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EDITED TRANSCRIPT

TRS - Q3 2015 TriMas Corp Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2015 / 2:00PM GMT

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PRESENTATION

Operator

Good day and welcome to the TriMas third-quarter 2015 earnings conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Miss Sherry Lauderback. Please go ahead.

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

Thank you, and welcome to the TriMas Corporation third-quarter 2015 earnings call. Participating on the call today are Dave Wathen, TriMas' President and CEO, and Bob Zalupski, our Chief Financial Officer. Dave and Bob will review TriMas' third-quarter 2015 results as well as provide details on our outlook. After our prepared remarks, we will open the call up to your questions.

In order to assist with the review of our results, we have included a 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 284954.

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 such forward-looking statements. Also we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. We would also direct your attention to our website where considerably more information may be found. I would also like to refer you to the appendix in our press release issued this morning or included as part of this presentation, which is available on our website, for the reconciliations between GAAP and non-GAAP financial measures used during the conference call.

Today the discussion in the call regarding our financial results will be on an excluding special items basis.

At this point I would like to turn the call over to David Wathen, TriMas President and CEO. Dave?

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Dave Wathen - *TriMas Corporation - President, CEO*

Thanks Sherry. Good morning and thanks to everyone on this call for your interest and attention to TriMas.

I'm sure you have heard and read plenty of reports describing softening industrial markets and the potential global slowdown. I concur that some of this is underway, but our job at TriMas is to navigate around these issues, keep our cost structures right, invest in the bright spots that do exist, and deliver improving value to shareholders of TriMas.

I believe we have made encouraging progress on a number of our key initiatives this quarter, particularly with regard to market improvement. While our third-quarter sales were flat year-over-year, we achieved 300 basis points of operating margin improvement and increased our earnings per share by nearly 35% to $0.39.

We realized margin improvements in three out of four segments, restructured our oil related engine business to breakeven, and reduced corporate expenses. Our aerospace and energy segments led these year-over-year margin improvements, good progress although we still have more to do to achieve our targeted margin levels.

As reflected in the flat sales level in the quarter, overall topline growth continues to be challenging as the sales increase in aerospace was offset by the impact of very low oil related activity and the strong US dollar. Bob will provide you with more details by business in a few minutes.

During September, we also launched a financial improvement plan which we have implemented across the board. This set of actions began with a hard look at all of our businesses and corporate spend post-spin. It involves permanently reducing fixed costs, rightsizing ongoing costs, and variablizing all we can of discretionary activities. Bob will also update you on this plan, but I can assure you that we will continue to implement the necessary actions to drive improved performance, mitigate external headwinds, and achieve our longer-term financial targets.

Turning to the external headwinds and tailwinds on Slide 5, the majority of these are consistent with my comments in second quarter with a few updates. Concerning oil related activity, I believe that, within our affected businesses, we have flexed our cost structure down, consistent with current order rates, so that we won't experience profit deterioration going forward. While lower resin and specialty steel prices have helped reduce material input costs, some of these reductions pass through in pricing to our customers such that, while we hold margin percentages, revenues are slightly lower. The businesses most affected are packaging and Norris Cylinder.

Our aerospace business is seeing a continuation of inventory reductions by large distributors and military aircraft build rates are down as much as 20%. But commercial aircraft build rates remain steady and they should more than offset the distributor and military topline softness.

The relatively strong US dollar continues to be a headwind in revenue translation and makes exports more challenging for our US-based businesses. In addition to the continued macroeconomic uncertainty, we are also seeing some basic industrial softness in areas like gas cylinders and package enclosures, which is a more recent headwind. We all see the same news reports lamenting the slow global economies, so this softness is no surprise.

Our job at TriMas is to quickly adapt to these external factors, find or create the tailwinds, and concentrate on the bright spots. Many positive trends continue, including Asia is still growing, including middle-class consumers in China; the rate of change in commodities and currency has slowed; the positive trend towards denser materials requiring higher spec pumps and packaging; refineries continue to convert to higher spec sales and fasteners; and more carbon fiber construction in aircraft is good for us.

Internally, even though we have implemented many cost-out actions, we have also continued to invest in new products, more marketing and technical resources, and have accelerated our manufacturing footprint improvement actions for ongoing competitiveness.

On Slide 6, I will highlight some specific initiatives in each business targeting our strategic initiatives of profitable growth and margin improvement. Our key business initiatives remain consistent although we have accelerated some of the actions to drive more immediate results and mitigate some of the headwinds that we see.

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In packaging, we are well underway in reorganizing our sales and marketing teams to maximize sales at our target customers, and our new product pipeline is robust as our three regional technology centers ramp up. Our packaging customers continue to migrate towards more viscous materials, more formal applications, recyclable products and global supply agreements, all positive trends that we can leverage to grow this business. And even though we are already operating at targeted margin levels, we keep after both fixed and variable costs with maximizing production in low-cost countries, automation, upgrades of molding technology for higher yields, and configuring our factories closer to customers to reduce working capital and transit times.

In aerospace, we continue to share and implement best practices across all plants for increased efficiency. We have launched a consolidated customer-facing engineering research and technology group for better focus and speed, and we continue to invest in new products that aid our customers' assembly processes. Our customers certainly appreciate these efforts. One confirmation is that our Allfast division has recently been named Embraer's Supplier of the Year amongst all hardware suppliers, reflecting our efforts to provide quality products that solve our customers' needs.

Energy is showing improved margin performance as a result of our restructuring program. We have added resources and are accelerating plant consolidations, process improvement, Mexico manufacturing plant ramp up, and overall cost-out. We brought in an external team of people who specialize in restructuring and business improvement two months ago who have already accelerated this program. There is still much to do, but the progress is encouraging.

In engineered components, our Norris Cylinder business is running near full capacity, so we are installing the presses and fabricating equipment we acquired during the Taylor Wharton bankruptcy which we had mothballed at that time. We have several new programs for higher spec cylinders that will differentiate us going forward.

In regard to our Arrow Engine business, you have heard us describe the dramatic downsizing we've done in our oilfield engines and equipment business to breakeven. We are using this slow period to develop and commercialize a broader range of engines and natural gas compressors to fulfill some new needs by our customers.

And at corporate, we have taken a hard look at corporate functions and costs and downsized by a third, making sure we are right-sized for 2016.

Before I turn the call over to Bob, I wanted to comment on Jerry Van Auken's retirement as President of Norris Cylinder, and the appointment of Chuck Manz as President. We have been working on this planned transition for quite some time and believe that Chuck is well-positioned to lead Norris into the future. Chuck joined Norris in 2010 as the Vice President of Operations and has assumed increasing responsibly since that time.

I also want to thank Jerry for his expertise and leadership during the last eight years. And we are fortunate he is staying with the Company in an advisory role. During Jerry's tenure, Norris has achieved sales growth that well outpaced general industrial growth as a result of both organic initiatives and bolt-on acquisitions. By leveraging these assets and driving continued productivity, Norris has also very successfully raised its margin and return on capital levels during this period of time. So thank you, Jerry, and best of luck in retirement. You've earned this.

At this point, I will turn the call over to Bob to provide financial and segmented information, and then I will return with some forward-looking comments.

Bob Zalupski - *TriMas Corporation - CFO*

Thank you Dave.

With regard to the third quarter, I will begin my comments by providing a brief summary of our total Company performance, beginning on Slide 8.

As David mentioned, third quarter was a solid quarter with margin expansion despite macroeconomic weakness. We reported third-quarter sales of $222 million, flat as compared to third quarter 2014. Our 2014 acquisitions contributed $16 million in sales, which was largely offset by the

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decline in sales related to continued low levels of oil related activity and the impact of unfavorable currency exchange of nearly $4 million in our packaging and energy segment.

Operating profit for the quarter increased to $30 million, or 13.4% of sales, representing a 300 basis point improvement compared to Q3 2014. Year-over-year improvements in our packaging, aerospace and energy businesses led the way as well as a reduction in corporate expense driving this increase.

Our income and diluted EPS both increased more than 30% as compared to 2014 with EPS in the quarter of $0.39. While third-quarter 2015 free cash flow was lower than the prior year, due primarily to the timing of working capital and tax payments, we still expect to achieve our full-year 2015 free cash flow goal of $50 million to $60 million.

On a year-to-date basis, financial results were fairly consistent with the quarter with revenues slightly higher compared to the prior-year period, operating profit margin up 60 basis points, and a Q3 year-to-date 2015 diluted EPS of $1.00 as compared to $0.95 in the year-ago period.

We ended the quarter with approximately $459 million in total debt compared to $639 million as of December 31, 2014 and $338 million as of September 30, 2014. The increase from a year ago was due to the acquisition of Allfast in October 2014, while debt was reduced during 2015, primarily as a result of the cash dividend received from Horizon Global. Our leverage ratio was 2.85 times at September 30 and we had $130 million of cash and aggregate availability under our credit facilities.

Moving on to Slide 9, which provides an EPS bridge from Q3 2014 to Q3 2015, as illustrated, the decrease resulting from the impact of low oil prices has been more than offset by the results of our acquisitions, operational improvements in the businesses, and lower corporate expense as we continue to right-size our corporate office spend post-spin. Our tax rate was lower year-over-year, as expected, and we expect the full-year tax rate to approximate 32%.

Before I move on to our results by segment, I would like to provide a brief update on our financial improvement plan. As we announced in September, we accelerated restructuring initiatives in energy, adding cost actions across the rest of the Company and committed to improve free cash flow conversion, all in light of expected further topline pressures, to ensure we remain on track toward our longer-term financial goals. The three principal elements of the plan relate to headcount, reductions in manufacturing and SG&A spend, and facility consolidations and/or closures. The majority of the headcount actions are now complete, while cost reduction and facility related actions are on schedule and in various stages of completion. Given the timing of the September announcement, we expect only modest savings in 2015 with the majority of benefits expected to be realized in 2016. We continue to evaluate further cost actions while at the same time continuing to invest in initiatives that will drive future profitable growth.

At this point, I would like to shift gears and share a few highlights on our segments, beginning with packaging on Slide 12. Packaging sales declined slightly as growth from our Lion Holdings acquisition was more than offset by the impact of unfavorable currency exchange. Packaging attained a Q3 operating margin of 25.2%, which benefited from a reduction of certain acquired liabilities of approximately $2 million, and continues to generate operating profit margins at or above our targeted levels of 22% to 24%. We believe packaging will continue achieving its targeted margin range while funding ongoing initiatives such as the new customer innovation center in India and the ramp up of lower-cost manufacturing capacity in Asia.

Turning to Slide 13, aerospace sales increased primarily due to the acquisition of Allfast, partially offset by lower demand from our largest distribution customers. Compared to the prior year, Q3 operating profit margin expanded 400 basis points due to the higher sales and more favorable product mix, increased operating leverage and the impact of ongoing productivity initiatives. Aerospace continues to perform at higher sales and margin rates than 2014 and is focused on additional integration activities to operate as a single combined aerospace platform in order to better serve customers and to continue to realize synergies.

Moving on to Slide 14, energy. Sales increased 2.6% in Q3 as increases in North America sales, primarily related to higher margin engineering and construction activity, more than offset weaker upstream customer demand and lower international sales as a result of restructuring activities and unfavorable currency exchange. Operating profit margin improved 260 basis points as a result of volume leverage, a more favorable sales mix, and

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operational improvements beginning to be realized from our restructuring efforts. We are committed to further reducing the fixed and variable cost structure of this business in order to achieve our targeted margin levels within a three-year timeframe.

Not unlike many other energy-related businesses, the lower than historical levels of profitability in 2015 are indicators of a potential reduction in business value, which we are required to evaluate at least annually. We are in process of completing this evaluation and assessing whether this process may result in a non-cash goodwill and intangible asset impairment charge in the fourth quarter. More to come.

Moving on to Slide 15, engineered components. As already discussed, we are facing significant headwinds as a result of lower oil prices, which dramatically impact of the results of Arrow Engine. With a Q3 year-over-year sales decline of more than $13 million, Arrow's management team has aligned Arrow's cost structure with the current level of business activity to remain breakeven during the quarter.

The other business in this segment, Norris Cylinder, was down approximately $5 million in sales due to weakness in industrial end markets and lower export sales. Operating profit margin declined slightly due to the lower sales level and fixed cost absorption. Our focus in this segment remains on aggressively managing the cost structure in each of these businesses in response to end market demand.

Moving on to Slide 16, which provides a summary of our segment performance, it compares current, prior year, and sequential quarterly results by segment. Although some of the expected improvements sequentially is being offset by the external headwinds we are facing, initiatives that we control are gaining traction as evidenced by three or four segments improving margins year-over-year.

Now I will conclude my comments with our updated 2015 segment assumptions on Slide 18. Exiting Q3, we expect to continue to experience topline pressure in each of our businesses as a result of slowing or weakened market demand, and anticipate that Q4 will be our lowest revenue quarter of the year, likely 3% to 5% below Q3. We slightly updated our full-year guidance by segment for revenue and margin and provided some commentary regarding expectations for fourth quarter. While we expect to continue to gain traction and to benefit from execution of our cost actions and operational improvements, which read through well at the Q3 sales level, we don't believe these benefits will be able to fully offset the impact of lower sales in Q4.

One final item of note, as indicated in our recently filed 8-K, we reported diluted EPS of $0.44 per share for Q4 2014. Included in that number was approximately $0.13 of favorability due to acquisition-related and tax provision adjustments which are not expected to repeat in fourth quarter 2014 -- 2015. While Q4 2015 sales are expected to be lower than the sales of $223 million reported in the prior-year period, the favorable impact of our cost and restructuring actions, including the financial improvement plan, is expected to substantially offset the anticipated margin impact resulting from lower sales.

So, the good news as 2015 comes to a close is that we have permanent reductions in our cost structure while improving our operational processes, which will serve to benefit us in future periods.

That concludes my remarks. Now Dave will summarize our updated 2015 outlook. Dave?

Dave Wathen - *TriMas Corporation - President, CEO*

Thank you. On Slide 19, following up on Bob's comments, I will summarize our total TriMas 2015 guidance updated to reflect our third-quarter performance and the current trends we are experiencing.

We reduced the topline forecast slightly, in light of Bob's comments on Q4, but we increased both our EPS and free cash flow guidance. We are raising full-year EPS outlook to $1.25 to $1.30, an increase from $1.15 to $1.25, given the positive impact of our cost actions and operating improvements.

As we communicated a few weeks ago in our financial improvement plan announcement, we have also increased our 2015 free cash flow guidance to $50 million to $60 million, which is consistent with our historical achievement of near 100% of net income over the past few years.

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On Slide 20, I'd like to share our preliminary thoughts on 2016. Overall, we see very little macroeconomic change. We have adapted, resized and re-prioritized to address the strong dollar, expected low commodity prices, continued low levels of oil related activity, and relatively slow global market growth. And like many companies are communicating, we also expect weaker industrial end market demand.

So we find the bright spots. We concentrate on profitable growth opportunities. We take actions to right-size our costs, and drive productivity for margin improvement.

A few comments by segment. In packaging, our focus is new products, customer solutions and geographic expansion to continue our track record of growth. Our product pipeline is good, and our reorganization of sales and marketing is finding many opportunities, so we expect to grow at low to mid single digits in 2016 while operating at margins within our targeted band.

Aerospace will grow at a similar rate with growth of large commercial aircraft somewhat offset by ongoing softness of smaller aircraft, military spend and continued inventory reductions and distribution. We expect that our recent track record of strong productivity will continue such that margins will grow in 2016 as we continue toward our longer-term goal.

We expect a flat market in energy, where we will also likely exit some lower margin business and our fullbore restructuring program will continue to reduce fixed and variable costs such that we expect a notable increase in margins towards our longer-term targets.

In engineered components, we expect our cylinder business to perform well on potentially lower revenue due to softening industrial demand and challenging exports, and we have our oil and gas equipment business configured for no growth at current run rate levels.

We have already downsized our corporate spending significantly, and we always continue to look for additional opportunities for efficiency.

We are still working diligently on our 2016 annual operating plan, but as you can see, we have a significant number of initiatives in every business to drive profitable growth and maintain or enhance margins. We are planning on the existing external headwinds to persist with continued macroeconomic uncertainty. As a result of all of the efforts, including our cost cuts, we should see better earnings regardless of whether we see a better topline.

As usual, we will provide specific guidance for 2016 on our fourth-quarter earnings call, but for now, I will forecast solid earnings growth on relatively flat total revenue with free cash flow similar to net income.

Slide 21 is a reminder of our longer-term financial targets that we keep in front of ourselves here at TriMas. We use these targets as we make shorter-term decisions, and I feel confident we are on track towards achieving these targets with ongoing progress.

I will close with an overall summary of our post-spin playbook on Slide 22. Those of you that know us will see no surprises, but it's worth an ongoing reminder of our long-term financial targets. Our most important improvement metric is margins. Our first look at 2016 includes all of these tactics, including growing our higher-margin businesses. We have added a financial improvement plan to accelerate improvement. We've added resources and energy to accelerate cost-out. And our overall productivity programs help drive continuous improvement. We keep after mitigating risks and capturing opportunities. We focus on accretive capital allocation and our incentives reward success in all of these activities.

In closing, I believe third quarter 2015 shows improved operating performance at TriMas and good overall progress. And while we have accomplished much, we still have much more opportunity and work to do on many fronts. Across all levels of the business, we are committed and focused on execution. We will continue to make progress towards our strategic aspiration of being a high-margin, highly engineered products and solutions company. I am optimistic about our ability to perform well and increase shareholder value going forward.

Now we will gladly take your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andy Casey, Wells Fargo Securities.

Andy Casey - *Wells Fargo Securities, LLC - Analyst*

Thanks. Good morning everybody. It looks like the anticipated Q4 revenue decline is related to energy and engineered components. First, is that correct?

Bob Zalupski - *TriMas Corporation - CFO*

That is a substantial portion of the expected weakness, yes.

Andy Casey - *Wells Fargo Securities, LLC - Analyst*

Okay. Thanks Bob. And tying that to the 2016 view you gave, are you kind of, right as we sit here today, anticipating a continuation of that sort of weakness in the first half followed by kind of flattening out in maybe Q2, Q3? Is that what's embedded in the guidance?

Bob Zalupski - *TriMas Corporation - CFO*

From a sales perspective, certainly I don't think we are planning on any increases as it relates to the Arrow Engine portion of the business. I mean there's no factors that we can see at least near-term that seemingly would change the level of oil related activity, which is what drives that business.

From a Norris Cylinder perspective, clearly the industrial end markets have weakened. It will be interesting to see as we move into 2016 whether the trend we have seen here in Q4 continues or if flattened out, as you mentioned, and perhaps recovers a bit in the back half. Obviously, too soon to call on that front, but we are not planning for any significant change across 2016.

Andy Casey - *Wells Fargo Securities, LLC - Analyst*

Okay, thanks. And then one additional kind of short-term question. In Q4, given the new structure of the Company, is there any range that you can give us for corporate expense as a percent of sales?

Bob Zalupski - *TriMas Corporation - CFO*

We continue to target the 3% level. I think we'll be probably slightly higher than that given the relative decline or flattish sales. So, yes, somewhere 3% to 3.5% is probably a reasonable target at this point.

Andy Casey - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you very much.

Operator

Bhupender Bohra, Jefferies.

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Bhupender Bohra - *Jefferies LLC - Analyst*

Good morning guys. So Dave, if you can talk about I believe on your release you mentioned about launching the TriMas aerospace engineering research and tech team. What is that focusing on, on the OE side as well as the distribution side of the business?

Dave Wathen - *TriMas Corporation - President, CEO*

It's a -- we of course had separate labs and separate engineering teams and separate product programs. You would've expected this, but we made a -- we did more than just merge the organization. We built new lab capability, we have added testing capacity, that kind of thing. We have taken the opportunity to kind of put the strongest people, certainly put the strongest people in charge. And it's all about being one bigger, more important fastener and hardware company for our customers. So it coordinates all of the development programs. You get some leverage by being a bigger development organization, and we are getting that. It is targeted at both OE and distribution because there are distribution products that are enough different there is a reason to develop a focused product that maybe these multiple specs or whatever.

And so all-in, of course -- I remind you, I am an engineer. I enjoy to see the benefits of that kind of thing. People that are starting to see that facility and the people involved get pretty enthused by it. So it's a big message to our customers and to the industry that we are bigger and better than ever in this industry.

Bob Zalupski - *TriMas Corporation - CFO*

The other point I would add is this ER&T function is it really mirrors what our major customers also have in place in terms of Boeing and Airbus. It's not only focused on incremental product applications that might be available to us in let's say the next one- to three-year timeframe. It's really focused on working with customers' engineers on the next generation of products so that as those products move along the development cycle, we are speced in and ultimately are critical to them in terms of supplier capability.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. And how big is this team? And if you can -- I don't know if you can give us -- you mentioned next gen, like any particular programs this team is focusing on?

Dave Wathen - *TriMas Corporation - President, CEO*

I'd rather not put specific numbers on it. You'll get a chance to walk through it sometime. It's pretty clear that we are committed to it. I would even add we've got -- more and more our customers are doing more and more automated assembly. So we have to do -- we do a lot of work on how to aid them with feeders and piping devices and that kind of thing. So a part of it is addressed at that.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay. Just to follow-on, in the energy business, you said 2016 your thoughts are initially like flat in energy. I don't know -- what is the comfort level? How do you actually arrive at like flat in energy, especially with the sales weakness?

Dave Wathen - *TriMas Corporation - President, CEO*

We think flat market because our energy -- now that the upstream part of the business has shrunk and we have taken that, now it's more to do with how much is flowing through refineries and petrochem and all that. So it's more demand and flow-based than oil price-based.

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All indications -- I mean the optimist in me would say you could even see some more investments. We had more E&C sales in third quarter than normal. There are some positive signs. But it's still a brutally difficult marketplace, and CapEx spending levels are down. So you've kind of got to put that all together and balance it.

I did try to say flat market. We may shed some business if we can't hit our margin targets in pieces of the business. And while that's a normal ongoing thing in all business, we are bidding pretty aggressive right now because of the margin problem in that business to get it fixed. And so you may see our actual numbers decline a little as we get (technical difficulty) some of our margin. But we are after the margins. And we're going to get them.

Bhupender Bohra - *Jefferies LLC - Analyst*

Okay, got it. Thank you.

Operator

Karen Lau, Deutsche Bank.

Karen Lau - *Deutsche Bank - Analyst*

Thanks. Good morning. Just a question on packaging. Dave, could you provide more color on what you are seeing, both on the industrial side and I guess more importantly on the consumer facing side? Are you seeing the customer facing customers may be witnessing some broader weakness in the market and (technical difficulty) down investment of product launches, things like that? Are you seeing any of that?

Dave Wathen - *TriMas Corporation - President, CEO*

On the industrial side, we are seeing what everybody is talking about, a little bit of softness in industrial. And of course we get to see it in industrial closures. We see it in things like acetylene tanks coming out of Norris. And it's just plain softened and by a few percent, not by 20%, but by a few percent. But it's softer.

Our consumer programs, we can look at -- this is Christmas season coming up. This is the one part of the Company we see a little bit of that . There are a lot of programs underway, and so we have yet to see any specific consumer softness. There's -- we would say a few of our customers have versus what they originally said have slowed some programs, I would call that all that normal. So I'm not ready to say we are seeing any kind of a consumer slowdown.

Karen Lau - *Deutsche Bank - Analyst*

Okay. How should we think about --

Dave Wathen - *TriMas Corporation - President, CEO*

(multiple speakers) in China, you've still got the middle class growing like crazy compared to anyplace else. And so we are not an indicator of the total market. It's more which programs we are on.

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Karen Lau - *Deutsche Bank - Analyst*

Okay. So if you go back to 2008, 2009, that business actually saw some pretty significant organic sales decline, but I guess the mix was very different and it's also a very different recession. But given the current environment, if some of the weakness spread into the consumer side, how do you think about the cyclicality of that business, and how should we think about the decremental margins? Because, as I understand, that business has pretty high fixed costs and there's obviously pricing pass-through concerns and things like that.

Dave Wathen - *TriMas Corporation - President, CEO*

I think it's -- if we saw a downturn in consumer volume -- because we are different than we were five years ago. We have more low-cost plants. You count up India and Vietnam, and we've got a plant in Mexico. We've got more -- we've got the highly automated plant. The first round of it, you actually migrate more production to your low-cost plants as a percent of sales.

The other phenomena we've got is the more mix we've got in pharma and food and things like that, they don't drop off quite the same as pure discretionary stuff. And I won't claim that we wouldn't get hit by a downturn, but we could take the first round of it and hang on to margins, I think.

Bob Zalupski - *TriMas Corporation - CFO*

I would mention that that business is particularly adept at managing its cost structure directly in response to end market demand, be it up or down and in that sense are able to flex quite well. And while there might be a move towards the lower end of our targeted margin range, I think they do a pretty good job hanging on to it at that level.

Karen Lau - *Deutsche Bank - Analyst*

Okay. Got it. Very helpful color. And then how should we think about the $15 million of annual savings? Is that the run rate you want to achieve by the end of next year, or is that the total incremental that you would expect to achieve? And how should we kind of split that by segment?

Bob Zalupski - *TriMas Corporation - CFO*

The $15 million is the annual run rate savings that we will see in 2016. And in terms of segment, I would say more of that margin improvement is in the energy business because of the restructuring effort we have taken there. So if I had to size it, I'd say circa $5 million. And then as you look at the remaining $10 million of run rate savings, that's sort of spread pretty ratably across the other three segments and corporate.

Karen Lau - *Deutsche Bank - Analyst*

Okay. So in energy, we think about topline being flat as the assumption, and then your underlying margins at the current run rate, 4% to 5%, and then you can add $5 million of savings on top of that, theoretically you could get to sort of maybe higher -- the high single-digit margin range next year. Is that the way to think about it?

Bob Zalupski - *TriMas Corporation - CFO*

Yes. So, we think longer-term that business can run at 10% to 12% operating profit. And I think a step function in 2016 would take us kind of towards the midpoint of where we are exiting 2015 and that longer-term goal.

Karen Lau - *Deutsche Bank - Analyst*

Okay. Got it. Very helpful. Thank you.

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Dave Wathen - *TriMas Corporation - President, CEO*

Karen, I might've heard you say $15 million by the end of 2016. We will be implemented at the end of 2015. So (multiple speakers) for the full year.

Karen Lau - *Deutsche Bank - Analyst*

So you expect to realize all $15 million of savings in 2016?

Dave Wathen - *TriMas Corporation - President, CEO*

We will have it all implemented. There are -- for example, some of it is -- you go back to fixed variable cost kind of things, we managed to get ourselves out of some warehouse leases or some things like that that we also changed. All of that will be in place by the end of 2015.

The only caution I'll give everybody is I've been through enough of these, it's not like it's some step function that drops to the bottom line immediately. Some of it is savings that would have been in our productivity numbers. It displaces some and all. It's still for real but the world is -- companies like us need a lot of ongoing productivity just to stay even. So, this only accelerates that. But it's well in place.

Karen Lau - *Deutsche Bank - Analyst*

Got it. Thanks.

Operator

Walter Liptak, Seaport Global.

Walter Liptak - *Seaport Global Securities - Analyst*

Thanks. Good morning guys. I wanted to ask just a follow-on to the last one about the cost benefits. And so if we have got all of the financial improvement plans in by the end of the year, are there some -- you mentioned step functions. Are there costs that come out starting in January so that we do get some of that step function? I wonder how it progresses through the year.

Bob Zalupski - *TriMas Corporation - CFO*

I think, Walt, that substantially the $15 million run rate is in place as we begin the year, and so you can think about it as being somewhat ratable over the full-year 2016.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Let me ask the question another way. So if you put it on an EPS basis, it looks like it's about $0.20 of benefits in 2016. So can we take the 2015 number and then add in $0.20 for these benefits?

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Bob Zalupski - *TriMas Corporation - CFO*

It's not quite that linear, and the reason is the restructuring efforts in energy. So part of the financial improvement -- I think we cite the number at circa $5 million -- that was sort of contemplated in the what we already had established as sort of our longer-term margin target for energy. So it's not incremental to that improvement. It's just accelerating that improvement so we realize it in 2016.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Maybe just to drill down into one of these, in the Arrow business, I think you had losses through most of the year until it sounds like now. How much in EPS did you lose on a year-to-date basis?

Bob Zalupski - *TriMas Corporation - CFO*

Actually, the Arrow business is essentially breakeven for the entire year, Walt. So while year-over-year obviously it's had a significant impact to EPS on a comparative basis, in the current year, it hasn't been a negative drag on EPS.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay, great. So your outlook for Arrow for 2016 is basically breakeven this year, breakeven next year. So knowing that benefit?

Dave Wathen - *TriMas Corporation - President, CEO*

You know us well, Walt. Revenues could drop off next year. Everybody is pretty pessimistic on what's going to go on in the oil and gas field. But yes, we've got the business side to breakeven.

One of the reasons we took guidance for earnings up in 2015 is we did have -- we were chasing revenue down and taking costs out, but we looked like we were going to go negative in fourth quarter. Now we've managed to get -- the team in Tulsa has managed to get it to where they are hanging on to breakeven. So think of that business running at breakeven. And you can imagine, if you get any kind of uptick, we would love it, but I just can't convince myself to count on any kind of uptick.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Fair enough. Just a couple of other quick ones. What kind of corporate expense are you expecting for the fourth quarter?

Bob Zalupski - *TriMas Corporation - CFO*

We are estimating roughly 3.5% of revenue.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Are you expecting a similar number to the third quarter, or is there something that steps out from the third to the fourth?

Bob Zalupski - *TriMas Corporation - CFO*

The corporate cash cost might be a little higher in Q4. It's not significantly different, though.

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Walter Liptak - *Seaport Global Securities - Analyst*

Okay, fair enough. And then one last one on the free cash flow, and it sounds like the fourth quarter is going to be a big free cash flow period. And I wonder if you could just walk us through kind of the working capital. And especially Accounts Receivable looked a little bit high to me. Are you seeing any bad debts or any payable days stretching out that are concerning?

Bob Zalupski - *TriMas Corporation - CFO*

Nothing specifically. There's no question that working capital is a bit higher than we would've liked at the end of Q3 due to some of the timing of certain payments. But at the same time, I think our receivables, we've got pretty good line of sight on what we will have in terms of days sales outstanding by year-end. And I also think that, in our energy business in particular, where midyear we had a fairly sizable spike in inventory as a result of port delays, we're going to do -- focus -- be focused on working through that and working that level down as we get to year-end.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay, great. Thank you.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Good morning. Congrats on the execution this quarter. Can you just maybe just delve into a little bit more on what you're seeing on the distribution side in aerospace, a little bit more to the extent you that can give a little more details around that?

Dave Wathen - *TriMas Corporation - President, CEO*

In a way, it's no change. They are clearly working inventories down you could say in reaction partly to Basin, but I would think it's really more -- their own decisions about how much capital they want to have employed and all that. Now, that's the big distributors.

We get to see total distribution when of course there are some smaller specialty distributors, and some of them see an opportunity to take on some upside. But there's not enough volume total to offset this inventory take-out. So, I think we are still looking at well into next year a declining inventory at the big distributors.

Steve Tusa - *JPMorgan - Analyst*

So -- and just remind us. In distribution, that's still into OE or is there some aftermarket stuff that's involved there?

Dave Wathen - *TriMas Corporation - President, CEO*

It's mixed what they sell into. You've heard us say before there are OEs we don't sell directly to -- helicopter maker, business jet makers, all that kind of thing. So part of it is their sales to them. So it's -- I don't want it end up being a complex answer. Military build rates are really off. I think 20%. That's kind of what we get. You might get -- you might be able to get a more refined number, but at least what we can watch on what the pull is, I mean it's a number like 20%. Probably that big freight plane has run its course, and no more of them are being built.

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But I would think in terms of, and we are thinking in terms of, the big distributors continuing to run inventory down. There will be a few upticks for us and some of the specialty distributors and small distributors, but not enough to offset it at all.

(multiple speakers) total a little.

Steve Tusa - *JPMorgan - Analyst*

Right. And then one last one just on energy, specifically on kind of the potential for turnarounds coming into this season. Anything you're hearing from your customers there on that front specifically?

Dave Wathen - *TriMas Corporation - President, CEO*

There are some. And some is better than we've had in the past. I think -- I specifically asked that question of the folks in Houston, and they would say it feels like heading back towards a normal turnaround season over the, call it over the end of the year when they do all that kind of work. They've got some specific (technical difficulty) in the branches that tend to serve refineries that are scheduling turnarounds. So it's not just that they're talking about it, they are actually placing orders.

Steve Tusa - *JPMorgan - Analyst*

Great. Again, congratulations. It's been a very tough earnings season for a lot of people and you guys deftly executed very well. So, way to go.

Operator

Matt Koranda, ROTH Capital Markets.

Matt Koranda - *ROTH Capital Partners - Analyst*

Good morning guys. A lot of mine have been answered, but I just wanted to follow on with the aerospace line of questioning. It looks like your 2016 commentary has the split of OE versus distribution at about 45/55. Could you just put that in context for how it compares to historical levels for you guys maybe in 2014 when things are a bit different in that segment? And just maybe slot in what the implications are for margins in aerospace in 2016, just given that background.

Bob Zalupski - *TriMas Corporation - CFO*

I think, if you go back, whether it's 2014 or even a few years earlier than that, you would've seen that distribution -- or that split more heavily weighted towards distribution. So, it clearly is changing slowly over time to more OE than distribution.

So, I think, from our perspective, Dave has often talked about that being a good thing as it gets us closest to our ultimate customer. And I think, again, over time, we think that's a positive trend for margins.

I think the variable is, in the near term or shorter-term, you don't control necessarily how the order patterns behave with respect to the distribution customers. And again, some of those distribution customers are fairly high-margin business, so that might cause some fluctuations over that timeframe. But again, longer-term, we think it's positive to margin trends.

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Dave Wathen - *TriMas Corporation - President, CEO*

For the same product, margins are similar when they're totally in your distribution. There are products that only sell through distribution that tend to be lower margin, like what we make and what the acquisition that was Mac Fasteners, they tend to be like titanium screws, special -- but things that look more like bolts than fastener systems. And so while an overall distributor margin might be slow and lay lower than an OE margin, that's more the product mix than pricing by channel. Pricing is pretty consistent.

Matt Koranda - *ROTH Capital Partners - Analyst*

Okay. Got it. That's helpful. Just as a quick follow-up, it looks like margins in this segment are kind of holding steady in 18% range, and you guys are looking at margin expansion next year. Could you just talk about the main drivers of margin expansion next year?

Dave Wathen - *TriMas Corporation - President, CEO*

For us, it's really productivity. It's efficiencies, continuing to fine-tune efficiency in the facilities. While we are way better than we were at small lots and all the struggles we went through, there is still a lot more fine-tuning to do to -- so it's cost-out. It's really nothing other than -- it's not like a mix change or a combo or anything like that.

Matt Koranda - *ROTH Capital Partners - Analyst*

Got it, okay. Perfect. One more real quickly on aerospace as well. I think you guys had some notes on expansion into collars in the presentation. Could you just give us some details on the progress into your expansion into the collars business with Boeing and Airbus?

Dave Wathen - *TriMas Corporation - President, CEO*

It's -- we continue to get approvals. It takes a long, long time. You've heard that from us before. But when we get an approval from, say, Boeing, the same collar then has a -- is therefore approved to sell through distribution, for example. And so we do get -- then we have the opportunity to go try to sell that. So it's just continuing to progress, but don't count on any kind of I'll say step function increase in revenues there. It's just a slow build over the course of a couple of years.

We are fully configured in manufacturing capability. We'll have to add some capacity as time goes on, but we are fully configured for it. So it's more of a how fast can the customer sign off, and then how fast can we convert the whole channel to us being a viable supplier.

Matt Koranda - *ROTH Capital Partners - Analyst*

Got it. I'll jump back in queue. Thank you.

Dave Wathen - *TriMas Corporation - President, CEO*

You know how it is. It's easier when you've got a broader range than we've just got a couple of approvals. So over time, it tends to accelerate.

Matt Koranda - *ROTH Capital Partners - Analyst*

Thanks. I'll jump back in queue. Thanks.

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Operator

(Operator Instructions). Steve Barger, KeyBanc Capital Markets.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Good morning everyone. I missed the first part of the call, so sorry if this is redundant, but the first question on SG&A down 11% year-over-year or around $4 million. Is that a reasonable way to think about SG&A year-over-year in 4Q?

Bob Zalupski - *TriMas Corporation - CFO*

I would say probably not quite that level of decline into Q4.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Okay. Thanks. And looking at the 2016 slide, when you think about that framework and some of the restructuring work or the productivity initiative you just talked about, can you grab 100 basis points of consolidated operating margin expansion in a flat revenue environment, or is that too aggressive and we should be thinking you can get 50 basis points or something from internal initiatives?

Dave Wathen - *TriMas Corporation - President, CEO*

Steve, I've said this to you before. It's like you're sitting in my operating reviews. I am hesitating because, while I would like to say 100, that is a very, very large number to get in when you've got flat, basically flat, revenue. So it's someplace lower than that. And we're going to maximize it all we can. We are still in the middle of working that pretty hard.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Understood. That's good color regardless. And a similar question on free cash flow. You just updated the guidance $50 million to $60 million. On flat revenue, you would expect that same level of conversion whether it's on a dollar basis or a percentage basis?

Bob Zalupski - *TriMas Corporation - CFO*

Correct.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Okay. And last question, on the 2018 margin targets. Packaging target 22% to 24%. That's where you guys have been running for the last few years. So is that built on the idea that you can drive leverage on organic growth but that's offset by lower margin acquisitions, or why no margin expansion despite mid-single-digit organic growth?

Dave Wathen - *TriMas Corporation - President, CEO*

Because we are choosing to spend more on things like the tech centers and more on new product and new customer development. And it's expensive to go into Asia, and we will go into South America heavier at some time. So we are tempered a little by thinking we will have higher spending as we ramp up.

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Steve Barger - *KeyBanc Capital Markets - Analyst*

So, the strategy is to spend money -- to maintain that margin level while spending money to put more top line through it?

Dave Wathen - *TriMas Corporation - President, CEO*

Exactly. And that's even how, if you talk to David or Judy or any of the folks in that business, they would tell you that's exactly what I expect of them. And of course, the math works then for TriMas. Hang on to those high margins, grow the topline.

Steve Barger - *KeyBanc Capital Markets - Analyst*

Right. Okay. That's great. Thanks for the time.

Operator

There are no further questions in the queue at this time. I'd like to turn the call back over to our speakers for any additional or closing remarks.

Dave Wathen - *TriMas Corporation - President, CEO*

I sure appreciate the attention. I appreciate the questions. You know we are working hard at it. And I have decided not to complain about the global economy. I've decided that we have to deal with what's out there and find the bright spots, and there are some, and you can tell we are after them. So I will say our job is to keep at improving the Company. Margin is very high on the list, as is return on capital. And stay tuned. We will keep at it. Thank you.

Operator

That does conclude today's conference. Thank you for your participation and you may now disconnect.

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