how do we simplify the product portfolio when we -- and have you looked through the framework of ROIC, which businesses make sense going forward, and which should be kind of a new TriMas as you look five years down the line or something? If you could give some color -- like initial color on that. Thank you.

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**Tom Amato** - *TriMas Corporation - President and CEO*

Well, thank you very much. Look, as I mentioned earlier, we are going through our strategic planning process. I am looking very carefully at performance metrics. I know which businesses and products within certain businesses are performing better than others. I see an opportunity with some of the businesses that we have for them to perform better and to perform better through, like I said, a fact-based analytical rigor. And we have taken steps already, during this 100-day period, to start them to go in a good way, and I see more opportunities to do that.

Look, what I like about TriMas -- and it goes back to its history and in some ways its founding. This is a company that for every business that is part of its group, its business set, they have incredible, strong brand names that are recognizable and differentiated in the markets that they serve. So,



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with that as a backdrop, these are some fine businesses. Some of them need to be run better, but at the end of the day, we will go through our process, and if there is any changes at all, we will update the group.

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**Bhupender Bohra** - *Jefferies - Analyst*

Okay. Thank you so much.

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**Operator**

(Operator Instructions) Steve Barger, KeyBanc Capital Markets.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

The question has been asked to some degree, but I am going to try it from a bigger picture standpoint. If I just look at my model, TriMas's total revenue has grown at a 2% CAGR, including acquisitions since 2012. So it has been -- all the actions have been overwhelmed by end market conditions. Without knowing what the market will give you in 2017, do you have any more specific commentary on how you accelerate growth and high potential areas, which you presumably have to do by taking share from someone?

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**Tom Amato** - *TriMas Corporation - President and CEO*

Well, look, as I mentioned with our largest segment, we are repositioning that business through innovation centers globally and focusing the commercial team by the verticals for which they operate in to drive growth. And we are seeing some of that with some new business wins that we have announced previously and will move into 2017 and give more color on that at our next call.

Some of the other businesses we have got -- we have manufacturing issues. Part of the reasons why I am here is there are so many manufacturing issues that would help with growth as we become more nimble in satisfying our customers' dynamics and their ordering pattern. So to me, those are opportunities to unleash some growth potential that otherwise would not occur if we didn't take some actions.

And then, yes, you are right. I mean, there has to be some market health and market lift. And, frankly speaking, if we are seeing some movement in crude prices and there is a lag factor, clearly, and if crude continues to go to a point where it is a little bit more historically strong, we might see some wells turned back on and that could be some lift. We are not banking on that, and if our cost structure is going to be at a rate where, if that doesn't occur, we will continue to do okay in some of those businesses, but if crude prices come up, that is an opportunity.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Yes, I am not trying to nail you down to a specific number, but is it your expectation that based on things that you can control, whether it is the innovation centers or the manufacturing inefficiencies, that you would be able to grow faster than that two-year CAGR over the last four years as you go into 2017?

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**Tom Amato** - *TriMas Corporation - President and CEO*

Look, we want to go grow faster, and that is part of the planning process we are going to go through and we are going to go business by business, product by product, resource by resource, and plant by plant, and make sure we have the right focus in the right areas to accelerate our growth. I would like to comment on that after I go through that process.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Understood. If we have another year of flat or down revenue, do you have a thought on what EBIT growth or maybe margin expansion could look like next year given the current actions or other things that you see out there?

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**Tom Amato** - *TriMas Corporation - President and CEO*

I think at this juncture, if we stay at a flat to down environment, we are going to obviously be looking and continue to look at cost structure and other opportunities to improve profitability absent the leverage. What those specifically are and how big that impact is, Steve, I mean, that remains to be determined. But, again, to Tom's earlier point, that is what the budgeting process and the planning process we are currently in will dictate.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

All right. Thanks very much.

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**Operator**

It appears there are no further questions at this time. I would like to turn the conference back over to Mr. Tom Amato for any additional or closing remarks. Oh, I'm sorry. Excuse me. We just had another caller join the queue. Steve Tusa, JPMorgan.

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**Steve Tusa** - *JPMorgan - Analyst*

So sorry. It has been a long earnings season, so I forgot to press star one. Sorry about that. Thanks for fitting me in.

Anything today the kind of stands out on the bridge to -- I know you don't want to talk about 2017, but anything that is kind of locked and loaded, whether it is carryover of restructuring actions you have already done, and anything else that kind of influences next year that you all want us to keep in mind that is, again, already kind of set in stone as of today?

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**Tom Amato** - *TriMas Corporation - President and CEO*

I don't know that there are any headlines that I would particularly point to. I mean, in terms of the financial improvement plan, we pretty much have lapped the full-year run rate as we exit or will have lapped the full run rate of the cost savings as we exit 2016.

Some of the facility consolidation actions we announced back in late September will have some incremental benefit, but around the edges I don't know that it is earth shattering in terms of its impact or movement to profitability. It is all sort of incremental and necessary sort of steps along the way to continuing to improve profitability.

But beyond that, sales wise, I would say, look, we expected some of these programs in the packaging segment. So, in that sense, it is just about timing, not necessarily magnitude and amount.

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**Bob Zalupski** - *TriMas Corporation - CFO*

I guess I would just add that for some of the businesses that have struggled over the past few quarters, their actions and teams that are working on things that I fully expect will yield some results as we look into our year-over-year performance. And, again, I don't want to quantify them for right now, but these are actions that, in my experience, tend to bear fruit. They are just not in there yet because you can't wave a magic wand overnight and change things. It takes careful planning, careful work, and there is a lot of attention in those areas. I mentioned them in my discussion earlier.



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**Steve Tusa** - *JPMorgan - Analyst*

Got it. And on aerospace, as a nice incremental improvement here, what is the 4Q rate that you are expecting? It looks relatively conservative after the nice third quarter. And then, any update on destocking issues in the supply chain there?

**Bob Zalupski** - *TriMas Corporation - CFO*

Yes. Starting with the inventory channel, I don't know that we have seen anything that would cause us to materially change our view in terms of how that will impact demand.

As I mentioned, a bit earlier, we haven't seen anything that would suggest we have hit bottom, so to speak, and are now at a sustained or a current run rate.

Relative to profitability, Q4 is typically a month that is significantly impacted by holidays and certain of our customers perhaps truncating year-end in December in terms of the Christmas holiday. So we would expect the margins to be sequentially down from where they were in Q3, but that is pretty typical for that business (multiple speakers).

**Steve Tusa** - *JPMorgan - Analyst*

And then one more very quick one. Just the margin rate on energy in fourth quarter, what do you expect there?

**Bob Zalupski** - *TriMas Corporation - CFO*

You know, again, I think the rates we are running at currently, given what is normally a bit of a downturn or a slowdown, if you will, in turnaround activity in Q4, holding those margins or at least a plus-minus where we are at today would be a, I think, realistic goal.

**Steve Tusa** - *JPMorgan - Analyst*

Okay. Great. Congrats on a good quarter and best of luck, guys.

**Operator**

And it looks like we do have a follow-up question from Andy Casey, Wells Fargo.

**Andy Casey** - *Wells Fargo - Analyst*

Just wanted to ask a little bit more of a conceptual question. Tom, as you are looking at the portfolio, I am trying to understand what level you are digging down at to figure out ROIC setting benchmarks, and is there a period where you are looking at either the business or the product level to kind of earn the right to grow?

**Tom Amato** - *TriMas Corporation - President and CEO*

Well, look, that is a great question, and I like your comment about earning the right. And we have a number of businesses in our portfolio that need to earn the right on growth investment versus getting to a point where they should be performing better than they are performing at the current sales level. I mean, there was a time that I remember -- I think folks remember my history with the Company -- that at a lower level of revenue within





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our energy segment, we did a heck of a lot better. And I am scratching my head looking at that, looking at the fundamentals, getting into the analytics, and I could see some glaring things that we need to improve upon. And that business, I believe, potentially even at a lower sales level should perform better than we are performing today.

And I am spending a lot of time in that area. We have a lot of a new group president that is very engaged and working with his team, and he has some new team members there, and I like what he is saying. I think he understands what I am saying, and I expect better days ahead for that business. And, oh, by the way, if crude prices come up, that is all upside.

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**Andy Casey** - *Wells Fargo - Analyst*

Okay. Thank you very much.

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**Operator**

And with no further questions in the queue, I would like, again, to go back to Mr. Tom Amato for closing remarks.

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**Tom Amato** - *TriMas Corporation - President and CEO*

Thank you very much. Again, I would like to thank you, again, for your time today, and we look forward to communicating our continued progress to you in the future. Thank you, again.

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**Bob Zalupski** - *TriMas Corporation - CFO*

Thanks, all.

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**Operator**

And, again, that does conclude today's conference. We thank you all for joining.

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