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Myers Industries, Inc. (MYE)

Q1 2019 Earnings Call

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Christopher P. McGinnis
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Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Sharon, and I will be your conference operator today. At this time, I would like to welcome everyone to the Myers Industries First Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remark, there'll be a question-and-answer session. [Operator Instructions] Thank you.

Monica Vinay, Vice President-Investor Relations and Treasurer, you may begin your conference.

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

Thank you, Sharon. Good morning. Welcome to Myers Industries first quarter 2019 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 first 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 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 filings and may be found in the company's 10-K filings.

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 an overview of the first quarter of 2019. The quarter came in as expected. We're pleased with these results and are happy with the sustained progress from the continuous improvement efforts by our team in those statements.

Within our Distribution Segment, we continue to execute well in our transformation effort. Sales increased slightly year-over-year for the second consecutive quarter in this segment despite one fewer selling day compared to the first quarter of 2018.

In our Material Handling segment, while the overall segment revenue was down due to market conditions in two specific areas, we are seeing good results from our focused commercial efforts. For example, we achieved double digit sales increase in our IBC product line, which we sell to our food processing customers within our food and beverage end market. The team has done a nice job of finding new customers to convert in this market, which is currently a small part of our revenue, but a nice growth opportunity to help diversify our business and offer less reliance on the seed box product.

Sales of our new SmartControl product launched by Scepter in the fourth quarter 2018 drove mid-single digit growth in fuel containers. We're now entering the high season for that product and are seeing nice progress with our customers as the product has been well received by the market.

We had a large customer order in our industrial end market, which drove mid-single digit growth, offsetting some inventory destocking that we saw in the industrial distribution channel during the quarter. I'll talk a bit more about the pace we're seeing in the industrial market later in the call.

Adjusted gross profit margin expanded by 190 basis points to 32.9% as a result of favorable pricing and material margin, as well as productivity savings achieved across all the businesses due to our lean initiatives. Despite the overall sales decline, we had an adjusted operating income increase of 6% which shows now 80/20 in lean tools as well as a more asset-light model can drive improvement.

On the challenges' side, we highlighted on our last call, we faced a difficult comparison in the ag portion of our food and beverage end market this quarter. As a reminder, we had a record season in the prior year period and our results in this market in Q1 of 2019 reflected more normalized pace. The team did an excellent job handling the anticipated decline given the difficult comp.

Turning to our vehicle end markets, the on-going retail inventory correction within the RV market continued, as we saw weaker demand again year-over-year from our OEM customers. We expect this pause in demand to continue through the second quarter, as inventory levels across the retail and wholesale channels align themselves.

Within this business, we made a decision recently to consolidate manufacturing operations by closing a plant in Michigan and moving operations down the street into our nearby Bristol, Indiana facility. We estimate that we're going to spend $1.1 million in costs and we'll add $1.5 million in annualized benefits in 2020.

The higher season for RV demand from wholesalers takes place in the first half of the calendar year, and thus we want to be prepared to complete these consolidation actions in the slower portion of the season. Additionally to address them potentially offset the seasonal nature of demand in this market, we spend a lot of time working on finding and developing new market opportunities and applications in adjacent markets. The team has done an excellent job in the quarter with new product wins in these new niche markets.

I'll now turn over to Kevin to go through our financial review of the first quarter.

Kevin L. Brackman

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

Thanks, Dave, and good morning, everyone. Today, I'll review our 2019 first 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 first quarter operating performance. All numbers in the presentation reflect continuing operations. Net sales for the first quarter were $139 million, a decrease of about 9% compared to the first quarter of 2018. The decrease was primarily due to a decline in sales in the Material Handling Segment within the company's food & beverage and vehicle end markets.

The adjusted gross profit margin increased 190 basis points to $32.9%. This was primarily due to favorable price cost margin and productivity savings partially offset by lower sales volume and unfavorable mix.

Our adjusted operating income increased 6% to $12 million for the quarter. This was the result of the higher gross margin as well as a decrease in SG&A due primarily to the lower variable compensation and benefit cost compared to the first quarter of last year.

Adjusted diluted earnings per share were $0.23 compared to $0.24 for the first quarter of 2018. The decrease in adjusted EPS despite higher adjusted operating income year-over-year was driven by a higher diluted share count compared to the first quarter of last year.

Now let's turn to slide 5 for an overview of our performance by segment. Net sales in the Material Handling Segment decreased about 12% to $103 million. The decline was driven by a decrease in our food and beverage end market due to more normalized demand for our seed box compared to the first quarter of 2018 and a decrease in our vehicle end market due to the continued decline in the RV market.

These decreases were partially offset by higher sales in our consumer end market, driven by incremental sales from the new smart control fuel containers and higher sales in our industrial end market driven by a large customer order we received in Q4 of last year.

Material Handling's adjusted EBITDA was flat year over year despite the lower sales. Favorable price cost margin and productivity savings, mostly offset the lower sales volume and unfavorable mix. In distribution, net sales increased 1% to $36 million, despite one less selling day compared to the first quarter of 2018. Domestic sales were up 4% on a daily run rate basis.

International sales were down due to a decline in export shipments. Distributions adjusted EBITDA was flat during the quarter. The segment continues to execute its transformation plan, which includes enhancements in its go-to market strategy, the implementation of 80/20 to drive improved contribution margins, and optimization of its logistics and overhead costs with the goal to expand the EBITDA margin to 10% by the end of 2020.

Please turn to slide 6. And I will review our balance sheet at the end of the first quarter, as well as our cash flow and working capital performance. We generated free cash flow of $2.4 million compared to $11.6 million for the first quarter of 2018. The lower cash flow was the result of higher variable compensation payouts and increased capital spending compared to the first quarter of 2018, as well as inventory build in our Scepter business to prepare for anticipated higher demand for the new SmartControl fuel container during the second quarter of this year.

Working capital as a percent of sales at the end of the first quarter was 5.5%, which was consistent with 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. Move to slide 7. I'm going to review our 2019 fiscal year outlook. We're holding to our previous forecast of flat sales with gross – with growth in adjusted operating profit margin and adjusted diluted earnings per share of $0.75 to $0.85. Please note that this is an adjusted number because of the restructuring actions that we recently announced.

Looking at each of our end markets, we are consistent with the outlook we provided back in March. I'll spend a little time on each market [ph] door (00:09:48) to provide some context on what we saw during the quarter and what we expect to see for the rest of the year.

We're seeing good pace as expected in the consumer market, with much of this coming from our new product launch. The market itself is a little late in its seasonal uptick due to the late spring weather, but we've seen good results due to the adoption of our SmartControl product in the market.

Food and beverage came in as expected in the quarter, and as I highlighted earlier, we had good results from the food processing portion of the business and expect that to continue through the year. One area of uncertainty as we head towards the second half of the year is with our ag business.

We currently have limited visibility here, but that visibility should improve as we move through the second quarter. The current expectation in the latter part of this year is for this business to perform at a similar pace to the season that just concluded. So while, Q4 2018 and Q1 2019 were down, we expect this business to be in line with our current pace, and the next season starts in the fourth quarter of this year. We expect to have more detail for you on this by our second earnings – second quarter earnings call at the end of July.

In the vehicle business, we expect RV demand from our wholesale customers to continue to decline year-over-year, particularly in the second quarter as retailers are still balancing their own inventory levels with current market demand. As we move back into the – as we move to the back half of the year, we believe the inventory levels across these two channels will approach equilibrium, which should allow demand levels from our OEM customers to normalize.

The retail environment for RVs is performing better than our results would indicate, as we're not seeing as large of a decline in percentage terms, which bodes well for how quickly the industry can get out of its inventory overhang.

Elsewhere in vehicle, there's a steady pace in our business, though we're seeing slight slowdowns in the automotive sector similar to what others are seeing as well, but nothing that's going to change our view of the market here.

Industrials are also steady with a bit of destocking coming out of the first quarter, but so far in the second quarter, we've seen a more normalized pace in our channels, akin to the type of steady environment that the industrial market indicators would signal. With the sales from the large customer and the current pace, we see this market as an area of low-single-digit growth in 2019.

Turning to the auto aftermarket, we've now enjoyed two quarters in a row of growth within our distribution segment. We expect this improvement to continue as the year progresses aided by the transformation progress – process that we're executing.

While we're pleased with the start, we do anticipate that growth will be higher in the second half than in first. This is due in part from the fact that our transformation actions don't all deliver immediate returns. Other factors in the second quarter of fiscal 2019 faces a more difficult comp, as last year's second quarter was the best quarter of the year given the strong month of May, and we again have one fewer selling day in Q2 2019 compared to the second quarter of 2018.

With that, on slide 8, we are reiterating the same guidance as outlined in our most recent earnings call, noting flat sales with earnings per share on an adjusted basis coming in at $0.75 to $0.85 per share.

And with that, we'll now open the line to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Tyler Langton with JPMorgan.

Tyler J. Langton
Analyst, JPMorgan Securities LLC Q

Yeah. Thanks. Good morning, Dave, Kevin and Monica.

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

Good morning, Tyler.

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

Good morning.

Tyler J. Langton
Analyst, JPMorgan Securities LLC Q

Just within Material Handling, I mean, obviously, it was impacted by lower volumes and the weaker mix. But EBITDA margins kind of held up from you mentioned the favorable price cost spread and then productivity savings. Can you just, I guess give a little bit more detail on where these price cost gains are coming from the productivity and just sort of how sustainable you think they are for the balance of the year?

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

A

Sure. Kevin, do you want to take that?

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

A

Yes. So on the price cost margin, I – we took a number of pricing actions in the early part of 2018, and so there was year-over-year benefit from those actions in the first quarter. I expect the price cost margin to continue to be favorable in the second quarter, but it won't be of the same magnitude that we had in the first quarter due to, like I said lapping those price actions that we took last year plus some of our customer contracts, the pricing is linked to resin cost. [ph] So we thought this really had lower (00:14:15) resin cost in the first quarter, that will start to have an impact on pricing in Q2.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Okay. That's very helpful.

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

A

Just, I'd add to that is on the productivity side, we are seeing improvement there broadly across all of our factories. That's due to our lean initiatives. And that is – those are improvements that will continue, and they're sort of phased in throughout last year. So while some of this is price and some of this is resin benefit productivity or gains that should – we intend to sustain. It has – so you should see those continue throughout the year as well.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thanks. And then just within distribution, I think revenue growth for the quarter was up 1%. I think you mentioned sort of the daily run rate of domestic sales was up 4%. So I guess can you provide a little bit more color, just sort of on the revenue growth for the main businesses? I think last quarter maybe was equipment and international sales were a little weaker. So just – I guess I'm just trying to get a sense of when domestic sales continue to be sort of solid, when that will start to flow through and shell up?

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

A

Right. So the – our primary area of focus in the transformation has been on our domestic revenue, which is the largest portion of our business and that has – we're starting to see the results of that – of that work. And the 4% daily run rate growth was broad-based across the country. So it wasn't any particular regional pocket or particular set of salespeople so – that, which we think is good.

We did take some action in the first quarter that we organized the sales force to be – they have to be more efficient and to reorganize our territories. We think that's going to have additional benefit of focus. We are also focusing an additional team on larger accounts. It takes a little longer because those aren't winds that you get in a transactional sense you're winning larger chunks of business and we're starting to see some of that. But that takes a little longer. That's why we're looking more towards the back half of the year on that.

So broadly, we're pleased with the progress that we're making domestically. I think the – from an international standpoint, we have two pieces of that business. We have a Central American organization. That business has been steady. And then we have what we call export, which tends to be lumpy and we did see some lumpiness in that – on an upside last year in Q1 that we didn't have this year. Those tend to be large bulk orders from we sell through other distributor type organizations internationally, and we didn't have as many larger orders in that area.

That business tends to be somewhat lumpier. We have redirected some of our focus on that to make sure that's not bringing us down. But, overall, I think that if you look at the daily sales pace, we're pleased with the progress. Again, nowhere near where we want to be, but pleased with the progress in the quarter. And if you pulled out that one section of the broader rest of world and looked at our Central American and U.S. sales rates by daily basis, you'd see pretty decent growth.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. And then just a final question just on your M&A strategy, I guess, can you talk about a little bit what you're seeing with certain number of opportunities in sort of [ph] moveables (00:17:46) out there? And is it sort of – is price sort of the biggest obstacle or is it not finding companies that fit with your strategy?

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

A

Yeah. It's certainly not the latter. It's – I'd say the barrier that we bumped into last year was price for sure. And then frankly we wanted to spend more of our effort and focus on getting the transformation going in our distribution segment in the latter part of the year. We're – we've rebuilt our funnel – changing our approach a little bit, to be honest with you, to try to attack that price problem.

So we've approached the – not just entering into auction type situations, but also proprietary deal sourcing ourselves. And I think that's going to yield a better outcome this year. So we're looking at the market. We – I think the funnel is just as robust, as it was before, but we're trying to blend in some proprietary deal flow as much as we can, because of some of the pricing we saw in the auction processes.

Tyler J. Langton
Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much.

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

A

[ph] Yeah (00:18:50).

Operator: Your next question comes from Tim Wojs with Baird.

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

Q

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

I guess my first question really on the consumer business. I was hoping you could maybe talk a little bit about the Scepter launch, the new product, kind of what the reception has been like for that product, and if there is an able – if there's a way to just kind of frame or quantify that the benefit that might have in Q2, just trying to think of the growth and the margin implications on that.

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

A

Sure. I think the reception has been very good particularly from our channel – retail channel. I think that the – I don't want to get into too many details. We don't really give profit details by products. Obviously, we invested a lot of money in this launch and so we're interested in getting a return on that.

But really, ultimately, this is about delivering a product to the consumer that functions better, it's easier to use, but is equally or better from a safety and environmental standpoint and we think we're doing that with this product. I'd say its early days of the launch still. We certainly have loaded up our customers and their warehouses with product through the first part of the year here, and now we're into that replenishment cycle where we're relying on the consumer uptake. And the spring season is little late this year, but we are – we've seen the volumes that we expected to see here coming out of April, so all signs are good there.

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

Q

Okay. And then maybe on the Food & Beverage business and particularly on ag. How much of the – it's pretty normal for you to have limited visibility at this point in the year than into the back half of the year, right? It's not – that's not a comment, that's different than where you'd be in prior years, right?

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

A

That's correct. We just want to make sure that the market is clear – that our investors understand that again or it's reiterating that, that is true. I will add – I'll add two things about the ag market that make this year particularly challenging to get a visibility. One is the tariffs, which is all over the news obviously and how that might impact the farm economy, we don't know. And so the downside of that is that if our farmers get slapped with a bunch of tariffs from China that's not good.

The other factor, which this year, has is the moisture in the soil or the kind of flooding we've seen in the Midwest is historic. I read some articles about this year being the wettest season in the Midwest for over 100 years. So that's delayed planting, and it's sort of put some uncertainty into the yield that the farmers will get. Now, the flip side of that is that will drive prices up, and that's a – potentially drive prices up, I should say.

And so it's a question mark. The farmers that are sitting on a lot of seed right now – or excuse me, on a lot of grain right now might benefit from that, but it's – it adds a layer of uncertainty into the farm economy that we haven't seen in the past few years.

So put those three together, this is – it's – it is normal for us to not know a ton of detail, but we are usually having conversations about the pace of planting at this time, and we're not quite there yet with our customers.

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

Q

Okay. That's helpful context. And then I guess lastly on the RV market, would you say kind of sequentially things may be getting better and you're just kind of lapping some of the year-over-year comparisons from last year in RV? Because it does seem like that market could maybe kind of align and return to growth, maybe as early as the back half of this year, if not 2020?

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

A

So here's – let me tell you how we look at the market. We take a look both at the retail pace as well as the wholesale orders, and we have obviously very good visibility on the wholesale side. We don't – we have to get the data on the retail side.

But the retail curve, if you will, is a bit – perfect cycle. It's always very low in the winter months, and then it peaks in June-July timeframe, and it's a very nice curve, the cycle that you see every year. That curve has so far been fairly predictable. So, in other words, the people buying RVs in the market that pace has – it's slowed a little bit, the curve has shifted down slightly. But the uptick that we normally see in this time of year is occurring. So that's good.

If you look at the wholesale shipments, the OEMs try to blend and level load their building throughout the year. So it's usually not cyclical of a curve. That curve is tilted down over the past, I'd say six to eight months pretty significantly. And the obvious reason is there's overhang of inventory in the market, and if you drive by an RV dealer, you see it.

So what we think is given that demand at the customer level and consumer sentiment is still okay. It's above average. We think that the market will still generate enough demand to – as they've brought down their output at the OEM level, we'll start seeing that inventory overhang disappear towards the back half.

So that's – we're monitoring that. We're looking for that OEM curve to stabilize and it's probably getting there. We predicted looking forward where we think that equilibrium occurs and we think the second half of the year will be a more normal pace for everybody.

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

Q

Okay, great.

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

A

Again just to highlight, second half of the year is always a slightly – there is still a cycle to the OEM build. They don't perfectly level out throughout the year, so just to highlight. The second half still is a little lower, but we think year-over-year, we should be able to get back into growth mode there.

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

Q

Okay. That makes sense. Appreciate the time and good luck on the rest of the year.

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

A

Thank you.

Operator: Your next question comes from Chris McGinnis with Sidoti & Company.

Christopher P. McGinnis
Analyst, Sidoti & Company, LLC

Q

Good morning. Thanks for taking my questions. Can you maybe just talk a little bit about some of the new products you bring into the Material Handling side and what kind of focus those are maybe the industries are around? Thanks.

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

A

Sure. So let me start with a – obviously, we've launched the SmartControl product in the portable fuel container consumer market. That's a pretty big launch and a pretty large investment from our standpoint so that's our marquee product. There are a lot of smaller things going on. One that I'll highlight is not really a brand-new product launch, but it's taking a product that we launched a few years ago and really have only gained traction in one particular market segment and that's the IBC product that I mentioned, our food and beverage market. That's a bulk container that moves processed food product or ingredients, if you will, through closed loop supply chain.

The team there has done an excellent job of finding new applications or market segments for that and demonstrating – it's a conversion cycle, so it takes time to prove out the – and the test product with the customers and we're starting to see some uptick on that into new market segments that will expand the coverage of that particular product line in the market and we saw some good results in that.

It will be lumpy as these kind of things go. This is not as linear and transactional of a product launch as the smart control is. So you'll see some lumpiness in that, as you have to win conversion packages from various food processors. So that's another one.

We do have some much smaller product launches in a variety of different areas for example, to offset our cyclical business in RV. That business has done some nice work in finding alternative markets where we can produce – and these are all very small run type products, but it's in that particular type of manufacturing, you can get a very flexible molding capability, and so you can – we can be fairly quick to market.

A number of different products there, they're all individually non-material to us, but they build-up over time, and the team has done a nice job there of finding opportunities being able to quickly turn those into new product launches as well.

So those are some examples of the things that we're bringing out. Obviously, in our distribution segment, we're doing two different things. We are doing an 80/20 analysis, which in the first stages of that, will reduce the number of products that you're putting out in market. But that doesn't mean we're not also looking at new products that we're launching. And again in that business, given the SKU count, your new products generally tend to individually be nonmaterial, but in aggregate, they build-up. So there's two sides to the distribution, one is making sure that we're rationalizing our SKU count to be efficient, but not ignoring the fact that we want to bring new technologies to the market for our customers.

Christopher P. McGinnis
Analyst, Sidoti & Company, LLC

Q

Great. Thanks for that color. Good luck in Q2.

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

A

Thanks, Chris.

Operator: The next question comes from Chris Sinnott with Cowen. Your line is open.

Christopher Sinnott
Cross-Asset, Cowen Inc.

Q

Hi, everyone. Thanks for taking my question. I'd like to ask about the initiative, the effort to really modernize your sales strategy in particular e-commerce, digital selling, whatever you want to call it. If you could just sort of unpack where you guys are in that process that would be helpful? Thanks.

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

A

Thanks, Chris. Great question. It is definitely part of our multichannel market approach here as part of the transformation. And really there are couple ways that you go to market these days in e-commerce. You've got, what I call that third party seller, the Amazon if you will, someone that's put up a website that you plug into. We're doing that today. There is – And you can do it in a multitude of ways through their channels. And we're primarily – if you go on, we have several of our key products on Amazon. We've had some very good success there. Then [ph] as your own (00:29:39) – there are other types of sellers like that, that are more specialized in certain markets that we're working with.

And then, you have your own e-commerce platform. We have our own e-commerce platform. We've done a lot of testing with it to try to work out what the customers want and what they like about it. Ultimately, we like certain customers to have their own portal, if you will, on that. Obviously, pricing is a key part of that. So that's part of the investments that we're making this year to make sure that what we have is suitable.

I think long-term we're going to want to continue to develop that. And we see that we're going to have more and more of our sales come through that type of channel. I don't want to be specific about, which one whether it's our own or whether it's a third party, but we do anticipate that more and more we will be moving to that channel down the road. And it opens up – [ph] findings (00:30:31) it opens up the door to some customers that we didn't even know existed, so – which is great. So it's not a cannibalization issue in some cases.

Christopher Sinnott
Cross-Asset, Cowen Inc.

Q

That's helpful. And if I could just lastly go back to the very first question on the call about pricing versus cost margins and the unfavorable mix. Can you just help me understand whether that price cost benefited you guys, had this quarter – is that offsetting unfavorable mix within the same product segment? Or are these dynamics happening in separate segments? I'm just trying to wrap my arms around that concept.

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

A

The unfavorable mix in Q1 related to the fact that due – was due to the decline in the seed box revenue. And so I would say that the unfavorable mix is really unrelated to the favorable price cost margin.

Christopher Sinnott
Cross-Asset, Cowen Inc.

Q

Okay. Thank you.

Operator: [Operator Instructions] Your next question comes from Ryan Mills with KeyBanc Capital Markets.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning.

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

A

Hi, Ryan.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

I want to start with my first question. Dave, you have this goal of 10% EBITDA margins by the end of 2020? Can you walk us through on how you get there? I know the $5 million to $7 million in annualized savings will drive a chunk of it, but do you have a growth expectation in mind?

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

A

Well, I'm not – again, there – if you look at our results this quarter, it's a good example of what's possible with this business, so we declined in revenue fairly – a pretty big chunk of revenue came out from the seed decline year-over-year, and yet we still improved our profitability.

So if you add that back in – now, we don't expect to – as I said, we don't expect that seed volume will be the same. That was a, I think, historic year in the 2017 to 2018 season. But if we can get a little bit of that revenue back to flow through, our goal is to have that flow-through be very, very accretive. And so it doesn't take a whole lot to get us to where we need to be, given the performance that we've seen here in the first quarter.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And that 4% daily sales growth and distribution was nice to see. Can you provide some color on preliminary April results for both segments? And I'm curious in distribution. Were there any weather headwinds in the quarter? And also is there a benefit in 1Q 2019 from the timing of [ph] Eastern (00:33:10), and will that be a headwind in April sales?

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

A

Yeah. So, as I mentioned, we're kind of stuck with one few selling – one less selling day in both first and second quarter this year for oddities of the calendar there. So it's a headwind for both quarters.

I would say the late spring, the people – so there is a dynamic of changing from winter-to-summer and so that was a little late. We saw some of that coming back in the second quarter. I'd say the pace is similar in the second quarter so far. So it's like I said last year, we did see a pretty decent uptick due to a number of factors and so we had – Q2 of last year was our best quarter. So we have a little bit of a tougher comp in the second quarter of this year. But again from a sequential pace everything that we are seeing is what we would expect in the second quarter and the pace through April was similar to the first quarter.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. A couple of more questions for me, I'm not looking for 2Q 2019 guidance, but should we expect gross margin improvement year-over-year? And the reason I ask is because there's a lot of puts and takes. It sounds like you're getting nice price cost in Material Handling, but I think you're going up against strong comp in the second quarter where 2Q 2018 gross margins were up about 290 basis points year-over-year and 330 basis points sequentially compared to historical average of about 70 basis points. So any color you could give on how we should think about gross margins in 2Q would be helpful?

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

A

Yeah. I'll put it this way and then if Kevin wants to add anything I'll let it. I'd say that – a dynamic that you guys should factor in and think about is, I mean, first and foremost productivity we continue to improve, but again, as you pointed out that is a tough comp and some of that comp was also in some of catching up in price year-over-year that Kevin mentioned earlier that we won't that diminishes – that year-over-year improvement diminishes as we go through the year.

The other thing, I'll say is that we do tend to – there's a lag in our – we're getting better at it, but there's a lag – as material cost inputs change there's a lag. And we separate from that all the way up and we benefit from it on the way down. So what you saw last year is a sort of regular improvement, as we caught up to the cost increases. And then as it switches over and the cost of our material inputs goes down, we start enjoying a nice spread. But then we, obviously, at some point, the market realigns our pricing with that. So there's a lag on both sides of it.

The other thing I will say is we do and we anticipated this. I think we highlighted it and we're working through pricing on it. But we do see a little bit of cost headwind from some overseas purchasing in our distribution segment from products there. And again some of that we can pass on quickly, some of it we can't. And so that does affect their gross margin as well.

We didn't have as much of that a year ago and that is kind of tariff driven. And as we highlighted last year, in middle part of the year when the tariffs first came out, we do anticipate we can overcome these. But there's an input cost that goes to that, that again if that same dynamic that we have to catch up to it we don't immediately – we don't have the immediate ability to change our pricing.

Kevin, do you want to add anything to that?

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

No. I think that summarized it well.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. And then going back to your go-to-market strategy and distribution, it sounds like you're putting a little bit more focus on e-commerce with both your website and third party website. Is there anything else you're doing differently compared to the past and what are some of the early feedback from your customers?

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

Yes. We're doing that – that's one channel of many that we're using. So there's quite a bit of change that's going on. One of the things we accomplished in the quarter was realignment of our sales force in terms of leadership, in terms of territory alignment, and those sorts of things. So the customers – so far it's been well-received. I think that the – and the sales force has received it well as well. And that's half the battle.

So there are a number of other things we're doing in terms of aligning ourselves for how we are serving certain customer groups, and that is all designed to make the customer happier, which we feel is what's going to help drive us – drive customers back into our core. Because, again, I think we have a good brand in the market. I think customers want to do business with us. We've just made it too complicated and too difficult for them in a couple of pretty important areas.

And so changing the service level of various customers, some customers will get different service, I would say. Our goal is to still provide them with the best service for who they are. But it's changing that service level to orient towards who the customer really is and what their needs are. And so that involves a number of different changes both operationally as customer service, inside sales, as well as the territory and multichannel approaches.

Ryan Mills
Analyst, KeyBanc Capital Markets, Inc.
Q

All right. And then my last question, going back to the consolidation of your manufacturing facility and Material Handling; one, is that in response to the declining RV market? And two, should we expect any near term disruptions to the top-line?

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

So it's – I'll put it to you this way. We have a number of ideas of how to best align our manufacturing footprint. And you have to move on those when the opportunity presents itself. So because of the point that you just made in there in terms of disruption, we want to minimize that whenever we do one of these kinds of things. This is an opportunity that we've been talking about for a bit of time now.

We're taking advantage of the fact that we have a lower volume situation, it allows for this to happen a little more seamlessly, and it gives us the opportunity to plan it effectively and to – really the move will happen in the second half during the lower portion of the season for that business.

And so, on one hand, yes, it's a challenge to do. And so we want to make sure it has the minimal impact, and we don't think it'll have an impact on our top line. But we've had this on the idea book for a while, and it just makes sense now with this opportunity to jump on it and do it.

So there's – there are – you try to do productivity improvements on a daily basis that are point-of-impact-type things on the factory floor. There are larger, strategic operational moves that we look at, and we look for the right time to do them, and we felt that this was it for that business.

Ryan Mills — Q
Analyst, KeyBanc Capital Markets, Inc.

Thanks for taking my questions, and...

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

Sorry.

Ryan Mills — Q
Analyst, KeyBanc Capital Markets, Inc.

Go ahead.

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

Yeah. I mean, the goal – obviously, the goal, as it was with our previous realignment, is to make sure that there's no impact to our customers. And so that's – we want to make sure we time it, so that there are no impacts to our customers, and that's – I think we're taking advantage of the timing here for that.

Ryan Mills — Q
Analyst, KeyBanc Capital Markets, Inc.

Thanks for the color and taking my questions.

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

Thank you.

Operator: And at this time, I will turn the call over to Ms. Vinay.

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 our website under the Investor Relations tab. Thanks and have a great day.

Operator: This concludes today's conference call. You may now disconnect.