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TRS.OQ - Q1 2023 TriMas Corp Earnings Call

EVENT DATE/TIME: APRIL 27, 2023 / 2:00PM GMT

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Greetings, and welcome to the TriMas First Quarter 2023 Earnings Conference Call. (Operator Instructions) It is now my pleasure to introduce your host, Sherry Lauderback. Thank you. You may begin.

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

Thank you, and welcome to TriMas Corporation's First Quarter 2023 Earnings Call. Participating on the call today are Thomas Amato, TriMas' President and CEO; and Scott Mel, our Chief Financial Officer. We will provide our prepared remarks on our results and on our 2023 outlook, and then we will open up the call to your questions.

In order to assist with the review of our results, we have included today's press release and PowerPoint presentation on our company website at trimascorp.com under the Investors section. In addition, a replay of this call will be available later today by calling (877) 660-6853 with the meeting ID of 1373-7667.

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 that will be filed later today, actually Form 10-Q filed later today as 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 presentation for the reconciliations between GAAP and non-GAAP financial measures used today on the call. The discussion on the call regarding our financial results will be on an adjusted basis, excluding the impact of special items. And with that, I'll turn the call over to Tom Amato, TriMas' President and CEO. Tom?

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

Thank you, Sherry. Good morning, and welcome to our first quarter earnings call. As I begin today's call, I am pleased to report that we have closed on the acquisition of Weldmac Manufacturing. Weldmac, as we discussed on our prior earnings call, is a U.S.-based manufacturer of complex metal fabricated components and assemblies for aerospace, defense and industrial applications.

This business, which we'll report into our TriMas Aerospace Group is highly complementary to RSA Engineered Products and Martinic Engineering and is expected to add more than $30 million in analyzed revenues. So today, I would like to publicly welcome the Weldmac team to TriMas' family of businesses.

We are also well along in the process of integrating Aarts packaging into our TriMas Packaging Group. As a reminder, Aarts Packaging, which we acquired earlier in the year, is a premier manufacturer of packaging products for the beauty, food and medical end markets. In fact, we are leveraging our Aarts packaging brand and featuring for the first time ever, TriMas Packaging at (inaudible) which is a luxury beauty and brands trade show next month.

Additionally, I am pleased to report that we will soon be posting our third annual TriMas sustainability report to our website. We are excited to share with our investors the continued progress TriMas is making in the overall area of sustainability and look forward to continuing our momentum over the coming year.

I would like to now pivot to today's call to refresh what we discussed on our prior earnings call, specifically demand levels within TriMas Packaging consumer products and certain of our industrial end markets. These end markets continue to exhibit variability as expected compared to prior year booking levels. With that said, we are experiencing an increased level of global quoting activity, particularly with some of our larger CPG packaging customers.

And while we recognize quoting is not in bookings or even forecasted sales, we view this activity as a potential leading indicator to demand needs expected later in the year and even into next. As stated previously, we will continue to closely monitor market activity looking for green shoots that point to a return to more normalized demand levels. Additionally, we are proactively implementing steps to streamline certain infrastructure costs during this period, so we may capitalize on future operating leverage gains as demand levels recover. We will cover more of these specific actions as we move through the year and into 2024.

With respect to TriMas Aerospace, demand remains strong as the aerospace market continues to recover. With that said, a secondary effect of the high demand rate is strained in certain areas of our sub-supply base, particularly with aerospace grade stainless steel wire. Given longer lead times for these engineered materials, we are working collaboratively with our subsuppliers and customers as we continue to balance supply chain constraints.

We do estimate that our sales would have been a few million higher in the quarter and with improved conversion rates had our manufacturing operations had the appropriate quantities and grades of material aligned with our higher demand levels. Again, this will be an area that we will continue to focus on through the year.

Finally, before going through our quarterly results, we continue to make progress against reducing our overall shares outstanding, which we view as a long-term and tax-efficient way to return capital to our shareholders. We acquired about 350,000 shares, reducing net shares outstanding by approximately 0.5% in the first quarter of 2023 alone. In addition to retiring these shares, paying a dividend and funding an acquisition in the quarter, our balance sheet remains strong, and we have ample liquidity to execute against near-term streamlining actions and our long-term strategy.

Let's now turn to Slide 4, we'll summarize our financial results for the quarter. Sales for the quarter were $215.5 million as compared to $224 million for the prior year quarter. As a result of reduced demand, as previously discussed and unfavorable currency, which were only partially offset by acquisition sales. Scott will cover the specific effects in more detail when he reviews each of our segment's results.

Operating profit for the quarter was $15.5 million as compared to the prior year quarter of $26.2 million. EBITDA for the quarter was $31.7 million or 14.7% of sales as compared to the prior year quarter, which was at a rate of 18.9% of sales. While this is significantly below our longer-term consolidated target per se EBITDA level, we do expect to improve through the year, particularly in the second half and anticipate converting well as demand levels return in TriMas packaging and supply constraints ease in TriMas Aerospace.

Earnings per share for the quarter was $0.30, which was slightly better than our expectations for the quarter. And now at this point, I'll turn the call over to Scott, who will take us through the balance sheet and the segment results. Scott?

Scott A. Mell - *TriMas Corporation - CFO*

Thanks, Tom, and good morning. Let's now turn to Slide 5, and I will briefly cover our balance sheet.

We finished another quarter with a strong balance sheet. Net debt after funding the Aarts packaging acquisition, paying the dividend and completing share repurchases was $343 million with a net leverage ratio of 2x. While we did draw approximately $40 million on our revolving line of credit to fund the April acquisition of Weldmac, we expect to repay this outstanding balance by the end of the year with cash flows generated from operating activities.

Furthermore, we continue to have ample liquidity to continue to invest in our businesses, take streamlining actions where appropriate, buy back shares, pay dividends and complete future strategic acquisitions as opportunities present themselves.

Now let's turn to Slide 6, and I will begin my review of our segment results, starting with TriMas packaging. First quarter net sales were $116 million, a decrease of approximately 16% when compared to the year ago period. Acquisitions contributed $9.5 million of sales during the quarter, while the impact of unfavorable foreign currency translation reduced sales by $2.4 million or 1.7%.

As expected, organic sales, excluding currency, decreased by 21% during the quarter when compared to the previous year period. This decline is primarily attributable to lower demand, most notably for consumable products with applications in the personal care, food and beverage and industrial submarkets.

During the quarter, many of our customers continued to work through elevated inventory positions and closely managed orders given the continuing uncertainty around future consumer sentiment, which we believe is a result of the current high inflationary environment.

As mentioned on previous earnings calls, we continue to believe that the current demand environment is temporary, and we expect to see a return to normalized demand levels during the second half of the year. However, we are closely monitoring the commercial environment. And as Tom indicated, we will take as necessary, certain streamlining actions as a hedge against our market recovery assumptions.

Operating profit in the quarter decreased by $8.6 million to $15.2 million, primarily on the account of -- pardon me, primarily on account of the impact of lower sales. Operating margin was 13.1% of net sales, while adjusted EBITDA was $22.6 million or 19.4% of sales.

Finally, as we consider the full year for TriMas Packaging, again, we do not expect to return to more normalized levels of operating profit and EBITDA margin within TriMas Packaging in the second half of 2023 as demand begins to revert. We execute a historical conversion rates on open capacity, and we benefit from the impact of ongoing infrastructure cost reductions. Just to be clear, we do expect to return to more normalized levels of operating profit and I believe I may have said we do not.

Turning to Slide 7. I will now provide an update on our TriMas Aerospace segment. Net sales for the quarter increased by $5.5 million or 12.3% when compared to the same period a year ago. As we continue to see strong order intake for many of our aerospace products as general aerospace volumes continue to recover ahead of market expectations.

Operating profit for the quarter was $1.4 million or 2.9% of net sales as compared to $2.4 million or 5.4% in the prior year. This year-over-year decline is primarily related to the impact of continuing supply chain constraints for certain raw materials, skilled labor availability, both of those contributing to production inefficiencies and persisting inflationary pressure, all of which are not unique to TriMas Aerospace. Adjusted EBITDA for the quarter was $6.2 million or 12.4% of net sales.

As we consider the balance of the year, which includes the expected impact of the Weldmac acquisition, we expect order intake to remain robust. We also expect that our accelerated operational and supply chain actions will provide for improvements in our capacity and production rates and ultimately improving margin performance over the course of the year.

Now on Slide 8, let's review our Specialty Products segment. Net sales in the first quarter increased by $8 million to $49.3 million, a more than 19% increase when compared to the same period a year ago. This is now 8 consecutive quarters of double-digit growth for our Specialty Products segment.

Demand for steel cylinders and remote power generation units and related spare parts, each for the North American region remains robust with moderately high levels of backlog for both businesses. Operating profit in the quarter was $9.8 million or 19.8% of net sales as compared to $7.2 million in the previous year period. Operating margins improved as higher sales and pricing actions more than offset inflationary cost increases.

Adjusted EBITDA for the quarter was $10.8 million or 21.9% of net sales. While both Norris Cylinder and Aero Engines order books remained strong, which we believe is indicative of continuing resilience in certain end markets for which they sell into. We will continue to closely monitor order changes and input costs and take appropriate actions if necessary.

Finally, with respect to our Specialty Products segment for the full year, we expect order intake will remain solid, and we will convert well through 2023. At this point, I'd like to turn the call back over to Tom to discuss our consolidated 2023 outlook and for some closing remarks. Tom?

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

Thank you, Scott. Let's now turn to Slide 9. With the first quarter concluded, we continue to model and assess various potential scenarios for 2023, especially given some of the uncertainty in a few of our end markets. As noted in our earnings release, we are reaffirming our full year outlook for 2023. We do anticipate, as we experienced in the first quarter of 2023, a lower quarterly sales and operating profit as compared to the second quarter of 2022, largely since the second quarter of last year was a more normalized quarter for TriMas packaging.

Additionally, we are expecting that the second quarter for TriMas Aerospace will now remain challenged as we continue to work through supply constraints while we anticipate continued strong performance from our TriMas Specialty Products Group. We also continue to forecast our full year free cash flow to be greater than 100% of net income.

Let's turn to Slide 10. I would like to again thank our investors for their ongoing support as we navigate through this period. With that said, I will conclude our prepared remarks by providing just a few examples of why we remain excited about the long-term prospects for TriMas.

First, while we are experiencing some lower demand for certain product lines within TriMas packaging, we continue to believe there are attractive long-term characteristics in this segment through our multiple end markets, and we have many sustainable product solutions in the pipeline and coming to market in the future. We also have growing confidence in a sustained recovery within the commercial aerospace end market. We expect to ultimately work through the supply and any remain skilled labor constraints and take advantage of long-term operating leverage gains as commercial jet production continues to strengthen and demand in defense applications remain strong.

Within TriMas' Specialty Products Group, we expect demand to remain robust given our strong order backlog with our Norris Cylinder business and our aeroengine business. And as we have always done, we will continue to assess TriMas' overall portfolio of businesses to ensure we are focusing our resources and are best positioned to create the highest long-term value for our shareholders.

While we continue to reinvest in our businesses for long-term growth, we also anticipate continuing to return capital to our shareholders, both through dividends and share buybacks. In addition, 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 would like to open up the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ken Newman with KeyBanc Capital Markets.

Katie Fleischer

This is Katie Fleischer on for Ken today. I wanted to start with the Packaging segment. I know you said that you would go into some more detail throughout the year on the streamlining actions that you're going to take as a hedge against any market uncertainty. I was wondering if you could provide just a little more detail on that, maybe anything specific on certain costs or initiatives that you're targeting.

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

Sure. Well, let me mention a few items or at least one item that we are actioning upon right now, and I could talk about it on this call. We currently have 2 manufacturing locations in China, one in Haining and one in Hangzhou. We're in the process of consolidating those operations into one facility in Haining. So that's an opportunity to take out some infrastructure costs. We'll relocate some of the product for which we export out of China into other parts of the world, India and other parts of Europe and in North America.

So in addition to that, given this lower demand period, as we have done with our other operations during these types of periods, we're looking at our manufacturing footprint. As you probably can imagine, it's very difficult when demand is high to restructure and streamline your manufacturing footprint. So these opportunities present or these times sort of present good opportunities to take advantage of that.

So we're looking at some of our manufacturing operations, not only in North America but in Europe, where we might be able to reduce some infrastructure cost. I can't go into more detail now because we're still doing some analytics on that front. But my expectation is we go perhaps into report on our second quarter or into our third quarter will be a little bit more specific.

Katie Fleischer

Okay. All right. That's helpful. And then continuing in the Packaging segment. I know you are anticipating a more normal return to performance in the second half of the year. Can you just talk about what gives you confidence in the fact that your customers are going to start returning to a more normal level of demand? And what's the risk there if this restocking doesn't actually take place?

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

Yes. Look, I think that's a good question. It's an important question. Based on the intelligence that we have in interacting, engaging heavily with our customers, we expect that the over inventory position that existed at the end of this year -- end of last year, remember what was particularly challenging for us last year was the seasonal selling period that essentially was missed last year. We believe that they're working through those inventory levels, and we're seeing a level of quoting activity that would suggest that they're preparing for placing orders.

Again, as I mentioned in my prepared remarks, quoting is not something that we could forecast or it's not in bookings. But it's certainly an indicator that in our experience should translate to an improved selling rate at some point in the future. And our expectation is when we look at sort of the normalized selling season, which starts to occur in the -- towards the end of Q3, that we'll be in a position to gain some sales.

And I'll also point out that one of the biggest drags to this quarter is probably the vast majority of the drag to this quarter has been volume related. So as that volume returns, we would expect to convert very well.

Katie Fleischer

Okay. And then I guess, just going off that a little bit more. So if you were to see a smaller return to more normalized inventory levels than you expected. You're really -- are you going to rely more on the streamlining processes that you discussed before at the hedge against any of this?

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

That's exactly the point we were trying to make is we don't want to wait and hope that things return back to a normalized level. So we're taking actions today that if -- if the market comes back, but not to a level that's more normalized, that will still have the conversion rates that we've enjoyed this quarter (inaudible)

Katie Fleischer

Okay. Okay. That's helpful. And then pivoting here to the aero business. So I know you just closed on the Weldmac acquisition. But can you talk about any opportunities you see for synergy realization as a result of that deal? And do you foresee any upside to expanding your margins once you've got that business fully integrated?

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

Well, certainly, yes, I mean, it's a reasonably performing business today. We think there are significant opportunities when we look at the commercial side of bringing Weldmac into a larger aerospace enterprise, so we can go to our customers. And actually, we can go to some of the customers that Weldmec has that we don't have with a larger suite of engineered systems types of components for aerospace. It's different than our fastener business. So the strongest fit for us is with our RSA and our Martinic businesses. So it helps build out that aspect of aerospace for our TriMas Aerospace group, in addition to fasteners.

The largest, I believe, sort of looking forward opportunity for us in the Aerospace segment is working through supply constraints. And that's not anything unique to TriMas Aerospace as I'm sure you are very well aware, this is plaguing many companies in the aerospace sector right now. But my belief is that as we start to work through and ease some of those constraints, which might take a couple of quarters or so that will enjoy much better conversion rates than we're experiencing today.

And when we look at sort of the order book for our largest commercial jet customers, we see strength not only into '24, but well beyond. So we're working very hard on some of the factory floor improvements that need to be made there. I would point to TriMas Specialty Products after a few years of intense factory floor improvements. You can see what we've been able to do in that segment, bringing it to the highest -- some of the highest levels of conversion rates that we've enjoyed historically. And our expectation is we'll be moving down that path with TriMas Aerospace over time as well.

Katie Fleischer

Okay. And that kind of leads onto my next question. So just going back on the supply constraints that you discussed. So your guide for operating margin for the Aero segment, obviously that implies a better -- an improving margin performance in the second half of the year in the coming quarters. So can you kind of help me bridge how we get there from the operating margin right now? Is that just an assumption that these constraints -- supply chain constraints are going to improve. Ae you anticipating better mix? Just kind of help me get from that about 3% margin in this quarter to that 5% to 8% guide that you provided?

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

Yes. That's exactly right. I mean there's some mix component to it, but the biggest benefit will be our conversion rates on factory better balancing on our factory floor through our production flow. I would say that if I just look at this particular quarter, as I mentioned again in my prepared remarks, we probably would have had close to $2 million or even slightly higher than that of additional sales in the quarter. We have it in our order book, and we would have converted better. So the opportunity is in our order book.

Our plans, I have to say, generally speaking, are running pretty well. There are certainly things that we can do to improve every day, everywhere around the world. I'll never be satisfied with that. But had we had the right material stage when we ordered it as expected to come in, we would have performed better in the quarter. I mean so we're actually seeing order that -- raw materials that are supposed to come in at certain levels for which we ordered, not coming in or in partial orders. And that's very disruptive to production operations.

Katie Fleischer

Okay. And do you see those -- I mean no one has a crystal ball, but do you imagine that some of those constraints will start to come off more towards the end of the year or -- like what kind of guidance are you assuming for that?

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

Yes, I see it starting to occur more in the third quarter at this point. I'm staying very close to it personally engaging on some of the actions personally to try to accelerate that so we can take advantage of this period of time.

Operator

(Operator Instructions) Our next question is a follow-up from Ken Newman with KeyBanc Capital Markets.

Katie Fleischer

I just have one last question here. So last quarter, we talked about M&A and how you were really prioritizing expansion within the Life Sciences business. Can you talk a little bit more about that, is that still the main priority? And what the deal environment looks like for TriMas right now?

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

Yes. Thanks, Katie, for that. I would just expand that to also beauty. We are very excited and pleased with the acquisition we made in Aarts packaging, and we see nice potential for the beauty space as we look forward. And I think we've talked about this on prior calls where what we call beauty and personal care, the beauty aspect, what we -- what limited applications we currently have in beauty are holding up pretty well, and we see a nice potential there. So we would prioritize life sciences and beauty somewhat equally.

That being said, we're -- for the size of deals that fit well within our model, within our balance sheet and for our company, we have some prospects that are percolating. My hope is that we can bring at least one more business in one of those end markets into TriMas by the end of the year. And the teams are working very hard to not only identify opportunities, but also court sellers. As you know, often, we're dealing with entrepreneurs or family-owned businesses, and they have -- they can make decisions on who they bring -- who they sell their business to. And that's been something where TriMas has been viewed favorably in some of those types of auction or negotiated sale processes.

So just to wrap up your question, Life science is a high priority in packaging, beauty is a high priority in packaging, and that's where a lot of our focus is today. Okay.

Operator

There are no further questions at this time. I'd like to turn the call back over to Mr. Amato for any closing remarks.

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

Okay. There being no more questions, I'd like to thank you again for joining us on our earnings call, and we look forward to updating you again next quarter. Thank you.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.