03-Mar-2020

Myers Industries, Inc. (MYE)

Q4 2019 Earnings Call

CORPORATE PARTICIPANTS

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

Andrean R. Horton
Interim President & Chief Executive Officer, Myers Industries, Inc.

Kevin L. Brackman
Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

Michael Valentino
Group President-Material Handling, Myers Industries, Inc.

Chris DuPaul
Group President-Distribution, Myers Industries, Inc.

OTHER PARTICIPANTS

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Joshua K. Chan
Analyst, Robert W. Baird & Co., Inc.

Christopher Sinnott
Analyst, Cowen & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Myers Industries 2019 Fourth Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I will now like to hand the conference over to Ms. Monica Vinay. Please go ahead.

Monica Vinay

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

Thank you. Good morning. Welcome to Myers Industries' fourth quarter and full year 2019 earnings call. I'm Monica Vinay, Vice President of Investor Relations and Treasurer at Myers Industries. Joining me today are Andrean Horton, Interim President and Chief Executive Officer; and Kevin Brackman, Executive Vice President and Chief Financial Officer. Also joining us on the call today and available to answer questions are Mike Valentino, Group President, Material Handling; and Chris DuPaul, Group President, Distribution.

Earlier this morning, we issued a news release outlining the financial results for the 2019 fourth quarter and full year. If you've not yet received a copy of the release, you can access it on our website at www.myersindustries.com. It's the 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 Andrean and Kevin, 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 filings.

I'm now pleased to turn the call over to Andrean Horton.

Andrean R. Horton

Interim President & Chief Executive Officer, Myers Industries, Inc.

Thanks, Monica. Good morning, everyone, and thank you for joining us. If you turn to slide 3 of the presentation, we'll share an overview of 2019. Let's begin with a few highlights. Overall, our efforts toward continuous improvement through our lean initiative and 80/20 focus resulted in continued margin improvement, earnings growth and free cash flow of $37 million in 2019. We achieved these results despite sales being impacted by shifting weather patterns and softer end market demand. As a result, for the full year, we were able to increase our adjusted operating income by 4% despite a 9% decline in sales.

The Distribution Segment continued to execute its transformation plan, increasing sales by 6% for the year or by 2% if you exclude the benefit from the recent acquisition of Tuffy Manufacturing. Adjusted EBITDA margin increased 270 basis points to 8%, indicating that the segment is on track to achieving its goal of delivering a 10% EBITDA margin by the end of 2020. In addition to advancing this transformation effort, the Distribution Segment continued its integration of Tuffy, which we acquired in August of last year. With just four months of results in 2019, Tuffy had already proven its alignment with our overall growth strategy and has quickly contributed to the segment's improved results.

In our Material Handling Segment, we experienced a number of ongoing market headwinds that resulted in a sales decline of 15%. However, I'm pleased to report that through the team's focused effort, the segment delivered solid margin improvement through price-cost optimization and continuous improvement action, increasing its adjusted EBITDA margin to 21% for the full year.

Now, let's review some of our challenges in 2019. In our Material Handling Segment, a number of our key end markets were challenged throughout the year. In our consumer end market, the newly launched Scepter spout was well-received. However, as a result of the unprecedented wet weather during the start of the lawn and garden season, demand during the first half of the year was soft. The weak demand continued throughout 2019. In our food and beverage end market, sales declined year-over-year primarily as a result of lower seed box sales. As we've previously stated, we believe this was due in part to the late planting season in the farm sector and limited CapEx spending following some customer consolidations within the market. Additionally, as we discussed at the beginning of 2019, we had a very difficult comp during the first quarter as a result of a strong seed season from Q4 of 2017 to Q1 of 2018.

Sales to RV customers in our vehicle end market declined as a result of the multi-year correction in the RV market. As we've mentioned before, we are taking steps to consolidate our manufacturing operations that serve the RV market. We estimate that this consolidation project will be substantially completed by the end of 2020 with an expected annual savings run rate of $1.5 million beginning next year.

Finally, in our industrial end market, sales were down due to overall weaker demand environment. You may recall that in Q3, we had softer than anticipated orders from some of our military packaging products. Also we had a large customer order in our Akro-Mils business last year that did not repeat in the fourth quarter of this year. As we mentioned last quarter, our results were impacted by a $3.5 million charge for estimated product replacement cost. The charge was related to an isolated number of legacy boxes produced within the Material Handling Segment and there were no additional charges related to this issue during the fourth quarter.

In summary, we faced a number of challenges in 2019, yet our results reflect the success of the Distribution Segment's transformation and our ability to realize margin benefit from focusing on price-cost optimization and productivity improvement initiative.

Looking forward to 2020, market recovery and new product launches are expected to expand our reach across our customer base and drive top line growth in several of our end markets. We will also continue to explore new opportunities to deploy our cash towards projects that drive increased value for our shareholders.

Lastly, I'd like to give you an update on our CEO search. Our Board of Directors commenced the search during the fourth quarter for a permanent CEO. They are working to conclude the process as quickly as possible with the goal of identifying the candidate by the end of the second quarter. During this time of transition, our teams continues to execute on our strategic, operational and financial priorities and we remain focused on meeting our customer's needs and generating profitable growth for our shareholders.

Now, I will turn it over to Kevin to go through our financial review and provide more detail regarding our 2020 outlook.

Kevin L. Brackman

Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

Thanks, Andrean, and good morning, everyone. Today, I'll review or 2019 fourth quarter financial performance including our balance sheet and cash flow. You can find a summary of our 2019 full-year financial performance on slides 10 and 11 in the Appendix. Also, please note that all numbers in the presentation reflect continuing operations.

Please turn to Slide 4. Net sales for the fourth quarter were $117 million, a decrease of 16% compared with the fourth quarter of 2018. The increase we saw on the Distribution Segment sales was more than offset by the sales declines across all markets in the Material Handling Segment. Adjusted gross profit margin increased 310 basis points to 33.6%. This was primarily due to favorable price-cost margin and productivity improvements. Our adjusted operating income decreased 7% to $7 million for the quarter. However, the adjusted operating income margin increased 60 basis points to 6.1% despite the lower sales volume. This was the result of the higher gross profit margin as well as a decrease in adjusted SG&A year-over-year, due primarily to lower variable compensation and savings from the Distribution Segment's transformation initiatives. Adjusted diluted earnings per share were $0.12, compared to $0.13 for the fourth quarter of 2018.

Now, let's turn to slide 5 for an overview of our performance by business segment in the fourth quarter. Net sales in the Material Handling Segment decreased by 26% to $73 million. In Andrean's opening remarks, she shared that challenges this segment faced in 2019, which we continued to see in the fourth quarter. Sales in the food and beverage were down significantly due to lower seed box sales. The consumer end market was down due to continued soft demand for fuel containers. A weaker overall demand environment and difficult comparisons to last year's fourth quarter led to a mid-teens decline in the industrial end market. And finally, the vehicle end market declined mid-teens primarily as a result of slowing demand from automotive OEMs. On a positive note, sales to RV customers were flat during the quarter.

Material Handling's adjusted EBITDA margin for the quarter decreased 30 basis points to 19.1%, which was primarily due to the lower sales volume, partially offset by favorable price-cost margin, productivity improvements, and lower incentive compensation.

Turning to Distribution. Net sales increased by 12% to $43 million, primarily due to incremental sales from the Tuffy acquisition. Distribution's adjusted EBITDA margin increased 720 basis points to 8.8% as a result of benefits from the segment's transformation initiatives and the Tuffy acquisition. As Andrean stated earlier, this segment is on target to reach its goal to expand the EBITDA margin to 10% by the end of 2020.

Turning to slide 6, I'll review our balance sheet and cash flow. For the full year 2019, we generated free cash flow of $36.7 million, compared with $55.3 million last year. The decreasing cash flow was primarily due to a reduction in accounts payable and accrued liabilities, resulting from lower sales volume and variable compensation accruals. We also increased capital spending by $5 million compared with last year. Working capital as a percent of sales at the end of the fourth quarter was 5.6%, which was in line with previous quarters.

Now, let's turn to slide 7 for our 2020 end market outlook. As we look ahead to 2020, we expect to see both continued challenges in some of our end markets and improvements in several other end markets. Starting with our consumer end market, we expect to see improved end market demand, and as a result, expect that for the full year, this market will be up low-single digits. We anticipate that demand for fuel containers will be up in 2020, which would be a turnaround from a weak spring season in 2019. We are also optimistic about our food and beverage end market where we are forecasting sales to be up high-single digits for the full year. As we anticipate, there will be increased demand for seed boxes in the upcoming seed season, which as a reminder, occurs Q4 2020 to Q1 2021.

We also expect continued higher sales to food processing customers this year as we continue to gain traction in adjacent markets served by that product line. Even though we do expect some of the headwinds we saw in the ag market in 2019 to continue during the first half of 2020, we expect sales of food and beverage will be up overall for the year.

Turning to our vehicle end market we mentioned earlier our sales RV customers were flat in the fourth quarter and we anticipate that as a result of improved customer inventory alignment and new product introductions, sales to RV customers will increase year-over-year. However, we expect to see a decrease in sales to automotive OEMs due to a weaker global vehicle environment and fewer new model launches. This weaker environment will likely more than offset the higher RV market sales. So as a result, we expect that vehicle market to be down low-single digits in 2020. In our industrial end market we anticipate that sales will be up low-single digits due primarily the growth in e-commerce and share gains resulting from the expanded market coverage.

And finally in our auto aftermarket, we are forecasting sales to be up low-teens as a result of the continued execution of the segment's transformation initiatives and the further integration and contributions from the Tuffy acquisition.

Turning to slide 8, you can see our additional guidance for 2020. We are forecasting net sales to be up mid-single digits with approximately half of the increase coming from the Tuffy acquisition. We are estimating that GAAP diluted earnings per share will be in the range of $1.05 to $1.15 and adjusted diluted earnings per share will be in the range of $0.85 to $0.95. We also anticipate depreciation and amortization will be approximately $21 million and capital expenditures will be roughly $15 million.

As we've previously disclosed in an 8-K filing during the first quarter of 2020, the company will recognize a pre-tax gain of approximately $11.9 million as a result of our sale notes and release of a lease guarantee liability. The pre-tax gain will be excluded from adjusted earnings. Lastly, we anticipated an effective tax rate of 27% and diluted share count of 36 million shares.

To conclude, 2019 was a year of facing significant market challenges while staying focused on continuous improvement; and as we look to 2020, we feel optimistic that some of our end markets will see an upturn and we will continue to stay focused on driving margin and productivity improvements.

With that, we will now open the line to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] First question comes from Tyler Langton with JPMorgan.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Yeah. Good morning, Andrew and Kevin and Monica. Thanks for taking my question.

Andrean R. Horton
Interim President & Chief Executive Officer, Myers Industries, Inc.

A

Good morning.

Kevin L. Brackman
Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

A

Good morning.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Just on the revenue growth guidance for mid-single digits, I know sort of 50% is coming from the Tuffy acquisition. I guess on the [ph] rev, (00:15:34) can you just talk a little bit about how much confidence and maybe visibility you have on that growth especially there's an economic downturn with the coronavirus? Yeah, just any color there would be helpful.

Kevin L. Brackman
Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

A

Yeah. So let me talk to the coronavirus first. We source a very small percentage of our materials and supplies from overseas. So at this time, we do not anticipate a significant impact from coronavirus on either revenue or costs. However, we'll continue to monitor that closely. And if we do start to see an impact, we'll update you on that. As far as confidence in the – yeah, I think we feel good about the outlook, the revenue outlook we gave you for each of the end markets. Obviously, if you excluded Tuffy, we'd be forecasting low-single-digit growth for 2020. And I think at this time, we feel good about that outlook.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Yeah. That's helpful. And then just within Material Handling. I know in 2019, that segment benefited a lot from this price-cost and productivity. When you look in to 2020, should we expect more gains from that or should that largely have lapped by this year?

Kevin L. Brackman
Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

A

Yeah. So we talked about previously as we proceeded throughout 2019, the year-over-year favorability from price-cost margin declined as we went through the year. It was still favorable, but it was at a declining rate. We expect that that declining rate to continue into 2020; so we are forecasting favorable price-cost margin year-over-year in 2020, but it won't be as significant as it was in 2019.

Same thing on productivity, we expected to continue to be a contributor in 2020. And so I think as far as margin expansion in 2020, more of it is going to have to come from volume growth on the Material Handling side and on the Distribution side, we have the completion of the transformation initiatives as well as the Tuffy acquisition, which will allow us to grow margin on the Distribution side, so that's how I view margins for 2020.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Okay and then just final question around free cash flow; I guess CapEx $15 million you provided. Do you have any thoughts I guess on working capital after I guess [ph] it was used (00:18:28) in 2019 or any other components.

Kevin L. Brackman
Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

A

Yeah. So first of all, let me address CapEx. So the way we look at CapEx is we think normal maintenance CapEx would be about 2% of our Material Handling revenue, which is roughly $7 million or $8 million. Obviously, our Distribution Segment does not have – has minimal CapEx spend. And so of the $15 million, we're forecasting about half of it is maintenance CapEx. The other half, I would break down between new product molds, productivity projects and then there's also some spend related to the consolidation of facilities in our Ameri-Kart business. So that's how I would break down the $15 million of CapEx spend.

As far as working capital, when I look back to 2018, we had $55 million of cash flow. I don't think that's a sustainable amount where we are as a company. That was unusually high because we had really low CapEx spend in 2018 and we also had a significant, like an $8 million benefit from working capital in 2018. The flipside of that is I think the $37 million that we did in 2019, I think we can do better than that. We – because of the lower sales volume, our volume with our outsourced vendors declined significantly in 2019 and that had an effect on payables. We also had lower variable compensation accruals and so the working capital kind of swung the other way on us in 2019. I've said before, I think on a quarterly basis, I think $10 million to $12 million of free cash flow per quarter is a sustainable amount for us.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much.

Operator: Next question comes from Josh Chan with Baird.

Joshua K. Chan
Analyst, Robert W. Baird & Co., Inc.

Q

Hi. Good morning. Thanks for taking my questions.

Andrean R. Horton
Interim President & Chief Executive Officer, Myers Industries, Inc.

A

Good morning.

Kevin L. Brackman
Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

A

Good morning.

Joshua K. Chan
Analyst, Robert W. Baird & Co., Inc.

Q

I guess my first question – yeah, good morning. My first question is basically on the cadence of demand within Material Handling. I guess given the tougher second half of 2019, could you just talk us through in terms of the growth that you're expecting in that business, how that might phase through the year in 2020? It seems like the second half is going to have some pretty decent growth but just want to see how you're thinking about the cadence there?

Michael Valentino
Group President-Material Handling, Myers Industries, Inc.

A

Sure, Josh. Good morning. This is Mike. Let me – I'll walk you through that through each of our end markets. So on the consumer side, where we anticipate seeing improved end market demand – and Kevin and Andrean both mentioned this in their opening statements – primarily due to the wet launch of the lawn and garden season last year in the spring; so we would expect to see some recovery in that in the first half of this year. On the food and beverage side, if you remember our seed season runs fourth quarter to first quarter, so we anticipate the improvements that we're going to see in the food and beverage end market is primarily in the latter half of this year.

On the vehicle side, we talked about we see favorability in the inventory levels out in the field on the RV side, but that probably won't be enough to offset the softness that we're seeing in the automotive end markets due to a lower model launches as our teams work to expand share there. And on the industrial side, I'd say we're going to see modest end market improvement primarily driven by our focus in the e-commerce and expanded presence in sales channels that we'll start seeing after the first quarter of this year due to a tough comp that we need to overcome from last year. So hopefully that gives you some texture into each of the end markets and what we're thinking about.

Joshua K. Chan
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, yeah. That's great color. Thanks, Mike. Just curious, did you see any kind of inventory destocking in Q4 or even into early Q1 just with all the jitteriness around the macro market and in some of your distribution customers, did you see any changes there?

Michael Valentino
Group President-Material Handling, Myers Industries, Inc.

A

This is Mike again. Josh, I'll address it in the industrial space and then I'll see if Chris wants to add anything in on the Distribution side. I'd say we saw a little bit of it with some of our industrial distribution partners in the fourth quarter, but we don't expect that to have a significant hangover effect into 2020.

Chris DuPaul
Group President-Distribution, Myers Industries, Inc.

A

And this is Chris speaking from the Distribution side. I mean we certainly saw it in the tire market destocking from the tires themselves. That's not our direct end market. But from our end, our customers did show a little bit of a slowdown in Q4 and we saw that both in our demand as well as in some of the public announcements that were made as companies have reported earnings.

Joshua K. Chan
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Yes. Thank you for that. And then just the last question on cash usage, I guess. How are you guys thinking about the capital deployment? Is that something that might be temporarily on hold until a new permanent CEO is identified or would you be able to take advantage of some of the recent stock price weakness and maybe get a little bit more aggressive on that front?

Andrean R. Horton
Interim President & Chief Executive Officer, Myers Industries, Inc.

A

Thanks for the question. This is Andrean. No. Our capital deployment isn't on hold. We're continuing to evaluate potential acquisitions that would complement our existing portfolio. So we're not waiting for the new CEO to join to do that. But as we've mentioned previously, at this point, we are focused more on proprietary acquisitions and those tend to take a little bit longer. The process is a little bit longer; so we're continuing to evaluate them.

Joshua K. Chan
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Great. Thanks for the color and thanks for the time.

Operator: [Operator Instructions] We have a question from Chris Sinnott with Cowen.

Christopher Sinnott
Analyst, Cowen & Co. LLC

Q

Good morning. Thanks for taking my question. You know what, almost all my questions were actually answered already. So, I guess one last thing I would ask is, in industrial you talked about growth in e-commerce and then expanded market coverage. So do you mean that the e-commerce is expanding market coverage or is this new salespeople in new territories, more boots on the ground, if you could just unpack that a little, that'd be helpful. Thanks.

Kevin L. Brackman
Chief Financial Officer & Executive Vice President, Myers Industries, Inc.

A

Sure, Chris. I think you should think about it from both sides. We got a team that's focused on growing our e-commerce business into additional market segments and we've also added some variable cost, sales, commissioned agents throughout the industrial side of our business to help us expand deeper into additional customers and channels as well. So, I think you could think about it from both sides.

Christopher Sinnott
Analyst, Cowen & Co. LLC

Q

All right. That's helpful. Thank you.

Operator: [Operator Instructions] And we do not have any telephone questions at this time. I will turn the call over to the presenters.

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

Thank you. We thank all of you for your interest in Myers Industries and 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 immediately be available via a webcast or call. Details can be found on the Myers Industries website under the Investor Relations tab. Thanks and have a great day.

Operator: This concludes today's conference call. You may now disconnect.