30-Jul-2019

Myers Industries, Inc. (MYE)

Q2 2019 Earnings Call

Copyright © 2001-2019 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Christopher Sinnott
Analyst, Cowen Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Marcela, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Myers Industries Q2 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll 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, Marcela. Good morning. Welcome to Myers Industries second quarter 2019 earnings call. I'm Monica Vinay, Vice President of Investor Relations and Treasurer at Myers. 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 second quarter of 2019. 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, 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 filing and may be found in the company's 10-K filing.

Copyright © 2001-2019 FactSet CallStreet, LLC

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

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

Thanks, Monica. Good morning, everyone, and thank you for joining us. We're going to start on slide 3 with a review of the second quarter. As an overview, I'm pleased with the execution in the quarter from our organization. Further to our execution though, we're seeing some market headwinds that are affecting our top line and we'll talk more about that as we go through our presentation.

To start our overview, let's talk about the execution we had in the second quarter. Our Distribution Segment transformation remains on track as sales increased year-over-year for the third consecutive quarter and adjusted EBITDA grew by 16%. The growth in distribution was broad based, including in a variety of digital channels although those are in the early stages.

In the Material Handling Segment in our food and beverage market, we saw high-single-digit growth, primarily driven by new customer wins in our food processing business in the second quarter. We saw low-single-digit growth in our industrial end market. And overall for the enterprise, we expanded adjusted gross profit margin to 35% as a result of favorable price cost margin.

Enterprise adjusted operating income increased by 6% despite the 4.5% sales decline we saw in the second quarter. The organization continues to use the tools of 80/20 and lean to drive focus on our key customers and efficiency in our operations, and we're happy with the results that we're seeing. We generated $9.4 million of free cash flow which gets us back to a more normalized pace than we saw in the first quarter. Kevin will go into more detail later in his presentation as there are a few puts and takes to note in our cash flow particularly regarding our working capital in the first half of the year.

Switching to the right side, we did have several challenges in some of our key end markets during the quarter and the first half of the year. Talking about those here and we'll discuss what that means for the rest of the year later in the presentation. We experienced softer than anticipated demand in our consumer end market. This was our biggest challenge in the quarter as point of sale transactions at our large format retail has declined during the period. We believe this is a direct result of the continued and frankly unprecedented wet weather that we had throughout the eastern half of the United States in the second quarter. The lawn and garden season got off to a bad start as we mentioned last quarter and it never recovered as the wet weather continued through the second quarter. We'll talk about this later in the presentation, but we don't expect to recover that volume in the back half of the year.

Sales to RV customers continue to decline which is not unexpected. During this corrective period in the market, we're taking steps to consolidate our manufacturing operations. We estimate that this consolidation project will be completed in 2020 with an annual savings run rate of $1.5 million beginning next year. We're focusing on gaining market share with our current customers and pursuing new customers, and we had some wins there in the second quarter.

We did see some slowing demand from the automotive OEMs during the quarter. This is not our auto aftermarket business but our OEM business within the Material Handling Segment. The slowing demand is a result of a slowdown in new model launches with some of our larger customers which is impacting our top line results.

Now I'll turn over to Kevin to go through our financial review in the second quarter. Kevin?

Copyright © 2001-2019 FactSet CallStreet, LLC

Kevin Brackman

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

Thanks, Dave, and good morning everyone. Today, I'll review our 2019 second quarter financial performance including our balance sheet and cash flow. Please turn to slide 4 of the presentation, and I'll begin with a review of our second quarter operating performance. All numbers in the presentation reflect continuing operations.

Net sales for the second quarter were $134 million, a decrease of 4.5% compared to the second quarter of 2018. The decrease was primarily due to a decline in sales in the Material Handling Segment within the company's consumer and vehicle end markets. The adjusted gross profit margin increased 70 basis points to 35%. This was primarily due to favorable price-cost margin partially offset by lower sales volume and unfavorable mix.

Our adjusted operating income increased 6% to $14 million for the quarter. This was the result of the higher gross profit margin as well as a decrease in adjusted SG&A due primarily to lower variable compensation and benefit cost and savings from the Distribution Segment's transformation initiatives. Adjusted diluted earnings per share were $0.27 or flat compared to the second quarter of 2018. The flat adjusted EPS despite higher adjusted operating income year-over-year was the result of a higher diluted share count compared to the second quarter of last year.

GAAP earnings per share were $0.18 compared to $0.26 for the second quarter of last year. GAAP earnings per share in 2019 include a $4 million charge to increase reserves for estimated environmental liabilities related to the New Idria Mercury Mine. In July 2019, the company submitted a draft work plan to the EPA for the remedial investigation and feasibility study that will determine the extent of remediation necessary at the New Idria site. The company has received preliminary estimates from its consultants for the cost of the investigation and study and based on these preliminary estimates, the company recognized additional expense of $4 million during the second quarter.

The finalization and approval of the draft work plan is expected to occur by the end of 2019. The company anticipates that the remedial investigation and feasibility study will take approximately three to five years to complete.

Now let's turn to slide 5 for an overview of our performance by segment. Net sales in the Material Handling Segment decreased 7% to $96 million. The decline was driven by sales decreases in our consumer and vehicle end markets resulting from the challenges that Dave highlighted earlier. These declines were partially offset by a sales increase in our food and beverage end market due to increased sales to food processing customers and higher sales in our industrial end market due to growth with both current and new customers.

Material Handling's adjusted EBITDA margin increased 150 basis points to 24% despite the lower sales. Favorable price cost margin mostly offset the lower sales volume and unfavorable mix. In Distribution, net sales increased 2% to $38 million. Distribution's adjusted EBITDA margin increased 120 basis points to 9.4% as a result of the higher sales volume and savings from the segments transformation initiatives.

The segment continues to execute its transformation plan which includes enhancements in its go-to-market strategy, implementation of 80/20 to drive improved contribution margins, and optimization of its logistics and overhead costs with a goal to expand EBITDA margin to 10% by the end of 2020.

Please turn to slide 6 and I'll review our balance sheet at the end of the second quarter, as well as our cash flow and working capital performance. We generated free cash flow of $9.4 million in the second quarter compared to

Copyright © 2001-2019 FactSet CallStreet, LLC

$13.3 million for the second quarter of last year. The lower cash flow was mainly due to an increase in working capital year-over-year primarily as a result of higher accounts receivable and lower accounts payable.

Accounts receivable was higher due to the timing of customer payments at some of our businesses and accounts payable was lower mostly because we outsourced less production to our vendor partners during the quarter, and therefore did not have as much payable to them at the end of the quarter. Working capital as a percent of sales at the end of the second quarter was 6.5% which was slightly above previous quarters. Debt to adjusted EBITDA remained consistent with previous quarters at a ratio of 1.2.

I will now turn the call back over to Dave who will review our outlook for 2019.

R. David Banyard

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

Thanks, Kevin. Let's switch to slide 7 for an overview of our 2019 fiscal year outlook. As I mentioned earlier, several of our key end markets are challenged at the moment and we saw that manifest itself in the second quarter. This trend is expected to continue into the third quarter.

As a review, we typically see a lower second half in our overall business due to seasonality. This year, we're expecting that same dynamic, although we anticipate a softer third quarter than fourth quarter. I'll go into some detail now and the drivers behind that.

Turning to the top with our consumer end market, we're now expecting that for the full year, this segment will be down high-single-digits. We previously anticipated this market to be up mid-single-digits but are revising our outlook due to the softer market demand we saw in the second quarter, which we believe will ultimately carry over into the third quarter as well.

We did see some uplift in revenue from our new product launch, so we outperformed the market but we think it's not going to be enough to overcome the market softness. As an example of this decline, the power equipment index, which is a good bellwether for us on actual market demand, is down 21% in the second quarter.

In our food and beverage market, our outlook remains unchanged as we expect this market to be down mid-teens for the full year. We did have a big chunk of this decline come out of this year's first quarter, as you might remember, highlighted by a difficult year-over-year comparison from a very high season back in early 2018. So, we did see some of that demand fall out of our results already in the first quarter. Looking forward, we have some – we have seen some challenging growing conditions as we head to the back half of the year.

The unprecedented wet weather we saw in the spring of this year in a number of regions caused many farmers to plant later than usual and that puts a high degree of uncertainty to this market. We usually have a good indication of the upcoming season from our customers by this point in the year. But due to the uncertainty in the farm sector, we don't have that yet. We're looking forward with caution in this particular market for the coming season.

As a slight counterbalance, we continue to have success in the food processing portion of our business. However, the market share and the growth we're seeing are not yet large enough to offset the overall decline and uncertainty in the Ag portion of this market for us.

In our vehicle end market, we expect to be down high-single-digits compared to our previous outlook of down mid-single-digits, primarily driven by the decline in sales to RV customers that we experienced in the first half of the year. We do expect that third quarter will be a continuation of that trend. The fourth quarter, we believe that the

Copyright © 2001-2019 FactSet CallStreet, LLC

combination of annualizing decline seen in last year's fourth quarter combined with the recent new wins could lead to top line stabilization, but are again cautious because of the trends of automotive OEMs which fits into this market for us.

In our industrial end market, our outlook remains unchanged as we continue to expect it to be up low single-digits for the year. The pace of this business is steady to slightly down. However, we had already had a decent start to the year and although we don't see a robust market here currently, we continue to hold serve.

Finally, in the auto aftermarket, our outlook remains unchanged, and we expect this business to be up low- to mid-single digits. We expect sales to increase as we continue to implement the actions from our transformation plan. As I mentioned earlier, we're seeing some early success from the new multichannel approach to the market which includes digital as well as large account strategies.

Turning to slide 8, I'd like to spend a moment on our 2019 guidance. In terms of net sales growth, we do see some headwinds in the back half of the year, and we're looking with caution through the fourth quarter. So we thought it was prudent to revise that outlook to down low to mid-single digits from our current guidance of flat.

We are reiterating the other components of our guidance with the exception of our GAAP diluted earnings per share, which we are now guiding to $0.62 to $0.72 based on the adjustments we had to make in the second quarter due to the environmental charge.

We still believe we can hold our previously estimated adjusted earnings per share of $0.75 to $0.85 as we've done an effective job of managing costs and delivering on operational improvements which we expect to continue.

With that, we'll now open to questions.

Copyright © 2001-2019 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Tim Wojs from Baird. Your line is open.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Hi, [indiscernible] (00:14:18). Good morning, everybody.

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

A

Good morning, Tim.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Yeah. Thanks for all the details. So, I guess just a couple of questions for me. I guess as you alluded to in your prepared comments Dave that you thought the third quarter would maybe be a little softer than the fourth quarter. Anyway to kind of frame how we should think about that maybe percentages or just kind of absolute numbers?

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

A

Yeah. We don't want to get into quarterly guidance here Tim but I think that the general way I'd frame it for you is similar to my remarks is that we think that the third quarter is not going to be as good as and we think there's slightly better fourth quarter ahead much as I hate to push out our outlook to something towards the end of the year but there are some fundamentals in the fourth quarter that make us feel that that's going to be a slightly better quarter. But I don't want to get into any specifics to do quarterly guidance but I think the third, we're still seeing some of the headwinds from our consumer business in the third quarter and that season just hasn't materialized because of the market demand. So, I would characterize it as the third is going to be worse than the fourth.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

So maybe some mix things impacting the third quarter just based on the growth of certain businesses. And then in the fourth quarter, could you just elaborate on what you think gets a little better? Is it some of the automotive market? Is it – can food and beverage actually grow in the back half of the year or Q4?

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

A

Right. So, let me give you a decent – a little more detail about why we think the fourth is better, that's fair. It's a couple of things. First of all, due to the seasonality we – third quarter is generally our worst quarter because it's – there's this very little Ag activity in our food and beverage business. It's the tail end of the consumer spring season and the spring – that consumer season hasn't materialized, so that comes out.

Copyright © 2001-2019 FactSet CallStreet, LLC

What I'll say about the fourth quarter we do things – we're not looking with any optimism around the auto OEM side, so that's going to weigh on both third and fourth quarter. I think the way we're looking at the fourth quarter is first and foremost, we're lapping the RV decline. We've also focused our attention there on things we can control in these situations where we have market headwinds, and that's share gain and new customers. And that's been the focus of that business and they have had some success here late in the second quarter, early in the third quarter at winning some new business there. And that will really start in full effect in the fourth quarter.

I think the last piece is we're looking with caution at the Ag market, and that's probably the most cautious part we are about the rest of the year as there's still a lot of uncertainty. And as I said, we normally have a pretty good indication from our customers at this point. We've been very close with them through this period, but there's just still a lot of uncertainty from them on end markets because of the fields that were planted very late. They're going to get a lot of returns. And we don't know yet nor do our customers know yet what that impact will be in the fourth quarter. So, we have – we've been cautious in our approach to our view of the fourth quarter in Ag but that is an important quarter for us in Ag as it starts the season. And so there's some caution there in our view.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Okay. No. I appreciate all the color.

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

A

Sorry, Tim one last thing. Sorry, Tim to talk of it. One last point, I think that we are in our – Distribution business, we're gaining ground there on our transformation efforts and we expect that to continue to improve throughout the year. So we – and there are some seasonal – a slight seasonality to that business where the third quarter is generally the lowest quarter of the year for them. And so, we are expecting given the work we're doing there that we'll have some continued improvements in the fourth quarter. So there's – I would say that a lot of what we're going for to solidify our fourth quarter are actions that we're taking and have control over. [indiscernible] (00:18:33).

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Okay. No. That's all very helpful. I appreciate that. And then maybe just kind of sticking with Distribution, I want to say that maybe there was – I think it's about $5 million of cost savings from just some of the Distribution initiatives that you've undertaken. As we kind of look into – that wait to 2020. So we should see most of that in 2020 versus 2019 right?

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

A

Yeah. That is correct. So we have said that we estimate the benefits to be $1 million to $2 million in 2019. And then the annualized benefits starting in 2020 will be $5 million to $7 million.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Okay. That's good. And then, how should we think about just in the back half of the year kind of the view on kind of price cost where we've seen kind of lower, I guess maybe more volatile oil prices and related derivatives over the last, call it three to six months. How are you guys thinking about the price kind of cost dynamic issue as you head into the back half of the year?

Copyright © 2001-2019 FactSet CallStreet, LLC

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

A

Yeah. We expect the year-over-year favorability and price cost margin to continue in the third quarter. It will be at a declining rate compared to the first half of the year.

A couple of reasons for that. One, we took some pricing actions in the first half of 2018, so we have now lapped those pricing actions. And the second thing is, you remember that some of our customer contracts are indexed, and so you – there's probably a 60, 90 day lag and the price automatically updates after 60 or 90 days to changes in resin cost. And so for those two reasons, I don't think that it will still have year-over-year favorability, but it won't be to the degree that we realized in the first half of the year.

Timothy Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay, okay. I appreciate all the commentary and good luck on the back half of the year, guys.

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

A

Thanks, Tim.

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

A

Thank you.

Operator: Your next question comes from the line of Ryan Mills. Your line is open.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning guys.

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

A

Good morning, Ryan.

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

A

Good morning.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. I was just curious if you could break out the price contribution and the volume contribution, whether by segment or on a consolidated basis?

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

A

Copyright © 2001-2019 FactSet CallStreet, LLC

We generally don't give that level of detail, so it was – I mean, obviously, the decline in revenue was primarily volume-related and that some offset for price but the...

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

A

Yeah. I mean the majority of our decline is the market headwinds that we described earlier. So I think from competitive standpoint, we don't need to get into that level of detail. One thing I will add is I think we've become much more nimble on price. That's one of the goals we've had over the past few years is to understand our customers and our markets better. So, I think we become more nimble there. But, yeah, I think that's [indiscernible] (00:22:00).

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then, I want to focus on free cash flow being that's down year-to-date and a lot of that looks to be driven by working capital. I know you said accounts receivable stepped up in the quarter. Is that reflective of market conditions and how do you see free cash flow shaping out over the next two quarters and do you expect working capital to continue to be a use of cash?

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

A

Yeah. So, looking at the individual components of working capital, receivables was really just a collections timing issue, so that will correct itself. I also think there's probably opportunities in the inventory. So, if you remember back in Q1, we talked about our Scepter business, building inventory to prepare for their strong season. We've reduced some of that inventory in the second quarter. But because of the lower than anticipated volume in that business, we finished the second quarter with higher inventory than what we were planning in that business. And so, that's just one example of I think some of the opportunities that we have in inventory.

I think the one component of working capital where there's probably not a short-term correction is accounts payable. So, we mentioned our payables are down because we're outsourcing less volume to our vendor partners. I don't know that may not – that may hold through year-end. So, our payables may continue to stay at lower levels through the second half of this year. And so, like Dave said, we returned to what is a more normal run rate for us on free cash flow in the second quarter. I would expect that to continue in the second half.

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

A

Let me just add something about the inventory. That's a choice we made and we are launching a new product, and we wanted to make sure that we could meet whatever demand the customer had. I think that the team there has done nice job managing their capacity and understanding that. But I think we made a conscious choice to put inventory in to ensure that we had supply of the new product. We walked into a lower market and so we have to work that inventory off. But I think generally speaking that was – I want to put that on that was a conscious decision we made not an accident. So we'll work through that.

Generally speaking, I've been very pleased with the organization. There's always opportunity for more inventory. It's a constant drum that Kevin and I beat with our teams, and everybody's always looking for more opportunities. So we'll continue to work on that.

Copyright © 2001-2019 FactSet CallStreet, LLC

I think the dynamic that you should take away from what you see in our working capital is that we built our operations to be flexible so that we don't have – this outsourced model that we have for certain operations allows us to increase this on the way up without adding a ton of working capital. So there's not a ton of investment required as we increase and that's what our partners provide for us, and it shows up in payables. As we decrease in business that we don't need our outsourced partners as much, we don't get as much of the benefit of the reduction in working capital. But I think it stabilizes our working capital over the long-haul and we think that's a good thing.

And again, the second half of the year we generally manage down our working capital fairly well with the seasonal effect that we have in our business. On the receivable side, we have some customers that have started to stretch in their payables a little bit to us. It's a little annoying, but it's part of life. So we'll work through that as we go. But fundamentally, nothing's changed from a contractual standpoint in terms of our receivables and payables. This is more just how the dynamic will work moving forward.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. And, David, you're executing in Distribution and I think investors really appreciate that, but I think the Street would like to see a deal come through following your secondary. So can you maybe give an update on your M&A strategy, and have you seen multiples come down in what appears to be a lower demand environment?

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

That's a good point. And, yes, Ryan, we're seeing that pricing is starting to become more realistic which is good. And we do have some interesting things that we're working on in that effect. And so without any – I can't go into much further detail, but yes, I think that we're seeing – we've adjusted our view in terms of the types of deals. As I highlighted last quarter, we're going after much more proprietary items and those are – those discussions progressed.

They're often lengthier because there's no process involved, so there's no definitive timelines from sellers. But that – it requires building a relationship and working through the desire to sell. But I think we're working in a number of different angles and are seeing some progress there. So we're pleased that the market is adjusting its lines on pricing a bit. Some places, it isn't. But we're seeing some of that, and that's – that fits more into our model. So we're working on that.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.
Q

Appreciate the color. And just a couple more for me. I believe food and beverage was up high-single-digits during the quarter, but overall guidance expects mid-teen declines. I know a large portion of that was in the first quarter. Do you expect to see growth in the back half and what's driving the mid-teens decline? Is it just a back-half uncertainty? Any other color you can provide on the food and beverage market would be great. And then on top of that, I know you've talked about some new customer wins. Were there any one-time large orders for that market as well?

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

Yeah. So let me – that is a bit of a longer cycle business. A lot of our businesses are shorter cycle. This one is a longer cycle. It is a highly engineered sale, bifurcated too because it's important. But the large majority of that

Copyright © 2001-2019 FactSet CallStreet, LLC

business is the Ag portion and you saw, as we highlighted back in the first quarter, a very difficult comp there. So that volume is already out of our trailing.

Looking forward, as I highlighted earlier, we typically this time of the year have good indicators from our customers about demand for the upcoming season of Q4 to Q1 next year because of the wet weather and the late planting and the low yields that farmers are probably going to get, it's really hard to nail down what's going to happen. I think tariffs are also really muddying the picture as well. And so our customers really don't know and it's fair for them to not know, but we're anxiously waiting their firming up their volume expectations for the future. And just so you understand, we are essentially riding the market here. We don't – there's – where we have good position with some large customers there. And so we're going to go up and down with the market on that. What we've – what we're doing proactively in this space is we have a product line that started very small a few years ago, was very well situated in one particular small segment of the food processing business. And over the past few years we've been really targeting to expand into adjacent segments. That team has done a tremendous amount of work. It is a longer-cycle sell because you're initially getting a customer to buy sort of an upfront capital expense on a fleet of boxes.

And we've had some success with that. We saw some success in the first half of this year. That business is up very nicely and – but it's a small starting point. So, they've done a great job of building new customer bases to expand and the effect that that has essentially is then you can repeat that with other customers and then they have a fleet that they're building out which takes some time and then you have a replacement cycle after that. So, it is one of these businesses that has a nice tail to it once you build out these individual segments. And the team has done a really nice job of figuring out which segments beyond the one we already have we could share and which segments are best suited for our product and getting the trial done. A customer will trial this for several month period before they decide to change over to our solution. But we have seen some wins here and a variety of new segments and we're excited about that. And so, we expect to continue to drive that sales funnel and build out this fleet.

But it will be – there's some lumpiness to it as you get started because of fleet buy. So, you get a big order, you deliver that over time, and then you got to go up to the next big order. And so, we saw a couple of nice wins in the first half. But as we highlighted, we were up nicely in the second quarter year-over-year on that. And so, we're looking for that portion of the business to become a bigger focus and a bigger part to help offset some of the ups and downs we see in the Ag market.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Really appreciate the color and last one for me. It's nice to see continued growth in distribution. Can you maybe talk about how trends progressed during the quarter and are reps becoming more efficient as you expected following the changes and maybe talk about some of the customer feedback you've been receiving following all the changes you've made for that segment?

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

A

Sure. It's – there are multi-pronged approach here to changing how we go to market. And so what we accomplished so far in the first half of this year is twofold. One, is to reorient our sales force to focus on different parts of the market in different segments. So it's that sort of multichannel go-to-market strategy.

And we've started by rearranging how our field sales reps operate in territory realignment and so forth. It's a smaller team in that portion, in that segment of our business. We've bolstered what we'll call the key account

Copyright © 2001-2019 FactSet CallStreet, LLC

team, the large account team to be a bigger team that can focus on very large customers. And then we've also gone after a variety of what we call digital channels and then some are still fairly traditional.

Some are our own online platform and then there are other wide variety of other channels that you can go through digitally. And so we penetrated a couple of those. Its early days for that, I will say. But we have seen some success right out of the gate and we're excited about that. So we're going to continue to drive in those variety of directions.

We've also done some experimentation with some other things such as inside sales and so forth. So you start by experimenting in these variety of different channels to learn how it works and then you start putting process in place to institutionalize it. And that's what we've done in – on that front.

On the back side of the business, in the first half, we focused mainly on 80/20 and really making sure we're selling the right things at the right price to the right customers. And that – there's a lot of work that goes into that. You see some instant results. But then the results really come over the long-term as you change your buying behaviors and your product offering and your customer base. And so that – that's kind of continues on through the year. And there's always more work to do there. But it's – they've done a lot of heavy lifting on that in the first half.

Our focus for the second half is it shift gears slightly. And that's really to now that we've done a lot of these experiments where we understand the dynamic and operating of these different paths to market is to really drive the sustainability and the growth out of those. And along with that orient our operations so that we can deliver in a variety of different service models that these different channels require. And that is pretty complicated. It does – if you think about a factory with multiple different channels, not every channel has the same service level requirements. And so you've got to orient your distribution centers to be able to handle the different lead times, the different quantity sizes, et cetera, et cetera. So that's the task ahead. But we're excited about the progress that team has made. They've really done a great job.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Appreciate the color. And thanks for taking my questions.

Operator: Your next question comes from the line of Chris Sinnott. Your line is open.

Christopher Sinnott
Analyst, Cowen Inc.

Q

Good morning. Thanks for taking my question. I'd like to touch back on the RV market again if we can. Can you talk about what you're seeing from an inventory perspective at the wholesale channel and then – at your own levels and the dynamics you see for that going forward, what your customers are doing but really just that inventory lag that's been affecting you guys and what you see with that?

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

A

Yeah. Thanks for your question, Chris. Good morning. The – what we're seeing is, there's still an inventory overhang and generally my rule of thumb is it takes about five quarters to work through a decline. The retail market has had its normal seasonal uptick that you see. It's not nearly as good as last year. We're still waiting to see how it peaks, which generally happens around now, to see whether it's similar to 2017 or prior year.

Copyright © 2001-2019 FactSet CallStreet, LLC

But the follow-on effect of that is that the OEMs, if you will, which is our direct customer have taken significant time-off and reduced capacity, if you will. So you're seeing large – two-week shutdowns for some of them in July and so forth. So we're coming through that period, and we'll say the second half of the year is always slower in the OEM side because the inventories are already out in the field and people generally buy these items earlier in the year.

So it's been down year-over-year across the board. I think RV shipments through June across the industry are down 20% and we're seeing about the same. So we're riding along with the market. Our focus there has been to gain share of wallet from some of our better customers and also our focus in that business has been to build up – our 80/20 has driven us to segment our businesses, and we have other markets that particular business are focused on and we've been focusing our energies commercially there as well, to try to offset, if you will, the impact that we have from this cyclical RV market.

Christopher Sinnott
Analyst, Cowen Inc.

Q

Okay, thank you. That's really helpful. Appreciate it.

Operator: There are no further questions at this time. I'll turn the call back over to the presenters.

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

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 be immediately 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.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2019 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.