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Myers Industries, Inc. (MYE)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning or good afternoon, all, and welcome to the Myers Industries 2021 Second Quarter Earnings Call. My name is Adam and I'll be your operator today. [Operator Instructions]

I would now hand you over to Monica Vinay to begin. So, Monica, please go ahead when you're ready.

Monica Vinay

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

Thank you. Good morning. Thank you for joining us. 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 Sonal Robinson, Executive Vice President and Chief Financial Officer.

Earlier this morning, we issued a news release outlining the financial results for the second quarter of 2021. If you've not yet received a copy of the release, you can access it on our website at www.myersindustries.com under the Investor Relations tab. This call is also being webcast on our website and will be archived along with the transcript of this 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 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.

Michael P. McGaugh

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

Thank you, Monica. Good morning, everyone, and welcome to our second quarter 2021 earnings call. I'm pleased to share that we had another quarter of strong sales growth and continue to make good progress in advancing our long-term vision. I would like to thank all of our Myers' teammates for navigating what's proving to be an uncertain and a dynamic environment and for remaining laser focused on meeting the needs of our customers, reliably delivering our products and living our values every day.

The second quarter was defined by continued recovery across our key end markets and strong operational execution in a challenging environment. On top of that, earlier this week, we announced the acquisition of Trilogy Plastics, which marks our second acquisition in the last nine months and another proof point in the execution of Horizon 1 of our long-term strategy. The acquisition of Trilogy continues to grow our rotational molding platform and we've included a slide in the appendix of our slide deck today with more background for you.

I'll revisit Trilogy and provide some additional updates on our strategy in my closing remarks. But for now, please turn to slide 3 for an overview of our second quarter results. Continued strong demand across our Material Handling and Distribution segments drove a 58% year-over-year growth in sales and we delivered a second consecutive quarter of year-over-year revenue growth in excess of 20% on an organic basis, with all end markets supplying solid growth.

Demand from our customers is strong and looks to continue. We have a leading market share of high-quality, well-regarded products. And we've seen that the demand for these products is durable and lasting even in a pandemic. I'm pleased with our niche market focus and approach. It provides us a solid foundation on which to build and grow Myers.

Despite our exciting long-term vision however, we've had some short-term headwinds, increasing raw material prices and other inflationary pressures continued throughout this quarter and in some cases were more than we anticipated. While we expect them to be temporary in nature, the short-term raw material issues around supply and cost escalations have been unprecedented. We've taken swift action announcing and implementing price increases in March and April and again in July.

Unfortunately, our finished good prices were not able to keep up with the pace of cost increases and we experienced margin compression during the quarter. As we have said before, we're committed to restoring and expanding our margins across the enterprise. This is one of the key objectives of the self-help component of Horizon 1.

Like many companies, we're also seeing tightness in the labor market. And while we're working to mitigate the impact, labor cost increases and scarcity have been a headwind in 2021 that will likely persist in the near term.

Over the coming months, we'll remain diligent in monitoring and adjusting our actions to mitigate the impact of inflation. We're working to ensure we strike a fair, long-term mindset with our customers doing our best to ensure they have supply, while ensuring our products are priced appropriately for the value they provide.

Our self-help efforts are delivering results and we're headed in the right direction strategically and operationally. We are transforming Myers and are successfully executing against our long-term vision and strategy.

I would now like to turn the call over to Sonal Robinson, our Chief Financial Officer, to provide details on our financial results and guidance. Sonal?

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Sonal P. Robinson

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

Thank you, Mike, and good morning everyone. Let's begin with a review of our second quarter financial results on slide 4. Net sales were up \$69 million, an increase of 58%. Excluding the impact of the Elkhart acquisition, organic net sales increased 26% due primarily to higher volume/mix. Favorable price contributed 5% and FX 1%. Sales increased in both our Material Handling and Distribution segments in all key end markets.

Adjusted gross profit was up \$12.5 million, while gross margin decreased from 36% in the prior year to 29.4% in the quarter. Margin was negatively impacted by higher raw material costs, primarily resin, which continues to increase sequentially during the quarter. These costs were not fully offset by higher prices, which led to an unfavorable price to cost relationship.

Adjusted operating income increased \$2.8 million to \$15.1 million. The increase in gross profit was mostly offset by higher SG&A expenses, driven by the addition of Elkhart, higher salaries and incentive compensation costs and higher legal fees.

Adjusted EBITDA was \$20.5 million, an increase of \$2.4 million compared to the prior year. And adjusted EBITDA margin was 10.9%. And lastly, adjusted EPS was \$0.29, an increase of \$0.06 or 26% compared to the prior year.

Turning now to slide 5 for an overview of segment performance, beginning with Material Handling, net sales increased \$56 million, or 70%, including the Elkhart acquisition. On an organic basis, Material Handling net sales increased 24% due to strong volume/mix. We gained an additional 6% due to favorable price and 2% in FX.

Material Handling adjusted operating income increased approximately 8% to \$17 million, driven by higher volume/mix and the addition of Elkhart, which were partially offset by an unfavorable price-to-cost relationship due to escalating raw material cost and higher SG&A expenses. The increase in SG&A expenses was primarily due to the addition of Elkhart, higher salaries and incentive compensation costs, increased travel cost and legal fees.

In the Distribution segment, sales increased \$12.6 million or 34%, driven by both equipment and consumable sales. Distribution's adjusted operating income more than doubled from the prior year to \$4.2 million. The growth was driven by higher volume/mix that was partially offset by higher incentive compensation costs.

Turning to slide 6, free cash flow was \$11.7 million in the quarter, an increase of \$8.1 million over the prior year, driven by higher cash from ops. On an year-to-date basis, free cash flow was \$13.1 million. Cash on hand at quarter-end was \$13.5 million.

Our balance sheet remains strong. At the end of the second quarter, leverage was 1 times. Our capital structure continues to provide the flexibility needed to execute our growth strategy. And on July 30, we utilized our revolving credit facility to finance the Trilogy acquisition.

Turning to slide 7, before providing an update on guidance, let me take a moment to discuss the ongoing macroeconomic environment. As Mike mentioned, and similar to many other industrial manufacturers, we are facing, what we believe are temporary disruptions in the supply chain, which have led to unprecedented increases in raw material cost this year. We have continued to take pricing actions to mitigate these significant increases. But due to a lag in price realization, we have not been able to keep up with the pace of cost increases.

As a result, we expect to remain in an unfavorable price-to-cost position for the third quarter. We believe many factors, including additional supplier capacity, should result in resin costs moderating and potentially easing as we continue through the year. As such, we expect our price-to-cost relationship to turn favorable in the fourth quarter.

Let me now provide an update on our outlook for fiscal 2021, which includes the expected results of the Trilogy acquisition completed on July 30. Reported net sales are anticipated to increase in the mid 40% range. Our previous sales guidance was in the high 30% range. Note that a little more than half of the expected increase over the prior year is due to the impact of both the Elkhart and Trilogy acquisitions. Elkhart's annual net sales at the time of acquisition were approximately \$100 million, and Trilogy's annual net sales are roughly \$35 million.

We are reaffirming our 2021 outlook for adjusted EPS of \$0.90 to \$1.05 per share. Our guidance reflects the weighted average share count of 36.5 million shares. And also note that Trilogy is expected to be slightly accretive to EPS in the current fiscal year.

Other key modeling assumptions include depreciation and amortization expenses of approximately \$23 million and CapEx of approximately \$15 million to \$18 million. CapEx is expected to trend higher than past years, with a renewed focus on investing in our facilities and improving our capacity, along with the addition of Elkhart and Trilogy. Interest expense is forecasted to be between \$4 million and \$4.5 million, and the effective tax rate is forecasted to be 26%.

In closing, while the short term is being pressured by significant inflationary headwinds, our long-term fundamentals are intact. We continue to manage cost increases through pricing actions, while balancing the potential impact on volume. Our teams are working extremely hard in this dynamic environment, and we appreciate all of their efforts.

Before turning it back over to Mike, I would like to extend a warm welcome to the Trilogy team. Mike, I will now turn it back over to you to provide an update on our strategy.

Michael P. McGaugh

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

Thank you, Sonal. I appreciate it. Now, please turn to slide 8. I introduced our long-term roadmap in October of last year. In a short period of time, we've made meaningful progress against the current phase of this roadmap for Horizon 1, and our transformation of Myers is well under way.

We have a shareholder-focused, value-creating vision for our company. I believe we have the right team in place with the right strategic plan and the right focus on execution to make it a reality. We're off to a strong start and we continue to execute against our goal of transforming our Material Handling segment into a high growth business that's a true innovator of engineered plastic solutions while we also continue to grow and optimize our Distribution segment.

Horizon 1 of our strategy is rooted in the execution of three areas. Number one, self-help initiatives, which includes improvements in purchasing, value-based pricing and SG&A optimization. Number two, organic growth fueled by sales and commercial excellence, and one important component of which is to build out our e-commerce channel. And number three, bolt-on M&A to build out our existing businesses.

Continued execution across these three elements will propel us into Horizon 2, where we plan to use our cash flow and knowledge gained from Horizon 1 to pursue enterprise-level M&A in North America. The focus of Horizon 3 will be to pursue enterprise-level M&A on a global scale.

This vision and roadmap is supported by our four strategic pillars outlined in slide 9. Because I've described each pillar in detail in previous calls, I'll move to slide 10 and give an update on the recent progress we've made with respect to each.

On the organic growth front, we continue to make headway in implementing our improved commercial structure that standardizes and strengthens our focus in sales, marketing and product management. We're installing a world-class commercial organization at Myers. And while this will take some time, we are moving the needle with new additions in new training.

Examples of our areas of focus include improving our capability and processes and account planning and account management and demand planning and then optimizing how we run our supply chain and planning processes.

Additionally, through critical investments in talent and infrastructure, including the summit we held last quarter, we have fortified a standalone e-commerce organization and we're seeing good traction with that group.

On pillar two, as it relates to M&A, we're very pleased to have closed on our second bolt-on acquisition to supplement our plastics business. Trilogy Plastics is well aligned with our strategic objectives and culture and has an exemplary track record of providing high quality products to its customers with superior service and on-time delivery.

We're targeting approximately \$1 million of annual cost synergies, which we expect to realize by the end of 2022. Most of this will be through supply chain cost reductions. This is on top of the \$4 million to \$6 million of cost synergies we expect from Elkhart .

In addition to these cost synergies, we're seeing growth opportunities and synergies with Elkhart. And we expect the same from Trilogy. As expected and as a part of our Horizon 1 approach, as we pursue more acquisitions, our organization is learning. We're fine tuning our playbook and our capabilities to identify and complete deals as well as to integrate and obtain synergies. This plan and approach are working. We're gaining capability and speed as we move forward.

Trilogy was an important step in our journey and we continue to seek opportunities to acquire complementary businesses. And we currently have numerous actionable targets in our pipeline.

Moving on to operational excellence, this pillar has been integral to our growth over recent quarters. In the midst of global supply chain issues, our newly centralized procurement team has done a good job sourcing the necessary raw materials to meet most of our customers' needs. The last several months have been a challenge on raw material costs and availability. Jeff Baker and his team in procurement and supply chain have done a nice job on both issues.

Over the past months, we've positioned Myers as a value-added solutions provider. We've made thoughtful decisions on price and supply to ensure we create long-term goodwill and value for our customers as well as all of our stakeholders.

As you may have seen, Myers recently unveiled its new brand identity, logo, website. We consider this new visual identity to be much more than aesthetic change but rather strategic choice to reflect our One Myers vision and reinforce our key values of integrity, optimism, customer focus, and a can-do attitude.

We're changing signs, business cards, the website, name badges, all to a single one team mindset. We're no longer a collection of smaller brands. We're coming together as one company. We have more critical mass, more capability to serve our customers and our employees. It is exciting. It's working.

With that, I'll turn to our fourth pillar, which is our high performance culture. In order to execute and achieve breakthrough performance, we need to have a high-performing culture. To that end, we recently launched our new Learning Management System, which is comprised of live and online classes to help drive growth, improvement, and continuity in our employee base. We see that LMS will help us win the war on talent.

Our employees see that we're investing in them, in their careers and in their development. We want our employees to grow here at Myers. We're creating a culture of employee success within the company. This includes the type of training and employee development programs in career and succession planning typically found at larger, world-class companies. We seek to replicate that here. Our people are and will be a key competitive advantage.

I'd like to close today by thanking the Myers team again for their hard work. We are serving our customers in this very fast-paced economic environment while managing quality and service. Our long-term strategy is gaining considerable momentum. It is producing tangible results that we believe will create significant long-term value for our customers, our employees, our communities and our shareholders.

And with that, we'll now open the line for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is Steve Barger from KeyBanc. Steve, please go ahead. Your line is open.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Thank you. Good morning.

Sonal P. Robinson

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

Good morning.

Michael P. McGaugh

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

Good morning.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Mike, yeah, good morning, everyone. You've been aggressive on price. You're still behind on price/cost. The first question is, have the price increases had any impact on demand or can you just talk about end market dynamics as you see them?

Michael P. McGaugh

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

A

Yeah, Steve, at this point, no. There's an acceptance in the market based upon the inflation you're seeing in all raw materials. We still feel we've got good success in implementing the recently announced July and August increases. We're not seeing demand tail off in a marked way. There's certain – there may be certain submarkets where you may have some pauses but generally speaking, no, we're not seeing it impact demand at this point.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

And you said you expect the supply chain disruptions are temporary. What's the thought process there or what are you hearing from suppliers and any way to handicap when those prices might start to roll off?

Michael P. McGaugh

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

A

Yeah. So, a lot of it is on the polyethylene, polypropylene side but also steel, to a lesser degree. The polyethylene side and polypropylene side, a number of those factors came to play. We had COVID and the pandemic, which pushed out maintenance turnarounds. When those maintenance turnarounds were to be done, we had to freeze the spring, which threw out over 20 force majeure. That was a unique circumstances of events that since has pushed out more maintenance turnarounds into the second and third quarter.

We think that it will ultimately stabilize and revert over the course of the next month. But we don't have a crystal ball. It's tough to read that one. So, Sonal's information that we expect price-to-cost to gain ground in fourth quarter favorably is accurate.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

What percentage of the product line has contracts, where you can't push price right now until contract renewal...

Michael P. McGaugh

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

A

Yeah.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

...if any?

Michael P. McGaugh

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

A

Yeah. At this point, we've not disclosed that in the past. And so, I prefer not to disclose at this time, Steve.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Well, do you have any product lines right now that are breakeven or unprofitable or is everything still contributing?

Michael P. McGaugh

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

A

At this point, I don't want to go into the specifics. I would say there's significant demand, that's the positive. The short-term disruptions from a price standpoint on polyethylene, polypropylene have been significant. We're addressing that with the price increases. The vast majority of our product lines continue to contribute. However, we need to get that more healthy. And you can see that in our EBITDA second quarter versus second quarter.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah.

Michael P. McGaugh

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

A

And we need [indiscernible] (00:21:41), Steve.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, I understand. It's an unusual situation. And last question for me, and this is – I know it's a tough one.

Michael P. McGaugh

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

A

Sure.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

But first half over first half sales are up more than \$120 million but operating income's up \$3 million. And I know that a huge driver of that is the input cost inflation that you're talking about. But what did you expect to see or what should be the normalized operating leverage from a combination of organic growth and acquisitions?

Michael P. McGaugh

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

A

Yeah. Sonal, do you care to take that?

Sonal P. Robinson

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

A

Sure, Steve. So, Steve, I'd start with what you saw in terms of our gross margin compression in this quarter. So, we were down 660 basis points. As you think about our commentary around being unfavorable from a price-to-cost relationship, about two-thirds of that was due to this relationship of the compression.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay.

Sonal P. Robinson

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

A

So, as you look out to the – when some of this starts to turn, we would expect to regain much of this margin compression that we've seen.

Michael P. McGaugh

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

Yeah. Yeah. That's right. That's right. And there's incremental on labor, labor shortages, labor scarcity. I think the labor scarcity is going to be a headwind for the next quarters. It's hitting everyone. You're covering it on premium labor expense but also as a lot of the supplemental unemployment insurance falls off, barring a curve ball from COVID, we expect a good bit of that to be remedied.

Now, we're also taking proactive actions on staffing solution, employee development, employee investment, employee training. And I feel confident that we're closing that gap, Steve. But the labor scarcity and labor costs has also been a headwind.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Understood. Thanks.

Michael P. McGaugh

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

Thank you.

Operator: Our next question is from [indiscernible] (00:23:39) from Cowen. [ph] Jonathan (00:23:40), you're line is now open.

Hey, good morning. This is [indiscernible] (00:23:44) on for Lance. Congratulations on the quarter. My first question is with Material Handling increasing 32% organically, can one also assume that organic sales volumes increase or was this just a function of increase in price?

Sonal P. Robinson

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

No. Good morning, [ph] Jonathan (00:24:07). This is Sonal. So, yes, of that 32%, approximately 24% of that was volume/mix and so that was driven by good solid growth there on that side, 6% then from pricing and then about 2% from FX.

Okay. Got it. Now, I know that you guys have raised prices in three months this year, and you're still not able to catch up the cost, eventually I'm sure you will. Once you guys do reach that point where prices do catch up, do you see that as a potential – one, do you think prices are – remain sticky? And two, do you see them as a potential tailwind for if it's in Q4 and then the remainder of 2022 or how do you guys view that?

Michael P. McGaugh

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

A

Yeah. Hey, [ph] Jonathan (00:24:54). This is Mike. So, it kind of goes back to some of my comments. We make high quality, highly reliable products that we continue to invest in. And based on that, we believe that we can price our products to the value they create for our customers. And I mentioned we want to approach this in – with a long-term mindset, in a fair way with our customers. On the same token, we want to price the value and not price [ph] of the (00:25:26) cost. Those are one of the initiatives I've talked about in the past. That's one of the initiatives we have at Myers that's underway. It's focused on value-based pricing. I don't know if that answers your question. I can get more specific there, I could try to.

Q

No, it's helpful. My last question, I noted that financial leases have become a portion of the balance sheet. And I'm wondering is this something that will remain like the status quo going forward or were the leases [indiscernible] (00:25:59) opportunity that came up and you had decided to take those?

Sonal P. Robinson

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

A

Yes, [ph] Jonathan (00:26:06). No, it's really not a structural change in how we think about our capital structure and how we will proceed going forward. It really was an opportunity as we took a look at the project fund plan that we had announced and the opportunity there to essentially sell and lease it back as we went through that process.

Q

Okay. Great. Thank you and congrats.

Michael P. McGaugh

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

A

Yeah. Thank you, [ph] Jonathan (00:26:28).

Operator: No further questions are present. [Operator Instructions] We have a follow-up from Steve Barger. Steve, please go ahead.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. Mike, in the past, you've said that Myers is one of the only companies that can bring the four plastic molding technologies to market. Can you talk about how that's translated into new product wins in the marketplace or how customers have responded to those broader capabilities?

Michael P. McGaugh

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

A

Yeah. It's early days, Steve, but we're seeing proof points, we're seeing that play out. We've done cross training and I can't remember whether I've mentioned on prior calls or not. For example, we had our rotational molding sales and technical growth in our blow-molding plants because there's the most overlap there and vice versa. So,

they understand what our capabilities are as a company, what does a good order look like in terms of price, volume, run rate, et cetera. On the blow molding and the roto molding side, we're seeing most of the cross-selling occurring there.

Specific – what's the revenue from that? At this point, single-digit millions of dollars, but I do think that you've got some upside there over the course of 2022. That's one of the hypotheses of our approach on the four plastic molding technologies. It's bearing out. It's playing out.

What's interesting, however, we have a new leader in – leading the Distribution platform. And that – the results of that business are pleasing to me and to the team. We're also seeing some initial cross-selling opportunities even in Distribution of the plastic products we make. As an example, the Kanban bins that are in Akro-Mils. Some of the storage containers that are made over in Buckhorn are just raising the awareness of that 130 sales team – person sales team about the products we make and how they could move them even though those segments previously, Steve, have been bifurcated.

So, that we're seeing more volume on the One Myers approach. Quite frankly, I'd like to also be seeing more price but we're getting there. We're getting there. We're selling a lot of – we're moving a lot through our P&L. We just need to see the pricing hit in a more pronounced way. And so, that we actually hold back more that's on the bottom line.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

On the last call, you said the sales training was a 30-day process, I think, and it was about one-third done. So, assuming that's now complete, is it – well, I guess that's the question. Is that complete through the organization on both sides?

Michael P. McGaugh

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

A

Yeah. And maybe I misspoke before. It's more almost like a 90-day process, Steve. We have the waves that are going through. The Distribution team, we're training the management but not all 150, but of the other 60 or 70 salespeople we have on the Material Handling side. I believe it's largely done or very soon will be. And that's part of why we're seeing a lot of the success. Our salespeople are even more focused on customer needs, customer need identification, creating value for our customers and we're seeing that drive some of the volume in addition to the recovery of the end markets.

Now, quite frankly, our focus is being sure we get all the volume out of our assets.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Right.

Michael P. McGaugh

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

A

We're running our assets pretty hard with not enough bodies to fill the roles. I mean, you've got 20%, 30% more volume and you may be down 10% or 15% bodies to run those plants. And so, we have mandatory overtime as an example. We'll work – our people are working really hard to keep up with demand, and that's been a headwind. It's the labor scarcity. That's probably been one of the limiters.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

And is there any way to mitigate that? Is it a function of – as you think longer term, do you need to move the location of some of these facilities to a more populated area? Or how do you think – or is it an automation play? What do you do?

Michael P. McGaugh

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

A

Yeah, it's an automation play. That's a little bit longer-term answer, we have some automation consultants at each of our facilities that are helping us identify opportunities, and a lot of them are not a huge capital expenses but more in the incremental. So that's in play.

Also, we've got a number of pilots, some of which are really bearing fruit on either tapping seasonal or migrant workforces that can come up and contribute immediately. In that instance, there's a bit of a language barrier you got to work through. But I'll tell you, Steve, it's something some – an innovative solution some of our HR leaders have come up with that we're seeing really our early success. And quite frankly, it's – in my past life in the framing business, in construction business that was a very common practice to bring up H2B visa workers. And we're looking at how do we replicate that here. It's bearing fruit.

That's why I said I think that gap is going to continue to close as the unemployment supplement falls off and as we implement some of these creative solutions on additional staffing, also at the same token the employee development and the LMS system. And then quite frankly we're going to – we've had to raise our hourly rates. So, that's one of the other issues. But I believe it's under control and I believe we're performing well in that space. But look, first half of this year and for the near term, it will be a headwind, labor availability and then using that labor to run on plants.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. Last one for me, I know it's still small but any update on e-commerce? I know that has a – it's an exciting new channel that could grow.

Michael P. McGaugh

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

A

It is very exciting. We've got a good team. I'm really pleased with the folks that Chad Collins has been able to put in place. They're very talented. We use it as a flywheel. The margins in some – for some customers and channels are actually very good, some not as good. And at this point right now, our plants are running so hard. We've actually had to throttle it a little bit because we can't get the volume out the door. That's a good problem to have. That's a good problem to have. But that e-commerce channel is really bearing fruit and I think it's going to be a secret to our success in the future.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

All right. All the best. Thanks.

Michael P. McGaugh

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

A

Okay, thanks, Steve.

Operator: Nothing further in the queue of questions. [Operator Instructions] As we have no further questions, I'll hand back to the management team for any closing remarks.

Monica Vinay

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

Thank you. Thanks to everyone for your time and participation today. We appreciate your interest in Myers Industries. Have a great day. Thank you.

Operator: Ladies and gentlemen, this concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.

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