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PRESENTATION

Operator

Greetings, and welcome to the TriMas second-quarter 2024 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Sherry Lauderback, Vice President of Investor Relations. Thank you. You may begin.

Sherry Lauderback - *TriMas Corp - Vice President of Investor Relations*

Thank you, and welcome to TriMas Corporation's second-quarter 2024 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 second quarter results and outlook, and then we'll open up the call for questions. In order to assist with the review of our results, we have included today's press release and presentation on our company website at trimas.com under the Investors section.

In addition, a replay of this call will be available later today by calling 877 660-6853 with a meeting of 13747794. 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 and our Form 10-Q to be filed later today for a list of factors that could cause our results to differ from those anticipated in any forward-looking statements. Also, we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

We would also direct your attention to our website where considerably more information may be found. In addition, we would like to refer you to the appendix in our press release or our presentation for the reconciliations between GAAP and non-GAAP financial measures used during this call. Today, the discussion on the call regarding our financial results will be on an adjusted basis, excluding the impact of special items. With that, I will turn the call over to Tom Amato, TriMas' President and CEO. Tom?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Thank you, Sherry. Good morning, and thank you for joining us on our second quarter earnings call. Let's turn to slide 3. As I'm certain you have seen from our earnings release this morning, while the resiliency of TriMas' Packaging and Aerospace businesses have become more evident, our businesses within the Specialty Products industrial markets have not yet seen the demand recovery we anticipated would have occurred by this point in the year. However, as we reflect on the quarter and the first half of the year, we experienced a number of positive developments, which we believe will translate into long-term opportunities for value creation despite encountering some discrete challenges.

I'll provide one example from our largest group, TriMas Packaging. When demand pulled back last year, we were tempted to deeply cut costs. While we flex some variable costs, we instead leaned into reengineering our commercial approach to drive long-term growth. We invested in a new customer relationship management application and we also invested in reorganizing our commercial model, replicating an 80-20 approach.

Although these initiatives are still in early stages of integration, we believe these internal changes, coupled with the natural market recovery, are now contributing to the strong core growth rates we are experiencing in our packaging group today. Given the foundational growth in revenue, I remain very excited about TriMas Packaging's potential, and I'm confident we will improve upon conversion rates as we move forward. Next, I would like to provide an example for our TriMas Aerospace Group. When I compare the second quarter of last year to this most recent quarter, the dynamics couldn't be more different.

In the second quarter of last year, we faced a snapback of demand from our Aerospace customers compounded by supply and labor constraints as well as several voluntary leadership changes. The broad-based actions and leadership top rating we implemented over the past year are too numerous to list for this call. But suffice it to say, we have successfully turned around the prospect for TriMas Aerospace. Assuming no further shocks in the A&D market, our Aerospace business, or our Aerospace business specifically, we anticipate exiting 2024 at a conversion rate nearing pre-COVID levels, but more importantly, at approximately 50% higher rate of sales.

I also remain very excited about the long-term prospect for TriMas Aerospace. While those are a few positive examples, unfortunately, our Specialty Products segment experienced a very different set of end market dynamics since the same quarter last year and even since Q1 2024. Moreover, we have planned for the demand begin to recover in the second quarter of this year, predominantly within our Norris Cylinder business. However, total bookings and demand actually softened further, prompting us to lower our sales forecast within Specialty Products for the second half.

In fact, the change in volume with our Norris Cylinder business is the main negative driver that impacted our first half and our annual outlook. Both Scott and I will be covering this dynamic in more detail throughout the call. So with that backdrop, our consolidated sales for the quarter were up 3.1%, with our Packaging and Aerospace groups increasing 12.5% and 30%, respectively. As noted, our Specialty Products segment experienced a reduction in sales driven from prior year overstocking and other factors of approximately 45%. Despite Specialty Products representing approximately 50% of TriMas' total portfolio sales, given our scale, the large rate of change had a profound performance impact in the quarter. I would now like to turn our attention to share repurchases for the first half of the year. On a year-to-date basis, including the actions in the second quarter, we repurchased approximately 672,000 shares for a net reduction of approximately 1.3% of shares outstanding. This rate of share repurchases is higher than the last year and we continue to believe that reducing shares outstanding is a tax-efficient way to return long-term value to our shareholders.

I will also note that we have ample room under our share buyback authorization and will continue to place a priority on opportunistic share buybacks as we assess value dislocating events in the market. Let's turn to Slide 4. On this slide, given the nuances of this quarter, we thought it would be helpful to take a few minutes to review sequential quarterly performance, which we believe will provide investors with a better view of our current status. Starting with TriMas Packaging. We experienced 3.9% organic growth as compared to Q1 2024. We believe growth in demand is beginning to return as customers start to refill pipelines after inventory stocks were depleted in key channels last year.

Additionally, commercial dynamics are much improved from last year based on our in-bookings rate and new business quoting activity. Conversion was essentially comparable between the first and second quarters of 2024 as our pull-through rate continues to be hampered from off-standard production and expedited freight costs from high demand on certain product lines. We do anticipate conversion rates will improve on a higher rate of sales as we move through the year and into 2025. Within our TriMas Aerospace group, we compared to the first quarter of this year as compared to the first quarter of this year, we are continuing to see positive results from the sweeping operational and commercial actions we have been focused on over the past year.

While we still believe we have some upside to achieve on conversion to get back to pre-COVID levels, as mentioned, we are now operating at a much higher rate of sales, therefore, driving growth in absolute EBITDA. This improvement is a testament to the TriMas Aerospace team, collaborating with our supplier partners and also focusing on operational and commercial excellence improvements. Within our Specialty Products segment as compared to the first quarter of this year, revenues softened by 5.8%. The resulting sales rate is a very low base for our Specialty Products Group, and we believe we are now beginning to exit this cyclical demand trough.

However, our expectations for sales in the second half have been tempered for our Norris Cylinder business, given the rate of demand experienced in the second quarter. As such, we have implemented further flexing actions now taking deeper structural costs out of Norris Cylinder out of our Norris Cylinder business to improve performance even at a lower base of sales. And we know this is possible as we have performed historically better at sales rates not too far off from where we are experiencing today. Let's turn to slide 5, and I'll briefly go through our consolidated results for the quarter.

We are reporting sales of $240.5 million, up 3.1% as compared to the prior year quarter due to the factors previously discussed. Adjusted operating profit of $20.8 million was lower than the prior year quarter given demand challenges within our Specialty Products businesses as well as certain favorable factors benefiting TriMas in the second quarter of 2023, which did not repeat. Adjusted EPS was $0.43, which was lower than we anticipated in this quarter due to the factors noted previously and lower as compared to the prior year quarter. Adjusted EBITDA was $36.6 million or 15.2% of sales, lower than the prior year quarter with the vast majority of the shortfall driven by demand changes and related conversion within our Specialty Products businesses.

As we have noted on prior calls, our balance sheet remains strong, and our low interest-bearing senior note do not mature until 2029. It is also important to note that we generated $11.4 million of free cash flow in this quarter, in line with last year despite a lower base of absolute EBITDA as we continue to focus on enhancing cash flow for TriMas. And finally, we finished the quarter with a leverage ratio of 2.6x, slightly higher than the same quarter last year, but in line with the first quarter of 2024. At this point, I will now turn the call over to Scott, who will take us through TriMas' segment results. Scott?

Scott Mell - *TriMas Corp - Chief Financial Officer*

Thanks, Tom. Let's turn to slide 6, and I will begin my review of our segment results, starting with TriMas Packaging. Net sales in the quarter were up $132 million as compared to $117 million for the prior year quarter, an increase of more than 12%. This year-over-year increase was primarily driven by organic growth for our dispensing and closure products, which serve the beauty and personal care and industrial end markets, which increased on an organic basis 24% and 19%, respectively. It is great to see demand recovery in these important end markets.

On a sequential quarter-over-quarter basis, net sales increased by approximately 4%. Operating profit for the quarter was $18.5 million or 14% of sales, which on a margin basis is essentially flat versus Q1 of 2024, but down 470 basis points versus the prior year period. This year-over-year decline is primarily related to period specific operating costs associated with increased demand for certain dispensing products, IT allocation costs of $1.1 million, which were accounted for within corporate costs in the prior year period and a $2.6 million commercial settlement in Q2 of 2023, which did not repeat. Considering the impact of these items, pro forma Q2 adjusted operating profit would have been flat when compared to the prior year period at approximately 15.5%.

Adjusted EBITDA was $26.7 million or 20.2% of net sales, a nominal increase of $500,000 when compared to Q1 of 2024. We remain very pleased with the sales momentum within TriMas Packaging with year-to-date organic sales up close to 10% and expect our conversion rates to improve as we move through the second half of 2024 as we work through operational pinch points created by significantly higher customer orders. Accordingly, we are increasing our full year sales guidance for TriMas Packaging to 9% to 10% and tightening our full year guidance for adjusted EBITDA margin to 21% to 23%. Looking forward, we expect future growth for TriMas Packaging to be driven by continuing improvement in both general consumer and industrial demand, further expansion of our presence in new and emerging geographical markets such as South America and growth in demand for our innovative new products within all of the end markets we serve.

Turning to slide 7, I will now provide an update on our TriMas Aerospace segment. Net sales for the quarter increased by almost $18 million or 30% when compared to the same period a year ago as general aerospace volumes continue to recover, and we benefit from improved operational efficiencies and commercial recoveries associated with higher input costs. Acquisitions contributed $1.4 million of sales during the quarter, while organic sales increased by $16.5 million or 27.6% when compared to the previous year period. Operating profit for the quarter was $10.5 million or 13.5% of net sales, which represents a 730 basis point improvement when compared to the previous year period and a 290 basis point improvement when compared to Q1 of 2024.

Adjusted EBITDA for the quarter was $15 million or 19.4% of net sales. Expanding a bit on the recent performance improvement for TriMas Aerospace, LTM sales for the second quarter of 2024 were approximately 34% higher than the rate we were at the same point in 2023. In addition, LTM sales for TriMas Aerospace are now higher than the pre-COVID period of 2019 when we exclude the impact of post 2019 acquisitions. While we are very pleased with this full demand recovery, we do believe there is incremental margin opportunity within TriMas Aerospace as we continue to invest in manufacturing capacity and see further improvements in supply chain continuity.

Accordingly, we are increasing our full year sales growth guidance to 18% to 22% and full year guidance for adjusted EBITDA margin to 18% to 19%. Now, on slide 8, let's review our Specialty Products segment. Net sales were $31 million as compared to $56 million for the prior year quarter, which was the highest quarterly sales performance ever for Specialty Products. This high demand rate in the first half of 2023 was driven by supply chain concerns, which led to elevated rates of ordering and resulting customer stock builds.

Sales in the quarter continued to be negatively impacted largely by the overstock position of industrial cylinders and to a lesser extent, lower sales of compressors serving the oil and gas industry. In addition, sales of cylinders into defense-related applications have been deferred and are now not expected to run at a normalized rate until the start of 2025. While we continue to see some moderate improvement in our order book for steel cylinders and expect second half demand for steel cylinders to improve modestly over the first half run rate, we do not foresee, at this point, our previously expected second half demand recovery for these industrial businesses. Accordingly, we are revising our guidance for full year sales decline for Specialty Products to 25% to 30%.

Operating profit in the quarter was $0.6 million or 1.9% of net sales, while adjusted EBITDA for the quarter was $1.7 million or 5.3% of net sales. I would like to mention that during the quarter, our Norris Cylinder business took advantage of the lower demand environment to complete two strategic initiatives, which while critical to driving future operational performance improvement, further burdened profitability during the quarter. First, they completed the process of pivoting to a pull inventory system in response to structural shifts in customer delivery time expectations. Second, they completed significant and necessary repairs and maintenance to key manufacturing assets.

We estimate that these two initiatives alone negatively impacted the quarter by $0.06 per share. As mentioned earlier by Tom, given second quarter performance and our tempered view of second half 2024 demand, we have begun to execute additional structural cost reductions within Specialty Products while maintaining the necessary flexibility to respond to anticipated demand recoveries beginning in late 2024 or early 2025. In addition, we've originally engaged with the consultancy firm, Strategex, to assess and implement strategic growth and profit enhancement opportunities within Norris Cylinder based on the 80-20 profit and growth model originally developed by Illinois Tool Works. While we expect these efforts to meaningfully improve our current conversion rates, they will take time to implement and be realized in financial performance.

And accordingly, at this time, we are reducing our full year guidance for adjusted EBITDA margin for Specialty Products to 10% to 14%. At this point, I'd like to turn the call back over to Tom to discuss our updated full year sales and adjusted EPS guidance and to provide some closing remarks. Tom?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Thank you, Scott. Let's turn to slide 9, given the results in the second quarter and modified expectations related to our Specialty Products segment in the second half, we are revising our sales and EPS outlook for 2024. We now expect sales to be in the 4% to 6% range with the center point slightly lower than originally planned. We are also revising our EPS range to $1.70 to $1.90 as compared to $1.95 to $2.15 as we anticipated to begin the year. If we turn our attention to the summary bridge on the right of Slide 9.

You can see the discrete drivers of our change in our outlook. We do not show TriMas packaging on this bridge because we continue to estimate that this group will remain within our internal planning ranges for the year. With respect to TriMas Aerospace, this group is currently trending above our internal planning ranges for the year, and we continue to anticipate it will remain on track for the second half. While we now believe higher interest rates will be are current to our EPS forecast for the year, the main driver to our revised outlook is a different demand and recovery profile for our Specialty Products businesses than we anticipated for 2024.

Before moving to Q&A, I'll conclude our prepared remarks by refreshing the near and long-term value creating opportunity set for TriMas: first, our two largest operating groups, TriMas Packaging and TriMas Aerospace, which together represent nearly 85% of our LTM sales, are at different stages of performance recovery after a very challenged 2023. We anticipate that the positive momentum of these high-quality business lines will carry into 2025 and well beyond. Next, while our Specialty Products businesses have experienced significant challenges in this period, we have already completed many actions that are not yet financially benefiting the group, but which we expect to do so as we move through 2024 and into 2025. Moreover, as we expect to experience demand reversion, when it occurs, we should convert well in our Specialty Products business.

Finally, we continue to take steps to focus and improve our portfolio of businesses. We have already announced the planned divestiture of our Aero Engine business, which would facilitate TriMas' exit of our presence in the oil and gas end market. We also placed a priority on building out our TriMas Packaging platform through M&A with a focus on the life sciences, beauty and food and beverage end markets and secondarily building out our TriMas Aerospace platform through strategic acquisitions to enhance its long-term value. I would like to again thank our investors for their continued interest and support, and we'll now turn the call back to Sherry. Sherry?

Sherry Lauderback - *TriMas Corp - Vice President of Investor Relations*

Thanks, Tom. At this point, we would like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ken Newman, KeyBanc Capital Markets.

Kenneth Newman - *KeyBanc Capital Markets - Analyst*

So maybe just to start off, I mean, I think one of your investors has been a bit more vocal about trying to advocate for portfolio changes, improved performance of the overall company. Obviously, the performance out of Specialty this quarter was disappointing. But I'm curious if that performance this quarter has changed your way of thinking around what the ultimate portfolio could look like longer term?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Well, thanks for the question. We are very well aware of public statements made by Barrington and their investment in the company. And certainly, we appreciate all constructive feedback from all of our investors. I wouldn't say it necessarily changed our thinking strategically related to this quarter specifically.

What occurred this quarter has changed our actions and some of the focus that we placed within our Specialty Products businesses. But if you think about Specialty Products generally today, one of the businesses in that group is already being marketed for sale, and we're working through that process and that will be one step in focusing our portfolio. But at this moment, sort of what's moved up in terms of the priority list operationally is ensuring we turn around our Norris Cylinder business, which as I mentioned, we know at this base rate of sales, we can perform much better.

Kenneth Newman - *KeyBanc Capital Markets - Analyst*

Just, I guess, as a clarification question. I think a quarter or two quarters ago, you had mentioned this expectation to fold in Norris into the Packaging segment. Is that still your intention? Or is that no longer the case, given how dilutive it would be?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Yes. I would say that's on hold given the developments of Norris Cylinder this quarter.

Kenneth Newman - *KeyBanc Capital Markets - Analyst*

Okay. And then for a follow-up here. On Norris Cylinder, I understand visibility is limited, but I'm just curious what your customers are saying from an inventory perspective? Where are days inventory? And just how do you view the visibility within that channel and getting comfortable with the recovery in that market?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Yes. It's a good question. It's obviously one we've been spending a lot of time on certainly over the past several weeks. Although we've experienced this in each of our businesses, right, over the course of the past few years, we believe what's occurred at Norris is a little bit more unique and when we look at our largest set of customers, some have clearly an overstock position and some of that related much of that related to buying patterns in 2023 when there it was very difficult to get material and any steel goods. And we saw this in our Aerospace business as well.

We were the ones that were securing all the raw material we could. Another larger customer of ours is in a channel where it's government-related and the spending allocation, we think, is delayed possibly because of the election, possibly because of other factors. We still think the demand will be there, but we don't expect that demand probably to start to occur until later in the year and into next year, but we do expect that demand to revert. And then, another large customer of ours certainly has been shopping for different price point products.

And while they may not be in the complete overstock position, we're working to get more share of that customer back, but it's a long-term customer and what tends to happen in our Norris Cylinder business is share movement from time to time based on market pricing. It's a little bit like something you might see with chemical companies.

Kenneth Newman - *KeyBanc Capital Markets - Analyst*

Understood. If you don't mind, maybe I can just squeeze one last one in here on Packaging. Obviously, the growth in the order rate is down pretty positive here. Maybe if you've got a tough comp this next quarter and then maybe a seasonally easier quarter in the fourth quarter. Just help us think about the cadence there. And then longer term, how do you think about the longer-term EBIT margin potential for that segment given all the moving pieces?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Well, I'll take the second part of that question, and then Scott will look at the quarterly comps and jump in. We know we are not performing at the conversion rate that is our true potential, and we know the reasons why. And interestingly, what we saw in Aerospace across the board. We do have some of those hot spots within our Packaging business.

Specifically, there are some products that we're supplying where very important customers are pulling above our capacity rates and when that happens, you run over time, you had expedited freight. There's a lot of off-standard costs that are impacting your business. We saw this coming, we have capacity that is coming online towards the end of the year. And that will relieve some of that pressure, probably all of that pressure and allow us to improve our performance as we move into 2025 and beyond.

But when I look at the business and I look at sort of the profile and the full opportunity set, I mean we're at least in the nearer term into 2025, we're at least 200 bps below where our potential should be in the nearer term. Scott, I'll let you answer some quarterly questions if you want.

Scott Mell - *TriMas Corp - Chief Financial Officer*

Yes, Ken, was that question on Aerospace or Packaging?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Packaging.

Scott Mell - *TriMas Corp - Chief Financial Officer*

Packaging. Yes. I mean look, I think we expect to see similar quarterly year-over-year growth for the second half of the year. I mean if you look at the guidance for the full year, you can kind of back into what we're anticipating for the second half of the year, it's going to be in that same range around 10% year-over-year sales growth is what we're anticipating for the second half of the year.

Operator

Hamed Khorsand, BWS Financial.

Hamed Khorsand - *BWS Financial, Inc. - Analyst*

So first question I had was related to Packaging. You guys last year emphasized capacity being taken off and now you're saying that you're hitting capacity bottlenecks and issues. So why did that happen? What's different from that what you did last year to what's being ordered this year and why are you now talking about bringing on capacity? It just seems like everything is going around.

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Yes, Hamed, that's a good question. It's a fair question. We did not take capacity out last year. We repositioned capacity. So specifically, what you're referring to is operational changes we made in a very low demand market to reposition physical assets in a more concentrated location for our caps and closure product lines. So that's a very different product line where we're experiencing pinch points today, which are predominantly in our dispenser product line.

So these are different movements of capacity for different product lines. So what's affecting us this quarter, which is in a strange way, a high-class problem because we've experienced most of 2023 a significant reduction in demand in our dispenser product line, predominantly related to overstock positions, and now that demand is coming back in a robust way and that's where we have pinch points. But what we referred to last year related to movement of assets, and we closed a plant in California and moved those assets into the Midwest on a closure product line, so very different products.

Hamed Khorsand - *BWS Financial, Inc. - Analyst*

That's helpful. And then as far as the guidance is concerned for packaging, and lining it up with what's been reporting and what you're saying, it seems like second half revenue or sales would be down modestly versus first half sales. And I'm just trying to understand what the seasonality is. Again, why doesn't that coordinate with the commentary that business is doing well in packaging?

Scott Mell - *TriMas Corp - Chief Financial Officer*

Yes. I think that's primarily related just naturally to the cyclicality of our business specifically as it relates to the fourth quarter of the year, we tend to see a bit lower order pattern as we get towards the holiday season. But back to my point to Ken, we still expect the second half of the year, on a year-over-year basis, to be up relative to the prior year. So nothing surprising there other than just the natural order pattern cyclicality of our business.

Hamed Khorsand - *BWS Financial, Inc. - Analyst*

Got it. And my last question is on Aerospace. What's your exposure, if anything to what's going on with Boeing and Airbus? And anything about the inventory and the production lines being delayed?

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Okay. Well, look, both Boeing and Airbus are collectively very important and large customers, both directly through distribution and through Tier 1s. So naturally, we're tied very much to their success. What I would say about some of the announcements related to this year specifically. We don't expect that to have much of an impact on us because we're already booked into next year, and we have a backlog, we're still working through. What's on our build schedule is it's very likely to change at all as we line up our production planning for the balance of the year.

Operator

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

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Operator, is it turned back to us?

Operator

Yes. It appears that there are no further questions at this time.

Thomas Amato - *TriMas Corp - President and Chief Executive Officer*

Okay. Great. Thank you for joining us on our earnings call, and we look forward to updating you again next quarter.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
