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# EDITED TRANSCRIPT

TRS - Q4 2015 TriMas Corp Earnings Call

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## PRESENTATION

### Operator

Good day and welcome to the TriMas fourth-quarter and full-year 2015 earnings call. Today's conference is being recorded.

At this time, I would like to turn the call over to Sherry Lauderback. Please go ahead, ma'am.

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### Sherry Lauderback - *TriMas Corp. - VP, IR and Global Communications*

Thank you and welcome to the TriMas Corporation fourth-quarter and full-year 2015 earnings call. Participating on the call today are Dave Wathen, TriMas's President and CEO, and Bob Zalupski, our Chief Financial Officer. Dave and Bob will review TriMas's fourth-quarter and full-year 2015 results, as well as provide details on our 2016 outlook. After our prepared remarks, we will open the call to your questions.

In order to assist with the review of our results, we have included the press release and PowerPoint presentation on our Company website at [www.trimascorp.com](http://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 4461698.

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 a part of the presentation which is available on our website for the reconciliations between GAAP and non-GAAP financial measures used during this conference call.

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



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

**Dave Wathen** - *TriMas Corp. - President and CEO*

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

As I am sure you have heard on many other earnings calls, the external environment has become a lot tougher out there during the last quarter. In business, there are always a number of things you can't control, and the economy is one of them. However, we can control how we respond and take fast, proactive actions to mitigate the effects. I have an upbeat view of how TriMas is responding quickly and appropriately to the generally uncertain economic activity that all of us are experiencing. These external challenges significantly impacted our top line in the fourth quarter, particularly in the energy and industrial markets. Despite a 14% sales decline in Q4, we finished 2015 with an EPS of \$1.29, which is at the high end of the guidance range we shared with you during our last earnings call, demonstrating that the actions we have taken are working.

In addition, our free cash flow was more than \$50 million as planned, while we continue to invest in key programs for growth and cost out.

On slide 5, I've updated our external view of headwinds and tailwinds. The headwinds list is still longer than tailwinds, but that just makes it more important to fine-tune which programs we pursue and to execute well on the bright spots. We haven't yet had a full year of \$30 oil, and while we have lowered our costs to try to stay ahead of the effects on our businesses, we see no signs of any kind of upturn.

The major Aerospace distributors are still adjusting inventories, so we are modeled to these lower run rates. On the positive side, Boeing and Airbus have build rates climbing a few percent in 2016 and more in 2017.

Our Packaging growth in China is more about share gain with multinational customers selling there, so the impact of uncertainty in China is muted for us.

Moving on to slide 6, five months ago we announced our financial improvement plan to reduce structural costs in each business and headquarters given soft markets. A few weeks ago we increased our targeted annual cost savings by 50% to \$22 million to be sure we stay ahead of market conditions and align our cost structures with expected demand levels. We have made some difficult decisions while doing our best to maintain the capabilities needed by our customers now and for key future programs.

I will now discuss a few other key initiatives listed on slide 7. In January, Bob and I attended our Packaging business' global planning meeting. I am encouraged by the progress being made in reconfiguring the business's front end, utilizing the new global innovation centers for solving customers' needs, and continuing to improve the global manufacturing footprint. The pipeline for new products and customer opportunities is robust, and I feel like we are positioned well for growth in 2016 and beyond.

Our Aerospace business now operates as one global platform in fasteners, continuing to leverage the talented people we have added to this business over the past 18 months. We have seen improvements in market, and as we drive synergies and operational efficiencies in this business, we expect this trend to continue.

In addition, we are integrating our recent acquisition of the machine components facility in Arizona.

In Energy, we are focused on restructuring and improving all facets of the business, utilizing an experienced set of outside resources to assist in executing the plan. I lead a steering committee is charged with keeping the right resources in place and removing any barriers to progress. Returning to the endgame is an optimized global footprint, a well-integrated supply chain, including outsourced product and optimum speed and cost, automated systems for sustainability of new processes, and most important, assuring that we have the right people in the right jobs with the tools they need to serve customers well and run at our targeted metrics. It's a good thing we are well underway with this restructuring program as energy markets have only weakened in the last 12 months, which tends to disguise the significant progress being made. I give our team credit for managing through a difficult situation.

Before I turn the call over to Bob, I would like to make a few other comments on recent initiatives. In the spirit of continuous improvement across TriMas, we continue to upgrade and commonize our business and information systems. We have also implemented an upgraded performance review and feedback system, and we have recently updated our people recruiting process for when we do need to go outside particular skills and capabilities.

As an overall comment, while we have certainly scrubbed costs and we have implemented two rounds in the financial improvement plan, that does not mean that we have cut programs for future growth and productivity. We have and will continue to invest in product development and capital expenditures with higher returns going forward.

Overall, I feel good about how we have TriMas positioned going into 2016. So now, Bob will share our financial update with you.

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**Bob Zalupski** - *TriMas Corp. - CFO*

Thanks, Dave. I will begin my comments by providing a brief summary of our fourth-quarter results, beginning on line 9.

As Dave mentioned, we experienced incremental top-line pressure during the quarter related to macroeconomic uncertainty and weakness in our industrial end markets in addition to the ongoing impact of continued low oil prices in our energy-facing businesses. We reported fourth-quarter sales of \$193 million, a decrease of nearly 14% compared to the prior year due to the following: an approximate \$27 million sales decline as a result of low levels of oil-related activity and, more recently, the reduction of CapEx spend by certain of our downstream customers; a \$10 million decline in industrial product sales within Packaging and Engineered Component as a result of overall end market weakness; and finally, a \$2.4 million impact related to unfavorable currency exchange. Organic growth, primarily in our Aerospace business and approximately \$6 million of sales growth from acquisition only partially offset the impact of these macroeconomic challenges. As a result of the sales declines and the related lower fixed cost absorption, operating profit for the quarter was \$22 million or 11.4% of sales, representing a 120 basis point decline compared to Q4 2014.

Year-over-year improvements in our Aerospace business, as well as a reduction in corporate expense due primarily to lower incentive compensation attainment, helped to mitigate the impact of lower sales. We also benefited in the quarter from a \$1.4 million insurance recovery related to a previously settled legal claim and an incremental year-over-year currency transaction gains of \$0.9 million.

While we experienced more intense top-line pressure than expected entering the quarter, these items, together with the implementation of our financial improvement plan and related cost out actions, enabled us to achieve a fourth-quarter diluted EPS of \$0.29 per share. Q4 2015 free cash flow was higher than the prior year and enabled us to finish within the range of our full-year free cash flow guidance.

I will now move on to our 2015 full-year financial results on slide 10. Overall sales decreased 2.6% to \$864 million as the sales gains from organic initiatives and recent acquisitions were more than offset by the \$71 million decline in our energy-facing businesses and the \$13 million impact of unfavorable currency translation during the year. Operating profit margin increased slightly to 11.8% as increases in Packaging and Aerospace, as well as a reduction in corporate spent more than offset the reductions in Energy and Engineered Components.

Despite worsening external pressures during the fourth quarter, we reported a 2015 diluted EPS of \$1.29, which was at the higher end of our previously provided guidance range. Our financial improvement plan launched in September, which aggressively reduced costs, enabled us to mitigate the impact of these sales declines for the full year. We achieved 2015 free cash flow of \$50.8 million, also within our guidance range, which approximated 87% of net income.

We ended the year with approximately \$420 million in total debt, a 33% reduction compared to \$631 million at December 31, 2014, as we used the cash distribution from Horizon Global in connection with the spin transaction to reduce outstanding borrowings. Our leverage ratio was 2.8 times at December 31, and we had \$127 million of cash and aggregate availability under our credit facilities.

At this point, I would like to shift gears and share a few comments on fourth-quarter segment performance, beginning with Packaging on slide 12. Packaging's fourth-quarter sales declined 3.6% as a result of weakness in its industrial end markets and the impact of unfavorable currency exchange.

Packaging reported a Q4 operating profit margin of 25% as lower material costs, increased productivity, and cost reduction actions partially offset the impact of lower sales and growth investments. We believe Packaging will continue to achieve its targeted margin range of 22% to 24% while funding ongoing initiatives such as the new customer innovation center in India and the ramp-up the lower cost manufacturing capacity in Asia.

Turning to slide 13, aerospace sales increased primarily due to the prior year acquisition of Allfast and the November 2015 acquisition of a machine components facility from Parker Hannifin.

We continued to experience high demand from our large OE customers, which was partially offset by lower demand from our largest distribution customers. Compared to the prior year, Q4 operating profit margin expanded 450 basis points due to improved leverage as a result of increased sales in a more favorable product mix, as well as 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 realize synergies.

Moving on to slide 14, Energy. Energy experienced relatively flat sales levels through the first nine months of 2015 as sales gains with downstream customers and project-related business offset lower sales experienced in the upstream oil and gas portion of its business. However, Q4 sales declined 21% year over year as large refinery and petrochemical customers reduced spending related to maintenance activities, and we experienced continued low demand from upstream customers, as well as the impact of unfavorable currency exchange.

Energy incurred an operating loss of \$2.3 million in the quarter, as the margin impact of this sales decline and lower fixed cost absorption, as well as a charge related to a few uncollectible customer accounts, were only partially offset by the \$1.4 million insurance recovery and cost savings related to our restructuring efforts.

We have been reducing the fixed and variable cost structure of this business by consolidating facilities, starting up a new lower cost manufacturing facility in Reynosa, Mexico and adding experienced resources to the leadership team. We have also launched global sourcing and inventory planning initiatives focused on lowering product costs and reducing investment in inventory.

Given these market conditions and the decline in profitability, like many oil and gas leasing companies, we recorded a pretax, non-cash, goodwill and intangible asset impairment charge in the fourth quarter of 2015 of approximately \$73 million in the segment. Despite this charge, we believe this business remains positioned for earnings growth as we reduce and optimize the fixed cost structure to current end market conditions and believe the longer-term target of 10% to 12% operating profit margin is achievable when the end market recovers.

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 the results of Arrow Engine. With a Q4 year-over-year sales decline of nearly \$16 million, Arrow's management team has aligned its cost structure with the current level of business activity to remain breakeven operating profit during the quarter.

The other business in this segment, Norris Cylinder, was down approximately \$8 million in sales due to weakness in industrial end markets and lower export sales. Segment operating profit margin declined 110 basis points as compared to a year ago due to the lower sales level and fixed cost absorption, but still exceeded 15% due to the success of productivity and other cost reduction initiatives. Our focus remains on aggressively managing the cost structure in each of these businesses in response to end market demand.

Slide 16 provides a summary of our segment performance, which compares current, prior year and sequential quarterly results by segment, as well as the full-year results for 2015 and 2014.

It is evident that the top-line pressures intensified during the fourth quarter of 2015, and as a result, we increased our financial improvement plan, targeting cost savings amounts from \$15 million to \$22 million on an annualized full run rate basis. We are taking actions to hold and improve margins. Much of the operating profit benefit is being masked by the impact of revenue declines related to low oil-related activity, weak industrial end markets and macroeconomic uncertainty.

At this point, I will turn the back over to Dave to discuss our 2016 outlook. Dave?



**Dave Wathen** - *TriMas Corp. - President and CEO*

Thanks, Bob. I will now look forward and comment on 2016 outlook. Slide 18 provides our summary of revenue growth and margin expectations by segment.

Packaging growth should be driven by several new product programs and our geographic work in Asia while the business maintains its target margin range. We expect Aerospace revenues to increase given the city build rates combined with revenue resulting from our recent acquisition of the Parker Hannifin facility. While this acquisition mixes margins down at first, we believe the many margin-enhancing projects throughout the business will keep total margins improving.

We believe Energy's revenue will continue to be impacted by reduced downstream channel spending, as well as the continued pressure in the upstream market. We are actively reviewing our less profitable sales and are willing to exit such pieces of business if there is not an ability to improve the margin levels. We also believe you will start to see the benefits of the improvement actions already taken as we move through 2016.

Engineered Components is still absorbing the oil downturn that hit in second quarter last year in our engines business. That business has downsized costs in line with revenue and is running at breakeven, quite an accomplishment by the folks in this business.

Our cylinders business is fighting headwinds of industrial market softness and the impact of the strong US dollar on export sales, offset by several new and higher spec products for a flat revenue year with ongoing strong margins.

In summary, we intend to grow our higher-margin businesses of Packaging and Aerospace and expand margins while mitigating external top-line pressures in our Energy and Engineered Components businesses.

On slide 19, we summarize our full-year 2016 outlook. Overall, we expect sales to be about the same as 2015 levels as the growth of our many organic initiatives is expected to be essentially offset by the continued impact of low oil prices and industrial end market weakness.

We expect EPS to grow between 5% and 12% in 2016 as a result of margin growth coming from restructuring and cost savings initiatives such that we project \$1.35 to \$1.45 in earnings per share for 2016, excluding special items. And we continue to target free cash flow at 100% of net income, which is approximately \$60 million to \$70 million in 2016.

Now let me turn it over to Bob to provide some additional outlook detail in assumptions, and then I will wrap up.

**Bob Zalupski** - *TriMas Corp. - CFO*

Thank you, Dave. Slide 20 provides some additional assumptions for 2016. We expect interest expense to increase to \$14 million to \$16 million in 2016 due to slightly higher interest rates as a result of having hedged the majority of our variable rate term debt beginning July 2016. We remain committed to growing our higher-margin packaging and aerospace businesses and, accordingly, are planning capital investments approximating 4% to 5% of sales. These investments include adding additional low-cost capacity in packaging to grow with and serve our global customers more effectively, as well as increasing the flexibility and level of capacity in our cylinder business to better capitalize on our North American market position.

We will continue to invest in tax planning strategies, but for now we are planning an effective tax rate of 31% to 33% as forecasted income is expected to be more heavily weighted in the United States in 2016.

And finally, we expect corporate cash expense to be approximately 3% of sales, meeting our longer-term financial target. However, the non-cash stock compensation component will increase in 2016 as a result of resetting to the target award levels.

In 2014 and 2015, stock compensation expense was lower as a result of lower attainment on the performance-based portion of the equity awards. While this amount is reported as a corporate expense, given the plan metrics are based on consolidated TriMas results, it includes the long-term compensation amount for all eligible business units and corporate office employees.

Moving to slide 21, it provides a preliminary view of our Q1 2016 earnings expectations. The external environment has changed significantly from the first quarter of 2015, when oil was still in the range of \$40 to \$50 per barrel, industrial markets were much stronger, and our Aerospace business was just beginning to fill the effects of our large distribution customers' inventory reduction initiatives. These are all significant headwinds on a year-over-year comparative basis, and we are expecting sales to decline approximately 8% to 10% from Q1 2015 levels.

Given these facts, we thought it might be helpful to provide color on how we see Q1 2016 on a sequential quarter basis, given we believe the macroeconomic environment in Q4 2015 is more relevant. We expect these external conditions to persist in the first quarter of 2016 with some modest sales growth over Q4, likely coming from those businesses with historical seasonality moving from Q4 to Q1 and as a result of our Aerospace acquisition. We also expect some incremental savings as a result of the additional financial improvement plan initiatives recently announced.

However, the impact of these anticipated improvements is more than offset by certain items which benefitted Q4 2015 and that are not expected to recur. We expect all of this will roll up to a range of \$0.24 to \$0.27 EPS for the first quarter of 2016.

In summary, we believe we have sized our business cost structures consistent with the current economic environment and will begin to experience better operating leverage and fixed cost absorption as we move through the year.

We also expect to benefit from some incremental revenue growth primarily in packaging as a result of new customer programs that we expect launch later in the year.

I will now turn the call back to Dave to wrap up.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Thanks, Bob. Slide 22 is a reminder of our longer-term financial targets that we have previously shared. While the macroeconomic conditions may change over time, we remain committed to TriMas to these targets and I believe that we are showing good progress. And I know faster progress is better.

So, in summary, on slide 23 is our playbook, which includes our key areas of focus. We are committed to continuous improvement throughout TriMas measured by margin enhancement, improved ROIC, customer satisfaction and retention of our people.

We will also consider value-accretive bolt-on acquisitions, particularly in Packaging and Aerospace. Our multiples are currently quite high, partly because organic growth is quite difficult to achieve. We will keep at it, though, as we have a good track record of finding bolt-ons with significant synergy opportunities.

In closing, I believe we've accomplished much during 2015 to improve our Company. We invested in our higher growth and higher-margin businesses to position us for the future and complete the spinoff of Cequent. We have mitigated many of the external pressures and aggressively reduced our cost structure for margin expansion. I am optimistic about our ability to improve and increase shareholder returns as we move through 2016.

Now we will gladly take your questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Andy Casey, Wells Fargo Securities.

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### Andy Casey - Wells Fargo Securities - Analyst

Good morning, everybody. Just a few questions on the guidance and then one on energy. On the Q1 guidance, you talked about the continuation of Q4 trends. I am kind of trying to understand that comment. First, do you think your end markets are seeing incremental demand deterioration, or do you expect them to be kind of sequentially stable and you're just comping against kind of a difficult period in Q1 last year?

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### Bob Zalupski - TriMas Corp. - CFO

I think that's exactly right, Andy. In the main, we expect the sales level to be reasonably consistent. There's a couple of areas where we expect to see some modest growth due to what I would call normal uptick as a result of seasonality moving from Q4 to Q1. (multiple speakers) largely speaking in that same level.

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### Andy Casey - Wells Fargo Securities - Analyst

Okay. And then on 2016, if I look at the bottom line, Q1 is expected to be below the average contribution, somewhere around 18% versus the three-year average before that of about 22%, and then you have the overall guidance. Part of that is pretty obviously related to the incremental savings benefits, but are you building in any end market improvement after Q1, meaning is there any anticipation that second half gets better?

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### Dave Wathen - TriMas Corp. - President and CEO

I would not call it market improvement in the general sense. We know specific programs, for example in Packaging, example in Aerospace where there is a platform where the line rate is going up, and we know our content. So it is more us understanding the model of our own businesses. I have -- we are running on the -- it was my opinion that we don't expect any kind of a general market uptick. I would love it, but it's hard to find indicators of that. And so, it comes down more to understanding specific programs we've got and when they kick in, when the volume hits, etc.

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### Andy Casey - Wells Fargo Securities - Analyst

Okay. Thanks, Dave. And then within Energy, you mentioned the charge for the inability to collect receivables from some customers, and obviously that end market is kind of in some distress. But what actions are you taking, if any, to prevent recurrence of that? It doesn't sound like the market is going to get appreciably better as you kind of just alluded to.

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### Bob Zalupski - TriMas Corp. - CFO

You are exactly right, Andy, and this has been on the radar screen for a while now. And in one instance, we had a customer that ultimately declared bankruptcy. So even -- despite the actions we took during the period leading up to that bankruptcy, we nonetheless had a charge we needed to take to preserve that account. I think on a go forward basis, it's clearly a matter of keeping after customer collections in a very meaningful way, and then also for customers who slip at all in their aging, reassessing their creditworthiness and adjusting terms. To the extent necessary, we will go cash on delivery if we believe there is significant risk associated with a given customer.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Yes, a management comment would be many of us are -- I will say been around for a while. We've seen this through multiple cycles. But we have to remind ourselves there has been a pretty long run without a rash of customer bankruptcies and slowdowns. We knew higher interest rates at some point comes back in. So we do have to be very, very clear and clean in our rules. Because there are folks around that have not actually lived through it as much as some of us have. So we have really -- I give Bob and the division finance officers a lot of credit for cranking up our efforts.

So we all know how to do it. We know the process. But you've got to crank up your efforts sometimes, and this is the time for it.

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

Okay. And just to follow up on that, quickly, have you gone to any mandatory cash payments for any of your customers at this point, or is that more future statement potential?

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**Bob Zalupski** - *TriMas Corp. - CFO*

No, we have those programs in place currently with certain customers. Typically it's the smaller customers, Andy, that occurs with. Obviously for any new customers, we will do significant credit checks to make sure that we are comfortable extending credit and/or terms to any new customers. But I think in the main, at least at this juncture, it has been focused at the smaller operations.

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

Okay. Thank you very much.

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**Operator**

Steve Barger, KeyBanc Capital Markets.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

You talked about developing packaging products for growing end markets. Can you tell us what percentage of products go to those more favorable markets and what percentage are stable or declining?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

It's a business that runs -- if you use new products that have a turnover, it is a 10% or 15% new products type of business where there is enough change that you have to change to a [leg] and maybe it's new patents and all that kind of thing.

In my experience, it's not like the software business, but in a manufacturing business, that's a fairly high percentage of new product turnover.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

So most -- so obviously some of the legacy programs have to be growing if you are projecting 4% to 8% of sales. I guess one other question; what is the growth rate on the new products?



**Sherry Lauderback** - *TriMas Corp. - VP, IR and Global Communications*

I don't understand the question.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

If you (multiple speakers)

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**Dave Wathen** - *TriMas Corp. - President and CEO*

My definition for new products is it is all growth when it's a new product. So then you do have to subtract some displacement where it is replacing our old product versus somebody else's. Call it half of that is growth. You're going to wind up getting to a 2%, 3% of organic product growth or you're going to wind up getting to a 2%, 3% of I'd call it geographic growth where we are taking products places they had not been before. We are still in the -- we reorganized the front end of the business to get better at taking our full product line everywhere, but we are not -- we are clearly not going to accomplish that across all the businesses.

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**Bob Zalupski** - *TriMas Corp. - CFO*

Yes, and the other comment I would make is a lot of the items that we would classify as new product sales for sales growth applications of existing dispensers that are tailored to a specific customer program, and the success or the duration of that program is really a function of how well that customer's product does ultimately in the end consumer market.

So it is not new product in the sense of -- I will use automobiles as an example, where you develop a new platform and you sell it all over the world kind of thing. It's much more tailored to, I think, consumer products companies, specific marketing programs and regions of the world.

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**Sherry Lauderback** - *TriMas Corp. - VP, IR and Global Communications*

I think it's fair to say about half of that 4% to 8% is new product related.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Yes, and then half of it is more driven by geographic movement.

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**Bob Zalupski** - *TriMas Corp. - CFO*

And growth, our growth in existing business.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Got it. That's great detail. If total CapEx to sales was 4% to 5%, what is that for Packaging? Is that higher because of the new product development?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Yes, it is. We are also -- remember, Packaging a business is a business that tends to run near full capacity, and so periodically we have to have a plant, and we are currently modeled to do that in 2016.



**Steve Barger** - KeyBanc Capital Markets - Analyst

You are adding capacity, okay.

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**Dave Wathen** - TriMas Corp. - President and CEO

Yes. And for a while, you can add it by contributing to fill an existing plant with more molding machines and maybe switching to more automation. At some point, you need more space. We have hit that in Packaging, so we do have a new plant in 2016.

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**Steve Barger** - KeyBanc Capital Markets - Analyst

Understood. So, obviously packaging is the most important segment from an EBIT contribution standpoint. Is the bigger risk to revenue and margin in a slowdown in consumer in the US or a slowdown in growth in emerging markets, or would it be a further decline in industrial? I'm just trying to frame up the risks.

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**Bob Zalupski** - TriMas Corp. - CFO

Yes, you know, I think if you look across those three segments, it is generally speaking equally risky, right, because the margin profiles across those three you mentioned really are pretty consistent, plus/minus 2%, 3% operating percent either direction. So a significant downturn in any one of those areas would be painful, no question.

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**Dave Wathen** - TriMas Corp. - President and CEO

Of course, we think we have seen some industrial downturn. Consumers remain pretty decent, as you know.

Within consumers, where do you park pharmaceuticals? Where do you park cosmetics and that sort of thing? There is a good history of that demand staying quite steady, even in a genuine consumer downturn. Logically, of course, it hits household goods more than it hits medicine. That is one of the attractiveness of the business segments we are in, of course, is it tends to stay a little steadier. But, we still have a big consumer business all over the world and quite large in the US.

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**Steve Barger** - KeyBanc Capital Markets - Analyst

Got it.

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**Dave Wathen** - TriMas Corp. - President and CEO

And, as you know, that has been holding up.

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**Steve Barger** - KeyBanc Capital Markets - Analyst

Yes, yes. Can you -- I will just ask one more, and then I will jump back in line. Can you tell me what the cash impact of the financial improvement plan will be in 2016? Because I think you are guiding to [60] to [70]. excluding the impact of that. I am just trying to see what that number is.

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**Bob Zalupski** - *TriMas Corp. - CFO*

It looks to be about \$4.5 million.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Perfect. Thanks very much.

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**Operator**

Steve Tusa, JPMorgan.

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**Steve Tusa** - *JPMorgan - Analyst*

Can you just give a little more color around the geographic sources and what parts of the oil and gas chain downstream/midstream/upstream that you have the greatest exposure on those customer charges? Just a little more color there.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

So you are generally talking Energy?

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**Steve Tusa** - *JPMorgan - Analyst*

Yes, the receivable issues, the customer solvency issues.

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**Bob Zalupski** - *TriMas Corp. - CFO*

It was predominately downstream customers. That is 85% of the overall Energy business activities, so it's not surprisingly that is where we would see the potential for the greatest risk. And the 15% upstream, that got hit a lot harder a lot earlier in the year. And so, as you look at the decline in energy sales year over year, actually other than the fourth-quarter downdraft that we saw on the downstream side, year-to-date through September, those sales were actually up and were offsetting or negating the impact of what was going on upstream.

So, it remains to be seen whether this fourth quarter was an aberration relative to the downstream spending or if it is something that will continue as we move through the year. Early indications are we are running at a reasonably consistent level in Q1 in terms of the downstream order intake that we did in Q4, but that can change as you move into spring season, which typically is a bit more higher-level activity for the turnarounds. (multiple speakers)

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Another split that matters on the risk profiles, much of our non-US business is because we put a branch near a global customer. And if you look at the customer lists in that business, the top of the list are always Dow, Shell, Exxon, BP, the people you would expect. And much of our global business goes to those refineries. Obviously in general, they are strong customers.

The ones you really have to watch are the second tier like service companies who do a lot of this upside service work for whoever it is. They are the ones who really have to watch their -- watch our receivables with as opposed to (multiple speakers). And then geographically, a lot of those are in the US.



**Steve Tusa** - *JPMorgan - Analyst*

That makes sense. And then one more thing. You guys mentioned exports being weak, some import -- imports are more competitive. Can you just talk generally about what you're seeing on pricing in your businesses? Even outside of the outside energy, are you seeing anything unusual in the kind of inflationary environment pricing behavior from competitors?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

We are -- yes, there is pricing pressure because everybody is so hungry for volume. The specific pricing pressure we get is when a feed commodity drops. Resins in packaging, of course. That's been going on for a while. And we've got a pretty good track record of holding margin percentages, maybe even doing better during those times. But once in a while, you have to pass some of it on. We've talked about some of it is contractual and some of it is negotiated. That even occurs like in the cylinders business, where it is a -- the only real material is specialty steel, is alloy steel, and steel prices are pretty darn -- I don't know if they are at the bottom, but you look at history of steel price curve and it has come down. So, we get a lot of pressure from that. And as expected and it's hard. I always try to figure out how much revenue do we hurt or get hurt on where we have to drop price but we hold margin percentage. It is a hard number to really get at because there's so many transactions. But that said, there is that kind of pricing pressure for sure and no let up in it.

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**Steve Tusa** - *JPMorgan - Analyst*

But what was price in the quarter for you guys on the top line?

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**Bob Zalupski** - *TriMas Corp. - CFO*

I would say not a lot of impact in Q4. I think in the cylinder business, we will see some pricing affects as a result of the lower steel costs that we'll pass along to certain of the large customers.

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**Steve Tusa** - *JPMorgan - Analyst*

Okay. That makes a lot of sense. Good luck in 2016. Thanks.

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**Operator**

(Operator Instructions) Karen Lau, Deutsche Bank.

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**Karen Lau** - *Deutsche Bank - Analyst*

So just follow up a little bit on pricing and packaging. Could you quantify how much pricing headwinds you realized last year, and what are you assuming in the 4% to 8%? Has pricing sort of stabilized in that business?

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**Bob Zalupski** - *TriMas Corp. - CFO*

I don't know that I would -- yes, a little bit of a headwind as we move through 2015. I think as we have gotten towards the end of the year, input costs have stabilized and would not anticipate this being a negative going into 2016.

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**Karen Lau** - *Deutsche Bank - Analyst*

Okay. And then, I guess maybe just go back to the previous questions about the jump in growth in Packaging. If you look at 2015, you did like a 1% for the full year, and I realize there is currency headwinds, but there is also acquisition contribution. So getting from like a flattish type of growth to 4% of to 8%, is that all coming from new products or perhaps some of the programs in 2015 got pushed out into 2016? I am just trying to square like why -- I would imagine some of the new products in geographic expansion was ongoing in 2015 as well, so just trying to understand why the big jump in forecasted growth.

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**Bob Zalupski** - *TriMas Corp. - CFO*

I think, certainly, there is an element of programs which we expected would occur in 2015 that were deferred by customers, and therefore, we would anticipate that we will get the benefit of those in 2016.

I also think, though, that this transition that Dave has referenced regarding a move towards a market-facing vertical organization, that took some time certainly in terms of getting it implemented and staffed in 2015, so I don't know that we necessarily received the full benefit of that, and I do anticipate that that effort, along with the completion of the Indian global innovation center, that we will ramp up the rate of new product programs, and there is clearly a focus on that business and growing the top line after, as you point out, what was a flat year-over-year situation in 2015.

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**Karen Lau** - *Deutsche Bank - Analyst*

Okay, makes sense. And then just lastly, maybe on restructuring, so Energy I think you took on your top-line forecast by about 10 points. Previously you were expecting down low single to mid-single, now down 10 to 15, but you are still expecting a pretty healthy margin expansion year over year. So is the incremental cost savings from the \$15 million run rate to \$22 million, is the incremental \$7 million all going into Energy? Maybe you can remind us how the savings split across the segment?

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**Bob Zalupski** - *TriMas Corp. - CFO*

I would not say that. I think the operating improvement that we are looking at for the energy group is really just a result of what I would call operational improvements in the sense of, for example, decisions on whether we -- where we manufacture or where we source product. There is a lot of opportunity in the supply chain for us to improve our product cost structure, and we are aggressively going after that.

So that is one example. I think others are as we drive down inventories, we will shrink our footprint a bit, and again, fixed cost is a little bit lower in that regard. So, it's less about the FIP directly impacting Energy. It's more about the benefits of the restructuring just improving the effectiveness and the efficiency of that operation.

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**Karen Lau** - *Deutsche Bank - Analyst*

Okay. So the incremental \$7 million, which segment is that? How does that split across the segment?

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**Bob Zalupski** - *TriMas Corp. - CFO*

It is really spread -- much like the 2015 -- originally 2015 what we announced, it is pretty much equally spread over each of the businesses. We go back to each business and we have targets. Probably the one exception might be Norris Cylinder or I guess Engineered Components generally because the Arrow Engine business has really cut an incredible amount of cost to maintain its breakeven profitability, and Norris Cylinder really just has a very, very lean fixed cost structure to begin with. So maybe they received a little bit less in terms of the target, but in the mean, it was equally spread amongst the other businesses.

**Karen Lau** - *Deutsche Bank - Analyst*

Got it. Thank you very much.

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**Operator**

Bhupender Bohra, Jefferies.

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**Bhupender Bohra** - *Jefferies - Analyst*

So I just wanted to continue on the previous question here. I believe you mentioned about driving down inventories, and could you just -- I mean, I am looking at the balance sheet here, the inventories are down year over year. And just give us a sense of which businesses actually have higher inventories and where you would have the opportunity to actually take them down.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

I made the same comment to you before. It's like you're sitting in one of our operating reviews. I ought to take you along sometime.

The Energy business does still have inventory that went up due to the dock strikes last year. Remember those? We had 30-some container loads of product we built in our Asian facilities that were for the US customers that we then had to build basically in Houston to serve the customers. So we wound up doubled up with higher cost product. I will quit complaining about that because it is behind us, but we still have that product to work off yet. We are doing it aggressively.

But that was -- that shielded our numbers a lot from a cost standpoint, but it also drove our inventories up. So we have got that whole thing to work down. That's probably the big one.

The engines business, chasing revenue down, would have more terms of inventory than we would like. But there is some burn off going on, and of course, that has a big parts business that continues to burn off, too. (multiple speakers) I don't think there's anything else that really pops out.

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**Bob Zalupski** - *TriMas Corp. - CFO*

Yes, nothing that I would consider unusual. I mean we are always striving to improve turns and reduce the investment. So all the businesses are subject to that challenge.

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**Bhupender Bohra** - *Jefferies - Analyst*

Okay. Okay. The follow-on, on the guidance here, just help us. How should we -- you did talk about first quarter being -- top line being down I think what, 7%? Is that the guide?

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**Bob Zalupski** - *TriMas Corp. - CFO*

8% to 10% relative (multiple speakers)

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**Bhupender Bohra** - *Jefferies - Analyst*

8% to 10%, okay, and we are ending the whole year like 2016 on packaging up 4% to 8% with new programs coming in. Can you help us with the cadence in the first half versus second half in terms of top line and what is actually built on the margin side in the first half versus second half here?

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**Bob Zalupski** - *TriMas Corp. - CFO*

I guess the way we are thinking about it is we clearly see the impact or the carryover of what we experienced in Q4 in our initial Q1 numbers for January. We thought it was prudent to make sure that that was communicated as part of this call.

As we look out on the full year however, we have revisited each of our businesses and have looked at the assumptions underlying the growth forecast. And at this juncture we don't see anything that would suggest later in the year that we are not going to see some uptick in our Energy -- our Aerospace and Packaging businesses.

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**Sherry Lauderback** - *TriMas Corp. - VP, IR and Global Communications*

And we will have lapped the lower oil prices midyear or so.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

We've all been staring at an oil price chart to remind ourselves that oil was still at -- it made one big drop early last year, but there was \$60 oil in second quarter last year, and many people were thinking it was swinging back up. So I've been saying that quite often. We have to keep track of when we lap the effect of that. (multiple speakers)

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**Bhupender Bohra** - *Jefferies - Analyst*

Yes, I was talking from the Packaging and Aerospace because the growth rate kind of looks really high. How should we think about the packaging new products growth? Would that come in the first half, or it's more like kind of the backend loaded growth rate?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

It's the pretty decent -- it's a ramp going up. It's my program. The folks at Packaging and Aerospace model that pretty well based on customer -- new products, customer programs and how fast they can work. And then in aerospace, of course, we have build rate forecasts, win rates for us and all that.

So there is a -- we would tell you -- we would give you guidance that we could not see those things going on underlying. And, of course, as you well know, the math says it's packaging in aerospace that are totals, or in this case, it's also energy improvement. That's on a continuing ramp also, costs coming down on fairly flat revenues.

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**Bhupender Bohra** - *Jefferies - Analyst*

And can you remind us -- yes, go ahead.

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**Bob Zalupski** - *TriMas Corp. - CFO*

I was just going to comment on the Packaging front. Fairly ratable in the sense throughout the year, but certainly first half is a little bit lower than the second-half improvement. Aerospace, other than first quarter, is pretty consistent across the remainder of the year.



**Bhupender Bohra** - *Jefferies - Analyst*

Okay. Got it. Thanks a lot.

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**Operator**

Matt Koranda, ROTH Capital Partners.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

I just wanted to continue along the lines of the Packaging questions that have been asked, but maybe attack it from a different angle here. I think margins, you guys have been targeting that 22% to 24% range for a while now, but you've been running in the 25% range for the past couple of quarters.

So I guess the question is, are we expecting some erosion from current levels, and does that have anything to do with the new customer programs that are rolling on, or is it legacy programs? How do we kind of think about margins in Packaging for 2016?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

I would stick with the 22% to 24%. We hate to give up any, but when it hits 25%, it's usually something special going on in the business. I would stick with that long-term 22% to 24%. We are obviously going to try to keep it at the higher range of that. But, we are also willing to spend money on new plants, tech centers, new product programs and all that. So it's a balancing act that kind of centers at 22% or 24%.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Got it. Okay. And then in terms of the Aerospace segment, I don't think this has been covered much yet, but it does look like the outlook for 2016 looks a little bit higher relative to your prior outlook. I think at the midpoint you are roughly at 10% versus before you were talking about maybe low to mid-single-digit growth in that segment. So how does -- maybe you could just talk about the Parker facilities contribution to the growth outlook in 2016 and maybe any other granularity I would like to get into there?

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**Bob Zalupski** - *TriMas Corp. - CFO*

Clearly that change is related to expected sales level activity as a result of acquiring the Parker facility.

(multiple speakers)

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Other than that, we have not seen a lot of change in aerospace. It is still an ongoing ramp-up, a little slower in 2016 than maybe the historical has been the last few years. Plenty of forecasts think kicks back up in 2017, but we will see.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay and one more for me here. You did mention acquisitions in the prepared remarks. But just wondering, maybe in terms of the balance between Packaging and Aerospace, if you could put a little color around what you're looking at in the acquisition pipeline? Is it skewing one way or the other



in terms of what you're looking at getting done first? Then just with multiples being elevated to, at the moment, like you said, Dave, it sounds like maybe we should not expect anything in the near-term. Are those fair assumptions?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Those are fair assumptions. Packaging, you might put Packaging a little ahead, but the folks on the phone that understand our Aerospace business will try to convince me that maybe it should be Aerospace first.

But that said, it's my judgment that case is a little more around what do we have the management horsepower to absorb, and we are busy in Aerospace with Parker Hannifin with the steel and the fastening business coming together more and more. We probably got a little more horsepower in Packaging to do it, so I would probably tilt that way.

But the plus, we do find in Packaging the opportunity to do a product acquisition that we could go about it, and those are almost the only ones that are going to make sense at current multiples. And we almost need to find special case that pulls the multiple down some or gives us a lot of synergy going in. Multiples are tough to get over. As hard as it is to say no sometimes, that is exactly the right thing to do and say we will come back at it another time.

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**Bob Zalupski** - *TriMas Corp. - CFO*

I mean there has been a fair amount of activity in terms of opportunities. We, of course, look at many items, but are pretty discerning as to what we are willing to pursue, particularly in light of the elevated multiples. So, more to come, but a lot of interest, a lot of activity and, as you might expect, fairly competitive.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay. Very helpful, guys. I will jump back in queue here, thanks.

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**Operator**

Walter Liptak, Seaport Global.

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**Walter Liptak** - *Seaport Global - Analyst*

I wanted to ask about the balance sheet, too, and what is the right debt level for you guys now, looking at your debt to EBITDA? And then also, kind of along the lines of the inventory and cash flow question, without acquisitions, where do you think your debt will be at the end of the year given the forecast?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

We are targeting -- and I think consistently have targeted a leverage ratio between 1.5 and 2 times EBITDA. And I think absent there being any sort of acquisition in 2016, we get down to about 2 times by the end of the year based on (multiple speakers).

**Walter Liptak** - *Seaport Global - Analyst*

Okay. Perfect. And then I wanted to ask about -- just a couple of follow-ups. In the Energy business, in the presentation, you called out exiting some low margin business. And so I was wondering if it is possible to look at a 10% to 15% decline and break that out by price versus volume versus exited business?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

I don't think we're that precise yet. Part of our reason to guide to those lower is that we are quite serious about exiting some pieces of business that are not attractive, and that there is quite a bit of that underway working that price versus exit versus what can we do differently if at all. I don't think we are precise enough to really say what that is yet. We will get more precise as this year goes on.

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**Walter Liptak** - *Seaport Global - Analyst*

Okay. And then (multiple speakers)

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**Dave Wathen** - *TriMas Corp. - President and CEO*

It's a relatively small piece of that decline. That's more of a market thing.

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**Walter Liptak** - *Seaport Global - Analyst*

Okay. And then I think you talked about turnarounds a couple of times. What is your outlook for turnarounds this spring? Is it -- is it -- I've heard mixed things. I don't know what your data points are telling you. Are we finally going to get more turnarounds?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

It's the most -- it's a frustrating thing to forecast. You watch daily order rates right now, you might say there is a turnaround. This is the season, and there would be some coming on. But it's too early to say what it's going to look like.

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**Walter Liptak** - *Seaport Global - Analyst*

Okay. Great. And then you mentioned -- skipping over to the Engineered Components segment, cylinders being leaked, and I wonder about the Airgas/Air Liquide merger, if there is any disruption related to consolidation or potential consolidation of those two businesses, and then just ask about the capacity expansion into markets we -- why increase capacity?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

That combination is quite attractive to both of them because they cover different continents. We ship to both of them, so we know very well where their strong markets are. So there is no geographic hit with that combination.

Now I always remind myself, in every acquisition anybody does, there is a line item about purchasing synergy, which means drag prices down. But we have got the spec and all that kind of thing.

The offset to softer industrial markets is we have done a lot of work recently with some different specs trying to expand applications for some of our products. We have had a whole lot of work that has been -- taken a while, but to do with precision of the thickness of walls and can we make



lighter weight cylinders that have the same capacity. And as straightforward as that sounds, it has been a lot of work. Some of those things are clicking.

So I am encouraged by -- in spite of currency, in spite of all that, in spite of kind of weak industrial, there is -- that business is doing very, very well. It's a very attractive business.

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**Bob Zalupski** - *TriMas Corp. - CFO*

Yes and I would mention also that while there is not significant growth top line there, that business has been operating near capacity for a few now, and that asset runs essentially 24/7. And as we shift the product mix between ISO and DOT cylinders, that setup that takes the forge down.

So it gives a lot more flexibility to respond to differing customer order types, and so it's not just strictly a capacity play. It's about flexibility, as well as efficiency in terms of your ability to meet customer orders. Because a lot of times it is how quickly can you get the order to the customer? And if you can do it in two weeks, you get the order. If it takes you eight weeks, maybe you don't. So part of this is about increasing the flexibility and the capability of responding more quickly to customer demands.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

I think I might -- there is also a characteristic in our Huntsville plant where we will make smaller size cylinders. We make some from tubing, from high-pressure tubing and fabric -- fabricated cylinders. We can make those with deep drawn cylinders out of the presses. If we have capacity on the presses, our total cost goes down to meet the same spec. So there is also a productivity side of this that allows us to take costs out on some other specs.

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**Walter Liptak** - *Seaport Global - Analyst*

Okay. All right. Great. (multiple speakers)

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Those are the kinds of decisions we all have to make once in a while, is over the course of the next couple of years, what do we get out of it? And we are convinced this is worth it.

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**Walter Liptak** - *Seaport Global - Analyst*

Okay. Thanks for the color.

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**Operator**

(Operator Instructions) Steve Barger, KeyBanc Capital Markets.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

What is your market share in cylinders? You have most of the dominant position, right?



**Dave Wathen** - *TriMas Corp. - President and CEO*

Yes. We have a very strong position.

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**Bob Zalupski** - *TriMas Corp. - CFO*

Well, certainly in North America.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

In North America, just because of the shipping cost and all that sort of thing. We are -- we won an anti-dumping case. That got into all kinds of stuff that we are a little cautious about.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

I understand, yes (multiple speakers)

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**Dave Wathen** - *TriMas Corp. - President and CEO*

But no, we are quite strong, as you can imagine, within our shipping distances.

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**Bob Zalupski** - *TriMas Corp. - CFO*

And clearly it is a global marketplace, and there is distinct regional competitors in other parts of the world that they obviously are strong in those in region, and just like us, looking to export into regions outside of North America, they are obviously doing the same thing in terms of trying to export into North America.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

But the majority of your sales are in North America for cylinders. Is that right?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Yes.

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**Bob Zalupski** - *TriMas Corp. - CFO*

But notwithstanding that, in our dominant position, it's a pretty competitive marketplace both here in the US and globally.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

I guess I just don't understand. You won the anti-dumping case, and you are the dominant supplier in the US. So where's the price competition coming from?

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Other than those (multiple speakers)

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**Bob Zalupski** - *TriMas Corp. - CFO*

And the restraining order is related to Chinese manufacturers. There's competitors outside of China that are as formidable.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

People in Austria and Italy are pretty hungry right now.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Got it. The reason I got back on actually was to ask a question about the debt paydown. The slides say it's a priority, but I'm just curious. What the decision trigger for buyback -- share buyback versus debt paydown? Is it purely quantitative or qualitative, or how does it work when you think about that capital allocation decision?

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**Bob Zalupski** - *TriMas Corp. - CFO*

I would say it's more qualitative. It really depends on our evaluation of the share price at a point in time when we are in a window able to buy shares back.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Are you willing to talk about what factors go into your evaluation of share price?

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**Bob Zalupski** - *TriMas Corp. - CFO*

Not at this time, no.

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**Steve Barger** - *KeyBanc Capital Markets - Analyst*

Okay. Thanks.

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**Operator**

(Operator Instructions) It appears that there are no further questions at this time. Mr. Wathen, I would like to turn the conference back to you for any additional remarks.

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**Dave Wathen** - *TriMas Corp. - President and CEO*

Thank you, everybody. We sure appreciate the interest. I would leave you with the thought that while it is tough out there, there are bright spots to go after. We really keep after it, and I am -- I think there are enough bright spots in 2016 that we are going to look back on it that we like it. So thank you. Stay tuned.



**Operator**

And that does conclude today's conference. Thank you for your participation.

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