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TRS.OQ - Q1 2022 TriMas Corp Earnings Call

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PRESENTATION

Operator

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

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

Thank you, and welcome to China Corporation's First Quarter 2022 Earnings Call. Participating on the call today are Thomas Amato, TriMas' President and CEO; and Scott Mell, our Chief Financial Officer. We will provide our prepared remarks on our results and outlook, and then we'll open the call up for your questions. In order to assist with review of our results, we have included the press release and PowerPoint presentation on our company website 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 2219626.

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

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

Thank you, Sherry. Good morning, and welcome to our first quarter earnings call. Let's turn to Slide 3. Overall, we are pleased to report positive results again this quarter. Between the period of time when we completed our planning models, which was near the end of last year and when we reported our 2021 performance just 9 weeks ago, we started to recognize an increasingly difficult macroeconomic environment developing from inflationary pressures and effects from the regional issues in Eastern Europe and China. Despite continued operational challenges as a result of the pandemic-related labor constraints and more recent challenges in production input costs and supply constraints, we are reporting today earnings per share of $0.50, which is in line with our plan.

Our continued solid performance is a direct result of the dedication and commitment of our global team who is focused on meeting the needs of our customers in a diverse set of end markets, all while navigating very dynamic and often differing regional environments. Before going through more details on our results for the quarter, I would like to update our investors on one of our more significant capital investments, which we initiated in 2020. As discussed in prior earnings calls, this is our new TriMas Packaging manufacturing plant in New Albany, Ohio. As a reminder, in collaboration with one of our largest customers, we began investing in a new 235,000 square foot highly automated facility, localizing foaming dispenser production in the United States, upgrading our manufacturing processes and allowing for additional production floor space for future growth in the U.S.

I am pleased to report that we are on track to launch this facility during the second half of this year. Also, we did not contemplate at the time of approving this project, some of the geopolitical challenges that exist in the current business environment. Given this dynamic, we are now gaining additional commercial interest in our available future capacity in this new U.S. location, which we believe will benefit our organic growth well into the future. I look forward to updating our investors on the development of our new Albany, Ohio manufacturing location on future earnings calls.

I would also like to update our investors on progress regarding share repurchases. For the quarter, we purchased approximately 282,000 shares for a net reduction of 0.5% of total shares outstanding. We added further to this share buyback position in April, which in total reduced our net shares outstanding by 1% from the end of 2021.

At the end of the first quarter, we had approximately $133 million available under our 2018 share repurchase authorization. We plan to continue to take advantage of this tax-efficient approach to return capital to our shareholders particularly as we internally weigh our long-term potential against current market valuations. Additionally, we have completed our second dividend payment in March and declared our third dividend payment to shareholders of record on May 5, 2022.

Between share repurchases and dividend payments, we are on pace to return at least 1.5% yield to our shareholders in 2022, while continuing to invest in our capital expenditure and acquisition strategy, all while maintaining a strong balance sheet.

Let's turn to Slide 4 where I'll cover our financial performance for the quarter. As noted, despite a very dynamic operating and demand environment, we are pleased with the results for this quarter. Sales were $224.3 million, up 8.5% as compared to the prior year quarter driven by organic sales were up -- which were up 5.3% and acquisition sales, which contributed 4.3%, offset by foreign currency exchange of 1.1%. Sales were up significantly in our Specialty Products segment driven by industrial demand in the United States for steel cylinders and engines and related maintenance parts for remote power generation applications. Sales were also up within TriMas Packaging in line with our internal planning, and sales were flat as compared to the prior year quarter within TriMas Aerospace.

Adjusted operating profit for the quarter was $26.2 million or 11.7% of sales which was flat as compared to the prior year quarter and 120 basis points lower in margin. The margin impact was driven by a less favorable product mix, primarily in Aerospace as well as continued pandemic-related operating challenges and higher energy costs, which Scott will discuss further when he covers our segment performance.

Adjusted net income was $17.6 million, up 1% from the prior year quarter. Even though operating profit was relatively flat, our net income performance did benefit from lower currency-related charges. As noted, earnings per share was $0.50, up slightly as compared to the prior year quarter.

Finally, adjusted EBITDA was $42.3 million or 18.9% of sales and LTM EBITDA was $173.8 million as compared to the prior quarter of $172 million, continuing our momentum of LTM EBITDA growth despite the many input cost challenges we are managing through today.

If we turn to Slide 5, I will briefly cover our balance sheet and cash flow for the quarter. TriMas continues to maintain a strong balance sheet. Our net debt for the quarter was $335.2 million, with the resulting leverage of just under 2x despite funding 3 recent acquisitions and stock purchases as noted. As a reminder, we refinanced our fixed rate debt, upsizing our capacity and locking in a rate of 48% in the first quarter of last year.

On a comparable basis, in the first year quarter -- in the prior year quarter, we had not yet paid off our prior fixed rate debt and fees, so the debt and cash values do not provide for a good comparison. Free cash flow was slightly negative as we anticipated, which was driven by management-led decisions to buy ahead on certain raw materials and components to potentially mitigate against supply constraints. Additionally, our first quarter free cash flow tends to be our lowest cash generation quarter.

As I said, I want to again thank our global TriMas team for their navigation during this continued time of uncertainty and as we report another quarter with solid performance. Let me now turn the call over to Scott, who will take us through segment performance. Scott?

Scott A. Mell - *TriMas Corporation - CFO*

Thanks, Tom. Please turn to Slide 6, and I will review our first quarter results, starting with TriMas Packaging. I will start by highlighting that our Packaging segment results for the first quarter included another record-setting sales performance with the highest sales ever for a first quarter. Net sales of $138.5 million increased approximately $6.4 million or 4.8% as compared to the year ago period. Our Omega acquisition completed in December of 2021 and our Intertech acquisition completed in February of this year, contributed approximately $7.6 million of incremental sales during the quarter, while the impact of unfavorable foreign currency translation reduced sales by $2.4 million during the quarter.

Organic sales increased slightly by approximately 1% as compared to the year ago period as we were generally able to recover current resin cost during the quarter on account of strategic commercial pricing actions and our contractual cost recovery mechanisms. I will note that this organic growth rate is in line with our expectations as we are comparing current results to the first quarter of 2021, which was still benefiting from the positive effects of the pandemic-related demand surge, primarily for dispensing products, which helped fight the spread of germs, which began in the second quarter of 2020.

During the first quarter of 2022 and consistent with our results over the second half of 2021, we continue to experience double-digit year-over-year organic growth percentage increases for our project SKUs in food and beverage and industrial and agricultural applications as these sectors continue to deliver stable macroeconomic growth. Specifically, sales for closures used in food and beverage applications, dispensing pumps used primarily in quick-service restaurants and flexible packaging used primarily in bag and box solutions experienced double-digit percentage growth during the quarter.

While we are pleased with the sales performance for the first quarter of this year, given the challenging macroeconomic factors currently impacting many of the regions of the world in which we operate, we continue to closely monitor our order book as we did see some softening in Q1 as our customers work through what we believe are temporal overstocked levels of inventory on certain dispensing product lines. However, given our breadth and depth of product offerings in end markets, at this time, we reaffirm our previous guidance of 11% to 14% sales growth in 2022 for our Packaging segment.

Operating profit when compared to Q1 2021 remained relatively flat at $23.8 million as higher sales were offset by inflationary pressure on input costs, specifically energy cost in Europe, which have been meaningfully impacted by the ongoing hostilities in Eastern Europe.

Operating margin was 17.2% compared to 17.9% a year ago, while adjusted EBITDA was $31.8 million a 2.6% increase versus the prior year quarter. I will note that the slight decline in year-over-year operating margin is primarily attributable to the previously mentioned energy cost increases and the effect of our very recent acquisitions, which we are still in process of fully integrating into our Packaging segment.

Finally and as I mentioned previously, we are reaffirming our full year 2022 guidance of 11% to 14% sales growth and operating margins of 18.5% to 19.5%.

Turning to Slide 7. I will now provide an update on our TriMas Aerospace Group. Net sales for the quarter of $44.5 million were relatively flat on me, as compared to the year ago period. Our TFI Aerospace acquisition completed in December of 2021, contributed approximately $1.4 million of incremental sales during the quarter. As we've mentioned previously, sales for TriMas Aerospace in Q1 of 2021 were positively impacted by stocking orders of specialized fasteners from one end customer, which were predominantly fulfilled in 2021. I would like to highlight to our investors that Q1 2022 sales increased by approximately 15.6% when adjusting for the impact of these stocking orders on Q1 2021 sales.

Operating profit for the quarter was $2.4 million or 5.4% of sales as compared to $5 million or 11.1% in the previous year. This year-over-year reduction in operating margin primarily attributable to the stocking orders, which included a meaningful amount of high-margin specialty fasteners as well as incremental pandemic-related labor inefficiencies. Adjusted EBITDA for the quarter was $7.2 million or 16.3% of sales compared to $9.5 million for the prior year period.

While we continue to expect a modest market recovery over the course of 2022, we also expect the labor inefficiencies to continue with higher than historical levels of absenteeism. We are also starting to experience inflationary pressures with some of our key raw materials, including aluminum alloy, nickel, titanium and some types of stainless steel. However, these raw material cost increases were anticipated during our 2022 planning process. And accordingly, we have been proactive with our efforts to recover these cost increases with most of the cost inflation already passed through to the market.

Our TriMas Aerospace leadership team continues to evaluate practical steps to further optimize our manufacturing cost structure with current and expected demand levels, while balancing its priority of continuing to invest in new and innovative products to support its global customers and positioning itself for future business opportunities.

Finally, we are reaffirming our previous full year 2022 guidance of 1% to 3% sales growth and operating margins of 4% to 6%.

Now on Page 8, let's review our Specialty Products segment. Net sales in the fourth quarter increased $11.3 million to $41.3 million a 37.5% increase when compared to the same period a year ago. This is now 4 straight quarters of 20% plus growth for our Specialty Products segment. Consistent with performance since Q2 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. In addition, given the very strong demand for our Made in the USA branded steel cylinders, our Specialty Products segment continues to efficiently recover material cost increases through strategic commercial actions.

Operating profit in the quarter was $7.2 million or 17.5% of sales as compared to $4.5 million or 15.1% in the previous year period. Operating margin improved significantly in the current quarter primarily as a result of higher sales from increased demand, strategic pricing actions and leveraging previous factory floor improvement actions. Adjusted EBITDA of $8.3 million or 20.2% of sales was also significantly better than the prior year's quarter of $5.5 million or 18.3% of sales. In addition, at the end of the quarter, Norris Cylinder's order book remains at record levels. which we believe is clearly indicative of a fulsome post-pandemic recovery the markets our products serve, including construction, HVAC, general industrial and upstream oil and gas. However, given the current macroeconomic environment, we will continue to closely monitor order changes in input costs and take appropriate actions as necessary.

Finally, with respect to our Specialty Products segment, we are reaffirming our previous full year 2022 guidance of 8% to 12% sales growth and operating margins of 16% to 17%.

Before turning it back to Tom, I would like to note that our diversified end market model and modest capital structure, we believe, continues to provide long-term benefits to our investors as seen by our continued momentum during this uncertain period.

Tom?

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

Thank you, Scott. Let's turn to Slide 9. As presented on our earnings call on March 1, our 2022 outlook did not include any specific impacts from the situation in Eastern Europe and derivative energy inflationary effects. With that said, while we are seeing a customer demand environment evolve differently than we planned for some of our product lines, overall, given TriMas' diversified end market model, we are today reaffirming our outlook for the year.

Our forward planning does anticipate input costs and supply availability to stabilize, particularly as we enter the second half of 2022 where we do expect to gain more traction given the dynamic environment we continue to work through this quarter. From a timing standpoint, we are expecting second quarter to be higher in sales, profit and EPS in the first quarter with sequential improvement in the third quarter as compared to the second quarter. We are also assuming no further geopolitical disruptions.

Let's turn to Slide 10. I will close out our prepared remarks by providing just a few examples of why we remain excited about the long-term prospects for TriMas. Through our methodical repositioning of TriMas, nearly 2/3 of our revenues are now generated from TriMas' packaging group. As discussed in prior calls, we believe there are attractive long-term characteristics in this segment through our many end markets, and we believe we have a robust pipeline of innovative product solutions. We also expect to continue to make progress on accelerating growth in packaging through acquisitions. We also have excellent annual free cash flow and financial capacity to continue to augment our organic growth with strategic acquisitions.

Next, we expect to further -- we expect to have further long-term performance gains in our TriMas Aerospace group, an effect we are seeing developed today in our Specialty Products group as air travel and 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 share buybacks and dividends.

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

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take a question from Ken Newman with KeyBanc Capital Markets.

Unidentified Analyst

This is Jacob on for Ken. Just a couple of questions here. Can you provide a little color on the impact that resin costs had on the Packaging segment and where you expect to be on price cost for that business by the end of the year?

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

Jacob, yes. Well, we certainly did not expect that in Q1, resin costs would go up yet again after the rate that they had escalated to towards the end of '21. And we were recovering nicely through that point. And here we are yet again, with some costs going up, which is a direct driver of crude pricing. We've had a very good track record. It does take a little time, both contractually and commercially to getting an appropriate level of recovery on resin price increases. So while there could be an additional lag factor depending on what happens with resin pricing here this quarter and into the second half, our expectation is by the end of the year we'll be fully recovered.

Unidentified Analyst

Got you. Makes sense. And then just a follow-up to that. Could you remind us how much that the Packaging segment leveraged the European supply chains? And then what's the confidence level around the bottom end of that segment's guidance?

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

So from a supply chain point of view, I don't have the answer handy. I would say it's probably under 30% of our raw material buying. The biggest impact that we've been seeing in Europe have been almost entirely on the energy price side, energy cost side as opposed to material which has been in line with sort of global supply pricing.

Unidentified Analyst

Got you. Yes, that makes sense. And then just a couple more for me, if you don't mind. Certainly, it seems like the market is becoming a bit more concerned about potential recessionary pressures here. Could you talk a little bit about pressure -- or excuse me, customer sentiment across your businesses, whether you've seen any material changes in customer behavior?

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

Well, it's a great question. And I mentioned in my comments that it is as dynamic of an environment is certainly, I could say I've seen for some time. Depending on the end market, we're seeing very different behaviors. There are some customers, I would say, less so in aerospace and in the industrial side of business, where certainly on the industrial side, with respect to our Specialty Products group, we're seeing an order book that continues to remain high.

On the packaging side, there are certain customers that are making conscious decisions to balance their inventories pretty tightly. Some customers have opted to halt some production given very high energy costs in -- predominantly in Europe.

So we are seeing a little bit of that dynamic play out as some of those customers sort of just take a bit of a wait-and-see approach to what happens with the market. Remember, though, most of the products that we supply into the packaging space are consumed, are consumable. So there is going to be a natural demand level my response really relates to how long they want to go in their inventory and their future planning.

Unidentified Analyst

Okay. Understood. And then sort of along the same lines, can you comment on the M&A pipeline? And whether any activity there has slowed given some of that uncertainty?

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

Yes. I would say it certainly hasn't slowed. We saw the pace pick up going into last year. And what's happened from a TriMas point of view is given the cadence of deals that we have completed, we're starting to see more unsolicited inbounds from mid-market bankers that maybe we wouldn't have seen otherwise. So our activity level remains high, perhaps on some bigger deals the market could slow. But I think if you look at our strategy, we're pretty comfortable with protecting our balance sheet and doing manageable bolt-on type deals. So on that front, we're continuing to see a fair amount of inbound opportunities, and we remain pretty busy.

Unidentified Analyst

Okay. Got you. That's good to hear. And then just last one for me. Can you comment on any insight into demand visibility for your Aero segment?

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

Can you -- I'm sorry, can you repeat that question?

Unidentified Analyst

Yes. I'm just looking for if you have any insight into demand visibility for your Aero segment?

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

Yes. look, I mean, not much change from last quarter, but as I said at that -- during that call, we're starting to see the fundamentals line up in the right direction in terms of more and more increased travel, which ultimately will drive production. So I would say, as compared to last quarter, not much change, but I would also say that what we saw last quarter, if that trend continues, I think will be a positive for us as we look into 2023 and 2024.

Operator

(Operator Instructions)

Okay. It looks like we have no further questions at this time. So I'd like to turn it back over to our speakers for any additional or closing remarks.

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

Okay. Thanks, everyone. I know it's a busy earnings day. We appreciate your time. Again, we'd like to thank you for joining us on our earnings call, and we look forward to updating you next quarter.

Operator

That does conclude today's conference. We thank everyone again for their participation.
