THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TRS - Q2 2016 TriMas Corp Earnings Call

EVENT DATE/TIME: JULY 28, 2016 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

Sam Valenti *TriMas Corporation - Chairman*

Dave Wathen *TriMas Corporation - Outgoing President & CEO*

Tom Amato *TriMas Corporation - President & CEO*

Bob Zalupski *TriMas Corporation - CFO*

Paul Swart *TriMas Corporation - Controller & CAO*

CONFERENCE CALL PARTICIPANTS

Matt Koranda *ROTH Capital Partners - Analyst*

Andy Casey *Wells Fargo Securities - Analyst*

Bhupender Bohra *Jefferies & Co. - Analyst*

Karen Lau *Deutsche Bank - Analyst*

Rudy Hokanson *Barrington Research - Analyst*

Steve Barger *KeyBanc Capital Markets - Analyst*

Sam Eisner *Goldman Sachs - Analyst*

Steve Tusa *JPMorgan Chase - Analyst*

PRESENTATION

Operator

Good day, everyone and welcome to the TriMas second-quarter 2016 earnings conference call. Today's call is being recorded and at this time, I would like to turn the conference over to Sherry Lauderback. Please go ahead.

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

Thank you and welcome to the TriMas Corporation's second-quarter 2016 earnings call. Participating on the call today are Sam Valenti, TriMas' Chairman of the Board; Tom Amato, our new President and CEO; Dave Wathen, our outgoing President and CEO; Bob Zalupski, our Chief Financial Officer and Paul Swart, our Chief Accounting Officer. Sam, Dave and Tom will discuss our CEO transition then leave the call, at which time Bob will review TriMas' second-quarter 2016 results, as well as provide an update on our 2016 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've 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 a replay code of 4304981.

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 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. 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 our call regarding our financial results will be on an excluding special items basis.

And at this point, I'd like to turn the call over to Sam Valenti, TriMas' Chairman of the Board. Sam.

Sam Valenti - *TriMas Corporation - Chairman*

Thank you, Sherry and thanks for everyone taking the time to be on the call. I'd like to spend a few minutes to talk about our leadership transition and, as Sherry mentioned, later, Bob will take you through the second-quarter results in the normal quarterly fashion.

First, it's important to mention after seven years of improving TriMas to what it is today, Dave Wathen is stepping down. You've got to remember, when Dave started with the Company, the stock price was only $1, we were about 5 times levered and we desperately needed to improve performance, we needed to change agent. Dave got us back on track, and the Company is in much better shape today as a result of his leadership.

On behalf of all of us and me especially I'd like to thank Dave for his dedication and commitment to the success of this Company. And at this point, I requested that Dave take some time to make some comments live to the people on the call. So, Dave, please go ahead.

Dave Wathen - *TriMas Corporation - Outgoing President & CEO*

Thanks, Sam. Good morning. I have a few comments and thanks for all of you. You likely saw the release this morning that I am stepping down from my roles at TriMas. It's a time of transition for TriMas. It makes much sense for a new leader to head the next phases of the Company and it's a very good time for me to transition towards retirement.

We've come a long way since when I joined TriMas at the start of 2009 when the Company was quite stressed. We've modified the business portfolio with exits of businesses and strategic add-ons, improved operating performance, globalized the footprint and given many people in the Company some great opportunities to grow their careers.

But there was always more to do, and the world changes constantly. Many of you have been supporters of TriMas for a long time and I think you will like the future of TriMas as the Company moves forward. I'm a shareholder and intend to continue to enjoy the value creation that TriMas has demonstrated the capability to deliver.

I will close with my most sincere thank you for all the support of investors, customers, suppliers and most importantly fellow employees. While I will miss you, I will also look back feeling like we've had a good run together and its future has many upsides. Sam.

Sam Valenti - *TriMas Corporation - Chairman*

Thanks, Dave. I want the people on the line to know that Dave remains a friend and I'm extremely appreciative of everything that he has done. We've got many, many challenges ahead of us and I want to continue to thank him, but I also want to introduce you to the new leader of TriMas, Tom Amato.

We conducted an extensive search. We used an executive search firm. We used candidates from many areas. We vetted some unbelievably talented people and we feel very strongly that the most talented of that group is fortunately someone that accepted the position, Tom Amato.

So the question is why Tom. Well, Tom possesses all the key qualities that are important to me and to the Board. He's a proven leader. He's run a multi-billion dollar industrial business. He's a strategic thinker. He has public company experience. He's growth-oriented, has been active in business development, has an operations background. He believes in high margin businesses. He believes in leadership positions. He believes in add-on acquisitions and he believes in growth. And most importantly, he's a person of integrity and honesty. So I'd like to have Tom share a few words about himself and his initial thoughts about TriMas. Tom.

Tom Amato - *TriMas Corporation - President & CEO*

Thank you, Sam and good morning to those on the line. I would also like to thank Dave for his dedication and leadership over the years. I want to take a few minutes and provide an overview of my background, but before I do, I want to express how excited I am to join the TriMas team and work with the Board as we navigate our future for long-term success.

In many ways, this opportunity fits my definition of a dream job. I will be working with great businesses that operate under core values consistent with my own and where there are many opportunities to work with the TriMas team and shape the future. I do have familiarity with TriMas dating back nearly 20 years ago when I hired into the mergers and acquisition group of MascoTech. I had just left a very large multinational chemical company after earning an MBA from the University of Michigan.

At that time, TriMas was a partially-owned affiliate of MascoTech and later became a wholly-owned subsidiary. Several years later, following a going-private transaction with MascoTech, I was assigned to head up business development for TriMas where I worked on initiating our separation and standalone plan and identifying acquisition targets.

It was a fantastic period for me working with the TriMas portfolio of businesses with strong brand recognition driven by technical and manufacturing competencies. I remember most of all the outstanding financial performance the TriMas portfolio of companies delivered through their market leadership positions.

Shortly thereafter, however, I was pulled back up to TriMas' parent company to lead their M&A efforts. So I spent a number of years working in the relentlessly challenging automotive industry and in 2008, I became President and CEO of Metaldyne Corporation. This was ultimately sold in 2009 to the Carlyle Group, one of the largest and most successful private equity firms in the world.

Through the transaction, we formed Metaldyne LLC and I stayed on as CEO under Carlyle's ownership, completing a full transformation of Metaldyne by implementing a disciplined operating and financial model, one deep and continuous improvement, while maintaining a solid focus on our long-term strategy.

In a few years, we significantly increased sales and operating performance and this success led to incredible returns for our equity shareholders, which we realized through a sale of the Company to American Securities in 2012. Here, I again stayed on as CEO.

Under American Securities' ownership, we later merged with two other companies and then took the combined $3 billion company public as Metaldyne Performance Group at the end of 2014. I continue to serve as CEO of Metaldyne, MPG's largest and most global subsidiary, and also took on the added duties of co-president of MPG where I led the integration efforts for the new company. After three successful Metaldyne transactions and six years in my capacity as CEO, I decided to move on to other opportunities at the end of 2015.

So, looking back, as a young engineer and then after postgraduate studies, I've worked with many diversified industrial product lines and businesses. In my recent years, I've led a company to achieve top-shelf performance in the fiercely competitive automotive industry. I've been in successful executive roles at public companies in the US and Japan and have worked with some incredible private equity firms that demand a high sense of urgency.

I've spent my entire career working in industries where we sell mission-critical, highly engineered products to customers that have the highest expectations in manufacturing excellence and innovation. And I've seen firsthand all that's possible through the power of continuous improvement implemented by an engaged and motivated operating team.

So I couldn't be more pleased to accept this new challenge at TriMas and I've already begun operating under my 100-day plan, which includes a full assessment of the opportunities and unique matters that face the Company. I'm quickly going to visit some of our most important and high impact manufacturing facilities and work deeply with the teams to ensure we have the best actionable plans in place to ensure success.

So I will ensure that we have the adequate resources, equipment and people in place where we have any constraints. I will also be visiting customers to ensure we are aligned to achieve organic growth opportunities through our innovative products. So I also look forward to meeting with those on the phone, the analysts and key stakeholders at the appropriate time to also get input from you on TriMas. So with that, thank you for your time and I'm going to turn it back over to Sam.

Sam Valenti - *TriMas Corporation - Chairman*

Thank you. I look forward to everyone on the call getting a chance to talk to Tom and obviously meeting him. At this point, Dave and Tom and I are going to drop off and you can get back to business as normal. I just want to conclude by saying thanks to all the people online for the time. Thank you in some cases for your patience. Thank you for understanding that we are about improvement. I look forward to the next chapter of TriMas.

I look at it -- from our standpoint, there is an urgency to increase growth and margin and return to the shareholders. And with that, I turn it back over to Bob.

Bob Zalupski - *TriMas Corporation - CFO*

Thanks, Sam and good morning, all. All of us at TriMas appreciate your time and attention and interest in our Company. The remaining portion of this call is to review our second-quarter results, provide an update on our end markets and how our businesses are responding and review our earnings guidance in light of current market conditions.

As Sherry noted earlier, all of my comments will be on an excluding special items basis beginning on slide 7. Our Q2 results were solid despite tough end-market conditions. Net sales compared to a year ago declined primarily in our energy-facing businesses, as might be expected, while we experienced sequential growth in packaging and aerospace.

Our operating profit margin improved 180 basis points versus second-quarter 2015, highlighting the benefits of our financial improvement plan and the importance of ongoing productivity projects in our business, which is even more vital in times of weak economic growth. We achieved second-quarter EPS of $0.34, up 13% versus the prior-year period.

Turning to slide 8, with respect to external factors impacting our businesses, the update for this quarter is mostly focused on currency volatility and economic uncertainty as a result of BREXIT. While longer-term impacts remain to be determined, near term, a stronger dollar makes product exports more difficult while translation impacts negatively affect sales of our packaging and energy businesses both in Europe and the UK.

Oil prices, which exceeded $50 per barrel for a short time, are now hovering in the mid-$40 and there are a few clear demand signals that order activity in our upstream energy-facing businesses will resume in a meaningful way anytime soon.

On slide 9, I would like to share an update on key initiatives within each of our businesses beginning with packaging. We have completed hiring of leadership roles within each market vertical and have now also staffed key remaining sales positions. Buildout is underway of our new lower-cost plant in Mexico, which will provide state-of-the-art manufacturing capacity to supply our customers in North America with significantly shorter leadtimes. And continued development of customer-focused product applications will remain key to future growth.

In aerospace, we initiated a comprehensive recovery plan in Q2 to add capacity and increase manufacturing throughput in two of our key fastener plants using improved scheduling processes. Signs of progress being made are evidenced by the fact we exceeded our planned shipments in June for these facilities, sequential improvement in operating profitability and solid order intake for our most complex fastener products.

While there is much work yet to do, we believe we have turned the corner and will recover to our originally planned levels of production by the end of the year. More importantly, we have maintained the confidence of key customers and continue to work with them to develop new product applications to address both current and future needs.

Energy continues to improve profitability as it leverages the benefits of the restructuring actions taken to date while continuing to transform our North American manufacturing strategy to assure profitability in the current market conditions. It is a difficult road, but improved results in a challenging end-market environment certainly are encouraging.

Within engineered components, our cylinder business is performing well despite weaker industrial end markets. Capital projects to add capacity, increase flexibility and reduce operating costs remain on track. And in our oilfield engine and compressor business, we are maintaining our cost structure consistent with current end-market demand until such time when quota activity begins to translate into new production orders.

Turning to slide 11, we reported second-quarter sales of $203 million, a decrease of 9.6% compared to second quarter 2015. We continued to experience significant revenue pressure during the quarter primarily driven by a sales decline of $15 million in our energy-facing businesses attributed to continued low oil prices and a decline of $6 million in cylinder sales due to the weakness in industrial end markets. These declines, along with approximately $1 million of unfavorable currency exchange, more than offset organic growth of industrial closures in packaging and approximately $3 million of sales growth from acquisitions.

Operating profit for the quarter was $25.7 million or 12.6% of sales representing a 180 basis point improvement compared to Q2 2015 as savings from our cost-reduction initiatives including the financial improvement plan and increased productivity more than offset the impact of the sales decline, as well as lower operating profit within aerospace.

We've reported second-quarter diluted EPS of $0.34 per share, which was 13% higher than the same period a year ago. We also generated [$34.2 million] (corrected by company after the call) of free cash flow in the quarter as compared with $9.4 million in Q2 2015 driven by improved working capital management. On a year-to-date basis, our free cash flow represents just over 100% of net income consistent with our targeted levels.

We ended the quarter with approximately $406 million in total debt, an 11% reduction compared to $457 million a year ago. Our leverage ratio was just over 2.8 times at June 30 and we had approximately $124 million of cash and availability under our credit facilities.

Moving on to slide 12, we prepared a bridge which illustrates the factors impacting our Q2 2016 earnings results as compared to the prior year. In short, after considering the impact of a legal claim in 2015, you can see that cost savings realized from our financial improvement plan, plus other operating improvements, including a reduction in corporate controlled spending, were able to mitigate the impact of the year-over-year revenue decline and lower aerospace operating profit.

At this point, I would like to shift gears and share a few comments on second-quarter segment performance beginning with packaging on slide 14. Second-quarter net sales decreased 1.6% as compared to the prior-year period primarily as a result of unfavorable currency exchange. Sales increases in industrial closure products were essentially offset by a reduction in sales of health, beauty and homecare products primarily due to customer product launches in second quarter 2015 that did not repeat.

Packaging continues to generate strong margins reporting a Q2 operating margin of 25% due primarily to a more favorable product sales mix and ongoing productivity and cost-reduction actions, which offset investments in global capabilities and currency headwinds.

Turning to slide 15, aerospace. Second-quarter net sales increased 2% to $44.1 million versus $43.2 million in the year-ago period. Of that amount, $3.1 million was due to the acquisition of the Tolleson, Arizona facility in November 2015 and $0.3 million was due to slightly higher sales to OE customers. These amounts were offset by $2.5 million in lower sales to distribution customers as reductions of inventory and channel continued to impact end-market demand.

Order intake from OE customers could have supported higher sales levels in the current quarter, and we remain focused on achieving production and shipment levels consistent with previously planned amounts. Operating profit margin improved sequentially by 270 basis points, but was below expectations for the quarter. While the recovery plan has been implemented and is beginning to result in improvements, it has progressed at a more gradual pace than initially anticipated.

On previous quarterly calls, we've talked about fundamental changes in the aerospace supply chain that are affecting how we do business and interact with our customers. Slide 16 summarizes some of the more significant trends, both positive and negative, as well as related impacts on TriMas aerospace.

As you know, during the first quarter, we did not effectively schedule two of our fastener plants in response to increasing customer demand, which impacted manufacturing throughput and efficiencies and as a result, we did not meet our production, shipment or financial performance goals. In response, we developed and are implementing a comprehensive recovery plan with the objective to meet increasing order demand while reducing past dues and achieving improved profitability.

Slide 17 summarizes the key elements of the recovery plan to achieve these objectives in our two fastener facilities. Our aerospace team is revising scheduling processes and leveraging our recently implemented ERP system to accommodate the less predictable order patterns, smaller lot sizes and increasing manufacturing complexity. We are adding capacity to our collar facility to address increased order demand as well as the existing order backlog. We've also added experienced resources in key roles where necessary and are utilizing KPIs to measure progress against the recovery plan.

With respect to our machine components business, during the quarter, we completed integration activities related to the Tolleson, Arizona facility, which we acquired last November. While the integration required more time and we incurred higher costs than originally planned, we are now seeing progress relative to improving profitability and in our efforts to add more product qualifications.

The team continues to address both pricing and costing matters on certain LTA part numbers in cooperation with our customer and to date has qualified approximately 50 incremental part numbers under our existing LTA. We are also focused on adding additional business with new customers, and I am pleased to report we are close to finalizing 14 additional part numbers with five new customers. While these new approvals are not expected to have a meaningful impact on 2016 results, we estimate the value of these awards at more than $6 million annually.

In summary, despite these shorter-term challenges, we believe our aerospace business is well-positioned for growth and margin expansion. It is a good business in an industry with solid long-term fundamentals.

Moving on to slide 18, energy. Sales in energy declined 20% compared to the year-ago period as we experienced continued low demand from upstream and downstream customers, lower sales from international branches closed as part of the restructuring and the impact of unfavorable currency exchange.

Despite the sales decline, the results of our energy restructuring initiatives are clearly taking hold. We achieved an operating profit margin of 4.5% during the quarter representing a 210 basis point sequential margin improvement over Q1. In the prior year, we had settled a legal claim for which we recorded an approximate $2.8 million charge.

We have been focused on reducing the fixed and variable cost structure of this business by consolidating facilities, ramping up a new lower-cost manufacturing facility in Reynosa, Mexico and adding experienced resources to the leadership team. We are now realizing the benefits of the lower cost structure and the impact of our global sourcing and inventory planning initiatives even with lower revenue year-over-year. We would expect that any uptick in sales volume would leverage well and further boost margins in this business.

Moving on to slide 19, engineered components. As already discussed, we continue to face significant headwinds as a result of lower oil prices, which dramatically impact the results of Aeroengine. Net sales in the quarter were down more than 50% compared with the prior-year period, which was already significantly lower than historical levels.

Despite the significant decline in revenue, reductions in Aero's cost structure has allowed this business to remain near breakeven during the quarter. The other business in this segment, Norris Cylinder, was down approximately $6 million in sales due to weakness in industrial end markets. Operating profit declined primarily due to the lower sales levels, with the resulting impact on profitability partially offset by cost-savings initiatives and productivity improvements. Our focus remains on aggressively managing the cost structure in each of these businesses in response to end-market demand.

Slide 20 provides a summary of our segment performance, which compares current year, prior year and sequential quarterly results. Revenue pressures continue in a majority of our segments relative to the prior year and our expectations. Notwithstanding continued revenue pressures, we were able to improve our operating profit margins on a sequential basis in three of our four segments. So while there are some positives to report given our overall margin expansion in Q2, there is clearly more work to do in certain areas of our business.

Moving to outlook, slide 22 provides an updated view of our 2016 sales and margin expectations by segment. Given a near 10% decline in revenues during the first half of 2016, we are revising sales expectations for each of our segments in the back half of 2016 to better reflect our current market views. We have reduced sales guidance in each of our four segments, but are holding or improving operating margin rates in three of four segments.

The only exception is in aerospace in which three factors are impacting our estimated margin range. First, we now expect OE sales will be lower than previously planned. Although we anticipate improving manufacturing throughput in the back half of 2016 to levels near our original guidance, we now do not expect to recover the shortfall in sales and operating profit from the first half of 2016 by the end of the year.

Second, while we have a number of new product qualifications completed or in process for both new and existing customers within machine components, we now do not expect meaningful sales in 2016 from these efforts. As such, we will not be able to cover the higher integration costs and first article testing costs incurred during the first half of the year.

Third, we expected distribution customer sales to be lower in the first half of 2016 as compared to 2015. However, given our current visibility to order demand, we now believe customer distribution sales in the second half of 2016 will also be lower than the second half of 2015, which will have a significant impact on profit dollars, as well as margin rate. We continue to work with our distribution customers on additional opportunities and to better understand when volume may normalize whether at current or higher levels.

On slide 23, we have also updated certain other guidance assumptions to reflect lower expected corporate costs and reduced interest expense.

Slide 24 summarizes the full-year outlook as a result of these updates. We are revising our diluted EPS guidance to $1.22 to $1.30 primarily due to the lower than previously expected Q2 actual and second-half forecasted sales and operating profit in our aerospace business. We also revised our free cash flow guidance to $55 million to $65 million keeping our target at approximately 100% of net income.

In summary, we will continue to focus on what we can control. We've aligned our cost structure consistent with the current business environment. We will look to capitalize on growth opportunities within packaging and aerospace with the more immediate focus on addressing operational execution and continued improvements in profitability in aerospace and energy. Of course, as we move through the remainder of 2016, we will update you on progress relative to our improvement actions or other matters that may impact our expectations.

Before we move onto the Q&A portion of the call, I wanted to take this opportunity to personally, and on behalf of the TriMas team, thank Dave for his guidance, support and leadership over the past several years and to wish him the best as he moves on to the next phase of life.

Equally important, I would like to welcome Tom in his new role. I'm excited to begin working together to move TriMas into the future focused on growth, improving profitability and increasing returns to our shareholders. Now I will turn the call back to Sherry. Sherry.

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

Thanks, Bob. At this time, Bob, Paul and I would like to open the call up for your questions regarding our second-quarter results and 2016 outlook.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Matt Koranda, ROTH Capital Partners.

Matt Koranda - *ROTH Capital Partners - Analyst*

Just wanted to start off with saying all the best wishes to Dave in your next chapter and welcome, Tom, as well. So just higher-level strategic question to start with. Wanted to get Tom's maybe initial take -- he's discussed I think in the prepared remarks enhancing the future performance of the Company. Just wanted to get your take on is that dependent on simplifying the portfolio in a meaningful way, or are you alluding to fundamental improvements? How do we think about your approach? I assume just given your background that that probably means there's going to be some portfolio changes upcoming, but wanted to get your initial take.

Bob Zalupski - *TriMas Corporation - CFO*

Matt, this is Bob. In Sam's comments, he mentioned that he, Tom and Dave were dropping off the line at the conclusion of his remarks and they are not available for questions at this time.

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

There will be lots of opportunity in the near future to have time with Tom and hear about his vision.

Matt Koranda - *ROTH Capital Partners - Analyst*

Okay. Sorry, got it. I missed that part. I thought it was just Dave dropping off. Okay. Then maybe just a couple housekeeping things or items on the guidance. In aerospace with the lower revenue and margin guidance here, just from the last time you guys updated the segment guidance there, I would assume you are already factoring in lower distribution channel sales just given the ongoing impact of BASN, but maybe you could just give us some more granularity in terms of what changed since you last updated segment guidance that caused a lowered outlook and just touch on margin as well, if you could?

Bob Zalupski - *TriMas Corporation - CFO*

There really were three items impacting it, Matt. Initially, while we expected front-half sales to distribution customers to be down versus the prior year, we weren't expecting that to continue into the second half. And based on the order book in that business, we have fairly good visibility now, really almost for the remainder of the year and it's clear to us that the level of order in 2016, in the back half, are going to be lower still compared to the prior year. So that was one change.

I think the second change was relative to the recovery plan at Monogram. Again, our ability to ramp production in a way that would allow us to not only get back to our plan production levels originally anticipated in guidance, but to also recover the shortfall in the front half, it proved not to be feasible and as we've worked through the details of that recovery plan, it was clear to us the shortfall we experienced in the front half of the year from an OE perspective relative to expectations will not allow us to maintain the guidance that we had.

And then the last piece is machine components. Again, I would tell you that because of the longer than expected integration of the business in the front half of the year, improvements we expected both in profitability and I will call it new product qualifications and the impact that that would have on sales in the back half have slid 6 months to the right in effect and so we are going to see little impact of that in 2016 sales in terms of machine components.

So at the end of the day, you've got impacts to operating profit from each one of those items, and if I had to bucket it roughly, probably 60% of that is attributed to the recovery plan at Monogram and the issues at Martinic, and 40% is really ascribed to the lower distribution sales revenue and the impact on product mix.

Matt Koranda - *ROTH Capital Partners - Analyst*

Okay. Thanks for the color on that. That's really helpful. And then just one more. In terms of the packaging segment, noticed that growth in industrial enclosures was higher relative to health, beauty, consumer products, but margins substantially better. My understanding was that those industrial margins were somewhat lower than the specialty dispensing product. Can you just help us square those items on the quarter and in terms of how it fits into the outlook here?

Bob Zalupski - *TriMas Corporation - CFO*

Yes, actually, margins on industrial closure products are typically at or maybe even a little bit higher than the segment operating margins and HBHC, home, beauty, healthcare, is typically at or it may be slightly less than that segment margin range. And I think compared to the prior year, it was a difficult comp. We had a number of customer product launches in HBHC in 2015 that did not recur yet in 2016. And so in that sense, that's the push/pull in terms of the sales top line.

We did see significant sequential improvement in sales and packaging and expect that trend to continue in the back half and I think the variable there really being new customer product launches that are timed for the second half of the year, do they occur as planned and more to come as we move forward.

Matt Koranda - *ROTH Capital Partners - Analyst*

All right, got it. Thanks for the color and I will jump back in queue here, guys.

Operator

Andy Casey, Wells Fargo.

Andy Casey - *Wells Fargo Securities - Analyst*

Wanted to add my good luck to Dave and everybody. Anyways, first question, packaging revenue growth guidance, it came down a little bit, but still seems to imply a relatively sharp acceleration in the second half of around 6% to 10% versus the prior year. How visible is that? Meaning do you have the contracts in hand? And also, your new margin guidance implies somewhere in the 22% to 24% margin performance in the second half. I'm wondering how we should view that by quarter, if you could, because the 6% to 10% implies some degree of start-up.

Bob Zalupski - *TriMas Corporation - CFO*

So I think visibility in Q3 is obviously better at this point than Q4. We expect continued improvement in sales top-line activity in the current quarter and I think the question really becomes does that momentum carry into Q4 and do certain of the customer product launches occur as planned.

We do expect some of that timing to move to the right and therefore, we've brought sales guidance down a bit, but in terms of margin, I think back half we are expecting them to be fairly consistent with where we've been over time in that 22% to 24% range and we raised and tightened the margin guidance there because of the stronger performance in the first half.

Paul Swart - *TriMas Corporation - Controller & CAO*

Andy, I would add to that that also in the back half of the year we are adding capacity, as we mentioned, with our new facility to which we will have a little bit of incremental expense in the back half of the year once that facility is up and running from a fixed cost standpoint as it leverages, as well as the mix in terms of that growth is more highly towards the specialty dispensing products than industrial. And as Bob just mentioned a moment ago, those tend to have a little bit lower than average margins as opposed to industrial, which is a little bit above the segment average, so that's why the back half might be a little bit lower than where we were in the second quarter.

Andy Casey - *Wells Fargo Securities - Analyst*

Okay. Thanks, Paul and Bob. Second, in aerospace, if you get those new part numbers certified, when would those start to impact the segment revenue?

Bob Zalupski - *TriMas Corporation - CFO*

We are not anticipating there to be a big impact in 2016. A number of the qualifications are still in process and there typically is a bit of a delay between that qualification and then when orders start to come into the portal.

Andy Casey - *Wells Fargo Securities - Analyst*

Okay, thanks. And then, lastly, on the free cash flow revision, clearly, net income outlook impacted that. But I'm wondering if you've also changed any of your working capital outlook? The reason I ask is the inventory relative to sales continues to remain a little bit higher than typical and I'm wondering when you can get some of the potential cash benefit by normalizing that back to where you typically would be.

Bob Zalupski - *TriMas Corporation - CFO*

Andy, I think you are correct on that in that the two businesses that may be relative to their current sales positions, the energy-facing businesses, are higher than you would expect relative to the inventory turns, so there isn't a significant change in our assumption relative to the rollout of that inventory only because of where the currently depressed top line is. So I think we are making progress in those businesses. To do that, it's just a little bit more gradual than we would like. So essentially the new guidance still is centered more around 100% of income as opposed to incremental leveraging and reduction of the working capital.

Andy Casey - *Wells Fargo Securities - Analyst*

Okay. Thank you very much.

Operator

Bhupender Bohra, Jefferies.

Bhupender Bohra - *Jefferies & Co. - Analyst*

So just had a question on the engineering component business here. You talked about the cylinder business being weak. Could you give us some color in terms of what changed from your previous expectations in the first half, when you are looking into the second half this year if you can just give some color?

Bob Zalupski - *TriMas Corporation - CFO*

I don't know that anything has dramatically changed from our previous years. I think what we've seen, particularly in the large high-pressure portion of the cylinder business, is weaker demand from the major gas customers as we've moved through the first half of the year. And that's a market segment that's about 60% or so of our end-customer sales. And typically we would expect to have anywhere from four to six to maybe eight weeks of visibility into the order backlog. And as we've moved through the year, it really has gone from that four to six timeframe down to more like two to four and so it doesn't portend for a stronger back half. So as a result of that, we've continued to be fairly cautious in our sales guidance for that portion of the segment.

Paul Swart - *TriMas Corporation - Controller & CAO*

And of course, for Aeroengine, really with where oil prices have migrated here over the last several weeks back into the low to mid-$40s, that certainly doesn't portend to be a good signal for increasing activity in that sector of our business.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Okay. And have you seen any quoting activity because that bodes well for that particular business. I'm assuming that the inventory levels within that business on the field is not much.

Bob Zalupski - *TriMas Corporation - CFO*

When you say inventory, you are talking about the customer level?

Bhupender Bohra - *Jefferies & Co. - Analyst*

Yes, I'm talking about the customer level of the Aeroengine inventory out there.

Bob Zalupski - *TriMas Corporation - CFO*

We haven't really seen a lot of quoting activity relative to engines. We've had a few inquiries around compressors and as you might expect, given continued weak oil markets, more of the activity has been focused on parts. So, again, you would expect that at some point there might be a little bit of an uptick in the sales of the parts portion of the business, but again there's nothing meaningful that would cause us to look at it and say that's a trend that's going to sustain or otherwise would meaningfully impact the overall results of the segment or the Company.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Okay. Just lastly, on the guidance here, if you look at the midpoint, I think it was $0.14 you took the numbers down. Bob, can you extrapolate the $0.14 was totally towards aerospace, or anything else which should go in that?

Bob Zalupski - *TriMas Corporation - CFO*

Yes, there's lots of puts and takes, if you will, Bhupender, around what's going on each of the individual segments and what we are doing to offset both challenges and capitalize on opportunities. But at the end of the day, as we look at where we believe aerospace margins will fall out for the full year, it's roughly about 500 basis points, 600 basis points lower than where we had reduced guidance on margins back in Q1. And when you look at that change in rate and take it across the reduced sales guidance of $180 million, you are roughly at -- it accounts for the change in the EPS range.

Bhupender Bohra - *Jefferies & Co. - Analyst*

Okay. And just lastly on the financial, the restructuring plan which you just finished, is there anything we should expect, like an announcement or anything you are planning right now in the process here as you look towards 2017 and with the second half some of the industrial markets weaker, anything we should expect?

Bob Zalupski - *TriMas Corporation - CFO*

We are always looking and evaluating cost-reduction opportunities in each of our businesses and at corporate. I don't think at this juncture we envision there being any significant announcements or further actions in that regard. Again, we will continue to look at all opportunities, but I think the scope and magnitude of the financial improvement plan, while successful, probably is near the limits of what we can reasonably expect to do absent another step-function change in end markets and sales in the businesses.

Bhupender Bohra - *Jefferies & Co. - Analyst*

(multiple speakers). And last, congratulations to Dave here. Thank you.

Operator

Karen Lau, Deutsche Bank.

Karen Lau - *Deutsche Bank - Analyst*

Good morning and my congratulations to Dave as well. Maybe start with housekeeping. So, in your free cash flow guidance I think year-to-date you parse out maybe $8 million of restructuring charges. Are there going to be more in the second half of the year? What would be the total number of cash restructuring charges that is excluding in your free cash flow guide?

Paul Swart - *TriMas Corporation - Controller & CAO*

There will be some more, Karen, as we wind down the energy restructuring and as we continue the aerospace restructuring or recovery plan. I think you'll see a lower number than you see at the front half of the year though.

Karen Lau - *Deutsche Bank - Analyst*

So a little bit less than $8 million?

Paul Swart - *TriMas Corporation - Controller & CAO*

In the back half of the year, yes.

Karen Lau - *Deutsche Bank - Analyst*

Okay. In the guidance, you provided to see $5 million to $65 million, that excludes all these cash restructuring charges?

Paul Swart - *TriMas Corporation - Controller & CAO*

It does, correct.

Karen Lau - *Deutsche Bank - Analyst*

Okay, got it. And then second question, could you give us an update on where you stand on price cost, particularly in the businesses that consume maybe more of the high commodity steel in particular? Where do you stand in price cost and with the run-up in steel prices, for instance in the cylinder business, do you expect that you can recoup some of these higher costs in the second half?

Paul Swart - *TriMas Corporation - Controller & CAO*

I would tell you, Karen, in general, I don't think that steel has been a major driver relative to our top line or bottom line. As certainly we've talked previously, packaging and our Norris Cylinder business are the two that would be most impactful. So as a reminder, packaging for several of the contracts has escalator and de-escalator clauses to where that's normal course movement depending on CPI of steel. And then where they maybe have some of the other business that's noncontractual, do a very good job of being able to manage it both on the way up and on the way down.

I think in our cylinder business, we have had slight price giveback, but I wouldn't say it's significant enough to -- a significant factor on the top line. It's much more about the industrial market weakness as opposed to price. So I think overall that isn't a significant driver of either top line or the margin movement during the quarter, nor do we expect it to be as we look at the back half.

Karen Lau - *Deutsche Bank - Analyst*

Okay. But maybe to follow up a little bit on the top line in the engineering components segment, so sequentially it stepped down quite a lot. I realize the industrial market is weak, but can you speak to the Aeroengine business? Did it take another step down during the quarter because I think you guys sounded more hopeful last quarter in terms of seeing some quoting activities come back and then I guess oil prices was relatively steady throughout the quarter. It's come back down a little bit, so maybe talk a little bit about what you saw sequentially in that (multiple speakers).

Paul Swart - *TriMas Corporation - Controller & CAO*

We did expect Q2 to be the low point for revenue levels within Aeroengine. I don't know that we expected it to be down as much as it was compared to the prior year, which frankly was about 50% compared to the year-ago quarter, and sequentially it weakened. While we expected it to weaken, proportionally, it was a little bit higher, as I just mentioned.

So where does that go over the remainder of the year? We are not counting on any recovery in terms of sales levels at this juncture. Of course, if it occurs, that would be great and I think we would be able to capitalize or leverage it nicely, but oil is in that low $40s and I just don't see any catalyst that's going to materially change that at least near term and until there is some sustained level, as we've talked in the past, low to mid $50s and it sustained at that level, we don't really expect meaningful activity to resume in that segment of the business.

Karen Lau - *Deutsche Bank - Analyst*

Okay. Thank you. And then maybe lastly on the energy segment, so if I take your updated top-line guidance, I think it assumes sales levels to remain at around 2Q level for the rest of the year. But there's been I guess more talk on refineries maybe finally taking down some of their utilization because of high gasoline inventories and things like that. Just curious from your vantage point what have you heard from your customers? Do you expect more turnaround activities coming in the third quarter and fourth quarter?

Paul Swart - *TriMas Corporation - Controller & CAO*

Generally speaking, the third quarter is a seasonally higher level of turnaround activity. We haven't seen impacts to order intake yet here in the month of July, but I think a more normal timeframe would be starting to see something in late August, September timeframe to the extent those turnarounds happen. And of course, that will extend into the October, November timeframe, but generally speaking it starts to wind down in the fourth quarter a little bit. So we are not counting on anything meaningfully different than what we've seen in the first half of the year and, again, if that does occur, we will certainly be prepared to respond and capitalize accordingly.

Karen Lau - *Deutsche Bank - Analyst*

But remind us how much visibility do you have typically to customer turnaround activities? Do they provide you with some sort of -- what's the typical leadtime? How far in advance (multiple speakers)?

Paul Swart - *TriMas Corporation - Controller & CAO*

On turnaround, it's generally four weeks to six weeks. That would be longer generally speaking on new engineering and construction, but again not a lot of new projects to speak of in that regard.

Karen Lau - *Deutsche Bank - Analyst*

Okay. Got it. Thank you.

Operator

Rudy Hokanson, Barrington Research.

Rudy Hokanson - *Barrington Research - Analyst*

My best wishes to David too, and I look forward to where the Company is going. My question is on the energy sector and that is with the margin going to 3% to 6%, down a little bit from the previous expectation of 4% to 6%, what kind of volume would you need to see better margins in the energy sector? Or could we expect margins to improve given all that you've been working on already in 2017?

Bob Zalupski - *TriMas Corporation - CFO*

Rudy, I guess first to make sure we are clear, our previous guidance was 3% to 6%. We've now increased the bottom range to 4%.

Rudy Hokanson - *Barrington Research - Analyst*

I'm sorry. Yes, I got it reversed.

Paul Swart - *TriMas Corporation - Controller & CAO*

So in terms of sequential, it actually increased from 2.5% in Q1 up to 4.5% in Q2, so despite the lower 10% sequential revenue, we've actually seen the benefits of the restructuring efforts come through perhaps even a little bit stronger than we expected under the first 90 days under Marc Roberts. So they are making that improvement. Obviously if we were to leverage the top line and get back anywhere near where it maybe it had operated a year or two ago, we would expect that to leverage very nicely.

Rudy Hokanson - *Barrington Research - Analyst*

Okay. So should we presume that right now given current volume levels that 4% to 6% is a best case range going forward?

Bob Zalupski - *TriMas Corporation - CFO*

Well, it's our guidance for the remainder of the year. Clearly, if revenues improve over time, we absolutely would expect the cost structure and other changes we've made operationally to leverage quite nicely, and longer term we have put margins in that segment at 8% to 10%.

Paul Swart - *TriMas Corporation - Controller & CAO*

And the benefits of our sourcing initiatives in terms of where we are getting product at a lower cost are not all the way through the system yet. We still have to turn through the remainder of some of the higher inventory levels that we had last year, which once those turn through we will recognize expanded margins just on normal course sales at the current level.

Rudy Hokanson - *Barrington Research - Analyst*

Okay. That answers my question. That was my primary focus. I do have a quick follow-up question on the packaging. How much of the product delays do you think might be related to your customers being cautious about economic growth? Have they shared that with you, or are these things that are definitely on the books and they can say to you this is coming in in first quarter now instead of fourth quarter. Or are they giving you more of a signal of we just want to hold back right now?

Bob Zalupski - *TriMas Corporation - CFO*

Yes, the visibility isn't that clear, Rudy. I think in part it has to do with economic outlook, but it also depends on how is that program moving through the marketing channels or whatever things those companies do internally as they launch these new programs. It's in part also dependent on the region of the world where the program is being launched and again, not all of these are North American-based obviously and so there's different drivers for those versus perhaps what's happening in Asia or Europe.

Rudy Hokanson - *Barrington Research - Analyst*

Okay. Thank you very much.

Operator

Steve Barger, KeyBanc Capital Markets.

Steve Barger - *KeyBanc Capital Markets - Analyst*

I had to hop off the call for a few minutes, so just let me know if this has been asked, but thinking about the new guidance of $1.22 to $1.30, where is the biggest area of sensitivity to the low end or the high end? Is it a change that you are not forecasting in the aero segment, or what's the big swing factor in your plan?

Bob Zalupski - *TriMas Corporation - CFO*

I think there's probably two areas. One would be the revenue levels within packaging and do we actually see the growth as a result of customer product launches that we are expecting, principally in the back half or more pointedly probably fourth quarter. And then I think within aerospace, the question there is really do we see anything unusual, further unusual activity within the distributor channel and then obviously execution under the recovery plan. While we certainly control the latter and not the former, we've challenged ourselves to some pretty aggressive goals and the expectation is that we will hit them. But that would be another area of potential risk to the guidance area -- on the guidance range.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Yes, thank you. And for aero specifically, when I look at the first half of 2016 versus the first half of 2015, the decline in EBIT is almost twice the decline in revenue. How much of that year-over-year decline in EBIT is mix and the distributor issue versus the operational missteps?

Bob Zalupski - *TriMas Corporation - CFO*

From a mix standpoint, think about it as about 30% to 40% is mix/distributor-related and the remainder is the Martinic integration costs, as well as the loss of both volume and profitability associated with the challenges on the Monogram side.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Got it. Thank you. Based on the plan that you've put together and understanding some of the things that you can't control in the back half, from a cadence standpoint, how do you see the back half playing quarter to quarter? Is it relatively level loaded, or is 4Q higher if those launches come through?

Bob Zalupski - *TriMas Corporation - CFO*

It's pretty consistent across the back half. I would say generally speaking Q3 is typically a little stronger. And I think a lot depends on -- while there is some seasonality as we move from Q3 to Q4, if in fact there were some recovery, if you will, of end markets then Q4 would obviously be stronger proportionally. But at this juncture a little bit more in Q3 than Q4.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Got it. Thanks. I will just ask one more. When I look at slide 12 on the bridge, the FIP box is the biggest positive swing factor. Can you talk about what drove that in terms of the cost take-out? How much was variable? How much was fixed? Just trying to get a sense of permanent versus recurring.

Paul Swart - *TriMas Corporation - Controller & CAO*

Yes. So, round numbers, we now have completed the $22 million FIP. So in terms of a quarterly impact because that didn't start till third quarter of last year, you are seeing all call it $5.25 million coming through year-over-year. So you have that. Plus you have some incremental. As Bob mentioned earlier, we are continuously working on additional cost actions. So part of the reason why you see we are holding margin ranges in some of our other businesses despite bringing the top line down a little bit is additional actions that we are not calling out as part of our larger program that are also benefiting the P&L. So you've got the combination of those two things in that box.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Understood. Thanks very much for the time.

Operator

Sam Eisner, Goldman Sachs.

Sam Eisner - *Goldman Sachs - Analyst*

Good luck to Dave, and Tom, I guess welcome aboard. So on the -- just wanted to think about energy for a second. If I look over the last three years or so, obviously, I recognize what's going on in the macro, but energy hasn't been able to generate organic growth, and based on your guide here, we are now expecting 2016 again another organic decline. So I'm curious, I recognize you are taking out costs, but what are you doing to accelerate top line in that business as best you can? Maybe you can talk a little bit about what you can attempt to control from a revenue growth standpoint.

Bob Zalupski - *TriMas Corporation - CFO*

I would say, Sam, that when you look at current year activity, we are in a real tough environment. We have a new leader in that business, Marc Roberts, has been in the role for about 90 days. He is convinced that performance in terms of delivery, leadtimes and then obviously cost driven by manufacturing and operational efficiencies are really the key to growing the top line in that business. And because of some of the challenges we had in that area prior to his appointment, we did have a case within one customer where we lost the business. And we think that the opposite will be true as we continue to implement these improvements and demonstrate to our customers our capability of hitting leadtimes and having on-time deliveries in the 90%-plus level.

So I think the focus of Mark is really around I will call it operational excellence and execution in terms of being able to fulfill orders as much as anything else. And then, of course, we are going to focus on mix in the sense of looking at highly engineered products that carry a little better margins and really how do we strategically grow that segment of the business more than what we've done historically.

Sam Eisner - *Goldman Sachs - Analyst*

That's helpful there. And maybe transitioning over to the aerospace segment, given that you are now projecting about 11% to 13% operating margins, 12% at the midpoint, you guys still have targets out there of roughly 25% for 2018 for operating profit margins and that's a pretty substantial stepup, 600, 700 bps per year over the next two years in order to hit that. Any chance you want to address that right now? Is that feasible? Should we consider that in our expectations, or is there pressure to that now going forward?

Bob Zalupski - *TriMas Corporation - CFO*

I think obviously there is pressure to that target. We are going to be re-evaluating that question as we move forward through time. I think really our current focus with the recovery plan is to get back to the levels of profitability that we had anticipated for this year, which was margins in the range of 18% to 20%. And then as we accomplished that, then we will turn our focus to ultimately the longer term where we think we can get the business.

Sam Eisner - *Goldman Sachs - Analyst*

Got it. Maybe just one housekeeping question here. The reduction in the corporate expense of roughly $3 million or $4 million, I recognize that $1 million of that is related to stock comp, but what's the other pieces of it? It came in a bit light of our expectations in the quarter. Thanks.

Paul Swart - *TriMas Corporation - Controller & CAO*

Sure. There's a number of different factors that came in there. I wouldn't say that any one of them is individually significant, but continued cost control, as you would imagine, given where we are in end-market conditions.

Sam Eisner - *Goldman Sachs - Analyst*

Sorry, should we expect that going forward? You are doing $7 million per quarter in the first half of the year. Is that the run rate? Would that be coming back in 2017 and 2018? I just want to have a better sense of that.

Paul Swart - *TriMas Corporation - Controller & CAO*

I think the back half as you look at the guidance is a little bit up from where the front half is. That's more of a timing function related to tax, or audit, or those kinds of things and when that work happens, but overall it's down from where we had guided to at the beginning of the year.

Sam Eisner - *Goldman Sachs - Analyst*

Thanks.

Operator

(Operator Instructions). Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan Chase - Analyst*

There has been a lot of noise out of Boeing about changing their payable terms from I guess daily to twice a month or something like that. [Colins] mentioned something about not getting paid. What are you seeing from that perspective?

Bob Zalupski - *TriMas Corporation - CFO*

We haven't seen any negative impacts relative to payment from Boeing. In fact, we are actually exploring a supply chain finance program with them, which, generally speaking, is very favorable terms for us. So I don't think it's going to have any impact frankly Stephen.

Steve Tusa - *JPMorgan Chase - Analyst*

Okay. And I guess just when you look out from an inventory perspective, you might have already mentioned this, but how do you think the inventory situation is in the channel right now?

Bob Zalupski - *TriMas Corporation - CFO*

Well, clearly, with what we are seeing on the distributor side, the issue hasn't abated. Anecdotally, there was talk at the Farnborough Airshow that we might start to see this diminish as we exit 2016, the impact. That remains to be seen. I would like to think that if in fact build rates go up in a couple of the key platforms at Boeing and Airbus at some point in 2017, that that might reverse some of that trend.

But it's inventory and channel with the distributors, but it is also actions that the OEs are taking in terms of just better management of their investment in inventory and working capital, and we are seeing some impacts there as well. So it's really hard to know when they will hit that point where underlying demand in the build rates reflects itself in the demand that we see in terms of in the channel.

Steve Tusa - *JPMorgan Chase - Analyst*

Right. Okay, thanks a lot. Best of luck.

Operator

There are no other questions, so I'd like to turn it back to Bob Zalupski for any additional or closing remarks.

Bob Zalupski - *TriMas Corporation - CFO*

So, once again, thanks to all who participated in the call and as Tom gets settled into his role as CEO, we will certainly be available and plan to update you and discuss accordingly. So thanks again for your interest in TriMas and your support.

Operator

Thank you very much and that does conclude our conference for today. I'd like to thank everyone for your participation.
