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CORPORATE PARTICIPANTS

Sherry Lauderback *TriMas Corporation - VP IR & Communications*

Tom Amato *TriMas Corporation - President, CEO*

Bob Zalupski *TriMas Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Matt Koranda *ROTH Capital Partners - Analyst*

Karen Lau *Deutsche Bank - Analyst*

Bhupender Bohra *Jefferies LLC - Analyst*

Rudy Hokanson *Barrington Research Associates, Inc. - Analyst*

Rajat Gupta *JPMorgan - Analyst*

Chris Sosorinko *Wells Fargo Securities, LLC - Analyst*

Samuel Eisner *Goldman Sachs - Analyst*

Steve Barger *KeyBanc Capital Markets - Analyst*

Gautam Khanna *Cowen and Company - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to today's TriMas fourth-quarter and full-year 2016 earnings conference call. Just as a reminder, today's call is being recorded. At this time, I would like to turn the conference over to your host for today, Miss Sherry Lauderback. Please go ahead ma'am.

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

Thank you and welcome to the TriMas Corporation fourth-quarter and full-year 2016 earnings call. Participating on the call today are Tom Amato, TriMas' President and CEO, and Bob Zalupski, our Chief Financial Officer. Tom and Bob will review TriMas' fourth-quarter and full-year 2016 results as well as provide details on our 2017 outlook. After our prepared remarks, we will open the call up for your questions.

In order to assist with the review of our results, we have included the press release and PowerPoint presentation on our company website, 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 the replay code of 1865483.

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 any such 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.

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' President and CEO.

Tom Amato - *TriMas Corporation - President, CEO*

Good morning and thank you, Sherry. We believe 2016 is best described as a transitional year for TriMas. I joined the Company nearly ask months ago, and immediately dove into some issues that were impacting a few of our larger businesses. During my first 100 days, I began assessing the in-place business model and overall strategy that management was employing to drive long-term performance for our shareholders.

There were many aspects of TriMas and our family of businesses that were solid, which I have reported on during Pryor calls. However, it was clear that some changes needed to be made, and we made them. For example, we implemented a new operating and financial review model and initiated deeper and more frequent engagement with our businesses. This approach provided the platform to better communicate what we expect and value with our wider leadership team. We used data trends and transparency to promote a high sense of urgency. This resulted in a number of decisive actions taken, many of which we took in the fourth quarter. We made changes to our organization and leadership, not just within our businesses but also eliminated redundancy at the shared service and corporate level.

We have redefined the TriMas business model -- I'll talk further about that in a bit -- to provide clarity on our priorities and better focus the organization. We've initiated strategic reviews with each of our businesses to ensure we are taking the necessary steps, whether it be expanding into new product lines with current or new customers to accelerate growth, or turning current performance around, all to create value for our shareholders.

The redirection above provided tangible results. For example, there was solid cash conversion in 2016, allowing net debt to be reduced by $46 million. Operating margin percentage was slightly up despite lower sales through cost containment and very important productivity projects. We've closed out the year with clear plans in place with some of our more challenged businesses, plans which we will measure and adjust as necessary, all to drive continued progress in 2017.

Turning to Slide 6, we reference the use of the new TriMas business model. Therefore, I thought I would share some examples of how we use this model to drive engagement and identify solutions to problems.

As mentioned, shortly after joining TriMas, I found that one of our larger manufacturing plants was challenged with increasing past-due customer orders with root causes that range from changes in ordering patterns, increasing demand levels, and system implementation issues. After engaging with the team, analyzing data with a different lens, attacking problems, and measuring results daily, the team was able to drive a reduction of past-due orders of 75% in six months, and they are now focused on enhancing financial performance in this much more stabilized environment. We also anticipate that the lessons learned from our work will assist in performance improvements projects in other parts within TriMas, other plants within TriMas.

An additional example that was accelerated during the second half included another one of our larger plants that was struggling to support expedited orders and was faced with heavy off-standard spending. Through the tools of Kaizen and employee engagement, order and structure was brought into the manufacturing floor and storage areas, which allowed for significant increases in efficiency. Over several months, we saw on-time delivery improve with 50% less overtime costs, essentially allowing us to find more capacity in an existing location. This improvement in capacity utilization will allow us to benefit in other ways as well throughout this business and TriMas. So, these are just a few nonfinancial leading indicators of changes that we are driving every day at TriMas under our new business model, and I hope to share more examples with you in the future.

Before turning over to Bob, who will go through the financial performance for the year, I wanted to take a few minutes and discuss our end markets. With respect to our Rieke business, we've taken a number of actions in 2016 to position for longer-term growth. We've introduced a new organizational model to better focus our selling strategies and leverage our global innovation centers of excellence. We've also added more capacity for consolidation and growth at a new facility in a lower cost region. We expect to see steady growth overall in our end markets tracking mostly to our customer successes with their current and new products.

We continue to enjoy solid order intake in the aerospace segment and continue to address resources and capacity constraints so we may take advantage of this period of growth. I would also be remiss if I did not mention the non-cash impairment charge that was taken to goodwill in our aerospace segment which impacted our GAAP earnings. This change driven by revaluation based on internal performance and disruption for market ordering patterns will be discussed by Bob in more detail later.

We experienced softness during the second half of 2016 in the general industrial market which impacted our engineered components segment. However, we anticipate a better environment for infrastructure spending in the United States, which should benefit our businesses in this segment in 2017 and certainly beyond.

We are expecting petrochemical and refinery planned maintenance activity to be relatively flat year-over-year as our customers manage their capital investment budgets given continued market uncertainty. While the market coupled with regional decisions we are taking to streamline our layman's business are anticipated to result in year-over-year lower sales, we do expect positive earnings trends to continue in 2017.

Finally, we have sensed a stabilization in markets impacted by domestic oil and natural gas drilling. While our 2017 budget does not plan on a significant increase in drilling activity, or higher levels of refinery maintenance activity, should these events occur, we would expect to gain operating leverage with a few of our businesses.

So, with that, I will now turn it over to Bob to discuss our financial performance. Bob?

Bob Zalupski - *TriMas Corporation - CFO*

Thank you, Tom, and good morning. I will begin my comments by providing a brief summary of our fourth-quarter results on Slide 8. As Sherry noted earlier, all my comments will be on an after special items basis.

As expected, we faced continue topline pressures during the quarter related to weakness in our industrial end market, in addition to the ongoing impact of reduced oil production activity. While these end market challenges impacted our results, we believe these demand levels are beginning to stabilize and that our cost savings initiatives have mitigated a significant portion of the impact of this sales decline.

We reported fourth-quarter net sales of $185.5 million, a decrease of nearly 4% compared to fourth quarter 2015. Organic growth, primarily in our packaging segment and approximately $1.4 million of sales growth from a Q4 2015 aerospace acquisition, was more than offset by the extended weakness in the oil and gas and industrial end markets and a $2.8 million impact of unfavorable currency exchange.

As Tom mentioned, our fourth-quarter results were also impacted by the pretax non-cash goodwill and indefinite-lived intangible asset impairment charges of $98.9 million in our aerospace segment, which are reported as special items. As previously disclosed, our aerospace segment, most notably the Allfast business, has experience lower sales levels to distribution customers as a result of inventory levels in channel and airframe manufacturers' efforts to reduce or leadtimes, as well as their investment in inventory more generally. While this has resulted in reduced sales levels over the past 18 months, it has also had a significant impact on margin levels as certain of these products historically commanded premium margins. We have also experienced scheduling and production challenges in our Monogram business, which also resulted in significantly lower margins in 2016 versus prior years. We implement it recovery plan actions to address these shorter-term production inefficiencies and to align the operating cost structure to be more consistent with current demand levels. However, as a result of current performance, as well as now lower future sales and operating profit expectations, we recorded the goodwill and indefinite-lived intangible asset impairment charges. These non-cash impairment charges do not impact our liquidity, cash flows, compliance with debt covenants or any future operations.

Excluding special items, we achieved operating profit in the quarter of $19 million, or 10.3% of sales, compared with $22 million, or 11.4% of sales, in Q4 2015. The positive impact of our restructuring and cost savings initiatives was more than offset by the impact of the sales declines and related lower fixed cost absorption.

We achieved fourth-quarter EPS of $0.30 per share, up 3.4% versus the prior-year period despite the year-over-year challenges as tax planning strategies completed in Q4 resulted in a lower overall effective tax rate.

Let's now turn to Slide 9 to look at cash flow and certain balance sheet changes. We generated free cash flow of $33.2 million during Q4 after capital expenditures, which included investment in a new plant in Mexico for our packaging segment and installation of a reconditioned cylinder forging line for our engineered components segment. As a result of solid free cash flow, we ended the year with approximately $375 million in total debt, a $45 million reduction compared to a year ago. Our leverage ratio was just over 2.6 times at year-end, and we had approximately $147 million of cash and available liquidity under our credit facilities.

Turning to slide 10 and our full-year 2016 financial results, overall sales decreased 8.1% to $794 million as the sales gains from our organic initiatives and a 2015 acquisition were more than offset by the $56 million decline in our energy facing businesses, a $20 million decline in our industrial cylinder business, and the nearly $9 million impact of unfavorable currency translation during the year. Despite the significant sales decline, operating profit margin increased slightly to 11.9% as a result of successful execution of our 2015 financial improvement plan as well as additional cost reduction initiatives. We reported diluted EPS of $1.26, in line with the midpoint of our previously provided full-year 2016 guidance. Full-year free cash flow totaled $72.8 million, approximately 126% of net income, and exceeded our guidance range of $55 million to $65 million.

At this point, I would like to shift gears and review Q4 segment performance, beginning with our packaging segment on Slide 12. Fourth-quarter net sales were $82.8 million, an increase of more than 6% compared to the prior-year period, as we experienced improved sales demand in the health, beauty and home care, industrial and food and beverage end markets. Excluding the $2.6 million impact of unfavorable currency exchange, sales would have increased nearly 10% year-over-year.

Packaging continues to generate strong margins, reporting Q4 operating profit of $20.4 million and an operating margin of more than 24%. We continue to invest in growth initiatives and expanding global capabilities as development of customer focused product applications is key to future growth. The ramp up of our new plant in San Miguel, Mexico continues, which will provide state-of-the-art manufacturing capacity to supply our customers in North America with significantly shorter lead times, and replaces our older facility outside of Mexico City.

Turning to Slide 13, the aerospace segment, fourth-quarter net sales increased approximately 2% to $42.9 million versus $42.1 million in the year-ago period, due primarily to the acquisition of the Tolleson, Arizona machine components facility which occurred in November 2015.

Operating profit declined approximately $5.5 million compared to the year-ago period to $1.4 million, or 3.2% of sales, versus $6.9 million, or 16.3% of sales, in Q4 2015. Approximately $1 million of the operating profit decline was due to the impact of lower sales volumes and less favorable sales mix at Allfast and Mac, as well as pricing within our machine components business, which more than offset the benefit of higher sales volumes to Monogram's distribution customers.

In the quarter, we also recorded annual physical inventory count adjustments of $1.7 million and delivery penalties and other contractual adjustments with customers of $1.2 million largely as a result of production scheduling and manufacturing inefficiencies experienced earlier in the year. The remaining decline is primarily due to off-standard spending of variances and valuation reserves related to the manufacture of standard fastener products inventory. Notwithstanding the Q4 impact of these adjustments related to customer contracts, physical inventory counts and inventory valuation issues, our aerospace recovery plan is beginning to result in operational improvements in certain areas of our business, most notably in our Monogram facilities.

As summarized on Slide 14, although progress has occurred at a more gradual pace than initially anticipated, we remain focused on translating improved operating performance into increased operating profitability. At Monogram, we expect to complete the burn down of past-due units by the end of first quarter, consistent with our recovery plan. We then need to translate higher order intake and related customer demand into increased production throughput without incurring off-standard costs, and continue to improve profitability over the remainder of 2017.

At Allfast, we have a stable production environment and available capacity and are waiting to see if recent higher order intake represents a consistent return of demand.

In addition, we are also focused on addressing scheduling, manufacturing efficiency, and customer pricing issues in our standard fastener product line and machine components business, and we've put new leadership teams in place at each business to implement these actions. At our standard fasteners plant, which is tooled for higher volume production runs, we are working through a backlog with smaller lot size orders, which has impacted manufacturing efficiencies. We expect to drive improved financial performance in the second half of 2017 as we better align our production and sales mix with available capacity.

Within machine components, in addition to better balancing customer demand and lot sizes with machine capacity, we will address pricing on certain LTA part numbers in cooperation with our customer and continue to qualify additional part numbers with new customers. While we have plans in place to address the off-standard impacts of these operational challenges, we expect gradual improvements in financial performance in these businesses during the second half of the year.

So, while there is more work yet to do, we believe we have maintained the confidence of key customers and continue to work with them to develop new product applications. Order intake from fastener customer remains solid and we are focused on reaching production and shipment levels necessary to consistently meet customer delivery requirements. Just as importantly, we are beginning to see better stability in order patterns from our distribution customers and we are optimistic that improved demand levels will translate into better manufacturing efficiencies and increased financial performance.

In summary, despite the challenges encountered in 2016, we continue to believe our aerospace business is well-positioned for growth and margin expansion in 2017.

Moving on to Slide 15, sales in our energy segment declined nearly 11% compared to the year-ago period to $36.1 million, as we experienced lower demand from upstream and downstream oil and gas customers and continued to deemphasize certain underperforming regions and products. The results of our restructuring actions are showing year-over-year, however, as we achieved margin improvement over Q4 2015 despite significantly lower sales. We continue to reduce the fixed and variable cost structure of this business by consolidating facilities and have focused on improving the efficiency of our Houston operation, making significant improvements 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.

Turning to Slide 16, engineered components, our Norris Cylinder business experienced sales declines of approximately $5 million year-over-year due to weakness in its industrial end markets and the impact of customer consolidation on order intake 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 Arrow Engine business experienced the decline in sales year-over-year as a result of continued low oilfield drilling activity. Net sales in the quarter were down more than 40% compared to the prior-year period, which were already significantly reduced from historical levels. Despite the further decline in revenue, additional reductions in Arrow's cost structure allow this business to remain approximately breakeven during the quarter. Our focus remains on managing the cost structure in each of these businesses in response to end market demand. We would expect any uptick in sales volume would leverage well.

In summary, our overall sales levels during the quarter reflected the usual seasonality we experience in Q4, as well as the impact of continued demand weakness of the oil and gas and industrial end markets. While we mitigated much of the impact of lower sales levels in 2016 through cost reduction and better alignment of business activities, we expect to focus on margin expansion, most notably in the energy and aerospace segments, in 2017.

On Slide 18, I would like to share a few comments around segment outlook for 2017. We expect our packaging and aerospace segments to be our principal growth platforms in 2017. Within packaging, we see organic growth opportunities driven principally by the ramp of customer new products. Despite the estimated impact of unfavorable currency exchange of 1% to 2%, we expect sales growth of 2% to 4% versus 2016 and to maintain strong operating margins while continuing to invest in innovative product applications and new product development.

Within aerospace, we anticipate sales growth ranging from 4% to 6%, assuming consistent industry build rates and given current order backlogs. We estimate operating margins will be in the range of 13% to 15% for 2017, improving as we progress through the year and achieve higher manufacturing efficiencies while eliminating off-standard costs.

In our energy segment, we expect 2017 sales levels will be down 2% to 5% from 2016 as we continue to deemphasize certain underperforming locations, and given what is forecasted to be a relatively flat refinery turnaround market versus the prior year. However, we expect operating profit margins will improve to a range of 5% to 7% despite lower sales levels as we continue to realize the benefits of our business realignment activities.

Finally, in the engineered components segment, we expect sales growth ranging from 2% to 5%, primarily related to our industrial cylinder business and as a result of expected improvement in the US industrial economy. We are expecting flat sales year-over-year in our oilfield engine and compressor business after two consecutive years of decline and remain focused on managing this segment's cost structure and productivity initiatives to achieve operating margins in the range of 13% to 15%.

Now, I will turn the call back to Tom to discuss our 2017 consolidated outlook and to wrap up. Tom?

Tom Amato - *TriMas Corporation - President, CEO*

Thank you Bob.

Let's now turn to Slide 19. As we take a look at consolidated TriMas for 2017, we are forecasting revenue growth in the 2% to 4% range and diluted EPS in the range of $1.35 to $1.45 per share. In addition, we have targeted our free cash flow to be more than 100% of net income. We are working on and making progress toward improving our forecasting models, ad, as such, anticipate improving our flexibility to quickly adapt to market changes, to take advantage of opportunities or to protect our plan as the case may be.

While we expect full-year revenue and EPS growth over 2016 levels, we are expecting relatively flat performance in the first quarter as compared to Q1 2016. We expect the Q1 margins in our energy and aerospace segments will be higher than Q1 2016 levels, and will improve throughout 2017. These improvements are expected to be offset by the impact of weaker industrial markets, which were stronger during the first several months of 2016.

Now, turning to Slide 20, we are forecasting our interest expense to be largely in line with 2016, capital expenditures to approximate 4% of sales with the majority of that investment being allocated to our packaging segment, tax rate in the 30% of 32% range, obviously not adjusted for any changes that may occur with US corporate tax rates, and cash corporate expenses in the 2.7% range.

Turning to Slide 21, as we look to our near-term focus for the first half of 2017, we will continue to support actions to drive growth in our Rieke and Norris Cylinder businesses, where we enjoy favorable return on net assets. Also, we will continue to seek to drive turnaround plans within our aerospace and energy segments to best position the businesses in these segments for long-term success.

We are putting plans in place to better manage cash flow, particularly focusing on our net working capital levels to support our businesses. We will continue to assess our business strategies and our innovation pipeline and our manufacturing footprint and capacity. We will do all of this through the process of Kaizen and employee engagement to ensure we implement the best solutions to benefit TriMas and our shareholders.

Turning to Slide 22, in closing, we believe TriMas offers an attractive long-term investment opportunity. We have brand value with well-recognized brand names in leading positions in the niche markets they serve. Many of our businesses have products that are defendable through high barriers of entry, either through innovation or customer approvals and qualifications.

We have solid overall cash flow and are continuing to focus on improving our cash yield. We have the potential to unlock further value through our focus on improvement actions currently underway. And very importantly, we are well positioned to take advantage of even modest recoveries in the areas of general industrial and crude exploration spending. I remain excited about TriMas' future and believe there are many opportunities for sales and earnings expansion, and ultimately an increase in shareholder value.

So, with that, we will now turn the call back over to the operator and take questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Matt Koranda, ROTH Capital.

Matt Koranda - *ROTH Capital Partners - Analyst*

Good morning guys. A question on the aerospace segment. I think that 4% to 6% sales growth seems to imply that we're going to see either pretty strong growth in the OE channel or we are lapping the distribution channel destocking issue once and for all. So I just wanted to get a little more color on sort of sort of the inputs to that outlook.

Bob Zalupski - *TriMas Corporation - CFO*

I would tell you it's a function of build rates as well as the current order backlog that we have. Despite some of the challenges we experienced in 2016, the order intake remains very good. And the backlog, at least in the last couple of months, or order intake as it relates to distribution customers, appears to be stabilizing. So, I think, to the extent that trend continues, we can migrate towards the higher end of that range. To the extent it gets soft, softer or deteriorates, that probably puts us at the lower end of the range.

Matt Koranda - *ROTH Capital Partners - Analyst*

On margins in that segment, so it looks like physical inventory adjustments and delivery penalties start to roll off right away, but you did mention there's still going to be a drag from kind of burning down past two units in the first quarter. So what does that translate to in terms of operating profit margin early on, if you could help us out with that? And then what does the cadence of improvement look like during the remainder of 2017, and where do you think we exit 2017 on a run rate basis?

Bob Zalupski - *TriMas Corporation - CFO*

Yes, I would say that, in terms of run rate, in terms of the operating margins, if you think about it, a year ago, we were probably 8% in first quarter. It's obviously not going to be at that level, but it's not going to be at the 16% level that we had in Q3 of 2016 either. So, I would look for sort of just modest improvement probably in the low double digits as we enter Q1, and looking for that to improve as we progress through the year.

Tom Amato - *TriMas Corporation - President, CEO*

We have still a number of what I would call off-standard and operational hurdles to clear through. We have a lot of activity underway on the factory floor. We expect, as we go through the first half and get into the second half, once we get -- I tried to highlight this a little bit in my comments, once we get manufacturing -- a manufacturing plant that is not performing up to its capability, once we get that stabilized, then we can start to drive out some of the off-standards and then take that second and third derivative of improving efficiency further. We expect to be at that point as we get through the year, and certainly going into 2018 to really drive the aerospace business performance. But as Bob mentioned earlier, we are very pleased going into the year with a little wind in our sails in terms of order backlog and continued solid order intake.

Matt Koranda - *ROTH Capital Partners - Analyst*

Okay, that's helpful guys. Maybe just one more on engineered components. I think the commentary had said something about flat sales in oil and gas. So, I assume all of the improvement is essentially coming from Norris year-over-year and the sales outlook there. How of much that 2% to 5% year-over-year improvement I think comes from units versus steel pricing and sort of the pass-through you may get there? I just want a little color on that.

Bob Zalupski - *TriMas Corporation - CFO*

Yes, it's predominantly units, unit sales, additional unit sales.

Matt Koranda - *ROTH Capital Partners - Analyst*

All right, got it. I'll jump back in queue guys. Thank you.

Operator

Karen Lau, Deutsche Bank.

Karen Lau - *Deutsche Bank - Analyst*

Good morning everyone. So, maybe I'll start with a clarification. So you mentioned in the press release customer contractual adjustments in aerospace. Are you referring to the $1.2 million of penalty in the quarter?

Bob Zalupski - *TriMas Corporation - CFO*

There were two items that made up that adjustment. Part of it was a favorable settlement on a rebate from a year ago that did not recur. That was call it 40% of that number. And then the residual was the claim for late delivery penalties that we ultimately settled in fourth quarter with a customer.

Karen Lau - *Deutsche Bank - Analyst*

Okay. Is that a one-off issue, or is that -- are there going to be some implication on future pricing and future contracts as well?

Tom Amato - *TriMas Corporation - President, CEO*

We expect it to be a one-off issue.

Karen Lau - *Deutsche Bank - Analyst*

Okay, got it. And then, on distribution, so you mentioned you saw some stabilization and better orders on the aerospace distribution channel. I think one of your major distribution customers talked about investing more in inventory this coming year. I was wondering what -- are you already seeing that impact? And is what you are seeing pertains to that particular customer, or are you seeing, in broader terms, in the distribution area, inventory in the channel starting to pick up?

Tom Amato - *TriMas Corporation - President, CEO*

Yes, I would not necessarily correlate it to whatever that specific customer said around their investment in inventory levels. It's a little bit of a challenge in Q4 in particular to sort out what might be seasonal impact versus not. So, we are looking towards Q1 as really the better indicator of whether or not distribution order patterns are going to return to what we would view as a more typical or normal level. Still early days, and so we are not ready to conclude on that question, but we are encouraged by some of the order intake that we are seeing.

Karen Lau - *Deutsche Bank - Analyst*

Okay, got it. And then maybe another housekeeping for Bob. Could you remind us? Within energy, the $19 million of restructuring charges you realized for the year, is that primarily cash costs? And what kind of restructuring numbers are you expecting for this coming year?

Bob Zalupski - *TriMas Corporation - CFO*

Let's see here. In terms of cash costs versus non-cash, we are roughly dealing with -- probably two-thirds of that is cash, and a lot of it has to do with the restructuring of the footprint, related severance, etc. There will likely be some spillover in 2017 as we finalize and exit certain locations, but it's really facility and severance-related as opposed to ongoing restructuring costs in what I'll call the core business.

Karen Lau - *Deutsche Bank - Analyst*

Okay, so we should expect that number to be much lower in (multiple speakers)

Bob Zalupski - *TriMas Corporation - CFO*

Yes, absolutely, not just in energy, but as you look across all of the companies at TriMas.

Karen Lau - *Deutsche Bank - Analyst*

Okay, got it. And then maybe just one last one for Tom. You have the opportunity to look at the energy business with a fresh pair of eyes. What's your thoughts on the longer-term structure of that business, because, you know, I think over the past few years, there's been investment in sourcing raw materials from India and you have established some manufacturing in Mexico. And obviously, now we have a little noise regarding the border tax and things like that. What's your view on the longer-term structure of that business?

Tom Amato - *TriMas Corporation - President, CEO*

Great question. Look, we have spent a lot of time and personally I have spent a lot of time looking at that business. I have used this statement as I've talked to investors, that trapped within our energy business is a fine business; we just need to find it. And I do believe that, and I think that we are really focusing where we want to manufacture and sell. The breadth of our footprint in that business will be smaller, but indeed I think it will perform better.

So, I do see us as largely a North American/US provider of gaskets. It's not -- that's not a bad time actually to be -- to have that characterization description with the resurgence that's taking place in the States. And where we participate and are active overseas or in other parts of the world, they are going to be pretty focused in areas where we know we have a unique advantage or some type of differentiating factor. And we know where those parts are around the world, and that's where we continue to invest and support our customers.

Karen Lau - *Deutsche Bank - Analyst*

Okay, got it. Thank you.

Operator

Bhupender Bohra, Jefferies.

Bhupender Bohra - *Jefferies LLC - Analyst*

Good morning guys. Just focusing on the last question here, the energy business, if you look at the guidance, how should we think about like the first half and the second half? It seems like we are still going to, based on maybe the first quarter maybe or the first half, are we thinking -- like I don't know if you want to give any number like of the second-half growth, how the cadence of the growth should be for the year?

Bob Zalupski - *TriMas Corporation - CFO*

As you know, that business is largely dependent on the turnaround activity. Turnarounds tend to be more focused in second quarter, and then kind of late third/early fourth. So, you're going to see a sine wave, if you will, as we move through the year, with lower margin performance in first quarter that we expect to increase in Q2. It will drop down a little bit as we move through Q3, and then increase kind of in that October/November time frame until it settles out obviously in the full-year run rate.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay, got it. And thinking about, historically, you guys have said this business to be kind of a double-digit margin business. But are we thinking that being 2018, or do you think, if the energy business comes back more than what you are expecting in your numbers, you could actually do double digits here?

Tom Amato - *TriMas Corporation - President, CEO*

Clearly, we could gain from -- as we improve and adapt the business to become more flexible and nimble, if the markets come back, then we will gain nicely from operating leverage. I would expect the pull-through to be very nice for the energy business, and that actually applies to a few of our other businesses as well.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. And lastly, on the packaging business, I just wanted to get a sense of the new programs which got pushed out from the second half last year. And I think, Bob, you just talked about some of the new programs, which is built in the guidance here. Any color on where those programs, your customers are thinking about opening new plants or where they are linked, basically those programs are?

Bob Zalupski - *TriMas Corporation - CFO*

No additional capacity beyond what we've already talked about. Those plans were largely put in place during 2016 as we moved through the year. We are in the vestiges of final ramp up of the San Miguel facility, which will supply one of those customer products. And then, beyond that, though, it's the tooling is in place and it's just a matter of producing and ramping to customer demand. So, we do expect that to occur as we exit Q1 here, and then increase as we move through 2017.

Bhupender Bohra - *Jefferies LLC - Analyst*

The reason I ask, because the fourth quarter was pretty strong like in packaging. If you look at organic, excluding the FX, I think you were pretty much close to like 10% sales growth I guess (multiple speakers)

Bob Zalupski - *TriMas Corporation - CFO*

Yes, the organic growth in fourth quarter was strong. Part of that was because the prior-year quarter for 2015 was much softer than what would be typical. So, while we are certainly encouraged by that near double-digit increase in organic growth, that isn't something that necessarily will be a trend that continues.

Bhupender Bohra - *Jefferies LLC - Analyst*

Thank you.

Operator

Rudy Hokanson, Barrington Research.

Rudy Hokanson - *Barrington Research Associates, Inc. - Analyst*

Thank you. I wanted to go back and drill down a little bit more on the energy side. You've talked a lot about restructuring your footprint, but, as I understood it, one of the difficulties in the past was that, in the product mix, the cost structure of the more commodity-type products and the focus of the Company historically been on products that a number of years ago were focused on refiners that were taking heavier crude or more specialty type crudes. And maybe this is too specific, but I'm just wondering. As you are looking at where your product line goes going forward and looking at the global mix of crudes and the cost structure of your products, can you maybe elaborate on what you see happening there and what you've been doing in terms of improving the profitability of energy for the marketplace today?

Tom Amato - *TriMas Corporation - President, CEO*

I may have a challenge with that question given some of the linkage to maybe prior conversations. But I would say, look, look at this. We have essentially a new operating team in place in our layman's business, and they are doing all the right things. They have respected some of the concepts from the past, but they looked at the data that exists today, perhaps through a different lens, and they look at their cost structure to make things -- and there's been a lot of -- I won't go into too much detail, but there's been a lot of preconceived notions about the past on the cost of certain products. And we are finding that we can make certain things much less expensive than we originally believed as a team before they came on. And they've showed and we've gone through the data.

As we focus our product line now, clearly we're going to focus on the areas where we make something, the areas where we can make it better than -- cheaper than purchasing it.

And then where we ship our products to, look. Right now, the petrochemical industry is a big part of our focus as crude and various crude refinery is on a little bit of the lighter side. And that's why -- and as we look at the cost structure for our business overall and look at the strips of that, we believe that it's not necessarily the product line that is creating the biggest issue for us, but it's how we get the product to a customer and where we go. And that's been our focus at least over the past six months and since I've come to the Company.

Rudy Hokanson - *Barrington Research Associates, Inc. - Analyst*

So if I can just restate what you said at the end there, is that logistics have become a greater focus than they were previously for the energy sector -- energy segment for TriMas?

Tom Amato - *TriMas Corporation - President, CEO*

Yes, I would maybe use a different word than logistics because, when I hear the word logistics, I think of the transportation. It's -- our physical -- it's the whole physical infrastructure from the time that we make something at one of our plants to where and how we get it to the customer. We have a sizable distribution network. We are looking at that. And that's expensive. And we have to assess which distribution locations are indeed performing well. That requires a different set of KPIs and much of the work that we've done in the past six months, some of the things we've announced, and you can see it coming through in terms of our notices, have related to streamlining and becoming more efficient from the point at which we make something to how we go about and market it and get it to the customer. And that's more than just logistics; it involves our network system.

Rudy Hokanson - *Barrington Research Associates, Inc. - Analyst*

Okay, thank you very much. That answers my question.

Operator

Rajat Gupta, JPMorgan.

Rajat Gupta - *JPMorgan - Analyst*

Thanks for taking my question. Just a question, just given the chatter around border tax under the new administration, can you give us a sense of your net border export position as a percentage of sales, and then how much flexibility would you have to move some of the subsidies back to the US --

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Tom Amato - *TriMas Corporation - President, CEO*

Let me take the question in reverse order. As far as flexibility goes, we have flexibility because we have a large footprint in the States and where we have overseas production. I would say that our -- the amount that we import is not significant overall to our sales. I get this question occasionally, and on the -- we are probably exporting perhaps more --

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Bob Zalupski - *TriMas Corporation - CFO*

It's probably less than 5% I would guess in terms of total sales of the Company.

Tom Amato - *TriMas Corporation - President, CEO*

It's not something I worry about for TriMas. I actually think that there are certain parts of our business, and I won't get into that now, that could benefit from a little help.

Rajat Gupta - *JPMorgan - Analyst*

So, just to clarify, so imports is less than 5% of sales right? Is that correct?

Bob Zalupski - *TriMas Corporation - CFO*

It's certainly under 10%.

Tom Amato - *TriMas Corporation - President, CEO*

Yes, export is under 10%.

Rajat Gupta - *JPMorgan - Analyst*

Got it. And you talked about deemphasizing some product lines into 2017. Could you give us a sense of the revenue you're getting back from doing that?

Tom Amato - *TriMas Corporation - President, CEO*

Sure. I think we actually -- it's not quite product lines we are deemphasizing. It's perhaps regions. And it's in -- it's on-site 2018 --

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Bob Zalupski - *TriMas Corporation - CFO*

Predominantly in our energy layman's business.

Rajat Gupta - *JPMorgan - Analyst*

Got it. Okay. That's it then. Thanks for taking my questions.

Operator

(Operator Instructions). [Chris Sosorinko], Wells Fargo.

Chris Sosorinko - *Wells Fargo Securities, LLC - Analyst*

On for Andy Casey this morning. Congratulations on rounding out the year. I just had a couple of quick housekeeping items. I wonder if you could give me some color on inventory levels by segment and where they reside relative to distributor inventories. Most of what we are hearing from our proprietary channel checks is that distribution arms for various businesses in general industrial seem to be at the lowest point that they can get and look to do some restocking this year. Just wondering if you are hearing the same thing by business.

Bob Zalupski - *TriMas Corporation - CFO*

I don't know that we are hearing precisely that same positive news but --

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Tom Amato - *TriMas Corporation - President, CEO*

We welcome the news.

Bob Zalupski - *TriMas Corporation - CFO*

We welcome it, certainly. But if you go by segment, really taking first packaging and Norris Cylinder kind of combined, both of those businesses turn inventory very quickly. Typically, it's a month or less on hand. So, we don't really concern ourselves too much with our inventory levels vis-a-vis distributors. It's all about getting product to the customer when ordered.

As it relates to aerospace and energy, that's where we are a little longer in inventories, and there's clearly going to be a concerted effort on the aerospace side of things to, through better production efficiency and more timely delivery, bring those inventory levels down.

Energy, I think it's a little bit more related to demand. Certainly, the team there is focused on reducing inventory, but they've sort of run into some topline weakness that has impacted our ability to burn through that.

And then with Arrow Engine being a parts business, obviously it has a very long sale or burn downcycle given current demand levels. I do think, even though there's been some uptick in oil prices and some resumption of oil production activity, we haven't yet seen it in the Arrow business because there's supply of engines and/or parts out there that were maybe mothballed at the bottom of the cycle. So, I think there is some opportunities there as we move through 2017 for some of that normal demand to return as stocks at distributors are sort of liquidated.

Chris Sosorinko - *Wells Fargo Securities, LLC - Analyst*

Thanks. And in the guidance, the interest expense you mentioned was relatively flat year-over-year, $13 million to $15 million despite the reduction in debt. Just wondering how you're getting to those costs.

Bob Zalupski - *TriMas Corporation - CFO*

Currently, we expect there to be rising interest rates. And then also, while the majority of our term loan A structure is fixed through swaps, those swap rates are higher than current LIBOR plus spreads. So that's really what's driving it.

Chris Sosorinko - *Wells Fargo Securities, LLC - Analyst*

Okay. And if I could sneak just the last question in there, the free cash flow guidance, just wondering if you could give us some color on cadence through the year, and how you look at spending CapEx through the next four quarters. And to specifically the components of the guidance, what measure is that free cash flow due to kind of better than initially expected order growth, or managing of working capital items?

Bob Zalupski - *TriMas Corporation - CFO*

Regarding the first question, in terms of seasonality or flow, typically, Quarter 1 will be the lowest and it's likely a use, given working capital requirements and/or capital investment that's currently on the board. But then we would expect it to be a bit more ratable over the remainder of the year.

Relative -- I think to your second question was relative to the performance in the current year. Was that what you asked, what was driving it?

Chris Sosorinko - *Wells Fargo Securities, LLC - Analyst*

Yes.

Bob Zalupski - *TriMas Corporation - CFO*

So really there was two elements. One was, on the working capital front, compared to 2015, there was a fairly sizable working capital use whereas, in the current year, it was negligible increase. So that was one of the drivers.

And then secondly, on cash taxes, significantly lower in 2016 versus 2015. And some of that is timing, and certainly we don't expect that to recur in the current year. So, that's why we expect to probably see cash flow down a little bit from the guidance we currently have out there -- or the guidance that we had for 2016, excuse me.

Chris Sosorinko - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you guys very much.

Operator

Samuel Eisner, Goldman Sachs.

Samuel Eisner - *Goldman Sachs - Analyst*

Good morning everyone. Just going to your guidance here, you know, if I roll up everything that you guys have guided to, let's start in packaging, it seems like, at the midpoint of your packaging guidance, you are basically guiding for flat profits year-over-year assuming 3% topline and 23.5% profit margin. Is that the right way to think about that business? It's obviously your most profitable and certainly the largest driver of profits. So the fact that that's not growing profits year-over-year, is that arguably conservatism? How should we think about your initial guidance here?

Bob Zalupski - *TriMas Corporation - CFO*

Yes, I would tell you it's a little bit of conservatism and the idea that, as you ramp some of this new capacity, it's really a question of timing of the costs will hit. You know when the costs hit; that's fairly predictable. It's a question of does the revenue from the product sales sort of align equally?

And clearly, as we get to full run rates, I think you see that equation sort of balance out, and we would expect to benefit from that on a go-forward basis, Sam. But given the number of new products that are ramping, particularly in the first half of the year, obviously we are incurring the cost before we see the revenue.

Samuel Eisner - *Goldman Sachs - Analyst*

Got it. That's helpful there. And maybe transitioning over to aerospace kind of along the same lines here, it seems like your implied incrementals in that segment are north of 90%. I think, at the midpoint, you're guiding to around $8 million of profit improvement. So is there a way to better understand what the drivers are of that $8 million? Obviously, you're calling for an inflection. Certainly, there were some additional costs embedded in 2016. But just can you help us understand, because it is about 45% of the overall kind of EBIT growth that you're guiding to for the year?

Tom Amato - *TriMas Corporation - President, CEO*

A lot of it is the difficult actions that we had taken in 2016 starting to come through in terms of our manufacturing performance. And it's going to occur. We expect it to occur throughout the year.

And when I look at 2016 for aerospace, there was -- stepping back from the financials, there just was so much going on, it was hard to get a good quality number out of 2016. And when we look and break it down by plant and where we should go and the opportunities that exist for us, a lot of it is driven by the actions that we've taken already and the actions that are underway right now. Bob, do you want to add to it beyond that?

Bob Zalupski - *TriMas Corporation - CFO*

No, I think it's a lot of the off-standard costs going away. Any time you get into a past-due situation or your scheduling is such that we are not able to get the product through the facility, you might end up, at the end of the month, shipping what you expected, but at the margin levels that are significantly less than you would if you had an efficiently smoothly running plant. So a lot of the change starting with the Monogram business and now looking clearly at Mac and machine components is how do we improve that plant floor productivity, that plant floor efficiency, so that, to achieve an equal number of units of production, we are doing it with a cost structure that's much improved.

Tom Amato - *TriMas Corporation - President, CEO*

I would say also when I -- one of the observations I felt when I got here was there was a keen sense of capturing the sales, getting the sales out. Well, to do that, some of the plants that we are talking about were what I call bumping and grinding their flow to get parts out the door in the best way, in the most efficient way of scheduling.

And I started to talk to -- if you talk to anybody in the aerospace business, they've heard me talk about units. I said put sales aside for a little bit. Just get things through the plant better, quicker, faster and cheaper, and the sales will come. And indeed, in one of our plants that has adopted this mantra, they are seeing the benefit of that. Unfortunately, it takes time. You have to -- you have a few months or perhaps a quarter or a few quarters where, to get things back in balance, back under control, you have to go through a period of, as Bob said, a number of off-standard costs. So, it is a bit cultural in terms of thinking and what we prioritize, and that's where, going back to my comments about the TriMas business model, we now have a platform of communicating with our businesses and our plants and our operating personnel on what we value. And that will help us drive the performance that we expect into 2017.

Samuel Eisner - *Goldman Sachs - Analyst*

Maybe, Tom, just one last one for you there. I definitely appreciate the color. When you look across the portfolio, there have been questions in the past regarding kind of the overall kind of structure of the portfolio. Can you make a comment maybe about is everything meeting your kind of internal rate of return? Historically, a lot of people think about 10% as kind of the breakeven point regarding ROIC. Maybe you can talk a little bit just about looking at the portfolio and any potential changes that might come about. Thanks.

Bob Zalupski - *TriMas Corporation - CFO*

Is that a question? So great question. Indeed, we are looking at the portfolio, as you mentioned. What is in place now internally and I hope to share with our investors and analysts later in the year are our internal criteria. But clearly some of our businesses and some of our products within businesses are meeting our expected [RONA]. RONA and ROIC correlated, it's easier for us on a business unit or divisional level to talk about RONA than ROIC. But some do not. And where they do not, we are assessing the plans that we have in place to seek to achieve the desired RONA level. If there's a pathway to get there, great. If not, we are going to re-question those types of businesses fitting within the TriMas family of businesses.

So, the good news is, internally, again, going back to the TriMas business model, all of our wider operating team, they know what it takes to be a successful business with TriMas. That has been largely redefined, and I think folks are fairly receptive, understand it, and they are taking the actions of putting the steps in place to make sure we drive our businesses to meet or exceed those levels. But great question, and that is very much something we talk about quite a bit at TriMas.

Samuel Eisner - *Goldman Sachs - Analyst*

Got it. We'll stay tuned, appreciate it.

Operator

Steve Barger, KeyBanc Capital Markets.

Steve Barger - *KeyBanc Capital Markets - Analyst*

I want to follow up on packaging. You took restructuring charges in the segment in each quarter of 2016 and the exclusions grew in magnitude sequentially to 230 basis points in 4Q. So, I'm looking at the op margin guidance slide, and the packaging range of 23% to 24%, and that column has a caveat of excluding more special items. So, first question, what would that margin guidance impact be on a more GAAP basis?

Bob Zalupski - *TriMas Corporation - CFO*

The costs that are included in nonrecurring for packaging, Steve, are largely related to the ramp up of the San Miguel facility and the shutdown in the severing costs associated with the Mexico City plant that it's replacing.

Tom Amato - *TriMas Corporation - President, CEO*

Which is now (multiple speakers)

Steve Barger - *KeyBanc Capital Markets - Analyst*

Can you quantify that? Would this 23% to 24% become 22% to 23%? Is it 100 (multiple speakers)

Tom Amato - *TriMas Corporation - President, CEO*

We don't have any --

Bob Zalupski - *TriMas Corporation - CFO*

We are not expecting any nonrecurring costs in Q -- or in 2017 related to packaging. So, the guidance that we have out there is the guidance we have out there.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Okay, no, that's good. The column says excluding special items, and it doesn't say which segment that has. So you are saying no special items in that guidance for 2017?

Bob Zalupski - *TriMas Corporation - CFO*

Right.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Okay, perfect. And you're guiding free cash flow that's expected to exceed 100% of 2017 net income, but, again, that also exclude special items. So what is the expected impact of specials in free cash flow this year?

Bob Zalupski - *TriMas Corporation - CFO*

Some of that is going to depend on how quickly we are able to exit certain of the facilities in energy. I would say there's probably $5 million or thereabouts that are going to be cash-related in 2017.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Okay, $5 million for the full year --

Bob Zalupski - *TriMas Corporation - CFO*

$5 million to $6 million, something like that. And you know, look, as we move through the year, we get better visibility on actual exit from these facilities. We'll update that accordingly.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Good. And last question, I'm sorry if I missed this, I had to jump off the call for a minute. Did you say what the tax strategy was in 4Q that drove the lower tax rate?

Bob Zalupski - *TriMas Corporation - CFO*

It was, generally speaking, transfer pricing related, and involved our packaging business, which is clearly the most global, and how profits are allocated across that platform.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). Gautam Khanna, Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

Thank you. Good morning. So, I just wanted to ask about whether you've started to see any impacts from declining 777, Boeing 777, production rates on your faster order intake?

Tom Amato - *TriMas Corporation - President, CEO*

I think, in the aggregate, we are seeing our order intake for our aerospace and particularly our fastener business. I'd call it solid to robust. Our orders are good, but by product line, sure. Some of the specific airlines -- airliners that are not being built as much will be impacted, but we are seeing pickups that are more than offsetting that at the moment.

I said earlier, I'll say it again, I'm pretty pleased that we are going into 2017 with a little wind in our sails in aerospace in terms of our backlog and orders that we have on the books. That being said, we've got to continue to work extra hard at making sure that our manufacturing operations can get products through quickly, seamlessly, and profitably so we can take advantage of this time in aerospace.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. And last year, you had mentioned a couple of quarters ago the Boeing min/max reduction under the Basin program. And I'm wondering. So has that completely abated now, so you're back to kind of shipping in line with their underlying consumption so that there's no continued OE destock? I understand the distributor issue, but just (multiple speakers) OE side.

Tom Amato - *TriMas Corporation - President, CEO*

We are still working with any respective customer shipment programs, and it is up to us. I call this interface issues. It's up to us to adapt to customer interface changes and issues and make sure we adapt our production capabilities accordingly.

And the only thing I will say is I studied that when I came to TriMas. Yes, that was a disruption that occurred, but what compounded it, the issue further was how we reacted on the factory floor. I am confident today that these types of programs or any other program that may come down the pike would be one that we would carefully work through, use the lessons of the past, lessons learned, make sure we adapt accordingly so we can handle and support many of our customer initiatives.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. But your original point, that min/max reduction, the flow through of the volume reduction has mostly abated, so the OE business is also starting to improve in terms of your order book, not just the distributors, which view a lot of the aftermarket.

Tom Amato - *TriMas Corporation - President, CEO*

I'm not sure if I'm going to answer this question. I'm not sure if you're answering about the actual interface. But I would say that we are working through those types of order supply programs much smoother than we were several months ago. And I expect that, as we go through the year, we will be able to -- it will be just normal course of action for us.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. Thank you very much.

Operator

And it appears there are no further questions at this time. I would like to turn the conference back over to our speakers for any additional or closing remarks today.

Tom Amato - *TriMas Corporation - President, CEO*

Thank you everyone. I really appreciate your time this morning. I really look forward to updating you at our next earnings call. Have a great day.

Operator

Ladies and gentlemen, that does conclude today's conference. We thank you all for joining.