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Myers Industries, Inc. (MYE)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is James, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Myers Industries Quarter Four and Full-Year 2018 Earnings Call. All lines have been placed on mute to prevent any background noise. And after the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Monica Vinay, you may begin your conference.

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

Thank you, James. Good morning. Welcome to the Myers Industries fourth quarter 2018 earnings call. Joining me today are Dave Banyard, President and Chief Executive Officer; and Kevin Brackman, Executive Vice President and Chief Financial Officer.

Earlier this morning, we issued a news release outlining the financial results for the fourth quarter of 2018. 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 there along with the transcript of the call shortly after this event.

Before I turn the call over to Dave and Kevin 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. 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 filing.

I'm now pleased to turn the call over to Dave Banyard.

R. David Banyard

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

Thanks, Monica, and good morning, everyone. Thank you for joining us. We're going to start on slide 3 with an overview of 2018. We were pleased with the way the year ended, closing out 2018 on a high note, generating adjusted earnings per share in the fourth quarter of $0.13. We were also pleased with the full-year results, as we generated adjusted earnings per share of $0.76. Along with that, we generated free cash flow of $55.3 million, converting almost 10% of sales and achieving a 28% year-over-year increase in this important metric. Contributing to this success was our continued focus on net working capital which improved to 3.8% of sales at year-end. Also contributing to our success was the 3.6% sales increase for the enterprise across 2018, led in part from double-digit sales growth in our food and beverage market.

We launched a new portable fuel container in the fourth quarter at our Scepter business, which we anticipate will drive mid-single-digit growth in the consumer market in 2019. We expanded our adjusted gross profit margin by 160 basis points to 31.8%. Several factors contributed to our improved gross margins, including price initiatives throughout the year, continued improvement from our 80/20 and lean initiatives and the strategic realignment of our factory footprint back in 2017. Adjusted operating income increased by almost 29%, and adjusted diluted earnings per share were up 49% for the year.

Finally, we had a successful secondary offering back in the spring of 2018 and this repositioned our balance sheet. Kevin is going provide more detail about the balance sheet in a moment.

Now, 2018 was not without its challenges. Our Distribution Segment underperformed to our expectations with revenue for this segment declining by 4.3% for the year, mainly due to lower equipment and international sales. As we highlighted on our last call and we'll go into more detail today, we're implementing a self-transformation actions designed to increase sales force effectiveness, reduce cost, and improve contribution margins.

As an aside, however, I'd like to point out that in the fourth quarter of 2018, we did have low-single-digit growth in the Myers Tire Supply business, as we're starting to see some improvement from the actions previously taken.

Other challenge was in our Material Handling Segment, sales to our RV customers declined at a more rapid rate in the year than we had anticipated. Following multiple years of solid growth, the positive market conditions was not completely unexpected, but the degree of initial downturn in the second half of 2018 did catch many off-guard, including us. The decline in revenue in this business continued through year-end and is carried over into the first quarter. We're actively managing this challenge with an active funnel of new opportunities we're pursuing in adjacent markets and we're looking at a variety of cost savings measures as well.

Now, I'll turn it over to Kevin to go through our financial review for the fourth quarter. Kevin?

Kevin L. Brackman

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

Thanks, Dave, and good morning, everyone. Today, I'll review our 2018 fourth quarter financial performance, including our balance sheet and cash flow. Details regarding full-year performance can be found in the appendix of the presentation.

Please turn to slide 4, and I'll begin with a review of our fourth quarter operating performance. All numbers in the presentation reflect continuing operations. Net sales for the fourth quarter were $138 million, a decrease of 1% compared to the fourth quarter of 2017. Increased sales in the Distribution Segment were more than offset by decreased sales in Material Handling due to sales declines in the company's consume, food and beverage, and vehicle markets.

The adjusted gross profit margin increased 290 basis points to 30.5%. This was primarily due to pricing actions and savings from the 2017 footprint realignment, partially offset by lower sales volume and unfavorable mix. Adjusted SG&A expenses were $34.5 million during the fourth quarter, which was $1.9 million higher than the fourth quarter of 2017. This was mainly due to $1.4 million of costs incurred for resources to assist with the planning and implementation of our transformation initiatives in the Distribution Segment.

The departure of the company's previous CFO resulted in a reduction of costs of $1 million, which were offset by higher variable compensation costs. As a result of the higher adjusted gross profit, our adjusted operating income increased 36% to $7.7 million for the quarter, and adjusted earnings per diluted share were $0.13. This compares to $0.09 for the fourth quarter of last year, representing an increase of 44%.

Now, let's turn to slide 5 for an overview of our performance by segment. Net sales in the Material Handling Segment decreased 2% to $99.6 million. The decrease was driven by a decline in our consumer market due to unusually high hurricane-related volume in the fourth quarter of 2017. It declined in our food and beverage market due to decreased sales of our seed box and a decline in our vehicle market due to a softening RV market. These declines were partially offset by higher sales to our industrial market driven by a large customer order during the fourth quarter.

Material Handling's adjusted EBITDA increased 27% to $19.3 million. The increase was primarily the result of pricing actions and the savings from the 2017 restructuring project. In Distribution, net sales increased slightly to $38.8 million. Sales at our Myers Tire Supply business increased low-single digits from higher sales of both consumables and equipment, partially offset by lower international sales.

Distribution's adjusted EBITDA decreased $1 million to $0.6 million. The decrease in adjusted EBITDA was primarily the result of the $1.4 million of incremental costs I mentioned earlier, which were incurred to engage outside resources to assist with the development of the transformation initiatives.

Please turn to slide 6, and I'll review our balance sheet at the end of the fourth quarter, as well as our cash flow and working capital performance. We generated strong free cash flow of $17.7 million or 12.8% of sales for the fourth quarter of 2018. This was due primarily to higher earnings and lower working capital. Working capital as a percent of sales at the end of the fourth quarter was 3.8%. Free cash flow for the full-year was $55.3 million, an increase of 28% compared to 2017. Due to strong free cash flow and a secondary offering we completed in May, we reduced our net debt by $131 million during the year to $17.9 million. As a result, our net debt to adjusted EBITDA ratio decreased to 0.3 times at the end of 2018.

I will now turn the call back over to Dave to review our outlook for 2019 and provide some insights regarding our Distribution Segment.

R. David Banyard

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

Thanks, Kevin. We're moving to slide 7. I'm going to spend a few minutes going through our Distribution Segment transformation in further detail. The initiative is focused on three key areas for improvement. First, we're undertaking a shift in our go-to-market, for that shift we're expanding our strategic accounts team and we're building an inside sales team in order to offload some of the smaller accounts to a different channel. Better align the selling function with the changes in buying behavior that we're seeing in the market, we're going to segment our sales organization differently, we also include the consolidation of larger customer teams in the field and thinking a more individual market segment approach on a national scale.

Lastly, we're going to expand and enhance our e-commerce platform, utilizing an improved digital storefront and taking advantage of the economies of scale available through coordination efforts with other online market place.

Our second area of focus involves simplifying several aspects of the business, by utilizing 80/20 to improve both our throughput and efficiencies, we intend to improve our contribution margin. Some of the steps being taken to achieve this include a simplification of our pricing structure, as well as additional enhancements to capture value.

As you may remember, we completed a project on our pricing structure about a year and a half ago, we're now expanding the pricing process to other parts of our customer base and focusing on additional areas of price leakage. For example, we have created new policies around freight and are introducing minimum order quantities.

Finally, as part of this initiative, we're consolidating parts of our supply base to rationalize and simplify our product offering. We realized that we've gotten far too complex in our product offering and operations. These steps are intended to streamline this process leading to a higher overall contribution margin.

The third area of focus is to implement logistics and overhead efficiency programs as we change our go-to-market strategy. Our operations have to adapt with the changing demands of our customers in terms of their product needs, quantities and delivery schedules. We also need to optimize our distribution networking cost structure to align with the changes we're making across the front-end of the business.

In summary, we anticipate initiatives are estimated to deliver $5 million to $7 million in annualized benefits starting in 2020. We also anticipate at this time that we will spend approximately $1 million to $2 million in 2019 in additional expenses to execute these initiatives once finalized.

We began our initial work in the back half of 2018 as we spent $1.4 million in the fourth quarter to getting things started. We estimate the net benefits in 2019 could be between $1 million and $2 million for the full-year, with most of these benefits coming towards the tailwind of the year. Our goal with these initiatives is to improve our EBITDA margins in this segment to 10% by the end of 2020.

Next slide is slide 8, I'm going to spend some time reviewing our 2019 outlook for the year. First, I want to highlight that we are initiating earnings guidance for 2019. Given the uncertainty in the markets in the world today, we believe it's important to put more information in the hands of investors, so we're aiming to do that this year with annual earnings guidance. I'll get to that more detail momentarily.

From a market perspective, for the full-year, we're looking for sales to be flat, primarily due to headwinds in our agriculture and RV end-markets. Across the rest of our business, we have solid initiatives in place and end-market momentum in specific instances that we expect to offset these headwinds. I'll go into some detail on what those as we review each of the end-markets.

Starting at the top of the consumer market, we expect annual revenue to be up in the mid-single-digit range, driven by growth from the new product launch. [ph] And this got launched when (00:12:30) our Scepter business took place in the latter part of Q4 and is available in the market today. We anticipate our food and beverage market to be down in the mid-teens range, with much of this weakness to be frontend-loaded in the first half of the year due to a difficult comp year-over-year in our seed box business. As a remainder, the seed season covers Q4 and Q1, with a strong season from Q4 2017 to Q1 2018, and as a result of pent-up demand from several years of lower volume due to farm incomes and industry consolidation.

As we annualize that season here in Q1 of 2019, we'll see a drop-off in volume, which we also experienced a bit in the fourth quarter of 2018. Volumes today is more normalized, however, we're monitoring risks associated with the tariffs being negotiated with other countries. We currently have very low visibility in the next year's season because of this. And we're also seeing competitive pressure in this business for the first time as customers have further adopted box packaging of raw alternatives.

In the other parts of the food and beverage market, we're seeing some growth, including increased sales to food processing customer. Though it's a small piece of that market, there's been some good commercial execution and we expect this to continue.

In the vehicle market, we're forecasting revenues to be down mid-single-digit. The biggest factor here is a continued decline of the RV market. The weakness we've seen here is being experienced broadly across the market with industry shipments down 20% towards the end of Q4 and we're seeing 40% down so far in Q1.

We do have some offsets to that with the automotive side of our business, so end-market demand levels are slowing there as well. Because of our business in the automotive market is more directly tied to the number of model year changes in a given year, we can still gain, even if individual car sales are down in given year, it of course limits to this as these factors are ultimately tied together over time, our current expectations are that the sales to automotive customers will improve in 2019.

We anticipate industrial markets to be up low-single digits. We've some recent large orders with our large industrial distributors with generally steady pace of business in that area. In auto aftermarket, we anticipate sales to increase in the low- to mid-single digits. We're seeing some increases at the start of the year, continuing from the growth we experienced in the fourth quarter. Additionally, we're focusing top-line improvements throughout the year as we finalize and execute the strategic initiatives we reviewed earlier.

In summary, we're anticipating sales for the year to be flat overall, with adjusted operating margins expected to grow. We estimate diluted earnings per share to be in the range of $0.75 to $0.85. While we're not going to provide quarterly guidance, it's important to highlight that due to the difficult comps that are underlying already, we will start the year slower than last year. We believe that the other end-market factors I mentioned will help us as we move through the year. On a final note, we have a higher number of fully diluted shares this year compared to a year ago.

Turning to slide 9, and this is a list of all of our guidance items for 2019. I'm not going to go through each individually, but again, we're forecasting sales to be flat and estimating that diluted earnings per share will be in the range of $0.75 to $0.85 per share. And lastly, we anticipate spending $10 million in capital during the year.

Finally, switching to slide 10, you'll see a brief review of our long-term financial targets, with 2018 results included, as 2018 was a check-in point for us. In summary, we're about one year behind on a couple of metrics, but we've also over delivered on a couple of others. So, I'll give ourselves a mixed review. Specially, our adjusted operating margin was 7.1% in 2018, behind the 8% target that we were aiming for. We have a clear path to the 8%, but the underperformance in our Distribution Segment caused us to fall short of that goal. As I outlined earlier, we're finalizing our plans to address this issue and actions are underway to move us closer to this target in 2019.

On cash and working capital, we over delivered with fairly strong performance on both of those metrics contributing to our ability to pay down debt to be below 2 times debt to adjusted EBITDA. On adjusted EBITDA, we came up short at $66 million versus our $70 million target. Similar to our operating margin mess, the underperformance here relative to our goal was due to the results from our Distribution Segment. We remain focused on our 2020 targets and executing plans to make these a reality.

With that, we'll open the line to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Tyler Langton from JPMorgan. Go ahead, please. Your line is open.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning, Dave, Kevin and Monica. Thanks for taking my question.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Hi, Tyler.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Just on the Distribution side, Dave, I guess, for the low- to mid-single-digit sales growth, I mean, I guess, how much sort of visibility do you have? Is that sort of where the underlying market is growing and you expect kind of what the changes to grow with the market or use to take some share, get those growth rates? Any details there would be helpful.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Sure. I think it's a combination of things. I think generally speaking, that is not a high growth market. There are always individual factors that play into that, but I think we are focused on what we can do to drive growth internally. So, our initiatives are around improving which segments of the market we're going after and grabbing share. I think I've highlighted multiple times in the past that we've been losing share over the past few years. So, our initiatives are all round turning that around. So, what we're forecasting is a fairly low growth market, and so the growth that we're projecting here is a combination of a little bit of that market growth, but mainly from our own initiatives where this change in our go-to-market strategy will affect that outcome.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Okay. That's helpful. And then, just on the free cash flow side, I guess, I mean, 2018 obviously benefited from sort of working capital and then sort of a lower CapEx, I guess, can you talk a little bit how you think about sort of the moving parts for 2019 and, I guess, maybe in relation to your, I guess, the 2020 goal of having free cash flow to sales of greater than 9%?

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

A

Yeah, sure. So, our goal is always to improve free cash flow year-over-year. But keep in mind two things. We're projecting CapEx spending of $10 million in 2019 versus the $5 million that we had in 2018. And also, we significantly improved working capital in 2018 and that generated another $6 million, $7 million of cash. So, we have a couple headwinds to overcome if we're going to improve our free cash flow in 2019.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Okay. That's helpful. And then, just last question...

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Let me add a couple things on that, Kevin. Obviously, we've been – I think, we've been doing a wonderful job as a team, and kudos to our organization for their working capital improvement. We always want to continue to improve that. I think there are still some opportunities, but I mean, I think we've made a lot of big progress, and so now, I'd say we're probably in the sustained mode there and that's, so as Kevin highlighted, that's a headwind. So, now, we've got to switch to having earnings be a generator of cash, and so that will be positive for us in this year to offset some of that. Obviously, it was positive in 2018 as well.

On the CapEx side, I think it's important to highlight that in a further pass, prior to, to my arrival, the company spent a lot of capital. I don't know that we got a great return on that capital spending. So, we've been very diligent about how we spend capital. I think we have some good projects on the list for this year, and we're very strict about how we deploy that and how we approve projects. But it will be lumpy for us, because some of the projects are just large, large dollar amounts, and so you get these lumps, and we're anticipating a little bit of that coming into this year.

So, I think the $5 million that we spent – $5 million or so that we spent last year was low. We have more projects on the list this year and we're going evaluate them as strictly as we always have, and we're just – we're very strict about our stewardship of capital. But we do anticipate spending more there.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Got it. And then, just last question for – on the Material Handling side. I think the goal for 2018 was to get around $8 million of savings from the footprint consolidation. Is that – you used to do achieve that and is it -for the benefits from that program, we're largely done or anything in sort of 2019?

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

A

Yeah. We did achieve the $80 million in savings in 2018. And because we had pretty much completed the project by the end of 2017, those benefits are pretty much done there.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Got it. Thanks so much.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Thanks.

Operator: Your next question comes from the line of Josh Chan from Baird. Go ahead, please. Your line is open.

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

Q

Hi, good morning, and congrats on a strong quarter.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Thanks, Josh. Good morning.

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

Q

Thanks. Good morning. My first question is on the Distribution transformation, just wondering, like, if there are certain key metrics that you're looking at sort of internally to measure the success of those initiatives, and did some of metrics improve kind of with the revenue improvement, I guess, in Q4?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

The answer to your first question is, absolutely, we have a pretty robust dashboard that we track monthly on – and, in fact, Chris and his team are tracking daily in a lot of cases. I think the thing to point to right now that this is a growth initiative there. We do highlight that there are margin enhancement portions of this, but ultimately, we want to grow this business. We – this is not a – if you think about Distribution, it's not a business where you'll leverage factory overhead to take out costs out of way.

So, we want to grow this business. So, ultimately, for you all, you should be, I think, rating us on our growth. And so, I think we did see some of that in the fourth quarter. Again, I'm not going to – we're certainly celebrating with that team as they had a strong finish to the year and we're proud of them for that. But one quarter does not solve the problem. So, I think we're continuing to monitor that and that's a – to me, that's the metric that you all should judge us on, is our growth. And then, ultimately, that will turn into – if we're efficient with that growth, that will turn into EBITDA margin.

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

Q

All right. That's fair. On the industrial side, you mentioned kind of a large order in Q4, is that sort of a load into a large customer or can you talk to little bit more about that or possibly kind of size that for us in terms of what it might be if it's sort of non-recurring?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Sure. It's a – we have certain products that we sell to networks. Again, remember, a lot of our products are used in close-loop supply chains and supply chain networks. And so, yes, I would characterize it as a load-in. However, it's with a customer we've had for a long time, and so this isn't the first time they ordered this product from us. It tends to be a fairly lumpy product. We're looking at how we can sell this same product more broadly, because it is nice when it comes along, but would rather not be so lumpy. But yes, that's essentially what it is, is a load-in for various networks within our supply chain.

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

Q

Okay. And on the food and bev side, you talked about sort of uncertainty with the tariff situation. If there were to be sort of some resolution on the tariff side, would that be viewed as a positive for your end-market, I guess?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

So, I would – I think the short answer to your question is, yes, depending on what that resolution is, I guess. For us, and I think for farmers, the Asian region is a very important market for them, particularly for the types of products that our product carries, so seeding of corn and soy are very important products, both for feedstock, as well as for livestock, as well as for just basic products.

And so, farmers benefit from more open trade with Asia, and so we would benefit from that as well. So, that's what you should queue on. Again, I think, it's just more of an uncertainty. So, people are less willing to commit this early in the year to what they're going to do for the Q4-Q1 2019-2020 season, which is – starts this fall. We'll know more coming into the later part of the second quarter, earlier part of the third quarter. But it certainly would be a positive from my view and a positive for American farmers if there were – if we didn't have a trade war or a tariff structure around certain crops and livestock.

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

Q

All right. That makes sense. And my last question, I think in the press release you mentioned the positive sales mix leading to higher margins in 2019. I guess, with Distribution up more than the overall company and food and bev down, I would have thought that mix might have been a headwind. So, could you kind of talk about mix, I guess, and how you're thinking about that?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Well, I think your point is fair. I think the – ultimately, strategy drives mix, so when we are focusing our growth in particular niches and particular areas, we're focusing on where we think we can get the most profit – profitable growth. So, I don't want to go into a lot more detail than that because, for competitive reasons, each of our products, these are very small competitive set and it just doesn't really help us to have more specific information out there. But suffice to say, as we execute – 80/20 is a – as a growth tool, helps you focus on where the best profitable growth is, and that's what our aim has been. So, as we aim for different spots for growth, those generally should be more profitable.

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

Q

All right. Okay. Yeah. That's fair. Great. Thanks for the color and congrats on a good quarter.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Thanks, Josh.

Operator: Your next question comes from the line of Lance Vitanza from Cowen. Go ahead, please. Your line is open.

Lance Vitanza
Analyst, Cowen & Co. LLC

Q

[Technical Difficulty] (00:26:49) questions. I wanted to start on the Material Handling side, particularly the RV market decline. I know that there was a real boom there. And so, the question is, could you put some more context around the downtrends that we're seeing today? Is this sort of a reset to a more normal level after a boom or should we expect additional cyclicality or are there secular trends that work here? Any additional color there would be helpful.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Okay. Good morning, Lance. I think the – there's – there are two things that work here. One is, there is a large amount of inventory overhang in the retail channel there, if you will, for that market. And so – and it's a little tough to tell because this isn't the time of the year that people are buying RV, so the pace of retail sales there is probably weak regardless of the seasonality.

But what you have with that overhang of inventory, as you always knew with any dealer-oriented or channel that stocks inventory, is that, they're not ordering from the OEMs because they don't need enough room for it frankly. And so, until we get through that inventory overhang, now have an artificial dampener on the overall demand for our product as a supplier to the OEM. So, that's a big factor in what we're seeing right now. The – if you read analyst reports or listen to the industry, they still think the fundamentals are okay. This is an industry that's driven heavily by consumer sentiment, so that – it's a -a general economy question really is that how the demand will play out this year.

Again, I think that realistically speaking, I have to see that we're reaching a peak, and so demand has to at least flatten or maybe go down to the retail level. And then, you add in the overhang of inventory that the retail channel has and that makes a bigger – even bigger headwind for us. So, we're preparing with that in mind. If it's better than that, because if demand is the same as last year, that inventory overhang may disappear quicker, but that's what we're trying to monitor. And we're – we've some information on that, we're not plugged in as much as I'd like to be at the retail level, but we're working on trying to find some of that information, so we can see is, how the progress being made there.

Lance Vitanza
Analyst, Cowen & Co. LLC

Q

Okay. Thanks. And then, on the food and beverage side, I was hoping you could talk a little bit more specifically about the tariffs, I mean, specifically where have they been historically, where are they now, and is the fear that say are going to become more adverse going forward or have they already become adverse, and we need them to be relaxed?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

No, I think this is more around the – if you think about the reaction from China, specifically, let's use China, because that's probably the biggest player in this.

Lance Vitanza
Analyst, Cowen & Co. LLC

Q

Sure.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

The reaction of – from China to our tariff threats has been to focus the biggest export products that we ship there, and agriculture is one of them. So, the threats that they've put out there are intentionally harmful, they're not necessarily being enacted at the moment, so it's still in the – and that's why there's a bit of a mystery around this. It's hard to tell whether U.S. farmers will be at a disadvantage compared to, say, Brazil, as an example, there's a bumper crop in Brazil as well and Brazil has developed pretty good relationships with China on a number fronts.

Lance Vitanza
Analyst, Cowen & Co. LLC

Q

Yeah.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

[indiscernible] (00:30:29) there is the southern countries that are producing the same crops. So – and specifically also the tariffs on livestock, so lot of the boom we've had over the past 10 years in livestock production in the U.S. has been shifted to Asia, and that's an area that we get tariffs, that product then becomes more expensive to – for alternatives.

It's an artificial wall that gets torn-up pretty quickly that we have to overcome, and the U.S. farmers are going to be the first to feel that. If you read anything in the paper, there's a lot – there's an excess supply, there is prices are down, these are all headwinds for U.S. farmers and eventually that comes back to us as a cost component of the farm value chain.

Lance Vitanza
Analyst, Cowen & Co. LLC

Q

Okay. Thanks. And just two quick questions on the EPS guidance for 2019. The first is, is that adjusted to reflect the add-back of those – the – whatever – cost to implement the Distribution Segment initiatives and other items, I assume?

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

Everything is in that, the range that we communicated, so it's not adjusted, we are – all the implementation costs had been incorporated in that guidance range.

Lance Vitanza
Analyst, Cowen & Co. LLC
Q

I see. So, if – okay. So, then – okay. So, there might be some incremental adding back for me to do. And then, is it fair to say that that range, does that then reflect, and I guess, uncertainty around the tariffs, but also the sort of the relative success or failure of those go-to-market initiatives in the Distribution Segment or are there other variables that we should be thoughtful about?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

I think the range reflects our view of what we think will happen this year.

Lance Vitanza
Analyst, Cowen & Co. LLC
Q

Okay. Right. Thanks, guys.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Thanks, Lance.

Operator: [Operator Instructions] And your next question comes from Chris McGinnis of Sidoti & Company. Chris, your line is open.

Christopher P. McGinnis
Analyst, Sidoti & Company, LLC
Q

Good morning. Thanks for taking my questions. Just quickly, I wanted to ask just about any maybe new product launches this year that you have coming through the pipeline? And then, I'll ask – I got one more after that. Thanks.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Sure. I think the one that we're prepared to announce today has actually launched in the fourth quarter, which is a new fuel – portable fuel container and spout products with our Scepter business in stores as we speak. We're excited about that.

Christopher P. McGinnis
Analyst, Sidoti & Company, LLC
Q

Okay. And then, I may have missed this, sorry, I got on the call little late. But just in regards to the decline in the RV and, I guess, just thinking about utilizing those assets maybe differently now, have you looked at maybe other adjacencies to use that equipment or that space? Thanks.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Yeah. That's a good question, Chris. Thanks. Absolutely, I think as I mentioned in the discussion about that market, we are – we absolutely are looking at adjacencies, and those will be new products. Obviously, I'm not prepared at the moment to highlight exactly what those are. But there are a number of different adjacencies that we are targeting there, both commercially, but also with new products to address. So, yes, that's – that is the goal with that. It's a very flexible operating model there that we have in that business and we're actively pursuing opportunities.

Christopher P. McGinnis
Analyst, Sidoti & Company, LLC
Q

Great. Thanks for taking my questions. Good luck in Q1.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Thank you.

Operator: Your next question comes from Ryan Mills of KeyBanc Capital Markets. Ryan, your line is open.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.
Q

Good morning, guys, and congrats on the quarter.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Thanks, Ryan.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.
Q

Yeah, nice to see a slight return to growth in Distribution and also the growth that you forecast in 2019. So, can you provide some color on the changes that have taken place since your last earnings call and the feedback from both your sales force and customers?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Sure. I think the – first off, what we've done to recognize that we have this chance was to listen to customers. And so, I think that a lot of the feedback from our customers is incorporated into our plan here. So, that's the – the customers are guiding this in a lot ways. I think the sales force is – I will say that, there's a lot of energy in that organization right now in terms of what we're trying to do. Obviously, change is difficult for anybody. And so, we're thoughtful of that as we make these changes and we're doing that at a pace that we can handle as an organization. And – but I think that there is a sense of energy within that group that's really exciting for them and for us to see as they are going out and really trying to attack the places where we think we haven't been successful in the past, and we're starting to see some improvement there, and that always helps when you're winning a little bit. So, we're excited to them, we're cautiously optimistic there, I think there's a lot of work still to be done. So, it's – I think the first half of the year is still going to require tremendous amount of heavy lifting to get where we want to be.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then, could you provide some color on the chance you're seeing in Distribution in early 2019? And is it safe to assume growth accelerates as the year progresses given your strategic initiatives taking place?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

The way we have it planned is that there will be more growth in the second half of the year from this, particularly on the profitability side, because of we're front loading the investments and the spending. We are seeing a steady pace on that business carried from the fourth quarter so far through February, which is good to see. I think a lot of that is – again, the team is energized, they have very clear objectives. So, we're seeing some results from that, but again, I'm cautiously optimistic, I'm not going to hang my hat on a short period of time of success here. We have to sustain this over a longer period.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then, just couple more for me. Going to the goal of 10% adjusted EBITDA margins by the end of 2020 for Distribution, could you give some color on what type of growth you're assuming after 2019 forecast to achieve that?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

I'm not going to get into growth rates for top-line that far out. Let's get through 2019 first, try and...

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

[indiscernible] (00:37:18). And then, going to your market strategy for that business, focusing on larger key accounts, should we expect that to be a mix headwind, does that customer class continues to grow?

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Yeah. So, if you think about what we have to do to be successful here, we have to alter how we are operating along with how we're going to market. So, certainly, larger customers are going to expect different service requirements, different service levels, different pricing levels. We have to adjust how we're serving them to remain profitable. And that's why we're giving – we're still setting an EBITDA margin goal because we don't want to just grow for growth sake, we want to grow profitability, we want to improve the business. And so, that too have to go hand-in-hand, that's why you see us outline our initiatives in three ways. So, you do have to change how you operate as you're changing your customer base. And there's a different cost to serve model for each of these types customers, and that takes a lot of work to change. But we think we have a plan to do it.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then, last one for me on Material Handling. Could we talk about the cadence for that business? Because it seems like there's some puts and takes, it seems like consumer will get benefits from the new product launch throughout the year, but it sounds like industrial might have some tough comps as the year progresses, particularly in 4Q with that large customer order. And then, I believe you said the decline in food and bev will be frontend-loaded. So, just some color on the cadence for the overall Material Handling Segment will be helpful.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Sure. I think that with the exception of the two areas we've highlighted with RV and the ag portion of food and beverage, I think we expect – we're seeing a steady pace of business there. Obviously, industrial – our industrial business, yes, we do have a – one – that higher order in the fourth quarter, but I think that business has generally been steady. And so, as the year progresses, it's going to depend a bit on how the economy is doing, because it's very much tied to industrial production and these kinds of things. So, as long as that continues on a steady pace, I think we're seeing a steady pace in that business as well.

More broadly within the group, I think there's a – the team has some nice initiatives around growth in certain parts of niche, as I highlighted in the food processing area, albeit that the small part of that business right now, we think – and again, enough of those things to offset the headwinds we have in ag and RV, although those are fairly large headwinds. So, it's – I think it's balanced and it's a steady pace around everything else. I don't – there's not any – I don't think we have any heroics in order to get to where we are here, but it's not going to – the headwinds are large enough and the risk around ag in the second half is also there that we're cautious about that.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks for taking my questions, and again, congrats on the quarter.

R. David Banyard
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Thanks, Ryan.

Operator: And we now come to the end of our question-and-answer session for today. I'll turn the call back over to Monica Vinay for closing remarks.

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

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

Operator: And this does conclude today's conference call. You may now disconnect.