

04-Nov-2021

Myers Industries, Inc. (MYE)

Q3 2021 Earnings Call

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OTHER PARTICIPANTS

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Hello, good morning, and welcome to the Myers Industries 2021 Third Quarter Earnings Call. My name is Gemma, and I'll be the operator today. [Operator Instructions]

I will now hand you over to our host, Monica Vinay. Please go ahead, Monica. Thank you.

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 third 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. 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 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 third quarter 2021 earnings call. We continued our growth trajectory during the quarter and we made further progress on our long-term strategy, despite a difficult macro environment that's impacting many businesses around the world. I'd like to thank the Myers team for their commitment and dedication that made our success this quarter possible.

With that said, please turn to slide 3 for an overview of our third quarter results. During the quarter, we saw continued strong demand from our Material Handling and Distribution customers. This demand, combined with meaningful contributions from our recent acquisitions, drove the company to \$200 million in net sales and more than 50% revenue growth for a second consecutive quarter. The company's top line was the strongest it has been in many years. On organic basis, sales grew 20% compared to the prior year period, which marks three consecutive quarters of 20% or more organic growth. We are beginning to see the benefits of our investments in our sales force and sales training, and an improved commercial focus across the company.

While our top line performance was strong, we did see macroeconomic headwinds again this quarter which impacted our margins. Input costs climbed higher due to increasing raw material cost and tightness in the labor market impacted labor costs. Both of these drove margin compression during the period. The negative impacts of labor were due to overtime pay, higher wages and, in some cases, a lack of labor which inhibited us from making or shipping certain orders. While we believe inflationary labor and supply chain headwinds will likely persist for the next several quarters, we are taking numerous actions to mitigate possible impacts on our business.

These proactive steps include improvements in our sales and operations planning process, a reinvigorated sales force, and the addition of a Pricing Excellence Leader in team. We're also working hard to debottleneck and automate our plans, while we continue to secure the raw materials necessary to ensure that we meet the volume needs of our customers. We remain confident in our ability to manage price, volume and cost, and as such, we are reaffirming our previous 2021 adjusted EPS guidance of \$0.90 to a \$1.05 per share.

Before I turn it over to Sonal, I want to share a few comments on the state of Myers transformation. Myers demonstrated growth is meaningful. Our company is becoming a growth story. A new Myers is here. We're pleased with the growth today and we expect this new growth mindset to be a sustained theme and focus at Myers Industries. In the short term, however, we continue to see an inflationary environment that is compounded by labor shortages and supply chain issues. To manage through it, we made a few near-term supply-oriented decisions that consume cash in the third quarter.

These decisions were made to ensure we continue our high service level to our customers, and we expect cash flow trend to normalize in the fourth quarter. I'm thankful for the hard work of the Myers team in the third quarter, and I remain passionate about Myers and its opportunity to create significant value and provide meaningful benefit to all of our stakeholder groups; our customers, our employees, our communities, and our shareholders.

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

Sonal P. Robinson

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

Thank you, Mike, and good morning, everyone. Let's begin with review of our third quarter financial results on slide 4. Net sales were up \$68 million, an increase of 51%. Excluding the impact of the Elkhart and Trilogy acquisitions, organic net sales increased 20%, driven by price which contributed 13%. Higher volume/mix contributed 7%. Sales increased in all key end markets in both Material Handling and Distribution segments.

Adjusted gross profit increased \$7.2 million, while gross margin decreased from 35.6% in the prior year to 27.2% in the third quarter. Gross margin was negatively impacted by higher raw material costs and higher labor costs, which were not fully offset by pricing actions and led to an unfavorable price-to-cost relationship. Included in cost of sales was a \$1.6 million increase related to the LIFO inventory reserve.

Adjusted operating income decreased \$3.1 million to \$12.5 million due to increased SG&A, driven by the addition of Elkhart and Trilogy along with higher compensation costs and higher professional fees. Adjusted SG&A as a percentage of sales decreased to 20.9% in the third quarter, compared to 23.8% in the prior year, as we are experiencing the benefits of our overall larger scale on our infrastructure. We're pleased that the investments we are making in support of our One Myers growth strategy are yielding positive results. Adjusted EBITDA was \$17.3 million, a decrease of \$2.3 million, compared to the prior year. Adjusted EBITDA margin was 8.6%. And lastly, adjusted EPS was \$0.23, a decrease of \$0.07 or 23% compared to the prior year.

Turning now to slide 5 for an overview of segment performance for the quarter. Beginning with Material Handling, net sales increased \$63 million or 73% including the Elkhart and Trilogy acquisition. On an organic basis, Material Handling net sales increased 26%, driven by favorable price of 18%. Strong volume/mix contributed another 7% and FX 1%. Organic net sales increased in the vehicle, industrial, and food and beverage end markets. You may recall that our consumer end market was up significantly last year, driven by increased storm activity which led to higher demand for our fuel containers.

Material Handling adjusted operating income decreased \$1.3 million or 8% to \$15.2 million. The decrease was driven by an unfavorable price-to-cost relationship resulting from escalating raw materials and labor costs, which were not fully offset by pricing actions. Additionally, SG&A expenses increased primarily due to the Elkhart and Trilogy acquisition, higher compensation costs, travel costs, and professional fees.

In the Distribution segment, sales increased \$5 million or 11%. Volume/mix contributed 6%, resulting from increases across both equipment and supplies, and price contributed 5%. Distribution's adjusted operating income decreased \$700,000 to \$4.4 million due to an increase in SG&A expenses, which more – which were more than offset higher volume/mix and favorable price-to-cost relationship.

Turning to slide 6. Working capital timing negatively impacted our cash flow for the quarter. Free cash flow was negative \$13.8 million, compared with positive free cash flow of \$16.2 million for the third quarter of 2020. Cash from operations decreased in the quarter due to increases in working capital, driven by a \$14 million and an \$8 million increase in accounts receivable and inventory respectively, combined with a \$3 million decrease in trade accounts payable. Additionally, capital expenditures were \$6 million in the quarter.

Sales were more weighted in the back half of the quarter, contributing to the elevated accounts receivable balance. In addition to higher raw material costs, our focus on meeting our customers' needs also contributed to higher inventory levels. Year-to-date free cash flow was essentially flat down \$700,000. Cash on hand at quarter-end was \$15 million. We expect working capital to turn favorable in the fourth quarter. Overall, our balance sheet remains strong and gives us the flexibility needed to execute on our long-term growth strategy. As a reminder, on July 30, we utilized our revolving credit facility to finance the Trilogy Plastics acquisition. We ended the third quarter with leverage at 1.8 times.

On slide 7, turning to our outlook for fiscal year 2021. We anticipate net sales to increase in the mid-to-high 40% range attributed to both organic growth and acquisitions. Our previous sales guidance was in the mid-40% range. A little more than half of the growth for the year is expected to come from 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 were roughly \$35 million.

While rising input costs and labor pressures continue to impact our profit growth and margins during the third quarter, we are seeing signs of resin cost easing and are cautiously optimistic it will begin to decline as we move through the fourth quarter. This, combined with additional pricing actions effected in the fourth quarter, should result in a favorable price-to-cost relationship for the quarter. Taking these considerations into account, we are reaffirming our 2021 outlook for adjusted EPS of \$0.90 to a \$1.05 per share. Our guidance reflects a weighted average share count of 36.5 million shares and the addition of a newly acquired Trilogy business. As a reminder, Trilogy is expected to be only slightly accretive to EPS in the current fiscal year.

Our key modeling assumptions include depreciation and amortization expenses of approximately \$22 million and CapEx of approximately \$16 million to \$19 million, up slightly from our previous CapEx guidance of \$15 million to \$18 million. CapEx is expected to trend higher than past years with our renewed focus of investing in our facilities and improving our capacity along with the addition of Elkhart and Trilogy. The effective tax rate is forecasted to approximate 26%.

In closing, while the short term continues to be impacted by macroeconomic factors, our fundamentals remain intact. We are extremely pleased with the demand for our portfolio of products along with our ability to pass along the value proposition they bring through pricing actions. We are making solid progress on our One Myers initiative, which Mike will share with you momentarily.

With that, let me thank the Myers team for their relentless efforts and turn the call back over to Mike to provide an update on our strategy.

Michael P. McGaugh

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

Thanks, Sonal. Starting on slide 8, it's been a little more than a year since I first introduced our long-term roadmap in broader One Myers strategy. I'm very proud of the considerable progress we've made to-date. I have a lot of passion for this company, our company. I see the upside and the opportunity every day. We're currently well into the middle innings on Horizon 1 of our transformation. As a company, we are aligned and centered on our True North, our mission, which is to transform our Material Handling segment into a high-growth business as the true innovator of engineered plastic solutions, while we also continue to grow and optimize our Distribution segment.

As I outlined in the past, Horizon 1 is built on driving self-help initiatives to improve profitability, and then using these proceeds to fund organic growth through sales and commercial excellence in bolt-on programmatic M&A. We've made meaningful progress across each of these areas. As we continue to execute the remainder of Horizon 1, we'll have the necessary foundations, knowledge and track record to move into Horizon 2. We will continue with the self-help and organic growth efforts, then we'll use the enterprise-level M&A to create shareholder value.

After the completion of Horizon 2, we will transition into Horizon 3, where we approach M&A on more of a global scale. Our One Myers vision and the associated transformation of our business is rooted in our ultimate goal of maximizing long-term value creation for our shareholders, we believe will be achieved as we execute on this plan.

Slide 9 covers the four strategic pillars that support our One Myers vision. My approach is to be consistent, almost boringly consistent on the pillars and on the levers in the areas of focus we're using to drive our transformation. Because they are the bedrock, the foundation of our transformation, we must maintain consistency in our

approach in order to provide direction to our people and ensure execution success. These pillars and work tracks are straightforward and not terribly complicated. Simple is good. Our success comes from our relentless and dogged pursuit of their execution.

Since I've covered these pillars extensively in the past, I'll move on to slide 10 to update you on the progress we've made across each of these as it relates to our first horizon. We've displayed an outstanding growth – organic growth trajectory over the last several quarters and believe we're taking the right action to help sustain this momentum. We are building a world-class commercial organization at Myers through the continued addition of strong talent at the middle levels and the new and rejuvenated marketing, product management and sales structure we've put in place. We've also invested in sales training and improving our sales processes to drive organic growth, customer intimacy, and pricing to value, not to cost.

Additionally, our investments in e-commerce continue to take flight. E-commerce is showing encouraging results with year-to-date sales up approximately 30%. We've learned to use e-commerce as a flywheel for volume and have found that it's an excellent channel. We're able to accept or decline business that helps us best optimize our assets' capabilities. This flywheel approach will become more impactful as we get better at S&OP and improve how we balance our growing demand across our facilities.

Moving on to M&A, growth via acquisition is and will continue to be an integral part of our One Myers strategy. We closed on our acquisition of Trilogy Plastics earlier this quarter and are very excited about the prospects. Trilogy enhances our ability to manufacture highly-engineered and tight-tolerance specialty products. We're already taking some of the learnings and best practices from Trilogy into our plants that were legacy Ameri-Kart or Elkhart Plastics. So far, three months in, the integration of Trilogy is going well and is right in line with our expectations. As a reminder, the integration of Elkhart has also gone well, helping us better serve our customers and capture growth synergies and \$4 million to \$6 million of cost synergies, both of which exceed expectations.

From a big picture perspective, through our two acquisitions over the last year, we are making progress on developing an effective framework for selecting high-quality companies that complement our businesses, and as equally important, we're on our way to developing a strong, repeatable playbook and processes to ensure successful integration of these acquired companies. The plastics molding industry is quite fragmented, and we believe their acquiring technologies niches...

[Technical Difficulty] (17:16-17:25)

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Operator: Thank you for your patience, ladies and gentlemen. We've lost connection with our speakers. We'll be busy in just a second. Thank you.

[Technical Difficulty] (17:33-21:52)

Thank you for your patience, ladies and gentlemen. We now have the team back on the line. I'll hand back over to Mike McGaugh. Thank you.

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Michael P. McGaugh

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

Thanks, Gemma. I appreciate it. Sorry about that, folks. I'll get back to my prepared remarks, and I'm not exactly sure where we dropped, but I'll pick up around e-commerce. So, that's a great place, a great venue. So, additionally, our investments in e-commerce continue to take flight. E-commerce is showing encouraging results

with year-to-date sales up approximately 30%. We've learned to use e-commerce as a flywheel for volume and found that it's an excellent channel. We're able to accept or decline business that helps us best optimize our assets' capabilities. This flywheel approach will become more impactful as we get better at S&OP and improve how we balance our growing demand across our facilities.

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The plastics molding industry is quite fragmented and we believe that acquiring specific technologies, niches and best practices is a highly effective way to accrete value for all of our stakeholder groups. We focus on acquiring founder-owned companies with similar cultures and values to Myers, and we work with the management teams to invest and grow these businesses to improve processes, additional capital investment, retaining and incentivizing key people, and collaborating and optimizing across all of our facilities. Paying a fair price and not overpaying for these acquisitions is also an important part of the equation. Our M&A strategy has proven to be successful so far, and we will continue to fine tune it, as we believe that with service well through the remainder of Horizon 1 as we pursue larger acquisitions in Horizons 2 and 3.

Moving on to operational excellence. This is an area that's been crucial during the last few quarters where we were faced with multiple supply chain headaches. Our purchasing and supply chain teams have done a great job in securing raw materials and managing our supply chain, so that we're able to consistently deliver for our customers during the quarter. On a relative basis to our competitors, our service levels remain high. This creates value for our customers. We believe this focus on partnering with our customers on service delivery and on a fair approach to pricing will pay dividends over the medium and long term.

I'd like to speak about our ability to manufacture and get product out the door. As I mentioned earlier, we've pursued new approaches to staffing and providing labor to our plants and are encouraged by our results. We are providing a safe and well-paying environment for our workers and have been able to source some workers from agriculture markets in second chance work programs. This strategy was key to enabling our third quarter growth.

In addition to getting more creative with our approach to labor, we're also investing in automating select operations within our facilities. We have several engineering teams driving automation across Myers, sharing best practices, and we're investing CapEx in this space and we'll continue to do so, likely at an accelerated pace as we do not see the issue of labor or lack of it going away. An important part of operational excellence is pricing excellence, and we've hired, installed a small but effective team that has led the space at other chemical and plastics companies and is instituting this capability at Myers. The team is accelerating our focus on value capture through pricing.

We announced additional price increases in September and October and have begun implementing value-based pricing, rather than cost plus pricing. This is a change in approach and it will take some time to implement, but it's an important lever to deliver value for our stakeholder groups.

Now, I'll turn to our fourth pillar before giving my closing remarks. Our high performance culture is a key enabler of our long-term success. Having a True North, having alignment on our values and our mission is critical for Myers to be successful. We are well on our way on this journey. We're seeing meaningful traction with our recently launched learning management system which allows employees to take online classes to help develop their capabilities and skills within the company, our desire to develop our employees and promote from within.

Doing this inspires loyalty, improves our company's performance, improves our stability and continuity of our employee base, and it also decreases cost. We continue to invest in and build this tool and we believe that will help us in the battle for talent. An important part of our culture and value is based on servant leadership. I believe in this approach and I'm committed to instilling it at Myers. The deployment of our servant leadership training is underway and 50 of our leaders have already completed this training and are applying it in their work lives. We have an additional 50 going through the program in early 2022.

One final point is our mindset on inclusion. Our objective at Myers is to have a company where everyone feels welcome. Everyone, regardless of gender, race, age, sexual orientation, feels welcome, feels valued, and feels they can have the type of career they seek here at Myers. We didn't drive a specific set of metrics, rather we focused on fulfilling our inclusion mission, where everyone feels welcome and the results have been impressive. At our senior manager levels and above, we've increased our hiring and promotion of female minority candidates as a percent of total hirings by more than 100% versus past years. While we're not done yet, we're making progress.

I'd like to close by letting you know that last week, our management and our Board of Directors held a multiday retreat to review our strategy and our short-, medium- and long-term goals and objectives. The alignment and collaboration are remarkable and helpful. We're putting the people and the processes in place to drive the company's transformation. We have people in the right roles who know what to do, have done it many times before, and are willing to work hard and get their hands dirty to deliver results.

We have a clear and straightforward roadmap to create meaningful shareholder value and we have the team and the processes to deliver. We'll navigate the short-term inflationary and supply chain bumps, while we remain calm, disciplined, and focused on the longer term. I'm excited for our future and I appreciate your interest in our company.

With that, I will turn – open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes in from Steve Barger of KeyBanc Capital Markets. Steve, your line is open. Please go ahead with your question.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

I'll start with some modeling stuff, and then get into some bigger picture things. First, just Distribution sales came in at \$50 million for 2Q and 3Q. Is that how we should think about it for 4Q or is there a seasonal variance that we should model?

Michael P. McGaugh

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

Yeah. Hey, Steve, I'll have Sonal hit the modeling question, if that works for you?

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Sure.

Sonal P. Robinson

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

Yes. Good morning, Steve. Yes, in terms of how we've seen that trend throughout the year, I would say that's still relatively good projection to use, as we wrap up the year. They're going to have some additional benefits of pricing, continue to benefit them in Q4, as well as volume growth as well, so yes.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then similar question for Material Handling, just given the revenue range that you've put out for the year, looks like there could be a little step down sequentially in revenue, do you expect that due to seasonality or how should I think about that segment?

Sonal P. Robinson

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

Steve, that's great. So, you may recall that we rolled out month-and-a-half due to the Elkhart acquisition from last year, so there's a little bit of that year-over-year growth that won't be available in terms of the year-over-year growth number. In terms of absolute number, volume – the way I would think about the modeling on this is, acquisitions – as you think about Q4 and how you're going to kind of come in in your range, acquisitions, we think, will still contribute about half of that growth on the top line standpoint. And then, as you think about – and this is for the total company, as you think about pricing, we'll continue to see additional benefit of pricing as we go through Q4, similar to what we saw in Q3, and then similar volume growth.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Got it. And Material Handling operating income was down in 3Q year-over-year, despite the 73% increase in sales. Can we expect operating income to be up sequentially as pricing actions or anything else flows through?

Sonal P. Robinson

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

Yes. Given the fact that we're expecting price-to-cost to turn favorable, we would expect to see that starting to turn.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Okay. So all that kind of comes down to the 4Q guidance. It's a pretty big range. There's maybe eight weeks left to the year. Just given revenue trends, mix, costs, are you leaning to the higher end or the lower end?

Sonal P. Robinson

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

Steve, we're not commenting on what part of the range we'll land in. Clearly, there are still a number of different variables that will impact that guidance range. Price mix, obviously, is one. We expect resin to continue to ease and decline. And so, expecting some benefits out of that, but yet to be seen as we continue throughout the quarter. We've taken additional pricing actions, which we know will continue to benefit us as well. So, there are a number of moving parts. And for now, we'll leave it at – we've got a range out there that takes those factors into account.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Okay. Well, you did say that you expect cash flow trends to normalize in 4Q. Can you tell us specifically what you expect for operating cash flow in the quarter?

Sonal P. Robinson

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

Yeah. We're not guiding to a specific number there, Steve, but what we are trying to imply there is, if you look at working capital as a percentage of our net sales, clearly, that's elevated at the end of Q3. We expect that to start coming back down as you saw. And then typically, we've been in that 10% to 11.5% range. So, we expect that to start trending back down, but we have not guided to a specific number there.

**Michael P.
McGaugh**

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

Yeah. Steve, what we'd tell you is, look, it's an important priority. It's an important priority for the company. We made some decisions in third quarter to help our service levels to also to get the right inventories in place, to be sure we have the raw materials, and also the finished goods to fuel that growth. I won't give you particular guidance on the cash flow, other than say that it's a very important priority here.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Yeah. Well, as Sonal pointed out...

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Sonal P. Robinson

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

If you look at all...

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Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Go ahead.

Q

Sonal P. Robinson

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

...No, go ahead, Steve.

A

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

I was just going to say, you had pointed out that free cash flow is basically flat for the year. Fair to say that we'll see a pretty big swing in 4Q?

Q

Sonal P. Robinson

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

So, Steve, as we look at the three buckets of working capital, we would expect each one of them to contribute to that working capital benefit in Q4. And so, yes, we expect free cash flow to be favorable in Q4 and we'll continue to see how that plays out as we go through that.

A

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Okay. I'm going to keep going. If there's somebody else in the line, just let me know and I'll be happy to jump out and come back. This is the third quarter in a row of 50% sales growth with no real incremental EBIT contribution and we know why. It's inflationary pressures. But is – EBIT will be up year-over-year due to the easy comp, I would guess, but should we think that 1Q looks similar to the last few quarters in terms of revenue and EBIT coming in, in that low-to-mid-double-digit range – low-to-mid-double-digit millions?

Q

Sonal P. Robinson

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

Do you mean 4Q, Steve?

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Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

I'm actually talking about the first part of next year. And just as I think about the...

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Sonal P. Robinson

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

A

Oh, okay.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

...inflationary pressures, the sales growth year-over-year and just kind of how you're converting, I'm curious when we start to see that inflection or if I should model 1Q to look more like what's 2Q, 3Q and 4Q are likely to look like?

Sonal P. Robinson

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

So, Steve, it's Sonal. We have not obviously provided any sort of outlook for 2022 yet. I guess, a couple of things to keep in mind, big picture is, we continue to take pricing actions. We know those pricing actions will continue to provide benefit as we continue to go through Q4, and obviously look out at next year. Clearly, we're keeping an eye on the cost side of the equation on resin and what it continues to do. And then demand, as you've seen, we started the year off very strong from an organic standpoint as we lapped some of the impact of COVID last year. We saw volume come in – volume/mix come in at about 7% this quarter. We continue to expect trends in that same range as we end up this year. And so, we'll continue to see some benefit of that, but our teams are working on that as we go through that process.

Michael P. McGaugh

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

Yeah. Steve, on the polyethylene side, what you're seeing is, inventories are starting to build, you're seeing some of the – whether – whatever index you look at, polyethylene is beginning to soften a bit. As these inventories build, I think that will carry. That's one thing that will be different in 1Q versus 2Q or 3Q is the inventory balances and what that resulting does on the indices and on cost.

Steel is still pretty high. Polypropylene is still high-ish, but polyethylene is starting to relax a little bit. We took a constructive approach with our customers to be sure we had high service levels and that we also came to some, I would say, collaborative or constructive agreements on price. We're not a commodity company. We're more of a specialty company and engineered products company. So, just as we didn't aggressively ramp prices up, I think also we're going to have some stickiness as some of the raw materials fall.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Got it. So, you would expect that even in a somewhat inflationary environment next year, you can get back to driving margin expansion on what has been pretty significant revenue growth?

Michael P. McGaugh

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

Yes.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

And going back to the retreat you mentioned, Mike, can you tell us what some of the short-term goals are, just as – the long-term goals, I'm presuming are aligning with the three Horizons, but what do you see as near-term priorities?

Michael P. McGaugh

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

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It's really the piece as outlined on the self-help; the supply chain, S&OP, debt excellence, the pricing team, getting that team geared up and getting those – getting that team to be able to have more of a positive impact. Balancing service level with inventory. I mean, that's a delicate balance. What I'll say is, it's really is outlined in that strategy is the self-help piece. Ensuring we have a good and thorough, well-thought out, loaded, bolt-on pipeline on the acquisition side and we do. Ensuring that we're continuing to feed e-commerce and that we don't make short-term decisions and curtail that. That's going to be a big value generator for us; particularly as a flywheel, we optimize our assets. And then, just all the commercial work we're doing.

I mean, we are remaking the company in terms of sales, product management, marketing, market management. We're bringing in a level of excellence here and being sure that we don't short shrift that. Look, cash flow wasn't where we wanted it to be in third quarter, but this is a long-term game, and we need to continue to invest in the SG&A, invest in CapEx. That S&OP, the demand modeling, Steve, the supply modeling getting that into place, I think is going to unleash additional capacity, even out of our current asset footprint.

And then, one thing we haven't done as much before, what we're going to do now is, looking at our assets as a grid, and really optimizing what products we make on which assets, how we get to a 24/7 run schedule, and then how do we manage that across the United States? And that's becoming more relevant with our roto footprint. Now that we've got almost a nationwide footprint, we hope to continue to build that. So, it's just three yards and a cloud of dust execution. I will say a lot of the discussion was more around Horizon 2, less Horizon 3, but more on how do we prepare ourselves to get ready for Horizon 2 recognizing that that may be [indiscernible] (40:08) maybe a little bit sooner.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Got it. Just to pick some of that apart, that was a great answer. Just to ask directly on the goal of hitting \$1 billion in run rate revenue by the end of 2023, are we still on track? Because if I just assume organic growth moderates to more normal levels, you'll need to add maybe another \$150 million or so in revenue, depending on timing.

Michael P. McGaugh

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

A

Yeah. It's on track. We set a run rate by the end of 2023. Steve, that's – I'll stand by that.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And has any of that grid work been done? Have you moved product lines to lower cost facilities or more geographically advantageous places or is that still all yet to happen?

Michael P. McGaugh

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

A

On some of our injection molding assets, we're getting better at that. On the roto side, there's a lot of untapped potential there. We've brought in and are bringing in some, I would call it, professional product managers, product management, that mindset, that asset management mindset, that's ramping, Steve. On the roto side, where there's the most optimization from a grid standpoint, where I'd say, we're in any number one of a nine-inning ballgame.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And can we talk about pricing for just a second? You said you have the new pricing team in place, what are they focused on first? Is it specific product lines or products that are most negative in terms of price cost and just how are they determining value to the customer for value-based pricing?

Michael P. McGaugh

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

A

That's a good question. So, we've got an extensive approach on building out our market plans. These are very robust 20-page plans to do a value chain analysis, figure out who has the right power in that value chain, figuring out where we fit, and then what opportunities do we have to capture more value for our shareholders? So, it's the market planning process. It's the account planning process. The pricing team themselves. A lot of this tail analysis – there's a lot of tail analysis that needs to be done

A lot of it is also getting to a consistent contract framework. How we do our quotes and contracts, and ensuring that we have more flexibility going forward to make more rapid adjustments than maybe what we had in the past. So, the leader we brought in, it was from a prominent chemical and plastics company. I've worked with him quite some time. He's very good and he's brought in a couple of analysts to help him. I think cleaning up the tail, cleaning up quotes and contracts, and then moving to this value-based mindset.

And like I called out in my comments, that may be a year journey or a year or two journey, as we're moving away from being a contract manufacturer [indiscernible] (43:06) to being more of a value-added specialty provider. That's really who we are and it's just having some of those discussions with some of our key channel partners to get to that point. But it's moving. In my opinion, that's a very significant value creation lever for the company.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. I would agree with that. And I know that ultimately the intent is to be an innovator of engineered plastic solutions. Have you rolled out any new products based on your updated capabilities or what do you have on the drawing board that you think can drive some revenue within the next year or two?

Michael P. McGaugh

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

A

Yeah. There's some incremental extensions on the roto side. I mean, we really found a lot of neat technology with Trilogy, more than we expected. Some of the processes and how they go about making their products, they were a pretty tight engineering-based company, rolling that over in some of the Elkhart and Ameri-Kart assets and customer bases. We picked up some proprietary programs with some big name consumer, and even aerospace companies that it's been intriguing. And again, a lot of that has been on the engineering side on roto.

On the blow molding side, again, its continued line extension in the portable fuel containers. We've got some innovation there that we've not yet announced, some other incremental innovation, and then also rolling out into the military segment on the blow molding side. So, we're not as dependent upon portable fuel containers. And that's a good business for the next years. Look, it probably has some headwinds longer term. So, how do we take the cash flows from that business, the talent of that team [ph] and diversify a bit (44:50)? And so, that's really more into the military space. There's a longer sales cycle there for sure. But we can make quality products to tight specs and we're building that piece out.

So, a lot of it is line extension. We're trying not to do big bangs. I really don't want to do moonshots. You don't need moonshots in plastics molding. But there's innovation there. I'd even say, boy, Steve, I would put e-commerce as a piece of that innovation. The mindset on that channel has dramatically changed in Myers, and it's helping the Distribution business. There's a lot of room to run on taking that Distribution business into more of an online inside sales approach.

Similarly, there's – more and more consumers want to research products and buy online and buy through these e-commerce channels. And I just think there's a lot there. Look, you got start-up costs right now. So, we're investing in it at this point, and we're seeing some proceeds through more volume, but I really think you've got three, four, five years of investment in e-commerce if you really want to be a player.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. Well, I guess to that point on expanding the channel, last quarter, I asked about demand destruction from aggressive pricing and the answer was no. I'll just ask that again. Any negative demand response?

Michael P. McGaugh

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

A

No. I mean, really, the issue has been, just get this product. I mean, a lot of these end markets...

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Right.

Michael P. McGaugh

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

A

...are very strong and growing. On some of the products and injections, some of the more expensive products, there's a few customers that will push back and, through negotiation, manage the order flow to try and give them a little bit of an incremental advantage on negotiations. But generally speaking, there's a lot of demand for the products that we make. My complement to the legacy teams here, they got us in the right niches. We have good brands. We have quality products. We just need to get bigger.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. I'll just ask two more. And I do appreciate all the time.

Michael P. McGaugh

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

A

Sure.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Last quarter, you said...

Michael P. McGaugh

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

A

Sure.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

...an automation strategy was an important part of helping with the labor situation and you've got it sounds like automation consultants in the plants. What have you learned or implemented over the last 90 days and what can we expect in 2022 from on the automation front?

Michael P. McGaugh

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

Yeah. Same thing there again. It's early innings in our different plants on the blow molding side, the injection molding side. Blow molding has got a number of opportunities where you can put robots in place and we're really not displacing jobs. What we're doing is, we are filling work that needs to be done where we cannot get workers. And so, that's been a big constraint for us. And so, there's incremental automation going in place in the blow molding plant, plants for automation and the injection molding plants, but we need to do more there, and then roto, as well as we're really trying to look at a few of these businesses, i.e., Trilogy is a bit of a petri dish, and can we test run, can we pilot some automation approaches in the roto business?

My mindset – our mindset is, we want to be innovators. We want to take some smart risks and go partner up with some of these innovative roto-molding companies that can take two or three laborers off of a machine, and you're taking your labor down by 50%. Again, very early innings, very early innings. But I think that's just going to be sustained theme over the next 5 to 10 years. It has to be...

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Yeah.

Michael P. McGaugh

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

...There's just not enough labor to do what we need.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Right. And last question, you said paying a fair price for M&A, but not overpaying is critical for success. How are you determining fair price on these acquisitions? Is it based on how you see revenue synergies or on return on capital based on current EBIT or just what's your process?

Michael P. McGaugh

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

Yeah. What we look at is, we just go back to an EBITDA multiple, we look at return on capital. What I find typically is, we want to invest and grow these businesses, and for a lot of these founder-owned businesses, where this is their legacy and this is their life's work, they want to transfer this to an owner that has the same value, values as them and will invest in capital, invest in their people, and grow it, and not cut it, and not go through and have more of an aggressive approach.

Most of the time, it's a little bit backwards. As a strategic, my argument is, I will buy these businesses, we will invest in them, we will nurture and grow the management teams, we're not going to cut them and cut SG&A, because this is a growth story. But because of that, I may not be able to pay. I may only be able to pay a turn or two less than private equity. And for the right buyers who really care about their – right sellers who care about their legacy and care about their work family, it resonates.

And so, we take a more gentle approach on cost synergies. Now, a lot of cost synergies, Steve, come through raw materials, a little bit of footprint consolidation, a little bit of attrition, but a lot of it comes through raw materials, and we're buying almost 150 pounds of resin now. I mean, we've got a good buy position there. And so, I'd say, the acquirer of choice, it's the same model that I had in my prior company that really worked well for certain founder-owners who wanted liquidity. The consequence of that in this light touch approach is that we can't pay as much as private equity and it actually kind of keeps us out of those options, to be honest.

Steve Barger*Analyst, KeyBanc Capital Markets, Inc.*

Q

Right. Understood. Thanks again for all the time and good luck in 4Q.

Michael P. McGaugh*President, Chief Executive Officer & Director, Myers Industries, Inc.*

A

Steve, thank you, sir.

Sonal P. Robinson*Executive Vice President & Chief Financial Officer, Myers Industries, Inc.*

A

Thank you.

Michael P. McGaugh*President, Chief Executive Officer & Director, Myers Industries, Inc.*

Thank you.

Operator: Thank you, Steve. And that concludes today's call. Thank you all very much for joining today. You may now disconnect your lines. Thank you.

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