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TRS.OQ - Q4 2023 TriMas Corp Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the TriMas fourth quarter and full-year 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, Vice President of Investor Relations and Communications. Thank you. You may begin.

Sherry Lauderback - *TriMas Corporation - IR*

Thank you. And welcome to the TriMas Corporation's fourth quarter and full-year 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 a prepared remarks on our fourth quarter and full-year results and our 2024 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 presentation on our company website at trimas.com under the Investors section. In addition, a replay of this call will be available later today by calling (877) 660-6853 with a meeting ID of 137-44-326.

Before we get started, I would like to remind everyone that our comments today may contain forward-looking statements that are inherently subject to a number of risks and uncertainties. Please refer to our Form 10-K which 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 our call. Today, the discussion on the call regarding our financial results will be on an adjusted basis, excluding the impact of special items.

With that, I will turn the call over to Tom Amato, TriMas' President and CEO. Tom?

Thomas Amato - *TriMas Corporation - President & CEO*

Good morning and welcome to our fourth quarter earnings call. Let's begin on Slide 3. As we reflect on the previous year, it's important to note the end market challenges we faced at the onset of 2023. There was a significant amount of market uncertainty and dislocation in demand, which was impacting many of our businesses when we developed our 2023 planning model, we had anticipate anticipated that we would start to see a market recovery towards the end of the second quarter in our largest operating group, Trimax packaging, which unfortunately did not occur. Our packaging group was not the only one affected as consumer products and industrial packaging customers. And even our packaging peers encountered a similar dynamic in 2023. Of course, in the spirit of seizing opportunities amidst challenges, we proactively initiated important savings actions to better position ourselves for the future. For example, we exited two packaging locations in California, one manufacturing and the other a warehouse. We also consolidated two locations in China, one in Heineken and the other in Hangzhou into a single new facility in Haiti our new facility in China is better aligned with our strategy to support future growth in the region. It's important to note that executing these actions would have been considerably more costly and risky in a regular demand environment. Structural savings from these initiatives, along with other actions, will yield operating leverage gains as sales return to more normalized levels over the coming few years.

I would also like to further note that while last year did not turn out how we expected at the start of 2023, we are now encouraged by trends we began to experience in the fourth quarter, particularly within TriMas Packaging and TriMas Aerospace, our two largest segments. As we begin 2024, we believe that many actions we have taken across our businesses, reset our foundation for a return to organic growth within packaging and continued improvement upon conversion rates.

Within aerospace into fourth quarter, consolidated sales were up 3.1%, with aerospace up 26.1% and packaging up 7.5%.

With respect to our packaging group, organic sales were flat to slightly positive, which is a favorable trend. As most of our large larger customers, inventory levels have started to come into better balance. With that said, the sales growth within aerospace and packaging overcame sales demand with our specialty within our Specialty Products segment that we can more than anticipated the at the end of the fourth quarter as customers chose to defer capital expenditure purchases and better assess their sales rate rates into 2024. So while we had several bright spots in the fourth quarter within our packaging and aerospace groups, a sudden demand shift within Specialty Products worked against our overall expectations. Despite these inherent dynamics in our diversified portfolio model, we did gain segment EBITDA momentum and expect further upside in 2024. Given the actions we have already implemented.

Finally, we continue to proactively repurchase shares as a core component of our capital allocation strategy, especially given our balance sheet strength and the confidence we have in the outlook for our businesses and long-term strategy. In 2023, we completed two acquisitions, repurchased more than 680,000 shares, paid quarterly dividends and still finished the year with nothing drawn on our revolver despite operating in a challenging economic environment.

Let's turn to Slide 4. I would like to highlight a few important changes as we move forward into 2024. First, we have formally initiated a sale process for our aero engine business following the divestiture of our layman's business just before the pandemic. Aero Engine is now our only remaining business focus in the oil and gas end market. We expect Aero Engines 2020 for sales to be just over 30 million, with forecasted adjusted EBITDA of approximately 16%. Aero Engine is a great business, led by a very experienced management team yet we believe the business will be better served by executing its long-term growth plans within the business more aligned and similar end markets, manufacturing processes and product lines.

Next, we plan to report our Norris Cylinder business as part of our packaging segment, bringing more focus to TriMas portfolio. We envision making this change beginning in the third quarter. We have discussed for some time that North cylinders products are used in packaged gas, general industrial applications and are now preparing to make this change more formally upon completing this change, our packaging group will represent nearly 70% of our total sales, and Trimax will be one step closer to our strategic objective of building out our packaging platform to more than $1 billion in revenue. Also, we will be adding back non-cash stock compensation expense to our adjusted net income and adjusted earnings per share definition. We believe this change beginning in Q1 will provide investors with a better sense of TriMas's cash earnings power.

Finally, we have completed the centralization of our global IT function into a shared service model and will in turn be allocating certain IT costs to our businesses going forward. While this is not sort of normally something we would highlight on an earnings call, we are excited to further advance in our further advancing our digital transformation journey, better supporting our operating methodology of making fact-based data-driven decisions. This may result in some quarter-to-quarter comparison nuances, which Scott will discuss as we move through the year.

I would also note that while this shift in our IT approach will improve our ability to assimilate acquisitions, it will not prohibit our ability to make further portfolio optimization optimization changes.

Let's now turn to slide 5, and I will go through our quarter and year end results. For the quarter, we are reporting sales of $209.6 million, up 3.1% as compared to the prior year quarter. With the drivers as noted previously before covering conversion rates, I do want to highlight, as we discussed at length in the third and fourth quarters of 2022, we did benefit in 2022 from special cash earnings generating property sale projects, which that did not repeat in 2023. We have further normalized for this nuance to better compare 2023 to the prior year. Therefore, adjusted operating profit of 18.8 million was slightly higher than the same quarter last year when normalizing for the property sale gain of $17.6 million that occurred in the fourth quarter of 2022 when normalizing for the same property sale gain, our fourth quarter 2023 adjusted EPS of $0.37 was 15.6% higher than the prior year quarter of $0.32. I would like to also point out that the adjusted EPS for the year was $1.74, a slight increase over 2022 when normalizing for the same property sales gains. Please note these EPS figures do not include the add-back of non-cash stock compensation expense so again, while 2023 was a challenging year, we experienced positive order intake within TriMas' Packaging and earnings momentum within TriMas Aerospace, our two largest segments as we exited the year.

And turning to slide 6, we are reporting LTM adjusted EBITDA of 156.4 million or 17.5% of sales, which was consistent with 2022 levels when adjusting for the property sales gains.

As noted as I will cover in a few slides, we expect growth in absolute adjusted EBITDA in 2024 as we leverage sales growth within TriMas Packaging and further improved conversion rates within TriMas Aerospace, while leverage increased slightly drop, driven by the change in adjusted EBITDA, our leverage remains low at 2.3 times. And based on our modeling, we would naturally deleverage through the year.

Overall, our balance sheet remains strong and is based on a foundation of low interest rate senior notes that do not mature until 2029.

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

Scott Mell - *TriMas Corporation - CFO*

Thanks, Tom, let's turn to slide 7 and I will begin my review of our segment results, starting with dry mass packaging. For the fourth quarter, net sales were $113.6 million as compared to $105.6 million for the prior year quarter, an increase of 7.5%. Acquisitions contributed 5.8 million of sales, while the favorable impact of foreign currency translation contributed another 1.9 million of sales during the quarter, organic sales were up slightly, which, as Tom noted, is encouraging, and we are continuing to see improvements in both sequential and year-over-year bookings.

Within TriMas Packaging, slight year-over-year sales improvement was led by increased demand for our products serving the Beauty & Personal Care and Life Sciences end markets, offset primarily by continuing demand weakness for our closure products within the food and beverage end market.

Operating profit for the quarter was 16.2 million, an increase of more than 7% on a year-over-year basis, primarily on account of higher sales and the benefits of our previous cost savings actions. Adjusted EBITDA was 25.4 million or 22.4% of net sales, a 370 basis point improvement year over year.

I'd like to make two additional comments on Trimax Packaging's fourth quarter and full year results. First, in Q4 of 2022, Trimax Packaging's operating profit benefited from a 2.5 million gain for the reduction of an acquisition related liability. Adjusting for this item, in Q4 of 2022, operating profit increased by $3.6 million or 24.5% during the quarter second, we have created a centralized IT functional approach and will in turn be allocating certain costs to our businesses starting in Q1 of 2024, had we allocated these IT support costs. In 2023, Tronox Packaging's SG&A costs would have been further burdened by approximately 1% of sales.

Turning now to slide 8, I'd like to highlight a few of China's packaging new product innovations, which will underpin our future organic sales growth.

Starting in the top left of the slide and moving clockwise, I will first highlight our fully recyclable single polymer dispensing solution, which we have branded a single well, this dispensing product, which is initially tailored for the beauty and personal care end markets as been designed and developed to meet our customers' legislative, regulatory and corporate social responsibility requirements.

Moving to our life sciences and medical product innovations, I'd like to highlight a few of the capabilities we acquired as part of our recent Life Science acquisitions. In addition to clean-room molding capabilities, we are also able to provide prototyping production, tooling, manufacturing and assembly.

Finally, on the bottom of the slide, we highlight two of our innovative closure solutions for the life science and food and beverage end markets. We offer a broad array of child resistant and tamper resistant closures as well as a full range of tethered caps for a variety of beverage types. These projects represent a small sample of our ongoing new product development pipeline within TriMas Packaging. And although we faced demand challenges in 2023. It's important to note, and we continued to invest in application and design development in orders and support our long-term growth objectives.

Turning to slide 9, I will now provide an update on our TriMas Aerospace segment. Net sales for the quarter increased by more than $13 million or 26% when compared to the same period a year ago as we continued to see strong order intake for many of our aerospace products. As general aerospace volumes continue to recover. Acquisitions contributed 9.6 million of sales during the quarter, while organic sales increased by $3.7 million or 7.3% when compared to the previous year period.

Operating profit for the quarter was $6.1 million or 9.5% of net sales, which represents a 670 basis point improvement when compared to the previous year period. We remain cautiously optimistic that the macro economic challenges that had negatively impacted TriMas Aerospace in recent quarters, including supply chain disruptions and labor inefficiencies continue to progressively improve, and we will largely and will largely be behind us as we move through 2024 and into 2025.

Adjusted EBITDA for the quarter was $10.8 million or 16.9% of net sales.

Now on slide 10, let's review our Specialty Products segment. Net sales were $32 million as compared to $47 million for the prior year.

Quarter.

As general industrial cylinder demand weakened well beyond expectations as customers deferred capital expenditure purchases to rebalance inventories toward the end of the year. We anticipate that the demand environment will remain soft within specialty products through the first half of 2024 as customers work through their elevated inventory positions. Of course, we continue to closely monitor our order changes and will continue taking appropriate flexing actions as necessary. While demand within Specialty Products weaken more than expected during the fourth quarter, we do remain encouraged with our product innovation within this segment including cylinder products, which will support the growing electronic related manufacturing manufacturing sector in North America as well as natural gas-fueled engines. For example, repower, which serve the general industrial market operating profit in the quarter was $4 million or 12.6% of net sales, while adjusted EBITDA for the quarter was $5.1 million or 15.8% of net sales.

At this point, I'd like to turn the call back over to Tom to review our 2024 outlook and for some closing remarks. Tom?

Thomas Amato - *TriMas Corporation - President & CEO*

Thank you, Scott.

Let's now turn to Slide 11. I would like to now discuss our outlook for 2024. As we consider the trends that emerged at the end of last year, we are forecasting overall sales growth between 5% and 8% and adjusted earnings per share in the range of $1.95 to two 15. Our adjusted earnings per share outlook at the midpoint would represent an increase of about 7% as compared to the prior year. And when adding back non-cash stock compensation expense to both periods on a comparable basis, 2023 adjusted EPS would have been reported as $1.92 per share. More information on this change is shown in our eight K, which will be filed this morning. Consistent with our adjusted EPS outlook, we also anticipate adjusted EBITDA to be up approximately 7% or approximately in the 165 to $170 million range as compared to our year ending 2023 adjusted EBITDA. We are seeing some early indications that demand for our packaging products for the consumer and industrial end markets is beginning to gradually recover, which we are forecasting to continue through the year. We also expect demand to continue to remain strong within TriMas Aerospace and anticipate we will improve conversion rates as we continue balancing production flow with demand.

Finally, we expect our specialty products businesses to start this year in a demand environment. Consistent with that of the fourth quarter, however, with increases in demand as we enter the second half, while we expect improved performance in Q1 for our packaging and aerospace groups, in light of the slower start to 2024. With our Specialty Products Group, we anticipate Q1 EPS to be in line with last year.

Let's turn to Slide 12. I will conclude our prepared remarks provide by providing just a few examples of why we remain excited about the near and long-term shareholder value creation prospects for TriNet. First, after a demand challenge year, we are beginning to see order intake increases within our largest segment primary packaging. While we are cautiously optimistic about 2020 for revenue growth, we are positioned to make further operating leverage gains in 2024, should we experience higher than planned growth and also would expect enhancing conversion rates into 2025.

Finally, we continue to invest in innovation in 2023, despite the challenges in the year to allow for a sustained long-term growth trajectory. We are also confident in our actions we have taken within our TriMas Aerospace group to improve supply and skilled labor constraints. We have top graded our leadership talent within the group, and we expect to take advantage of further operating leverage gains as we continue to bring our production planning into better synchronization with customer demand. We are taking proactive steps to focus our portfolio. In addition to announcing the planned divestiture of aero engine and our aero engine business and the exit of our presence in the oil and gas end markets. We also we also will soon be moving our presentation of TriMas into two highly attractive segments, packaging and aerospace. We also continue to place a priority on building out our TriMas Packaging platform through M&A with a focus on the life sciences, beauty and food and beverage end markets. Also given our relentless commitment to cash flow conversion generation. We will continue to reinvest in our businesses for long-term growth while also returning capital to our shareholders, both through share buybacks and dividends. In addition, our leadership team remains committed to operating Trimesta in a responsible and sustainable way to contribute to society, particularly in the communities where we live and work.

I would again like to thank our investors for their support. We can continue to believe TriMas is an exciting company to invest in.

And with that, I'll turn the call back to Sherry.

Sherry Lauderback - *TriMas Corporation - IR*

Tom, at this point, we would like to open the call up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Hamed Khorsand, BWS Financial.

Hamed Khorsand - *BWS Financial Inc. - Analyst*

Hi, good morning. So first question I had was related to packaging signs that you're seeing of the gradual recovery are they how material is that?

Sherry Lauderback - *TriMas Corporation - IR*

Is there any way you could provide us a little bit more detail what you're seeing? And are you seeing it now back to normal as to 22 kind of levels are just better than 23?

Scott Mell - *TriMas Corporation - CFO*

Yes.

Sherry Lauderback - *TriMas Corporation - IR*

Thank you, Jaime. That's a great question. And we're running a number of analytics right now looking for various positive trends. I would say one of the things that we're studying frequently is on rolling averages of our order intake. So we'll call that order intake momentum and we're seeing and we've seen multiple months of increases in momentum in order intake across many of our product lines and some of the product lines that have gained momentum. It just had had really really off years last year, which is a as we triangulate the technical data that we're seeing on order intake with what customers are saying, we're coming to the conclusion that on outside of a few customers. Most of the inventory matters, at least for our customers are behind us, and that's a very positive sign. Now we're not back to what I would call pre to mid 2022 levels yet. But these are signs that we're starting to see that we did not see and for the most part of 2023 I talked at the beginning of the year that I was looking for some green shoots to occur midyear last year and did not happen now. We're starting to see that and um, look, we hope they're sustainable. They seem pretty robust. Our technicals up. We're pretty excited about we're talking to customers, but it's not going to be a snapback like we saw with aerospace.

Got it.

Thomas Amato - *TriMas Corporation - President & CEO*

And my other question was related to life sciences. Are you getting more customers or the buyers? Are the current customers ramping up orders? And how is that progressing for you.

Sherry Lauderback - *TriMas Corporation - IR*

Yes. Thank you very much for that question. It's a great question and one, I hope that we can continue to talk about as we move forward on the answer to that is both. Yes, on we are growing with our existing customer base. We're adding customers and then we're in the process. I certainly don't want to disclose anything that would jeopardize our ability to qualify a brand-new customer. But but we're doing work with some significant customers in the space that that on we hope we can get on their approved vendor list their ABL to do more with them in the future.

One of the biggest drivers to our ability to grow in Life Sciences is our clean room capability. What we call Class seven clean rooms, and there's different levels of that. But these are extremely clean production environments with continuous air flow, air search, circulation, reflow and filtering. And often as we seek to grow with our current customers, expanding customers and new customers on there.

Looking at our agri, our clean room capabilities. So one of the things we tried to do last year and we'll continue to do as we move forward is to speak with you and our investors on how much square footage we have in clean room of a capacity because that's the driver growing in particularly the medical area, but the life sciences area.

Great. Thank you.

Thank you.

Operator

Tim Burns, Cranial Capital. Please proceed with your question.

Tim Burns - *Cranial Capital, Inc. - Analyst*

Good morning, Tom. I'm kind of scratching my head with regard to the combination of specialty products slash cylinders with packaging. What was the rationale for that action?

Thomas Amato - *TriMas Corporation - President & CEO*

Well, we haven't we haven't taken the action yet. It's something we have been talking about for the better part of the year. When you look at our packaging business, we do have a component of our business that has had a legacy presence in what I would call general industrial. And we sort of see that as of in some peer groups as well in packaging peer groups ARM. But when we look at that the end markets, we go into a packaged gas end market. So packaging in the broadest sense is our core to Trimax and our view was that it would be better for our investors to appreciate that packaged gas business, if it was reported with our industrial business in our Packaging segment, I me for my dumb view, it's going to dilute is the growth and margins in your premier business. And I guess I would I would ask you why not sell specialty products?

Well, we did announce that we're on selling a portion of specialty products. I appreciate the feedback that you're providing on our door cylinder business. But yes, if you look at it, our Norris Cylinder business and maybe talk about some things we've talked about in prior calls, our tax basis is extremely low in it and so monetizing that would come and it would come at a cash drag, number one, number two with a high performing business.

Okay? It had a tough quarter last year, but we've seen that historically over a long period of time that there are some highs and lows that come with that business. But historically, fairly reliable on its EBITDA margins are at a normalized basis of our at a very respectable level and it's a great cash generator. So I do think that it will be in the long run a contributor to our Packaging segment.

Okay. Well, I disagree. I think it's a mistake, I feel like it's I feel like there's some kind of structural move going on to protect the company.

And if it's such a great business, then let it be reported on its own.

Sherry Lauderback - *TriMas Corporation - IR*

It's just going to cloud a great business that you've got. And so I am I'm voting against that time, but I'm just one man.

Well, Tim, I appreciate your feedback. Thank you very much.

Okay, thank you. Have a good day.

Two.

Operator

(Operator Instructions) Peter Ra, New York Life.

Peter Ra - *New York Life Investments - Analyst*

I thank you for last question. Just on the outlook when you especially for packaging you're showing sort of a sales growth of 5% to 9%. How much that how much of that is volume? And then just cadence by quarter will be?

Yes.

Thomas Amato - *TriMas Corporation - President & CEO*

I mean, relative to the organic growth versus acquisition related growth, it's around 1.5% is what we're forecasting for the acquisition related growth relative. We're not going to provide sales guidance by quarter. But yes, I think it's fair to extrapolate that we believe it's a gradual, more gradual recovery and hence, you should see more momentum as we get toward the later part of the year, though. I think that's probably pretty good guidance relative to how you want to think about packaging sales sequentially over the course of the year.

Sherry Lauderback - *TriMas Corporation - IR*

Okay. And just a follow-up just in terms of the just organic growth, most of that is volume or is there price baked in?

Thomas Amato - *TriMas Corporation - President & CEO*

Well, we're not going to get into price versus volume discounting but I will say, you know, given the demand environment within packaging and more broadly, the excess capacity in most of the end markets, it's a very challenging pricing environment. So I think you can assume that the vast majority of our organic growth is volume-driven.

Operator

Okay.

Sherry Lauderback - *TriMas Corporation - IR*

Thank you.

Operator

As there are no further questions at this time, I would now like to turn the floor back over to management for closing comments.

Sherry Lauderback - *TriMas Corporation - IR*

Thank you, and thank you 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.