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Myers Industries, Inc. (MYE)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. And welcome to the Myers Industries 2020 Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session [Operator Instructions]

I would like to now hand the conference over to your speaker today, Monica Vinay. Please go ahead.

Monica Vinay
Vice President, Investor Relations & Treasurer, Myers Industries, Inc.

Thank you. Good morning and welcome to Myers Industries third quarter 2020 earnings call. I'm Monica Vinay, Vice President of Investor Relations and Treasurer at Myers Industries. Joining me today are Mike McGaugh, President and Chief Executive Officer; and Dan Hoehn, Interim Chief Financial Officer.

Earlier this morning, we issued a news release outlining the financial results for the third quarter of 2020. If you've not yet received a copy of the release, you can access it on our website at www.myersindustries.com. It's under the Investor Relations tab. This call is also being webcast on our website and will be archived along with the transcript of the call shortly after this event.

Before I turn the call over to Mike, I would like to remind you that we may make some forward-looking statements during the course of this call. These comments are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations and involve risks, uncertainties and other factors, which may cause results to differ materially from those expressed or implied in these statements. Further information concerning these risks, uncertainties and other factors is set forth in the company's periodic SEC filings and may be found in the company's 10-K and 10-Q filings.

I am now pleased to turn the call over to Mike McGaugh.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

Good morning. Thank you for joining us. I'd like to start the call by expressing my sincere appreciation to our entire Myers team for their continued efforts during the pandemic. Our customers count us to deliver value-added high quality products in a safe and timely manner, and your efforts remain critical to ensuring that happens. Thanks to your dedication and hard work, especially from the team at our Scepter business, we were able to deliver sales and operating results during the third quarter that were an improvement over last year and better than we had originally anticipated. Thank you Myers teammates for job well done.

Now, if you'll turn to slide 3 of the presentation, we'll share an overview of third quarter 2020. In short, we had a great quarter. I'm pleased with our results, our direction and our progress. We still have a lot of work to do, but I'm excited about Myers performance in third quarter. Sales in our consumer end market increased significantly year-over-year as a result of higher demand for our fuel containers, which is due primarily to heightened storm activity. We're also encouraged by the continued increase in demand that took place in our auto aftermarket business. In addition, demand for RV products in our vehicle end market also continued to stay strong.

Our businesses delivered gross margin expansion again this quarter. Gross profit margin increased 400 basis points, 35.6% for the third quarter of this year. This was due to solid execution and favorable price-cost margin. As a result of the gross margin expansion, our adjusted operating margin increased 500 basis points to 11.8% and our adjusted EBITDA margin increased 370 basis points to 14.8%. We generated solid free cash flow of $16.2 million during the third quarter. And as a result, we had $84 million of cash on hand as of September 30. We also had $194 million available under our credit facility and our debt to EBITDA ratio was only 1.1 times. As a result, I feel very comfortable that we have more than enough liquidity and flexibility to execute on our new strategy that I will discuss later in the call.

Before I turn the call over to Dan, I'd like to thank him for stepping in as Interim CFO. He is doing a great job and I appreciate all of his efforts and hard work. And with that, I'll turn it over to you, Dan.

Dan Hoehn
Interim Chief Financial Officer, Myers Industries, Inc.

Thanks, Mike, and good morning, everyone. Please note that all numbers in the presentation reflect continuing operations. Please turn to slide 4. Net sales for the third quarter were $132 million, an increase of 5% compared with the third quarter of 2019. The increase in sales was due primarily to significantly higher fuel container sales in our consumer end market driven by hurricane activity.

We also increased our auto aftermarket sales both from stronger end market demand in our legacy business and from incremental sales due to the Tuffy acquisition. Gross profit margin increased 400 basis points to 35.6%. This was primarily due to higher sales volume and favorable price-cost margin. Also gross profit in 2019 included a $3.5 million charge for estimated product replacement costs.

Our adjusted operating income increased 83%, to $15.6 million for the quarter. This was the result of higher gross profit margin coupled with lower depreciation and amortization. Adjusted EBITDA increased 40% to $19.6 million and adjusted EBITDA margin was 14.8%. Adjusted diluted EPS was $0.30 compared with $0.15 for the third quarter of 2019.

Now, let's turn to slide 5 for an overview of our performance by business segment in the third quarter. In the Material Handling segment, net sales increased 3%. Sales of fuel containers in our consumer end market were up nearly 40%, primarily as a result of increased storm activity. However, food and beverage market sales were down high-single digits due to lower seed box volume year-over-year. Sales to our industrial end market decreased mid-single digits due to lower sales to industrial distributors, partially offset by higher e-commerce sales.

Sales in our vehicle end market were down double digits as higher sales to RV customers were more than offset by lower sales to automotive OEMs. Material Handling's adjusted operating income was up 59% to $16.5 million due to higher sales volume, lower depreciation and amortization expense and favorable price-cost margin. Also in 2019, adjusted operating income included a $3.5 million charge for estimated product replacement costs.

In the Distribution segment, sales increased 10% due to $2.9 million of incremental sales from the August 2019 Tuffy acquisition and higher domestic sales in the legacy business. Distribution's adjusted operating income increased 41% to $5.1 million, primarily as a result of higher sales volume and lower SG&A expenses.

Turning to slide 6, I'll review our balance sheet and cash flow. For the third quarter of 2020, we generated free cash flow of $16.2 million compared with $22.1 million last year. Working capital as a percent of sales at the end of the third quarter was 9.2%, which was up compared to Q3 of last year, but was lower than last quarter.

The year-over-year working capital increase was primarily due to higher accounts receivable and inventory balances due to strong sales in September and strategic investments in inventory that we made earlier in the year to protect our supply chain during the pandemic. We have already begun reducing inventory balances and expect working capital to return to more normal levels by the end of the year. Cash on the balance sheet at the end of the third quarter was $84 million and our debt to adjusted EBITDA ratio was 1.1 times, which is consistent with previous quarters.

Next, let's turn to slide 7 for our updated full year 2020 end market outlook. Before we begin, please note that this outlook is based on current and projected market conditions and there is still uncertainty around these projections.

Starting with our consumer end market, the increase in demand during the third quarter was even greater than we had anticipated due to heightened storm activity. As a result, we now expect a full year sales increase in the double-digit range in this market, which is an improvement from our previous outlook of a mid-single-digit increase. That said, we do not expect the increased demand we experienced in the second and third quarters to continue into the fourth quarter. Instead, we expect sales volumes in the consumer end market to return to more historical fourth quarter of levels.

In our food and beverage end market, we now anticipate a revenue decline in the mid-teens for the full year of 2020. Although, we expect seed box sales to increase year-over-year in Q4, we don't expect demand to be as high as we originally forecasted. And as a result, we expect that seed box sales will be down for the full year of 2020. Additionally, annual sales to food processing customers are expected to be lower year-over-year due to impacts from COVID-19, including delayed product trials.

Turning to our vehicle end market, while RV demand has improved, we do not anticipate that the higher sales in that portion of the market will offset the decrease in sales year-over-year to automotive OEM customers. Therefore, our outlook for the vehicle end market is unchanged with sales expected to be down double digits for the full year 2020.

In our industrial end market, the soft demand environment in industrial manufacturing and distribution is expected to continue through the remainder of the year. Signs of end market improvement that we saw late in the second quarter subsided during the third quarter. Therefore, we have lowered our industrial end market outlook to be down in the mid-teen percentage range for the full year of 2020.

Finally, in our auto aftermarket, we have seen demand continue to improve and are now forecasting sales to increase in the low-single digits, which is an improvement from our previous outlook of a low-single digit decline.

Turning to slide 8, you can see our guidance for 2020. On a consolidated basis, we now anticipate full year sales to decline in the low- to mid-single digit percentage range, which is a slight improvement from our previous expectation of the decline in the mid- to high-single-digit range. We continue to expect depreciation and amortization to be approximately $21 million, net interest expense to be approximately $4 million, a diluted share count of approximately 36 million shares, and capital expenditures to be roughly $15 million. Lastly, we anticipate that the adjusted effective tax rate will be approximately 26%.

With that, I'll turn it back over to Mike who will outline our strategy.

Mike McGaugh

President, Chief Executive Officer and Director, Myers Industries, Inc.

Thanks, Dan, for your review. Now, I'd like to talk through our new long-term strategy and the strategic pillars we have in place to drive its execution. Please turn to slide 9. We've developed a long-term strategy that's broken down into three discrete horizons. Each of these horizons builds on the preceding one. The first phase, which we call Horizon 1 consists of three approaches: self-help, organic growth and bolt-on M&A. Self-help will focus on purchasing, on pricing and on SG&A optimization.

In purchasing, as an example, we are centralizing procurement. In the past, each of our business units purchased their own products. So, we had multiple units buying their own versions of a similar raw material. We didn't consolidate our buy and leverage it. We're changing that approach. We're now consolidating purchasing into a single function and we'll leverage procurement company-wide. As a result, we'll have greater leverage with our suppliers and expect to lower our costs.

A key objective of self-help is to improve our margins by driving off greater wedge between our raw material costs and our product sales prices. Centralized purchasing will address our raw material costs. On the pricing side, we'll be using pricing and data analytics to determine where and how we can improve our pricing. I believe an enhanced focus on pricing will help identify areas of opportunity for Myers to better capture the value our products deliver to our customers.

Next is SG&A optimization. Over the coming months, we'll continue to move forward with the One Myers approach, combining key elements of the company together so that we're stronger, more efficient and more effective. Over time, we will reorient some of our SG&A resources, prioritizing sales, product and market management and innovation. As an example, we will reduce our overhead costs and we will redeploy these dollars into our sales function, increasing our number of salespeople. The self-help measures will drive profits and will fund our organic growth and bolt-on M&A opportunities.

On the organic growth side, we will strengthen our commercial capabilities. We've developed a road map to bolster and improve our commercial function. This has been a key area of focus since I joined Myers. While we still have a lot to do in this space, I'm encouraged by what I see so far.

Going forward, we will go to market as one company, One Myers. As One Myers, we will bring solutions that are based on all of our current capabilities: rotational molding, blow molding, injection molding and thermoforming.

Having this full set of capabilities is a differentiator in the market. Instead of separate sales teams for each business unit, who were just selling one technology, now our sales force will bring all of Myers' technologies to the market. This new approach will turbo-charge our organic growth efforts.

In addition to the self-help and the one company approach, another big change is our approach to bolt-on M&A. We will now focus our efforts in deal flow on building our plastics business. We will focus on deals that are close to home in terms of technology and markets. This is a change from the past. Now, when we think about M&A, we plan to build on our current technologies and expertise in plastics molding. While we are strong in plastics – we are strong in plastics, we have good brands, and we are number one or number two in the areas where we participate. Going forward, we will embrace our polymers heritage and will use bolt-on M&A to expand our offering in plastics molding.

Speaking of M&A, I'd like to provide a short update on the Tuffy acquisition. It's been just over one year since we purchased Tuffy Manufacturing and combined it with our Myers Tire Supply business. We purchased Tuffy for the right price at the right time. We integrated smoothly and efficiently and, as a result, it has performed above our expectations.

In order to ensure that we successfully integrate future acquisitions that will likely be larger and more complex than the Tuffy acquisition, we brought on Dave Basque, who had many carve-outs and integrations at Dow. Dave is putting in place a robust process to successfully integrate future acquisitions.

Over the next quarter, I expect us to share proof points on this part of our strategy. We believe that by executing on the strategy under Horizon 1, we can grow Myers to $1 billion in annual revenue and our target is to be at that run rate by the end of 2023.

Now, I'd like to speak to the second step, Horizon 2. Horizon 2 will be built from the profits generated from successful execution of Horizon 1. Horizon 2 will continue to include the self-help initiatives, organic growth initiatives and bolt-on M&A. However, in Horizon 2, we shift gears and we'll begin executing larger enterprise-level acquisitions. We will continue building and growing in the plastics and polymer space [ph] we just (00:17:03) execute at a greater scale.

We'll continue to focus on specialized value-added products and stay away from commodity products just as we do today. Experience we gain from completing the bolt-ons in Horizon 1 will prepare us to successfully execute larger acquisitions under Horizon 2.

In addition to the enterprise-level M&A in Horizon 2, we also expect to be in a position to grow in adjacent technologies. As examples, we may build out the unique capabilities we have in thermoforming or in rubber processing or metal fabrication. As it stands today, we have a small presence in each of these. And it appears we have meaningful organic growth opportunities to build them out.

Our long-term vision concludes with Horizon 3, which is geared around going global. I can see a path to grow Myers to approximately $2 billion in revenue, while largely staying in the United States. However, to grow beyond that threshold and into Horizon 3, we will likely need to expand globally via M&A.

Although, this is a few years off, it's important to have the vision and the direction for the company. In order for Myers to reach its full potential, we will need to go global and expand in low-risk attractive countries outside of the United States. On the organic side of Horizon 3, we plan to further build on our plastics backbone, but also evaluate expansion into other substrates. An example would be metal substrates and there'll be more to come there.

As I ask you – I ask you to turn to slide to 10, so I can speak to the discipline and focus with which we will execute. Our road map for execution includes our strategic objective as well as four supporting pillars. Our strategic objective is to transform the Material Handling segment into a high-growth customer-centric innovator of engineered plastic solutions, while at the same time we continue to optimize and grow the distribution segment.

Myers is in a great position. We have excellent technologies and products on the Material Handling side and we have deep industry knowledge and experience, and a strong foundation on the Distribution side. Make no mistake, our company's future is bright, our runway is long and I can't think of anywhere else I'd rather be.

We have four pillars that are simple and clear and will drive execution. They are organic growth, strategic M&A, operational excellence, and high-performing culture. These four pillars are the cornerstones of Myers transformation and will ensure we successfully deliver the goals and objectives of Horizon 1.

The first pillar focuses on organic growth and will address four areas: sales and commercial excellence, innovation and new product development, sustainability, and e-commerce. These four areas are clear priorities of Myers and are the primary levers to drive organic growth.

Speaking of sustainability, we recently announced that we've joined the Alliance to End Plastic Waste, a global non-profit organization committed to ending plastic waste in the environment. Our focus on sustainability will help drive innovation and our long-term growth. We're proud to be a part of the Alliance and look forward to helping shape future projects that recover, create value from, and ultimately eliminate plastic waste.

Our second pillar, strategic M&A, is geared around bolt-on opportunities that build on our plastics franchise. Part of this effort is our integration playbook that will ensure a world-class approach to acquisition integration.

The third pillar, operational excellence, is part of the Myers DNA, part of the Myers foundation, and we will build on it. We will continue to have a mindset of continuous improvement and we will build out the functions of pricing, purchasing, and sales and market management into our core capabilities.

The fourth and final pillar is the heart of the company, our culture. We will build a high-performance mindset in culture. A key tenet of our culture will be our focus on safety. We have a good safety record, but must work to get better every day. Talent development will be a priority as well. We will develop our talent in-house through the creation of continuing education, learning academies and on-the-job training.

We can achieve greatness without being an employer of choice. To that end, we must build our culture in three important areas: inclusion, servant leadership and community involvement. In future presentations, I will provide a report out on our progress on each pillar.

I'll close here and I'll share with you my confidence and excitement on our new direction. We have a strong plastics business with a broad suite of technologies and expertise. We're now focused on building this engine and growing its scale organically and through M&A. In addition, we have a well-regarded industry-leading auto aftermarket distribution business with a promising outlook. I could not be more excited to lead this company today and into the future.

With that, I'll turn it back over to Monica.

Monica Vinay
Vice President, Investor Relations & Treasurer, Myers Industries, Inc.

Thanks, Mike. Joanne, we're now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operators Instruction]. Your first question comes from the line of Tim Wojs from Baird. Your line is now open.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

So, nice job, and thanks for all the details.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Hey, Tim. Thank you.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Maybe just starting with the long-term vision here. I guess I'll start off with a three-part question. You've laid out $1 billion revenue target by 2023, which, I think, on the surface, looks pretty ambitious. So, I guess, first, how would you kind of think of the mix there between organic and M&A, and just how committed are you to actually getting to that number over that timeframe? And then lastly, will you need to – it sounds like you'll be able to kind of self-fund the investments, but I just wanted to kind of to run through that a little bit?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Yeah, Tim. So just to clarify, what I said was $1 billion run rate at the end of 2023. And I agree with you, it's an ambitious clip. But I would look at it, our run rate at the end of 2023. The split, I would say, give or take, three-quarters will be M&A, one-quarter will be organic ballpark. And what was the other question?

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Just in terms of the investments on the organic side to kind of get there, and maybe some of the M&A investments you'll have to make. I mean, it sounds like that'll be self-funded through kind of SG&A overhead reductions, but I just wanted to verify that.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

That's correct, that's correct.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

On the self-help side, there's some room to run there. And also, like I said, it's not only driving that wedge on the price side and the procurement side, but also reallocating some of that SG&A, trimming our overhead and redeploying that into salespeople, the example I gave.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Is there a way to quantify or frame what centralizing procurement might be able to generate for you guys? Just to try to frame it for us.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Well, look, I'll look to Dan to see if he wants to give any specific advice. What I can tell you is when oftentimes we had four or five businesses buying very similar raw materials and it was subscale, I think it was a great deal for our suppliers, but it probably wasn't the best deal for Myers. And so, bringing that together, consolidating and negotiating it aggressively should unlock a lot of value. But let me ask Dan for any specifics.

Dan Hoehn
Interim Chief Financial Officer, Myers Industries, Inc.

A

Yeah. I think it's a little early to give savings targets as we work through it. But we do see a lot of opportunities as we look across the different businesses and acting as a single company.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then on the M&A side, it does sound like the pipeline's pretty [ph] actionable (00:25:30) at this point. Like, we could actually see something here by year-end. Is – you think kind of early on in this vision, it'll be kind of more bolt-ons versus larger deals and how would you kind of describe valuation in the M&A market right now?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Well, Tim, [ph] it's a lot (00:25:46). Let me see if I can unpack it a bit. Yeah. So, now that we're focused on plastics and building out the plastics, it's not to say looking on the auto aftermarket side as the deal came through and it was the right deal and the price was attractive, of course, we look at that, but really our focus is more on the polymer side and building out – building some scale into these technologies.

The pipeline is good. The valuations – we won't do any deal that's not accretive, and most of the deals that we're looking at have a strong component of cost and growth synergies. So, I feel very confident that they'll be value-creating for our shareholders. What was the – an additional question?

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, it was just – yeah, just valuation. But I mean, you kind of answered it with the [indiscernible] (00:26:33)...

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Yeah. And so, Tim, on the bolt-on side, look, Tuffy went well. It has exceeded our expectations. We're real pleased with how Tuffy went. What I'd like to do is step that up in size, get some larger deals on the manufacturing side. And ideally, I'd see two to four deals there over the next year to 18 months. And I think we will really fine-tune ourselves with regard to integration excellence. I want to bring some of those skill sets from my past companies into Myers, we're doing that. And then I think we could look to even larger deals, but that'd be more of a Horizon 2 exercise.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Okay, great. I'll hop back in queue. Thanks for the color today, guys, I appreciate it.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Yeah. Thanks, Tim. Appreciate it.

Operator: Your next question comes from the line of Lance Vitanza from Cowen and Company. Your line is now open.

Lance Vitanza
Analyst, Cowen and Company, LLC

Q

Hi, guys. Congratulations on the great quarter. I just have a – I've a couple of questions. Maybe just to sort of follow on regarding phase one of Horizon, and I appreciate sort of 75%-25% split in terms of M&A versus organic to get to that $1 billion run rate by the end of 2023. So, that suggests that you're going to buy roughly $375 million worth of revenues. You're trading at around 1 times sales-type multiple. You said that you won't do a deal that's not accretive.

So, if we assume sort of you're paying a little bit better than – a little bit less than 1 times, that's about [ph] 370 (00:28:08) – should we think about $350 million to $400 million as kind of being what you are going to deploy towards M&A over the next few years? Is that fair?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

That may be a little heavy, but let me ask Dan to comment.

Dan Hoehn
Interim Chief Financial Officer, Myers Industries, Inc.

A

Yeah, I think that strikes me as a slightly heavy, but look, we're going to look at the deals, and if the right deal is out there, right, we'll see what we can do.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Yeah. And Lance...

Lance Vitanza
Analyst, Cowen and Company, LLC

Q

Okay. Well, this – go ahead, sorry.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

I just would say, there are a number of independents and owner-operated plastics technologies companies that the ownership is aging, looking for liquidity opportunity and will prefer not to sell the private equity. And so, we're actually getting good traction in the market as a strategic buyer at fair prices. So, I'm excited about the upside there.

Lance Vitanza
Analyst, Cowen and Company, LLC

Q

So in the meantime, now you swung to a net cash position in the quarter, and I'm wondering, is there an opportunity to prepay some of your outstanding notes and then just avoiding the negative carry in the near term?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Yeah, I'll let Dan.

Dan Hoehn
Interim Chief Financial Officer, Myers Industries, Inc.

A

So, our notes are private placement. So, we intend to pay those relatively in the normal course.

Lance Vitanza
Analyst, Cowen and Company, LLC

Q

Okay. Okay. Any update on the CFO search?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Yeah, Lance, so I can say, Dan stepped in, he's doing a real fine job. We've got to retain national firm. We're vetting a number of candidates. Our interviews start next week.

Lance Vitanza
Analyst, Cowen and Company, LLC

Q

Okay. And then, given the M&A outlook, is that basically – does that sort of suggest that we should not be thinking about an increase in the dividends any time soon?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

For sure, I'll tell you that the dividend, as I've said before, is sacrosanct. That's important to us and it's important to me. On increasing the dividend, I don't want to comment at this point.

Lance Vitanza
Analyst, Cowen and Company, LLC

Q

Okay. And then, lastly for me, just in terms of the bolt-on M&A, could you give me an example into the kind of non-commodity products that you don't currently sell that you could potentially add to the portfolio?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.
A

Yeah. Well, I would say it, you continue to look at blow molded, injection molded, roto-molded devices, tanks products, I like the products that are big and bulky and immune largely from overseas competition. I like the products that are – I call them semi-specialty or value-added, that there's some level of difficulty in the fabrication. And so, the barrier to entry is centered around process know-how rather than just the press configuration. And so, those are the types of products we seek, is rather not single-use blow molded bottles, Lance, but some level of technology know-how and capability so that there is some level of a competitive moat. Those are the products we currently have. We currently do well with them and I want to build on that area.

Lance Vitanza
Analyst, Cowen and Company, LLC
Q

Okay. Thanks, guys. Appreciate your time.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.
A

Thanks, Lance.

Operator: [Operator Instructions] Your next question comes from the line of Carl Schemm from KeyBanc Capital Markets. Your line is now open.

Carl L. Schemm
Analyst, KeyBanc Capital Markets
Q

Hey, good morning. Congratulations on the quarter, everyone.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.
A

Thank you.

Carl L. Schemm
Analyst, KeyBanc Capital Markets
Q

Just wanted to dig – thanks. Just wanted to dig in on some of these pretty big shifts in the way end markets are kind of trending here. So, maybe I'll just start with, obviously, the fuel container sales with the storm activity just curious on the timing of that, did any of that carry into the fourth quarter? Is that just purely 3Q impact? What's kind of the dynamic there?

Dan Hoehn
Interim Chief Financial Officer, Myers Industries, Inc.
A

Yeah. So, we're looking at that as a Q2 and Q3 activity. It really follows along with the storm activity. So while we did just have a storm in the Gulf, it's a little early to tell how much impact there was. But typically, in the fourth quarter, the flow-through is a little less.

Carl L. Schemm
Analyst, KeyBanc Capital Markets

Q

Okay. Great. That's helpful. And then, on food and beverage, pretty big shift there in what you're kind of looking at for seed box. Can you just maybe give some more color on what maybe changed there? And I think you have mentioned in the past, seed box as sort of a mixed tailwind, larger – higher margin – gross margin area. How does this impact kind of how you're thinking about gross margin in 4Q and 1Q of 2021?

Dan Hoehn
Interim Chief Financial Officer, Myers Industries, Inc.

A

So, we don't typically get a lot of visibility into our seed box demand until the end of the third quarter. And so, while we still expect it to be greater than last year, it's less than we were originally forecasting. So, you can see our updated guidance there. [ph] I'm I didn't hear the last part (00:32:12).

Carl L. Schemm
Analyst, KeyBanc Capital Markets

Q

Okay. Great. Sure. Okay. And then, just the last one [ph] on me (00:32:16), I kind of wanted to follow up on the M&A discussion here. I'm just curious, I'm sorry if I missed it, but do you have sort of a net debt to EBITDA that you're kind of willing to stretch to in the near term if you're considering some more bolt-on [ph] size (00:32:25)?

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Yeah, Carl, our objective is to stay below 3 times. If we needed to [ph] spike (00:32:30) up...

Carl L. Schemm
Analyst, KeyBanc Capital Markets

Q

Great.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

...temporarily, we could do that. But really, that's longer terms, 3 times.

Carl L. Schemm
Analyst, KeyBanc Capital Markets

Q

Okay. Thanks. That's all for me.

Mike McGaugh
President, Chief Executive Officer and Director, Myers Industries, Inc.

A

Thank you. Thanks, Carl.

Operator: There are no further questions at this time. I'll turn the call back over to the presenters.

Monica Vinay
Vice President, Investor Relations & Treasurer, Myers Industries, Inc.

Thank you. We'd like to thank all of you for your interest in Myers Industries and for your time and participation today. As a reminder, a transcript of this call will be available on our website within approximately 24 hours. A replay will be immediately available via webcast or call. Details can be found on our website under the Investor Relations tab. Thanks, and have a great day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.