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TRS.OQ - Q1 2024 TriMas Corp Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the TriMas first-quarter 2024 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Sherry Lauderback, VP Investor Relations and Communications. Thank you, Ms. Lauderback. You may begin.

Sherry Lauderback - *TriMas Corp - Vice President, Investor Relations and Communications*

Thank you, and welcome to TriMas Corporation's first-quarter earnings call. Participating on the call today are Thomas Amato, TriMas' President and CEO; and Scott Mell, our Chief Financial Officer. We will provide our prepared remarks on our first-quarter results and then we'll open up the call for your questions.

In order to assist with the review of our results, we have included today's press release and presentation on our company website at trimas.com under the Investors section. In addition, a replay of this call will be available later today by calling 877-660-6853 with a meeting ID of 13745821.

Before we get started, I would like to remind everyone that, our comments today may contain forward-looking statements that are inherently subject to a number of risks and uncertainties. Please refer to our Form 10-K and our first-quarter Form 10-Q to be filed later today for a list of factors that could cause our results to differ from those anticipated in any forward-looking statements. Also, we undertake no obligation to publicly update or revise any forward-looking statement except as required by law. We would also direct your attention to our website where considerably more information may be found.

In addition, we would like to refer you to the appendix in our press release or our presentation for the reconciliations between GAAP and non-GAAP financial measures used during this call. Today, the discussion on the call regarding our financial results will be on an adjusted basis, excluding the impact of special items.

With that, I will turn the call over to Tom Amato, TriMas' President and CEO. Tom?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

Thank you, Sherry. Good morning, and welcome to our first-quarter earnings call.

Let's turn to slide 3. First, let me say that we're off to a great start. The positive momentum we began to observe at the end of 2023 in certain of our end markets and performance in TriMas's two largest segments has continued as we begin the year. Within our TriMas Packaging Group, virtually all of the end markets that were depressed in a cyclical demand trough in 2023 are now up organically and displaying signs of strengthening.

Additionally, on a year-to-date basis, only products used in certain beverage applications softened as compared to the prior-year quarter, driven primarily by lower sales into certain dairy applications and delays in orders related to European-based customers converting to tethered caps. For TriMas packaging group overall, organic sales were up 6.1% with total sales for the group up 9.3%.

Sales and order intake within TriMas packaging are important foundational indicators reinforcing our confidence that we are executing the right strategy to deliver our 2024 financial targets. Within our TriMas aerospace group, organic sales were up 11.8% with total sales up 34.7%, driven by higher aerospace fastener throughput and our acquisition of Weldmac Manufacturing.

Our backlog and order intake within TriMas aerospace remains robust, which we believe supports our continued recovery efforts, given the dislocation in market demand and sub supply and labor availability for which we had been working on through most of the prior year. While our packaging and aerospace segments represent over 80% of our sales in the quarter, sales in our specialty products segment weakened significantly in the first quarter, as compared to an exceptional sales rate in the first quarter of last year. Two main factors drove this rate of change, which Scott will cover in more detail later.

First, while lower cylinder sales were anticipated, the rate of change was higher than planned due to overstocking of cylinders in 2023, as customers sought to mitigate logistics and lead time challenges from prior years. Additionally, we had no meaningful sales of compressors to one of our customers in the oil and gas market.

Our specialty products businesses continue to flex cost and right size, where practical to current demand levels, while also preserving the ability to meet anticipated higher demand in the second half of 2024. We have experienced demand volatility within our specialty products businesses in the past, and we remain confident that volumes will begin to recover as we move through the year.

On a consolidated basis, TriMas sales for the first quarter were up 5.4%, slightly ahead of expectations. I would also like to turn our attention to share repurchases to start the year. We have repurchased approximately 540,000 shares for a net reduction of shares outstanding of approximately 1%. And as of today's, call, we have increased this total to just over 600,000 shares on a year-to-date basis, further adding to our return of capital metrics. This rate of share repurchase is higher than the first quarter of last year as reducing shares outstanding is a tax-efficient way to provide long-term value to our shareholders, particularly when we believe there are valuation dislocating events in the market.

Finally, as noted in today's press release, we achieved adjusted earnings per share of $0.37, an increase of 5.7% as compared to the prior-year quarter. In light of a solid start to the year, trends we are seeing in certain of our end markets, and even when considering in some cases continued demand volatility, we are reaffirming our sales and adjusted EPS guidance for the year.

Let's turn to slide 4, and I will briefly go through our first-quarter results in more detail. We are reporting sales of $227 million, up 5.4% as compared to the prior-year quarter due to the factors previously discussed. Adjusted operating profit was $16.2 million and was up by 4.7% as compared to the prior-year quarter last year. This performance was driven by improved conversion rates within TriMas aerospace and the beginning of operating leverage gains of TriMas packaging more than offsetting lower earnings in specialty products and the treatment of non-cash stock compensation which slightly burdened the quarter.

As previously noted, adjusted EPS was $0.37 as compared to the prior-year quarter of $0.35. And finally, adjusted EBITDA for the quarter was $35 million, up by 10.2% as compared to the prior-year quarter. We are continuing to make gains in our LTM EBITDA, which is now at approximately $160 million as compared to the last quarter of $156.4 million. This is an important performance trend we like to see as it demonstrates momentum in recovering end markets.

Turning to slide 5. We continue to manage a strong balance sheet. As a reminder, the vast majority of our debt is at a low interest rate and not terming out until 2029. We finished the quarter with net debt of $394.5 million and a leverage ratio of 2.5 times. We did spend just over $13 million in the quarter on share repurchases which, as discussed, we believe was an appropriate trade off given dislocation in our share price. Additionally, we did have a use of cash in the quarter driven by seasonal timing, higher sales activity, and strategic inventory builds. While not the same rate as last year, this use of cash rate is historically the norm for TriMas as we move from Q4 to Q1.

At this point, I will now turn the call over to Scott who will take us through TriMas' segment results. Scott?

Scott Mell - *TriMas Corp - Chief Financial Officer*

Thanks, Tom. Let's turn to slide 6, and I will begin my review of our segment results starting with TriMas packaging.

Net sales in the quarter were $127 million as compared to $116 million for the prior-year quarter, an increase of more than 9%. Acquisitions contributed $2.8 million of sales, while the favorable impact of foreign currency translation contributed another $900,000 of sales during the quarter.

Operating profit for the quarter was $18 million, an increase of more than 18% on a year-over-year basis, primarily on account of higher sales and the benefits of our previous structural cost savings actions. Adjusted EBITDA was $26.2 million or 20.7% of net sales, a 130-basis point improvement year over year. I do want to highlight an item that impacted the year-over-year comparison for TriMas packaging.

As highlighted during our fourth-quarter 2023 earnings call, now that we have completed the centralization of our global IT function into a shared service model, we are allocating certain IT costs to our businesses in 2024, which was not the case in 2023. These costs for TriMas packaging in the first quarter were approximately $1.1 million or about 90 basis points.

Additionally, as global CPG customers order rates picked up to start the year, we did incur some off-standard input and expedited freight costs to meet higher demand rates. While this was an undercurrent in the quarter which approximated another 80 basis points of margin erosion, much of the off-standard costs are now behind us, and we view the overall order dynamics as a positive. So overall, TriMas Packaging is off to a great start in 2024, which supports our confidence in achieving our full-year sales and earnings guidance for the segment.

Turning to slide 7. I will now provide an update on our TriMas aerospace segment. Net sales for the quarter increased by more than $17 million or 34.7% when compared to the same period a year ago, as we continue to see strong order intake and general aerospace volumes continue to recover. Acquisitions contributed $11.4 million of sales during the quarter, while organic sales increased by $5.9 million or 11.8% when compared to the previous-year period. Operating profit for the quarter was $7.1 million or 10.6% of net sales, which represents a 770-basis-point improvement, when compared to the previous-year period.

Adjusted EBITDA for the quarter was $11.8 million or 17.4% of net sales. We've now experienced seven consecutive quarters of increasing LTM sales for TriMas aerospace, and LTM sales for this quarter are approximately 40% higher than the rate we're at in the second half of 2022. Likewise, our LTM adjusted EBITDA margin of 17% is approximately 400 basis points higher than the same period a year ago, and we remain confident that, our full-year operating margin will be at or exceed the high end of our guidance.

Now on slide 8. Let's review our specialty products segment. Net sales were $32.7 million, as compared to $49.3 million for the prior-year quarter, as general industrial cylinder demand continues to be soft due to a very high sales rate and subsequent overstocking in 2023 and, to a lesser extent, no compressor sales in the quarter to one of our larger oil and gas customers. We anticipate that this soft demand environment for industrial cylinders will continue through the second quarter, and as a result, specialty products will likely be challenged to meet our previously provided full-year sales guidance.

While we believe our primary customers for steel cylinders will continue to see business growth in 2024, we have started to see some recent improvements in our order book and have already received compressor orders for deliveries in the second half. At this point, we now expect year-over-year sales declines of 5% to 10% for specialty products. Of course, we continue to closely monitor our order intake, and we'll continue taking appropriate flexing actions as necessary.

Operating profit in the quarter was $2.6 million or 8% of net sales, while adjusted EBITDA for the quarter was $3.6 million or 11% of net sales. Despite the lower-than-expected sales performance for the specialty products business, at this point, we believe the progress being made in our two largest segments, TriMas packaging and TriMas aerospace, will allow us to achieve our full year sales and earnings guidance. In addition, we expect Q2 year-over-year sales improvements to be inline with Q1 performance, while Q2 adjusted EPS is expected to be comparable to the prior year, as higher interest and tax expenses offset incremental operating profit.

At this point, I'd like to turn the call back to Tom for some closing remarks. Tom?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

Thank you, Scott. Let's turn to slide 9. I will conclude our prepared remarks by providing just a few examples of why we remain excited about the near- and long-term shareholder value creation prospects for TriMas. First, after a demand-challenged 2023, we are beginning to see order intake increases within TriMas -ackaging. While we are cautiously optimistic about 2024 revenue growth, we are positioned to make even further operating leverage gains in 2024, should we experience higher-than-planned growth. We would also expect to enhance conversion rates into 2025.

Finally, we continue to invest in innovation in 2023 despite the challenges in the year to allow for sustained long-term growth. We are also confident in the actions we have taken to improve supply and skilled labor constraints within our TriMas aerospace group. We have top graded our leadership talent and expect to take advantage of further operating leverage gains, as we continue to bring our production planning into better synchronization with customer demand.

Additionally, we continue to take steps to focus and improve our portfolio of businesses. First, we placed a priority on building out our TriMas Packaging platform through M&A with the focus on the life sciences, beauty, and food & beverage end markets. Next, we continue to take steps to shift certain of our industrial businesses in a better position to make operating leverage gains from anticipated demand recovery in the mid-term. Finally, we have already announced a planned divestiture of our aero engine business, which would facilitate TriMas' exit of our presence in the oil and gas end market.

Given our relentless commitment to cash flow generation, we will continue to reinvest in our businesses for long-term growth, while also returning capital to our shareholders both through share buybacks and dividends. In addition, our leadership team remains committed to operating TriMas in a responsible and sustainable way to contribute to society, particularly in the communities where we live and work. As I mentioned at the beginning of the call, we are off to a great start, and we are reaffirming our 2024 outlook at this time.

I would like to again thank our investors for their support. We continue to believe TriMas is an exciting company to invest in. With that, I'll turn the call back to Sherry. Sherry?

Sherry Lauderback - *TriMas Corp - Vice President, Investor Relations and Communications*

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Ken Newman, KeyBanc Capital Markets.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Scott, I just wanted to clarify on the reaffirm guide for this year. It sounds like there are some minor changes to the segment sales and margin guide that you provided from last quarter. If I caught it all correctly, you're at or above the high end of the margin guide for aerospace this year, and now you're expecting specialty sales down 5% to 10%. Is there anything else within that segment guidance that we should be aware of?

Scott Mell - *TriMas Corp - Chief Financial Officer*

No. You picked up on the two key items there. Everything else is the same as we guided to in the last earnings call.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Okay. And then I appreciate the help on maybe the consolidated sequential expectations for 2Q on revenue and earnings. Just curious if there's any help in how to think about the sequential moves in revenue across the three segments as it relates to the first quarter?

Scott Mell - *TriMas Corp - Chief Financial Officer*

Well, look, I think I spoke to the expected growth year over year for Q2. It's going to be very similar to what we saw for Q1 on a year-over-year basis. I think we continue to expect Aerospace to continue to grow at a nice rate. I think packaging, again, I think I would point you toward last year's Q2, and we expect to see a very similar growth rate in Q2 of this year as we experienced for Q1.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Okay. Got it. Maybe just a couple more for me, and then I'll jump back in line. But I didn't hear whether or not there was an update on your expectations to pull the Norris into the packaging segment. Is there a timing update there that you'd like to provide?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

We mentioned on our last call that this is something that we're interested in moving TriMas to two segments. I think at this point, we're tracking against our process with our aero engine business which is underway and update further as we get into the second half on what we might do there with Norris.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Got it. Maybe one more for me, and I'll jump back. In aerospace, we are obviously seeing some headlines about maybe some production cuts out of Boeing on the 737 MAX. As it relates to the visibility in your business, are you seeing or expecting any impact from that in this year or just any color there?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

So not expecting any impact from that this year. Actually, within aerospace, our bookings are at this point in the year almost going into 2025 anyway, so we're pretty much fully booked. So we're not seeing any near-term 2024 impact from that at all.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Understood. I'll jump back in line.

Operator

Hamed Khorsand, BWS Financials.

Hamed Khorsand - *BWS Financial Inc. - Analyst*

Good morning. first off on the packaging side, could you just talk about the conversations you're having now with customers and how that differs with what you were seeing last year?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

If you could see me right now, I got a smile on my face because the conversations we had last year were very difficult, right? There was an overstock position, there wasn't a need. As we sort of look back and we plot against order intakes and other KPIs that we look at throughout the year, we can conclude that we were in a very strange trough last year, and we're certainly out of it today.

Our conversations today, in some cases, are, how can we get more product quicker? What a change from the prior year. It's not all cases, but in some cases, in some product lines, we're seeing accelerated supply needs. We have the capacity. We're working hard in some cases. This works against optimal performance because we have over time or we might even have cases, where we have to expedite ship to satisfy some of our most key customers.

But it's a very different environment. One quarter does not make a year. We are not setting the flag and saying, this is behind us forever. But certainly, we feel much more pleased today with our outlook in our packaging group, not only for 2024, Hamed, but we see the ability to make sequential gains into 2025, as order rates start to pick up through the year.

Hamed Khorsand - *BWS Financial Inc. - Analyst*

Okay. My question on that is, if you're seeing that kind of activity, why are you hesitant as far as guidance and so forth? What's holding you back?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

Another great question. The industry still is in a short cycle business, short cycle nature. Unlike aerospace, where I mentioned with Ken's question that, today, if an order comes in, depending on the order, we could be quoting a 2025 delivery date. In packaging, that's not the case. We still are in a very short cycle nature in that business. And until I see the lead times elongate, then I don't have full confidence that, we're at a point where we could say, okay, we know the book is going to be strong through date X. So we'll know a little bit more at the end of this quarter, and then we'll update you further.

Hamed Khorsand - *BWS Financial Inc. - Analyst*

Okay. And then one question on aerospace is, what gives you confidence in aerospace that you don't have some hiccup that you had in specialty packaging or specialty products that all of a sudden you're seeing a sequential decline of 30%. What prevents that from happening in aerospace?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

Okay, well, first of all, we're sitting today with an order backlog that is historically strong, and that gives us confidence because we can look out more than through 2024 into revenue that will start to satisfy a foundation for 2025. That's one point. The second point is that, we do see, when we look at overall production build rates for commercial airliners and military equipment, we still see an increase versus where we are today.

I know there's some discussion around Boeing, but there still are increases forecast in the future, and Airbus continues to be strong and then there's Embraer and others. The only thing that I would say is, we had certain instances in the past that were strange dislocating events, but we don't see anything like that now. Airline travel is up again. It has all the metrics around it that has us with high confidence, not only for 2024, but as we go into 2025.

Operator

(Operator Instructions) Ken Newman, KeyBanc Capital Markets.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Can you just give a little bit more color on what the softness in the beverage-related issues were? What were those driven by into the packaging segment, and is that just contained through a few specific customers?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

It really is contained to a few specific customers and in a region. And it is, on a relative basis, a pretty low change. But it's the only end market that was slightly down from the first quarter of last year, and it was not a big number. But our sales to our particular dairy customer was off. We expect those volumes to come back later in the year.

And that we are seeing some innovation cut over in the European beverage market I mentioned. There are customers of ours that are changing to our tethered cap line. So they're working through old inventory, which is our prior technology, which was not a tethered cap. So pretty discrete and not a big number.

Ken Newman - *KeyBanc Capital Markets - Analyst*

Okay. Just maybe one more for me. As I think about the eventual foldout of Norris and some of the weakness out of the steel cylinder business this quarter. Is there any way you can help us to think about the margin profile of Norris relative to specialty and how we think about that business going forward combined with packaging?

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

Yeah. I mean, it's really a tough quarter to look at. And I would say that the margins comparably between Norris and Arrow are pretty close. But I think this quarter is not really a representative quarter given the low volume. I would look back over time to a roughly 15% operating profit, maybe 18% EBITDA, and that's more normalized for Norris overall.

Ken Newman - *KeyBanc Capital Markets - Analyst*

That's helpful. I appreciate that, Tom.

Operator

Thank you. (Operator Instructions). There are no further questions at this time. I would now like to turn the floor over to Thomas Amato for closing comments.

Thomas Amato - *TriMas Corp - President, Chief Executive Officer, Director*

Okay. Again, I would like to thank you for joining us on our earnings call. Appreciate the questions and commentary, and we look forward to updating you again next quarter. Thank you.

Operator

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