



Myers Industries, Inc.

Third Quarter 2016 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

Monica Vinay, *Vice President of Investor Relations and Treasurer*

R. David Banyard, *President and Chief Executive Officer*

Kevin Brackman, *Vice President, Corporate Controller and Interim Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Christopher D. Manuel, *Wells Fargo Securities*

Adam J. Josephson, *KeyBanc Capital Markets*

Matthew Paige, *Gabelli & Company*

P R E S E N T A T I O N

Operator:

Good morning. My name is Tiffany and I will be your conference Operator today. At this time, I would like to welcome everyone to the Myers Industries, Inc. Third Quarter 2016 Earnings Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

Monica Vinay, you may begin your conference.

Monica Vinay:

Thank you. Good morning, and welcome to Myers Industries Third Quarter 2016 Earnings Call. I'm Monica Vinay, Vice President of Investor Relations and Treasurer for Myers Industries. Joining me today are Dave Banyard, President and Chief Executive Officer, and Kevin Brackman, Vice President, Corporate Controller and Interim CFO.

Earlier this morning we issued a news release outlining the results for the third quarter of 2016. If you've not yet received a copy of that 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 there, along with a transcript of the call, shortly after this event.

Before I turn the call over to Management for remarks, 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. For further information concerning these risks, uncertainties, and other factors, please visit the Company's periodic SEC filings or the Company's 10-K filings.

I am now pleased to turn the call over to Dave Banyard.

R. David Banyard:

Thanks, Monica, and good morning, everyone. Thank you for joining us. I'm going to start on Page 3 with a summary of our Q3 results. Sales in the third quarter were in line with our expectations, down 6% to the prior year. That's a result of the continued difficult capital spending environment that we're seeing in two key markets, our food and beverage market and some in our auto aftermarket. A little additional comment on that, we've—the distribution segment was down more than that and some of that's due to our sales initiative that, as I've said before, is still in the early innings. We're making some nice progress, and I'm going to go into a little bit more detail on that in a minute.

On the gross margin side, we were down 230 basis points to 27%. That's due to primarily two main reasons. One is the lower volume, which is primarily in the distribution segment, and then in the material handling segment we had unfavorable product mix and operational inefficiencies, and I'm going to talk about that a little bit more—in more detail later, as well.

On the SG&A, we made up a lot of that ground with lower spending there of \$6 million. Some of that was from some non-recurring expenses that we had in 2015, and then some of it was from reduced variable spend. The end result is GAAP's earnings per share of \$0.01 versus last year of \$0.02. On the adjusted line the—from continuing operations it's \$0.04 versus \$0.09 in 2015.

The highlight of the quarter, I think, is our cash flow, and you can see here we were at a—year-to-date we're up \$7 million in cash flow versus last year, a deficit of \$10.5 million, and really that's from some of the items that I spoke about in the second quarter call really coming to fruition in the third quarter. We're really paying very close attention to our working capital management and had some success with that in the quarter, as well as stronger discipline with our capital spending.

I'd like to move on to Page 4. Here we have our GAAP income statement. Starting at the top with net sales, you can see we're down 6—just around a little over 6% from \$141.7 million to \$132.7 million, and you can see the impact of that on gross profit line, \$41.7 million last year versus \$35.9 million this year, and I'll go into a little bit more detail here on the gross margin line. As I said a few seconds ago, the—a chunk of that is from lower volume in the distribution segment, but we did have unfavorable product mix in our material handling segment, and also drove some operational inefficiencies.

As we've shifted our focus to manage the business focused on cash flow, that's resulted in some—exposing some of our operational weaknesses, and that's what's showing up here in our gross margin. We're no longer managing these factories for absorption. We're really being disciplined about our inventory, and we're taking the hit for that on our gross margin line, to some extent. We understand the problem. It's going to take a little bit of time for us to fix that, but it's more of a strategic challenge than just a short-term one.

You can see here on the SG&A line next, the \$6 million improvement, the 16% improvement year-over-year, as I mentioned before, some of that is from non repeating one-time charges last year, and some of

that's from reduced variable cost. That results in an operating income of \$3 million, slightly better than last year, and then you can see at the bottom, that translates into \$0.01 of earnings.

Next page, Page 5, this is our adjusted financial summary. A few things I'll highlight on here, you can see, after the adjustments, that our operating income is down \$2 million. When you do the math on that, the flow-through on that's about 22%, which is below our gross margin and our contribution margin, so not bad there, and the same thing for the EBITDA line, which you can see at the bottom, \$12.5 million versus \$14.4 million, so about 22% flow-through on our declining revenue.

Moving on to Page 6, talk about the balance sheet and cash flow. Starting in the upper left with our balance sheet, the team did a really nice job here. You can see we've paid down year-over-year a good chunk of debt, and we've been able to hold our net debt to equity—excuse me, net debt to EBITDA ratio steady at 2.9x, and so, given the situation we've had with our sales, I think that's a pretty good result. I'm pleased with it. Ultimately, I think we'd like to see that ratio coming down.

Now, how do we do that? If you move over to the right, you can see the significant improvement we've had in working capital, and I want to say here, we talked about this in the second quarter earnings call. We've really made the right improvements here. Inventory's down year-over-year, 21% here. Taking out capital where we don't need it, and I think that's the beginning of how we're going to manage this business moving forward, so I'm very pleased with that.

Our goal, as I've said before, is to make our working capital a much smoother and less choppy portion of our balance sheet, and I think we achieved that in the third quarter and I'm very happy with the team and their performance on that, and you can really see the results of that if you move over to the lower left, in the year-to-date cash flow. Cash from continuing ops, \$18.6 million compared to \$7 million last year, that's up more than twice what we had generated last year by this time, and that's really fantastic and that's the kind of thing that I'm looking for as we manage this business here.

Continuing to the right on this, you can see that our capital spending year-to-date is significantly lower than last year. I want to take a minute here and talk a little bit about this, because I've gotten questions about this before. I think this new lower capital spending is sustainable moving forward. It's a different mindset about how we run the business. In the past, I think we solved a lot of our operational challenges by adding more capital. My view is that we can solve our operational problems and challenges with better process, and so we're going to be focusing more of our attention on using the existing capital that we have, and putting better processes in place, and that's going to thereby—and it has, so far this year, frankly, reduced the need that we have for additional capital.

I don't want to ignore the fact that there is some opportunity to grow, and you do need to spend some capital to do that. We have done a bit of that this year, and I'll point to where that capital has helped us grow, but we're also being a lot more disciplined about how we evaluate those projects. I'm much more willing to launch products at a higher cost point to start, to make sure that we have the right product in the right market, and eventually then spend the capital as needed there. So, it's a different way of managing capital, and I think that, as we move forward, we'll be able to sustain that, and you can see the results of both the combination of better cash from continuing ops, as well as the lower capital spending, and it's significantly improved free cash flow year-to-date.

Moving on to Slide 7 now, spend some time talking about the segments. We'll start over here on the left with material handling. Sales are down about 3%, and as I highlighted earlier, the majority of the down pressure on that is from—is in the same areas that we've talked about in the second quarter, which is the capital spending in our food and beverage end-market, and that continues, and particularly in the agriculture side that's going to continue for the next couple of quarters. Offsetting that, we've had some good success in the vehicle markets, with some steady shared gains in—both in automotive and in RV. Both of those markets have been strong in the third quarter and we've taken full advantage of that, which

has helped offset some of the decline that we've had due to the capital spending pressures in the food and beverage.

We've also had good progress in our industrial businesses. That market itself has been a bit flat, kind of a little up, a little down here and there, depending on which end-markets those customers serve, but I think we've continued to hold and gain share in certain stocks, and it's a bright spot if you're comparing to other industrials. One last thing that I want to highlight on here is that our Scepter business had some nice share gains in the quarter. Now this isn't revenue that's showing up today. This is, as you may remember, the buying season for next year starts now. The Scepter Team had a very good commercial strategy coming into this buying season and executed really well, and that's going to bode well for us going into 2017.

At the bottom here, the—talk a little bit about the margins. In material handling is really where it's heavy, both the unfavorable mix as well as the operational inefficiencies, and this is a combination of the fact that our highest margin products in the agricultural business are down, and we're supplanting that with additional volume in the vehicle markets, but I will say that as we've increased volume in some of those business lines, we haven't been as efficient about it as we'd like to be, and so we're trading not only higher margin for lower margin product, but we're also not as efficient in our operations and how we're producing that, and we'll go into a little bit more about that in a bit, about how we're going to fix that.

One last thing I'll highlight on here, we announced a few weeks ago some organizational changes, and as part of that we've moved certain costs that had in the past been associated with corporate. It's not a lot, but I highlight it on here because it has a bit of an impact in both of the segments, and I wanted to highlight that as another reason why the margins are slightly different from what you've seen in the past year.

Moving over to the right, on distribution, sales are down 13%, about the same as the second quarter, which is what we expected. The one thing I will say here is that the market indicators continue to move towards the positive. There've been a lot of mixed indicators in this particular market segment over the past couple of quarters, but they're starting to click over to the more positive, which I'm—we're excited about and we think that bodes well, again, for the future here. One of the biggest drivers of that, miles driven, continues to be strong, up 3% in the most recent numbers, but we are still continuing to see some softness in capital spending, and the retread business, which has been, historically, a large portion of our business, has also continued to be under pressure, so those affected the quarter.

In the third quarter here, on our consumables side, on the regular day-to-day business we very—we were very steady from the second quarter, so I think we have a stable platform here, despite the fact that we've put a lot of effort into improving our sales force, which has involved some turnover, so we're happy with the fact that, as we've had a lot of this turnover, we continue to hold steady on sales, but obviously we're going to be wanting to be seeing some growth out of this, moving forward.

On that note, I do want to highlight that, again, not showing up in the revenue in the third quarter, but we did have a nice share gain with our vending machine products and services at a large auto dealer group, and I think that's the kind of win that we're looking for here, and we're very excited about it for the team. On the margin side, for distribution, the decline here was primarily to the lower—due to lower volume, and then I highlight some of the corporate costs that we've moved into this business that really equal out the amount of flow-through that you'd see there.

Moving on to Page 8, I'd like to finish by going through our 2016 outlook for the remainder of the year, and then talk about some more detail around our strategy and our—how we're looking forward. Starting at the top with our outlook, we're holding our prior outlook for the year in sales, with Q4 and full-year revenue expected to be down mid- to high-single digits, and that's due to the same factors that we've been talking about since last quarterly conference call, with the weakness in capital spending in our food

and beverage markets. We do see steady sales run rate coming into the fourth quarter in our distribution business, and we're holding to that, and I will also say that we have seen a bit—a little bit of signs of life in Brazil with our beverage business, not—it's not a massive uptick, but Brazil has, in many ways, stabilized, which is nice to see.

Over on the right you can see our markets, and again to remind you, the up and down arrows reflect our view of where our sales will be in each of these markets for the full year, and you can see that the food and beverage market is really where the big drag is, down high teens, and as I said, I think we've seen what's happening with the crop reports and how things have played out this year. I don't think that that dynamic is going to change in the near term, other than the fact that we will pass through a one-year anniversary here through the first quarter, and so we'll have a—an easier comp, if you will, not much solace there. The auto aftermarket being down as well's weighing on us. Some of that's capital spending, and then some of that, again, is as we've gone through trying to improve our sales force and our sales processes, we've had turnover there. Vehicle markets continue to be strong, and that's been offsetting a lot of the decline we've seen, particularly in the food and beverage.

Moving on now to a strategic update, I want to start by saying we're very excited. We announced within the quarter two big hires. I'd like to welcome Kevin Gehrt. He's our VP of HR. He's on board, and Matteo Anversa, we just announced recently is our new CFO and he'll be joining us on December 1. Very excited about the Senior Management Team in place here, and I'd also be remiss if I didn't say I really want to thank Kevin Brackman for the time he's spent standing in as the CFO this year. He's done a fantastic job, and it's been a lot of work, because he's got a lot of work to do in his regular job as well, so I really appreciate that and I think—I feel lucky to have a very well-seasoned and Senior Finance Team with Monica, Kevin, and now Matteo joining us, and that's a key, for me, moving forward, that we have great talent on board, and I'm really excited about the Leadership Team, both at corporate as well as with the businesses, with Mike and Alex leading those two things. That's a key part to where we're starting.

Where are we going from here is the next question that comes up. In the last quarterly call, I talked about the themes that came out during our strategic reviews with the businesses, and I'd like to add a bit more meat on the bone for that for you today. One of the themes I talked about was protecting the core, and as we've gone through that, the purpose of understanding that is to really understand where we win, and what we've seen, in both markets as well as the products and how we serve the customers, is the places that we win are where we're providing a safe and efficient solution—safe or an efficient solution, sometimes both, in niche-end markets, and to help clarify that I'm going to give you an example of that, and one I just gave you in the distribution business.

We won this dealer network from a combination of things. The obvious one is that we are bringing a product and service with our vending program to these dealers that adds a tremendous amount of efficiency to their operations, and there's a ton of value in that. It's very easy to quantify that value, and what you may not know, also, about that is that we have a program with our Patch Rubber company, which is part of this selling process, called Do It Right, which is an effort to teach people how to best repair a tire, and that's a safety issue if you think about it, and I'll—when we talked to this particular customer, the combination of those two things, where we're teaching their technicians how to properly and safely repair tires, as well as giving them the tools and the equipment with products and services to do it properly, that's a double-sell and we really get a lot of value out of that, as do our customers, and that's the theme that I think is really carrying, and the places where we win the best, we do things like that.

Now, in addition to that, I've talked about simplify, and if you look at our results this quarter, it speaks to that. We're not very flexible in our manufacturing, and in the past, as I've highlighted, we've used capital spending to solve a lot of our operational challenges. We need to use process to solve those operational challenges. We've gone out and done a number of lean events this past quarter. Those don't show up

right away. Lean is a journey, and it's a long journey. It takes a long time to affect this kind of change, and it's a cultural change, in many ways, but that's the right way to do it, and that's how we're going to focus our operations in the future. It also applies to everything we do, really, that I'm highlighting here on the operations side because of the performance this quarter.

Where does that leave us for near-term priorities? I've been talking about this since I got here, and it still remains, that we need to further develop our capability to execute in niche-end markets. That's where we make money the most. That's where we serve the customer best, and that's where we're good, so we're going to continue to focus on those niche spots where we can really deliver value to the customer. To be able to do that we've got to have good process and we've got to be disciplined. That includes our operations, and I think we've found, as we've lowered the water level, with lowering our inventory and managing the business more towards cash this quarter, that we've highlighted some spots where we could be more efficient, and that's going to take some time to work through, so the second piece of this is to really implement that culture of continuous improvement here. We have some of it, but I think we can do more. Then lastly, using the cash that we generate from this to pay down debt. We have to—I want to get to a position where we have a more flexible balance sheet. I'd like to get there sooner rather than later, and so we're going to be focused on that in the near-term as well.

I just want to summarize before we turn it over to questions, just to make sure I hit on the key points from the quarter. From the third quarter, revenue came in as expected, and that's because of the low cap—the capital spending environment in our customers in two critical markets, but our focus on cash flow is really working. We're making solid progress on working capital, and we've had a much more disciplined approach to how we spend capital internally, and that's working and that's generating that operating free cash flow. There are some strategic gaps in our operations. It's putting near-term pressure on our margins. We understand it. We're looking at a variety of different options to help us solve that, but it's—at the end of the day it's going to come down to process improvement and lean thinking in how we go about our business.

Lastly for the quarter, we had some nice wins in areas that are really going to help us change that game. When we can win with customers that value the products and services we're providing, that's going to really play well with the kind of operations that we're trying to set up here. On the strategic side, we are focused, as an enterprise, in delivering safe and efficient solutions to our customers, and that's really important. That's where we've been winning in the past, and that's where we're going to continue to win in the future. To do that, we have to put sustainable processes in place to make both our operations more nimble, but also to improve on the kind of customers that we're selling to and how we're selling to those customers, and the result of all that's going to be to deliver strong cash flow performance with a more flexible balance sheet for the enterprise.

Now, we need to change in order to excel at these things. These things are not inherent to us. It's going to take some time. It's going to take some culture change. We're working through that, but I'm very excited, because we have this—a very strong Management Team and we have the right team in place to help affect that change.

With that, we'll turn it over to any questions that you may have.

Operator:

At this time, I would like to remind everyone in order to ask a question, please press star, followed by the number one on your telephone keypad.

Your first question comes from the line of Chris Manuel with Wells Fargo Securities. Your line is open.

Christopher D. Manuel:

Good morning, everyone.

R. David Banyard:

Hi, Chris. How are you?

Christopher D. Manuel:

Oh, it's just another exciting day. Hey, wanted to kind of get a sense around a few of the businesses, where we are as we sit today. I know you're not ready to give out thoughts towards 2017 at this point, but maybe if we could kind of think about what changes, or how the trajectory changes as we move forward, maybe if we start with the distribution side. I know you've put in a new sales model. I do appreciate it takes some time to kind of work through, but you're now a couple of quarters into that. Does it continue to, perhaps, get worse before it gets better, or are we close to an inflection point? You talked about some indicators getting better, etcetera. How would we think about that, and then I kind of want to go through each of the businesses, if we can.

R. David Banyard:

Okay. Well, I mean, we're going to—let's stick, perhaps, with the segment look, if you will. Happy to talk a little bit about our markets, but let's talk about your question on distribution. First, let's talk about the market. There are a lot of mixed indicators, as I highlighted before, over the past couple of quarters in terms of the kinds of things that drive activity in this business, but I think as things have stacked up through the fall here, the predominant indicator, in my view, that bodes well for the future is miles driven, and that's continued to improve, with gas prices low, and I think that bodes well moving forward.

I think the thing I would look for, and I hate to say this because I'm not a big fan of relying on the weather to make things happen, but I think that was a—one of the contributors to last year's—or excuse me, this year's softness, was we had a mild winter, a fairly dry summer, no incentive for people to change their tires. If we have a wetter winter, or a colder winter, that drives snow, and so on and so forth, which it looks like we will have, I think that's going to be a catalyst, because people will be skidding and wanting to change their tires, so I think the combination of those two things. I mean, the tires have to be getting more bald as you drive more on them, so I think those are good fundamentals for us moving forward, so that's the market.

When it comes to our own performance, if you think about how you go about a change like this, there's—you have to go in stages. We have a very large sales force. They've done things a certain way for a long time, and it's hard to change people, even good people that are willing to change, getting them to change their habit patterns is difficult, so getting people that have been going to the same customers regularly and nothing else, and teaching them how to find new customers and execute with those new customers, takes some time, and then it takes some time to also evaluate our performance and make sure we're giving them the tools, and then evaluate, do we have the right people, and sometimes that requires change-up.

Sometimes people self-select out, so you have a—we have a pace of turnover here, and then you follow that with people that have to come up to speed, and we have thousands of SKUs that we want our sales force to be very well versed in, so that when they walk into a new customer, they can really value-sell across our entire portfolio of products. All of that takes time for people to get up to speed. What we've seen in the quarter, which gives us some excitement about it is, the newer people coming on are—we're starting to see that improvement and we're starting to look at certain metrics that will be leading indicators, if you will, of that improvement, and despite all that turnover, we've had a very steady pace of businesses.

A couple of the underlying things I look at, which are things like the sale of the regular consumable products, which is, to me, a view of the health of our overall business. The capital spending side, there's not a whole lot I can do about that, and frankly, those products tend to be lower margin anyway. I'm more interested in building a base of strong customers with—that are buying more and more of the consumable type products from us, and we're seeing some underlying things like that, so I think that's an area that, we've spent a lot of focus on it this year. We're going to continue to spend focus on it, but I—and I—it just requires some patience.

Christopher D. Manuel:

Okay. That's helpful, and then if we could kind of perhaps talk through some of the other parts and pieces. The industrial, or however you want to think about that, but as we look at the different pieces you have listed here; consumer vehicle, food, bev, industrial; two have been down over the course of the year. I know you talked about comps getting easier for the food and bev piece next year, but directionally, vehicle sales, or—that piece is, we're kind of at a peak.

R. David Banyard:

Yes.

Christopher D. Manuel:

Seemingly there, or some of the other piece. I guess I want to get your thoughts as to how we progress from here forward for each of these.

R. David Banyard:

Right. Okay. Talk a little bit about it. I highlighted earlier that in our—within our consumer business we had some success this fall with the buying season, very happy with the performance there of the team, and we continue to work on commercial process and product development in that business, and very excited with the progress that that team's made, and we're going to—I think that bodes well for 2017 there. I think I agree with you that the vehicle portion of the business has—is reaching a top. I don't know where I'd call the peak on it. To be honest with you, the RV market has surprised me, how it continues to press on. I think that industry has done a superlative job of marketing, and that they've continued to grow in face of really, what some would say is beyond the odds, but on the car side you're starting to see some weakness, Ford and Chrysler coming out down in the quarter, and so forth, so really what drives us are model launches. It helps, the more model launches that are going on, so I think there's some continued pace in the near term for that, but overall, yes, there's potential weakness there moving forward.

On the food and beverage side, as I highlighted, I think Brazil has stabilized. That's a good thing, and so the pace of growth, I don't know that it's going to be a V-shaped recovery down there, but I think we're going to see some growth there. On the agriculture side, I think that's a little harder road at the moment. I don't think there's—and if you'll look at the performance of a lot of those equipment manufacturers, they're running into the same problems that we are, which is really, there's the cash flow at the farms is such that they just need the cash flow to service their debt and to continue to stay in business and not buy new equipment, so that's—that is hurting us, and I think that'll continue to hurt us in the short term, in the next couple of quarters.

Christopher D. Manuel:

Then, the industrial side, I mean, that—I know there's a lot of parts pieces in there, but...

R. David Banyard:

Yes, and I'll be honest with you, Chris, the industrial environment right now is—I think it's a reflection of our economy. Industrial production has been flat forever. We have some pops where things happen and then other parts of the business are down, and it's just—there's just no real—I think the right word for it, there's no catalyst, at least in North America where we play the most, for any kind of big change in direction. Now, one thing that I do see that is helpful is, that you start seeing some of the emerging economies have a little bit more positive news. I mean, it sort of—I feel like—I guess it is election day, so we can talk this way, but it feels like a little less worse for—in some of the emerging markets, and that, obviously our economy serves them in many ways, as an export economy, and that should help. That's part of the drag we're seeing, but I mean commodities, I don't see a ton of—there's not a ton of catalysts that are showing those markets changing, and that is a big chunk of what we call industrial in the world, so it's hard to say that it's going to be anything different than what you're seeing here.

Christopher D. Manuel:

Okay. One last question and then I'll jump back in the queue. A couple themes that I've pulled out of your prepared remarks from earlier were, not running the business for overhead absorption, but rather manufacturing what you wanted and needed for select markets, lean—introducing some lean techniques, etcetera, of the business. My interpretation of some of that is parts of those efforts can create spare capacity, both from lean, as you do it more efficiently, and if you don't want to run—or parts or pieces of things. How would we think about your appetite or your thoughts around, if you create some capacity, and particularly, as we see volumes that have been attriting, do you have areas that, perhaps product lines you want to get out of, or restructure to get sized correctly from a go-forward basis, and again, I do realize that you're still in the final stages of putting together, refining your enterprise strategy, but how should we think about what that opportunity, or thoughts around that going forward?

R. David Banyard:

Yes. That's a good question, Chris, and I'll answer it this way. First of all, we're looking at all the options available as we go through this, and we're focused on those options from a strategic standpoint, so when you think about capacity, it's what capacity do we need for the long term, not just the short term. Hey, our performance isn't great in this quarter. We want to change the game for a one-quarter period. That's how I look at those kinds of questions. I think, in the past, we've been a bit too all over the map, everything, spend capital on it and go for it. We're going to be more refined than that. The best wins we have, as an enterprise, and have had in the past, are where we are in a smaller niche market and provide significant value to our customers.

Now, unfortunately, one of those is significantly down right now, and that's affecting our results, but it's a great example of the kind of value we can provide, and structuring our operations to be able to do that well is how I want to think about things, and then in the near term, if we have other products that we're selling, we're going to keep continuing to do that, but I think, long term there is opportunity to think about things differently, but it's hard to say today, because I don't have anything tangible to tell you specifically, so I'd rather not do that.

Christopher D. Manuel:

All right. Thank you. I'll jump back in the queue.

R. David Banyard:

Thanks, Chris.

Operator:

Your next question comes from the line of Adam Josephson with KeyBanc. Your line is open.

Adam J. Josephson:

Dave, Monica, Kevin, good morning.

R. David Banyard:

Good morning, Adam.

Monica Vinay:

Good morning.

Adam J. Josephson:

Dave, I've got a bunch of questions for you, in no particular order. You talked about the inflexibility that you're dealing with, with respect to the Company's operations, and the fact that the Company's pursued lower-margin business in years past to keep the plants running full. Do you think you had a good grasp of all these issues in the business when you took over?

R. David Banyard:

I think that—I will say this. I think some of that is, I think culturally different than I expected. I'll be honest. In terms of how flexible in our answer to these kinds of challenges that have come up in the third quarter, it's different than I would have thought, but it's also different to how—I think the Company's prior methodology is different than mine, and so as I've dug in and seen some of this—when you lower the water level, so to speak, is the way to describe it, when you're talking about these things, you see the rocks, and I'm not sure we've been lowering the water level to the right extent in the past, and so we probably just didn't know the rocks were there, to use that analogy, and so it is different to think about running this business to generate cash, and that is the ultimate measure of success, and we haven't thought that way before, and so if you think about it, in the past if you weren't thinking that way and you were thinking more about margin as the only measure of success, you're going to make different decisions about your capital, and so that's how we've always done it in the past, and the extent of the challenge there is maybe a little bit more than I thought, so it's going to take a little bit more time, but I think that everybody's starting to come and understand, and you can see that in our working capital performance this quarter, that people are getting it. It's just, you can't implement these kind of tools overnight. Those are more...

Adam J. Josephson:

Sure. Sure. A few others, again, just random order here. You talked about Brazil having stabilized. I'm sure you know your large beverage customer down there just cut its sales guidance for the year on account of profound weakness in Brazil, whereas you're saying Brazil is stabilized, and they're, I believe, a very large customer of yours, so can you help me understand that apparent disconnect?

R. David Banyard:

Yes. I think that what was happening before was a result of overhang from the M&A activity, and they—they're—I mean, I think they're just—they've—the management of their spending was basically cut to

zero, and there's a negative reaction at some point to that, and I think there's a steady state here that's different from what we've experienced. I mean, we had a—the first half of this year, where we had no orders, and that's not sustainable either, and so I think they've reached a different run rate now, where yes, overall the business is down, but we haven't been following, what I would say, a pure market based volume for several...

Adam J. Josephson:

I see. So, the stabilization in your business is not necessarily reflective of beer consumption.

R. David Banyard:

No, and I think that—I would characterize Brazil this way, is that the political stability that's occurred over the past several months has helped quite a bit. There's more optimism in the country. You can see it at the customers—I was down there a couple of weeks ago and you can see it in the people and the customers that we deal with. Now, that doesn't turn into volume immediately. There is some pent-up demand that we've—that's helped a bit here, but I think, generally speaking, we had a—our business down there this year has been really low, and that's not the forward trajectory, so there's—call it a easy come, or call it just that things...

Adam J. Josephson:

Right.

R. David Banyard:

...have stabilized and are starting to move in the right direction.

Adam J. Josephson:

Sure.

R. David Banyard:

As I said, I don't think—this is not a V-shaped recovery at the moment, but then again, I've been surprised by that before. Maybe it is, but it's—I don't see those indicators, but I certainly don't see things going any worse, at the moment.

Adam J. Josephson:

Sure. Just one on your profit outlook, to the extent you were expecting your profit to be down year-on-year in 3Q, on account of the weak volume, are you expecting the same in 4Q, compared to a year ago?

R. David Banyard:

I think that what you're seeing is what you're going to get from us in terms of the—this was on maybe the low end of what we had expected, but I think this is the dynamic of where we are in the short term, yes.

Adam J. Josephson:

In other words, okay, profit's down year-on-year. Okay. Back to cap ex for a second, you talked about just becoming more efficient with your capital spending. It seems somewhat ironic that you're calling out lower capital spending among your customers, and you guys are doing the exact same thing, but what

you're saying is it's not—your cutting your cap ex guidance is not reflective of what they're doing. It's simply related to changes internally. Is that right, and is cap ex equivalent to 2% of sales indeed sustainable for you, given that, I would think material handling is somewhat capital intensive?

R. David Banyard:

A couple of questions in there, I want to get through them one at a time.

Adam J. Josephson:

Sure.

R. David Banyard:

I think the dynamic that our customers are dealing with is different than ours, so ours is a strategic change into how we're going to manage this business and what we're focused on, whereas at our customers, it's a reflection of shortage of cash. That's not the case for us. It's not why we're managing it this way, and that's why I can sit here and say, this is a—something that we're going to continue to sustain moving forward, because we're—we've managed the business focused on capital spending first, in the past, to solve our operating problems, and we're not going to do that to the same extent moving forward. This doesn't mean there aren't opportunities to spend capital. It doesn't mean that our material handling business is not going to use 4,000 ton presses. We're going to use these pieces of equipment and they need to be maintained and they need to be repaired and refurbished when necessary, and replaced, and our tooling is expensive.

All those things still happen, but we're going to make sure we're using that—the capital that we have more efficiently, and that is a process change, not an add more capital change, and I think in the past when we've had these inefficiencies, the answer has been to add more capital. I think you see that a bit in our—take for example our vehicle business, we spent a lot of capital at the end of last year to go into that business, and we've won a lot of good contracts in that, and had some growth there, but I don't think we're seeing the profitability that one would expect, and so I don't know that that was the wisest use of our capital. I'll say that, and it is what it is. We have it and it's working, but I think that we're going to be more judicious about how we use that in the future, and focus more on process.

Adam J. Josephson:

Sure. No, thanks, and just two others. I know you talked about the macro earlier. The PMIs have picked up a bit lately for the US, and they're in the, I think, 51 to 53-ish range now. Does that sound about right to you, or would you think—does it feel lower than that to you, just based on your commentary earlier that it just seems fundamentally flattish?

R. David Banyard:

Well, I mean, I don't know if 51.5 is flat or not, but—or if that's up, but, yes, I mean, obviously the directional change from August. I think industrial has been performing at a good pace with the market. If you look at our—the best proxies for us are some of the bigger industrial distributors, because they cross a broad swath, and they've had choppy results. Industrial production is not moving, so these are fluctuations up and down, based on what if some more houses were built, or whether it's some oil and gas activity has picked up. There are little things that are changing the game in the short term, but I think we're kind of on this flat trajectory that I don't see a major catalyst—three or four years ago, major catalysts around oil and gas, major catalysts around agriculture a little bit further back than that, emerging market economies really being in full steam with building a couple of years before that, so there's—but we'll—I don't see where that catalyst is today, other than we're just kind of moving along at a decent

pace. Automotive is probably, if you want anything, that's probably the biggest catalyst of any of this stuff, so it's probably getting some lift from the same place we're getting lift elsewhere.

Adam J. Josephson:

Got it.

R. David Banyard:

Overall, when you take the full basket of what's the industrial economy in the United States right now, I'd say we're still moving along at a flat pace. I think at some point here in the near future, you get past that magical five-quarter downswing where you can start growing because you've had a low baseline.

Adam J. Josephson:

No, thanks, David. Just one last one. I think Chris asked briefly, earlier, about next year, but is there anything obvious to you in terms of the end-markets or your internal improvements that would lead you to think that your profits would be up notably next year based on what you know today?

R. David Banyard:

I'm not going to comment on next year's profits at all. I think that what I'll say about next year is that I'll reiterate what I said a little earlier, is that I think the fundamentals of the auto aftermarket business for us look good. We do have to execute, and frankly, that's on us, and you can see I'll be the first to say that we've had some gaps in execution this year, but that's the one market that I think has opportunity, and as I highlighted in my strategic discussion, I think we have a very good value proposition there in a number of places, so I like what we're doing there, and I like the fundamentals of that market, and it's a great cash generator for us and has potential for growth, so there is—there are a number of parts to that business that we really like and we're—that's why we're spending a lot of time and effort, and frankly, money, on getting that business set up right. The other ones, it's too early to really talk about it.

Adam J. Josephson:

Sure. Thanks a lot, Dave. Best of luck.

R. David Banyard:

Thanks.

Operator:

As a reminder, to ask a question, please press star, followed by the number one on your telephone keypad.

Your next question comes from the line of Matthew Paige with Gabelli & Company. Your line is open.

Matthew Paige:

I guess, first, looking at the RV market, there has been a mix shift within that industry towards smaller entry-level products. I was hoping you could speak to the impact that—to Myers, at least, based upon the products you sell on that trend.

R. David Banyard:

Sure. There's been some consolidation too, and I think that the fortunate part is that in the consolidation, they still manage those businesses independently, and one of the ones that was bought is one of the key players in that lower-end trailerable business. We are agnostic, and honestly, deliver equal value across all ranges of the RV market. We're really a market leader there, and so we serve those customers with our products in a variety of different ways. Some of the bigger models we provide different products to, so—but it's, I'd say we'd take advantage regardless of mix in that business.

Matthew Paige:

Great, and then moving to the food and beverage market, particularly in South America, you noted that it's started to stabilize, so is this a good time to make an acquisition in that space, and if so, are there opportunities that present themselves to you to make acquisitions?

R. David Banyard:

It's probably a good time to make acquisitions in Brazil, absolutely, I think if that's an area of interest. I don't know that we need to make any acquisitions down there to be successful.

Matthew Paige:

Great. That's all the questions I have for you today. Thanks for the time.

R. David Banyard:

Thank you.

Operator:

Your next question comes from the line of Chris Manuel with Wells Fargo Securities. Your line is open.

Christopher D. Manuel:

Thanks for taking some more questions from me.

R. David Banyard:

Sure.

Christopher D. Manuel:

Actually, I have four last things I wanted to ask, but I'll try to be quick with them. The first, you did reallocate some costs, as you mentioned earlier. It looks to be about \$1.5 million, \$2.25 million, give or take. Can you help us with how would we think about modeling that going forward? What is the allocation that gets moved, or how do we think about that?

Kevin Brackman:

Yes, so the—Chris, this is Kevin. The total allocation was about \$2 million in total, and about three quarters of that would go to material handling.

Christopher D. Manuel:

Okay, and is that roughly going to be the same each quarter going forward?

Kevin Brackman:

No, this was a catch up for the entire year of 2016.

Christopher D. Manuel:

So, that is for the full year...

Kevin Brackman:

The \$2 million should be close to an annual number.

Christopher D. Manuel:

Okay. That's helpful. Maybe, Kevin, I have another one for you here. On working capital, I think year-to-date you're still in the hole. We've had a use of almost \$14 million year-to-date, although I appreciate you're ahead of pace last year. What do you think the opportunity—or how should we think about working capital in 2016, given what you're doing, it looks like some of the payables being moved out further, etcetera, but how should we think about full year, this year, as a working capital opportunity?

Kevin Brackman:

Yes. We finished the third quarter at about 9% of revenue, and I would estimate that that's where we will end the year, probably between 8% and 10% of revenue.

Christopher D. Manuel:

Is that a good long-term rate?

Kevin Brackman:

Yes, I think that's a good long-term rate. Our free cash flow is down this year, or will be down this year, because last year we finished the year at about 3.5% of revenue, but we think long term, 8% to 10% is a good rate for working capital.

Christopher D. Manuel:

Okay. That's helpful, and then, Dave, two questions for you. One is, in your prepared remarks earlier you mentioned strategic gaps in operations. Can you, maybe help—what does that mean?

R. David Banyard:

Sure. The lean thinking method of looking at your operations is not something that we are—that we have a tremendous amount of depth in, and that's across the board, and when I originally got here Alex asked me a question—or Adam asked me a question about what surprised me. I thought that there were only pockets of where that was—where we had gaps there. I'd say it's more broad than that in terms of where we think—in terms of doing things in a process, or in a value stream map type mentality, and then individual process improvements within that, so that's an area that we're focused on. We're using consultants right now. I'd rather that talent be in-house. I'm very glad to have a VP of HR on board now that can help me with that, and help us with that, rather, and so that's a—what I mean when I say that, and it's a strategic imperative for us to be better at that.

Christopher D. Manuel:

Okay. That's helpful, and last question, you mentioned in Scepter, getting some pretty sizable business wins and improving share, and I guess, help—you maybe, if you don't mind, use that as an example. Walk us through what you've done there, how that looks. I do think you've had some new products you were launching there. It was a new spout, etcetera, but is that driven by new products and piece introductions? Is that driven simply by pricing a product better in a market? How do you win business, keep it sustainably, and do it in a profitable manner?

R. David Banyard:

Right. Well, it's a combination of all those things that you mentioned, but it starts with, we did a lot of marketing work earlier on in the year, and that helped us really understand the key drivers of value in our—in that business, so when you understand that better, you can really go in and talk to the customer about what they want, what they need, and how you can help them be successful, and I think we demonstrated that a bit with some of our customers this year. As I highlighted, in the past we didn't launch products on time, and frankly, as we looked at what we were trying to accomplish with those, it was a bit more ad hoc than well thought out, and so this year we put our minds to being well thought out, as far as listening to the customer and understanding their needs and presenting them with the proper package of products and services, and that went over very well, and the next steps are how do we innovate and how do we continue to improve on that, and that's what we're doing today. It was a much more well thought out commercial strategy than a, I'd say, rush in to show something new.

Christopher D. Manuel:

Okay. That's helpful. I have one last question I forgot that I wanted to ask, was how would you think about—or how would we characterize new business commercialization? At one point in time, this is historically, two, three, four, five years ago, there was a big effort to get new patents, launch new business, try to go at things a little differently. Where are you at today? Is that still a focus? Do you think about new product development, or how would I think about it as a portion of a pipeline, I guess with the thesis being that new products tend to be more profitable, or create a new sustainable edge?

R. David Banyard:

Right. Well, I think the Scepter example that we were just talking about is a perfect example of the right way to do it, and how we're going to do it moving forward, because commercial strategy, product is an element of it. It's not all of it, and so Scepter is a good example. Myers Tire Supply is another great example where you can do all the great engineering you want and launch a great product, but if you haven't thought out whether that's exactly what the customer wants, or do you have the right service level with that customer, then you're not going to have much success, and so my goal this year has been to really get the teams to think that way, which starts with marketing and understanding what the needs are in the market.

Some of that is understanding, and maybe taking a little chip off of your ego, which we all have at some point that says we're the best, and saying, "Boy, somebody else might have beaten us here. What are they doing and why are they beating us," and doing a full analysis like that first, and then going in with the commercial strategy that says, "Here's what I have today to sell you, and here's what's coming down the road," that might be an innovation that solves—and the kind of problems that I think, as I've highlighted on here, the safety type problems, efficiency type problems, these are things that our customers want us to help solve them, for them, and if we can understand that better we'll put the right products in our—the hands of our sales team and actually value-sell that. I don't think we've—we've never really focused on tools like value-selling and that sort of thing, so it's—you can have all the great product development that

you want, but if you can't sell it well, if you don't have a good strategy of where to target it, it doesn't matter, and so we've had to build some muscle in that regard this year, and it continues. It's not a done—we're certainly not done.

Christopher D. Manuel:

Okay. That's helpful. Thank you much, guys. Good luck.

Operator:

Your next question comes from the line of Adam Josephson with KeyBanc. Your line is open.

Adam J. Josephson:

Dave, hi. Thanks for taking my follow-up. I just had one more on Brazil. I appreciate that this is not an easy question to answer, but if the tone's getting better there, generally speaking, can you help me understand why your largest customer, and one of the world's largest companies, would have just reduced its revenue outlook for this full year because of Brazil, because it was weaker than expected in the third quarter? Presumably that would have reflected whatever increased political stability there is now, right?

R. David Banyard:

I honestly can't answer that question. I don't know, Adam, so appreciate the question, and I saw that as well, and frankly, was a little surprised by it, but I think that—I think it comes back to, it's all relative, so what were the expectations? Our expectations have been very low.

Adam J. Josephson:

Right.

R. David Banyard:

So, I'm happy to see some activity. As I said, I don't think the Brazilian economy is coming raging back, but you're seeing better activity than the darkest days, which were a couple of quarters ago.

Adam J. Josephson:

Sure. Thanks a lot, Dave.

R. David Banyard:

Adam, one last piece on that, I'm sorry, I'll say, I mean this is a fairly small part of our business, so while it's important that we understand that market, really, our focus there has been on really just making sure we're running that operation efficiently and serving the customers that we do have there, so it's not a huge portion of our business at this point.

Operator:

There are no further questions in queue at this time. I turn the conference back over to our presenters.

Monica Vinay:

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 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.