

Myers Industries, Inc.

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Earnings Call

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Call Participants

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Presentation

Operator

Hello, everyone, and welcome to the Myers Industries Fourth Quarter 2022 Earnings Call. My name is Bruno, and I'll be operating your call today. [Operator Instructions] I will now hand over to your host, Monica Vinay. Please go ahead.

Monica Vinay
VP of Investor Relations, Treasurer & Interim CFO

Thank you. Good morning, and thank you for joining us. I'm Monica Vinay, Interim Chief Financial Officer and Vice President of Investor Relations and Treasurer at Myers Industries. Joining me today is Mike McGaugh, our President and Chief Executive Officer. Earlier this morning, we issued a press release outlining the financial results for the fourth quarter and full year of 2022. We have also posted a PowerPoint presentation to accompany today's prepared remarks. If you've not yet received a copy of either the press release or the PowerPoint, you can access it on our website at www.myersindustries.com under the Investor Relations tab. This call is also being webcasted on our website and will be archived along with the transcript of the call shortly after this event.

Please turn to Slide 2 of the PowerPoint presentation for our safe harbor disclosures. I would like to remind you that we may make some forward-looking statements during this call. These comments are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations and involve risks, uncertainties and other factors which may cause results to differ materially from those expressed or implied in these statements. Also, please be advised that certain non-GAAP financial measures such as adjusted gross profit, adjusted operating income, adjusted EBITDA and adjusted EPS may be discussed on this call. Further information concerning these risks, uncertainties and other factors is set forth in the company's periodic SEC filings and may be found in the company's 10-K and 10-Q filings.

Please turn to Slide 3 of our presentation. I'm now pleased to turn the call over to Mike McGaugh.

Michael P. McGaugh
President, CEO & Director

Thank you, Monica. Good morning, everyone, and welcome to our fourth quarter and full year 2022 earnings call. I'm excited to report another consecutive quarter of record top and bottom line results, making 2022 a record year for Myers. This included annual revenue growth of 18% or 10% on an organic basis, adjusted EBITDA growth of 51% and adjusted EPS growth of 73%. Our team executed at a high level throughout the year and delivered on our promises. I'm proud of our team and believe that we have only just begun on our journey towards becoming a world-class enterprise.

Over the past few years, we've made remarkable progress on our transformation. This is a direct result of our entire team's commitment to our 3 Horizon strategy. This strategy is probably a clear sense of direction and a common purpose and will continue to serve as the foundation for company-wide growth and operational excellence.

We're approaching the completion of Horizon 1 and our goals of reaching $1 billion in revenue and a run rate of 15% EBITDA margins remain in focus. In 2022, we made good progress against these goals as we saw strong sales across the majority of our product lines and business units. Additionally, we continue to benefit from the numerous self-help initiatives taken over the past 2.5 years, which included developing our pricing excellence team to ensure we capture the true value of our high-quality products and optimizing our supply chains and manufacturing plants to improve productivity and output while becoming more competitive on our cost. What I feel good about is we did this while implementing a culture of servant leadership along with the culture of aggressive goal setting and execution. We can be excellent servant leaders while we drive aggressive performance improvement.

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Please turn to Slide 4, where we have a more detailed outline of the full year results. We achieved net sales of $900 million, which was an 18% increase compared to the prior year. Adjusted gross profit was $284.1 million, up 34% compared to 2021 and our adjusted gross margin expanded by 370 basis points during the year. In spite of a choppy macroeconomic backdrop, which included strained supply chains, elevated raw material costs in a difficult labor market, our strong results in Q4 and in 2022 are clear proof points that our strategy is working.

Now I'll turn the call over to Monica for a review of our fourth quarter financial results and full year 2023 outlook. Monica?

Monica Vinay
VP of Investor Relations, Treasurer & Interim CFO

Thank you, Mike. Please turn to Slide 5 for a summary of our fourth quarter results. On a quarterly basis, we delivered record top and bottom line results. Our fourth quarter net sales were up $13.3 million or 6.6% compared to the fourth quarter of 2021, primarily due to incremental sales from the Mohawk Rubber acquisition in our Distribution segment. On an organic basis, the contribution from higher pricing was offset by a decline in volume mix.

Quarterly adjusted gross profit increased $12.4 million or 23.5%, which was primarily driven by pricing actions, supply chain management and the contributions from the Mohawk Rubber acquisition. These were partially offset by lower volume and a change in sales mix. Adjusted gross margin for the quarter increased 420 basis points to 30.6% compared with 26.4% in the fourth quarter of 2021.

Through self-help initiatives, including price increases and cost reductions, we were able to counteract the effects of cost inflation. Fourth quarter adjusted operating income increased $4 million or 32.2% compared to the prior year as a result of higher gross profit, partially offset by higher SG&A. SG&A expenses increased $6.1 million or 14.8% to $47.4 million. The increase in SG&A was primarily due to the Mohawk Rubber acquisition and higher variable selling expenses, salaries and incentive compensation costs. SG&A as a percentage of sales increased to 22.3% compared with 20.7% in the same period last year. Adjusted EBITDA was $22.1 million in Q4, an increase of $4.5 million or 25.6% compared to the prior year period. Adjusted EBITDA margin expanded 160 basis points to 10.4% for the fourth quarter compared with 8.8% in the same period last year.

Lastly, adjusted EPS was $0.32, an increase of $0.09 or 39.1%. Please turn to Slide 6 for an overview of our segment performance for the fourth quarter. For the Material Handling segment, net sales decreased $5.1 million or 3.4% compared to the prior year. Net sales increases in the food and beverage and consumer markets were more than offset by decreases in the vehicle and industrial markets due to decreased demand and some customer destocking at year-end. Material Handling adjusted operating income increased $7.8 million or 58.4% to $21 million. This was due to the ongoing benefits from strategic pricing actions and self-help initiatives which were partially offset by lower volume and a change in sales mix.

Additionally, SG&A expenses were higher primarily due to increased variable selling expenses and higher incentive compensation costs. Net sales for the distribution segment increased by $18.3 million or 35% year-over-year. Excluding the incremental $17 million of net sales from the Mohawk Rubber acquisition, organic net sales increased 2% due primarily to higher pricing. Distribution segment adjusted operating income decreased 24% to $4.1 million.

The contribution from higher pricing wasn't enough to offset higher product costs and higher SG&A expenses year-over-year. The increase in SG&A expenses was primarily due to the Mohawk Rubber acquisition and higher variable selling and incentive compensation expenses. The distribution segment continues to implement price increases to offset escalating product costs.

Turning to Slide 7. For the full year of 2022, free cash flow was $48.3 million compared to $27 million for the full year of 2021. The increase in cash flow was primarily the result of higher earnings. Working capital as a percentage of net sales increased to 190 basis points compared to the same period last year due primarily to an increase in accounts receivable, driven by higher sales and a change in sales mix. On a

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sequential basis, working capital as a percent of net sales was flat to prior quarters. Capital expenditures for the full year of 2022 were $24.3 million and cash on hand at year-end was $23.1 million.

We have a strong balance sheet and our capital structure continues to support our long-term growth plans with debt to adjusted EBITDA of 0.9x. Turning now to Slide 8 for our outlook for fiscal year 2023. Net sales are anticipated to increase in the low to mid-single-digit range, due primarily to incremental sales from the Mohawk Rubber acquisition in the distribution segment. As a reminder, we acquired Mohawk at the beginning of June 2022, and annual net sales at the time of acquisition were approximately $65 million.

For the Material Handling segment, we are currently forecasting sales to be comparable to last year due to continued soft demand in the vehicle, marine and select pockets of our consumer end markets. We will continue to closely monitor the market conditions and provide updates as we progress throughout the year. While we do not provide quarterly guidance for the first 2 quarters of 2023 on a top line basis, we expect that the incremental sales from the Mohawk acquisition in the distribution segment will offset continued softness in the RV and consumer markets in the Material Handling segment.

The corresponding change in the mix of products sold will unfavorably impact margins as compared to the prior year but will result in stronger margins as compared to the fourth quarter of 2022. SG&A expenses are expected to approximate 22% of net sales, primarily reflecting continued investments in our people, processes and operational efficiencies. [Below] operating income, we are projecting approximately $6.5 million of interest expense and an effective tax rate of 25% for the year. Our guidance reflects a weighted average share count of 36.9 million shares, taking these assumptions into account, we expect an adjusted EPS range of $1.55 to $1.85 per share.

Other key assumptions impacting EBITDA and cash flow includes depreciation and amortization expenses of approximately $23 million and capital expenditures in the range of $25 million to $30 million. CapEx is expected to trend higher than in past years as we continue to invest in growth capabilities and drive operational flexibility and efficiencies. We expect free cash flow to continue to benefit from our self-help initiatives and result in another year of strong cash flow generation. I'd like to thank the entire Myers team for delivering outstanding results in 2022.

And with that, I'll turn the call back over to Mike to provide an update on our strategy.

Michael P. McGaugh
President, CEO & Director

Thank you, Monica. Please turn to Slide 9. This year has been remarkable in both the financial and strategic successes we achieved. We have consistency in our direction and in our purpose. I outlined our long-term vision in midyear 2020. This road map has been simple, consistent and clear, and we continue to execute against it. I have confidence in our direction and in our company. We're building a solid foundation for Myers to accelerate its long-term growth. And in Horizon 2, we'll build on that momentum as we continue to grow the company. Before I walk through our execution update, I'd like to highlight, as I have in past calls, our resilience as a company, particularly in a choppy economy.

For a small cap company, we're well diversified. We have deliberately pursued niche technologies, niche end markets and niche customer applications. The resulting diversification makes us surprisingly resilient to a downturn in 1 end market or another. This approach, coupled with the injection of large-cap talent at a company that has been under managed over the past decade provides us a lot of opportunity to improve our earnings and our financial results over the next years. Now back to the update on the execution of our strategy. As I mentioned on prior calls, Slide 10 outlines the strategic pillars of our strategy.

These pillars provide the framework for successful execution of our strategy, and I'd like to take a few minutes to walk through our progress on Slide 11.

Starting with organic growth, we achieved 10% organic growth during 2022 due to strong demand in select end markets throughout the year as well as benefits from previously announced strategic pricing actions. While we expect some macroeconomic choppiness in 2023, we anticipate continued revenue growth and enhanced flow-through to the bottom line. At Myers, we focus on customer-driven innovation, how we can take existing products and extend them, make them higher performing or make them fit

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better with our customers' aspirations and needs. We're careful not to chase moonshots or work on innovation projects that are not tied to a specific customer need or request. This is a disciplined approach to innovation, and it's paying off with specific targeted customer wins.

Shifting on to strategic M&A. As I mentioned earlier, we completed 2 acquisitions during the year, both of which were on target and on strategy. Over the past 2.5 years, we've been refining and improving our M&A strategy and our integration processes. As we complete these acquisitions, we learn, we find new ways and better ways to improve how we identify, pursue and integrate acquisitions. I'd like to remind our investors that our game plan has been intentional and deliberate. We deliberately elected to acquire a few smaller, less complicated companies so that we can learn and refine our processes with lower risk and less difficulty. This approach has paid off. We now have a better developed, more robust integration playbook and process that suits us well as we start to prepare to open our aperture and pursue larger targets.

Our M&A pipeline is promising, and our team is ready to act. Quite frankly, we are right where we want to be. We're hitting stride financially, we're producing results, we have preserved our balance sheet flexibility, and we believe the choppiness in the economy will provide good buying opportunities. We are ready. We're engaging with prospects, but we won't overpay, and we won't become overall [indiscernible] with a particular deal. We'll be patient, we'll be deliberate. As I said before on these calls, we view every shareholder dollar entrusted with us to be a privilege and not a right.

Now shifting on to our third pillar, operational excellence. I'm pleased with the improvements we've made this year as we've significantly increased the efficiency of our manufacturing facilities. We're uncovering additional capacity; we're finding and tapping the hidden factory that I've spoken to in the past calls. We expect this to continue in this direction and expect to maintain and improve upon this in the years to come.

In 2023, we'll institutionalize many of these advancements we've made across the 4 pillars into an operating system, the Myers operating system. Similar to our One Myers culture, this system will be applied and integrated across all business units and work processes. I'm confident in deploying such an operating system. I've done it at prior companies. It worked well, and it produced results. Our Myers operating system will drive standard work processes across the company, ensuring that best practices are applied across all of our legacy businesses as well as our new acquisitions. By crystallizing what we do well, by standardizing our work, by developing and implementing an operating system, we will be able to scale our best practices, improve our results, grow the company faster and institutionalize a high-performing culture.

On that note, I'd like to speak to our fourth and final pillar, having a high-performing culture here at Myers. In 2022, we continue to implement and ingrain our One Myers culture. As we work together as 1 integrated company, we continue to see significant improvements to our businesses and to the company as a whole. We have a culture that combines a servant leader mindset with an aggressive approach towards performance improvement, stretch goals and business growth.

This has made Myers a rewarding place to work, attracting an influx of exceptional talent. I've spoken to this before, and it's a winning formula for us. It's one of the things that's driving our transformation and differentiates us, bringing large-cap talent into a small-cap company. Large-cap trained employees and leaders are intrigued by Myer's potential, and they want to be a part of a growth and transformation story. This potential, this growth in transformation is exciting for the type of employees that we seek to have here at Myers.

Over the next months, you'll see us roll out with more clarity on how we will position the company around the markets we serve and the solutions we provide. We believe that a market and solutions-based approach will provide us more latitude, will provide us a bigger sandbox in which to grow the company. Over the past years, we moved from being a holding company to being an integrated one.

We took the first step by focusing the company around the technologies we use to manufacture products. This is a good interim step, but it's not our final destination. We're going to turn the dial once more and increase our focus on end markets and solutions. This will begin the next phase for Myers as we continue to position the company to maximize growth and shareholder value creation.

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Before we open up for questions, I want to emphasize my excitement for what's ahead and celebrate the many achievements we made in the past 2.5 years. While Myers will celebrate its 90th anniversary this year, the past few years were transformational for our company, introduced a new era of growth and entrepreneurship for Myers Industries. We view ourselves as founders. Founders of a 90-year-old industrial firm that's as agile and adaptive as a start-up company, founders of what Myers will be in the future in just a few short years. Our results so far are proof that our dedication to a simple, a consistent strategy is working. This company is diversified, has resilience and has a myriad of opportunities to grow. We are well on our way to becoming a world-class company, and I look forward to sharing more updates on our progress as we go forward.

Before I close, I'd like to thank all of the associates of Myers Industries who helped make 2022 a record year. Thank you all.
With that, we'll now turn the call over to questions. Operator?

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Question and Answer

Operator

[Operator Instructions] Our first question is from Lance Vitanza from Cowen.

Lance William Vitanza
Cowen and Company, LLC, Research Division

I guess let me start with the outlook and then ultimately, we'll kind of circle into the M&A opportunity. But Mike, look, there's no question, you've done a great job over the course of the year, really, since you arrived at Myers, but it certainly feels like you ended the year on rather a low note with really no organic sales growth in the forecast for 2023. It's obviously a big change from the pace over the past 9 months or the first 9 months of 2022, I should say.

Is that just a softening economy? Could you talk a little bit about what are the guideposts that we can look to in order to eventually see improvement in the outlook? And then related question, if we think about Horizon 2 of your strategy, getting to $2 billion of sales over the next few years, I think -- and this -- please correct me if I'm wrong, but I think you had initially talked about that growth roughly in terms of 2/3 from M&A and 1/3 organic. So the question is, do you still think you can eventually get to that kind of organic growth? And if so, what gives you confidence in that?

Michael P. McGaugh
President, CEO & Director

Yes. Let -- for me -- I'll try to break it up a little bit. On the -- and I'll have Monica supplement if -- on some specifics, and I can speak to direction. Look, I've got a lot of confidence in the company. I've got a lot of confidence in Material Handling and confidence in the Distribution segment. We're going to see some fruit that's going to bear from the Mohawk acquisition on the distribution side. I'm excited about that. On the overall -- the growth and the volume that you called out, it's -- there's a couple of stories there. Ag is strong, and we continue to think that strength will hold, and that's a high-margin segment for us. What we talk about, and we call it the vehicle side, which is recreational vehicles and some boats in the products we sell into the marine market, that got soft in the back half of the year, and we think there will be some recovery in the back half of '23.

But you see some weakness there on the vehicle side. On the consumer side as well, the high-ticket discretionary items continue to be soft. And we have premium products that we sell at a premium price and some of those discretionary higher ticket items have been weaker. We've talked about them in prior calls. And so I think the overall volume outlook and what you saw in the fourth quarter is still going to be directionally true for the first half of 2023. Strong ag, balanced industrial, balanced auto aftermarket, maybe some upside in auto aftermarket; consumer, a bit choppy; and the high ticket discretionary is going to be a little -- struggle a little bit for the first half of the year.

And that's part of why we have a bit of a wider range on our guidance for the year is, look, I'm very bullish on the company. We're pulling all the right levers. We are making the company fundamentally stronger. We're starting from a low base. There's a lot of upside quarter-over-quarter, year-over-year, and that's -- we're going to continue to execute. However, there's some choppiness in these end markets. And it actually allows us a little bit of time to gear down and get our plants even more dialed in. And so on the longer-term outlook, '23, '24, '25, I'm very bullish on the company.

Let's see M&A, we said 2/3, 1/3, 1 quarter, 3 quarter. We are and will be an acquisition-oriented company. We have some really tight screens that we look at. We really take a disciplined approach. We want to acquire proprietary companies that make proprietary products that are in durable plastics or adjacencies, and then adjacencies were going to widen that a little bit.

I kind of gave you a little bit of a prelude on how we're going to start looking at our company in terms of markets and solutions. We'll talk about that at a sub-feature call . But again, the lion's share is going to be acquisition oriented. And I really think we continue to hear this. We are right where we want to be. The

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choppiness in the economy, the higher interest rates has put some of the financial buyers on the sidelines, being a strategic buyer with a clean balance sheet, what really happened, our processes dialed in.

I couldn't think of a better position to be in to grow the company via acquisition. I don't know if we're necessarily going to get higher sale prices on companies. I don't expect to. But I think we can get very fair prices on quality companies that more than likely have more scale than what we've acquired in the past. But as I said, we're not going to fall in love with any 1 deal. We're not going to overpay.

But I think, Lance, that $2 billion mark in '26, that's still in focus and in sight, and I still feel very confident we can hit that and continue to have those operations -- those EBITDA margins in the mid-teens. I think that all still holds together, is just some of these curveballs we've had in the choppiness of our end markets, that's put a little bit of uncertainty in what I'll call the next couple of quarters. And Monica, what would you add to that?

Monica Vinay
VP of Investor Relations, Treasurer & Interim CFO

And Lance, I would just as a reminder, through in 2021 and through COVID, we did get quite a boom in the recreational vehicle, marine and select what might cause the consumer discretionary. So those were very high quarters throughout '21 and even into early '22. So right now, I think things are choppy, as Mike said, but they're starting to stabilize. It's just trying to determine where they're going to kind of even out.

Lance William Vitanza
Cowen and Company, LLC, Research Division

So a little bit of a digestion of some of the above-average growth that we've had, maybe a little bit of a reset on the growth rates and then a more normalized growth rate, perhaps starting in 2024 and beyond. And I'm not looking for guidance to just conceptually, I think that's what I'm hearing. And then look, I've no doubt that you guys are doing everything you can with what the end markets are giving you. And so that's obviously really key. Mike, I think you answered most of my M&A questions, but just maybe 1 more on the M&A front.

If the right deal presented itself today, do you feel -- I know obviously, you have the balance sheet to be able to do something. But do you feel that you have the kind of operational bandwidth in terms of integrating another transaction. I know Mohawk was only, well, less than a year, right, ago. So I'm just wondering if we should -- or should we be thinking that to the extent that there is M&A, maybe it's more likely to show up in the back half of 2023?

Michael P. McGaugh
President, CEO & Director

Lance, we do have the capability. That's why I said I feel really good. We took the first 3 years, and we said, look, let's build a really solid process on building the deal funnel, being able to negotiate a quality deal for our shareholders and then being able to integrate it and get the synergies, both cost and growth. And so what we did is we acquired in distribution, and we acquired in rotomolding. And remember, we also acquired a facility in Decatur, Georgia in the summer as well into the rotomolding business. And so we've got -- we did 2 acquisitions last year, 1 in rotational molding, 1 in distribution.

And we use those deals as an opportunity to really tighten our processes on integration. And we've got a number of -- we've got a number of staffers as well as advisers that the company is ready. I mean -- and we are in discussions, when would a deal go forward, it all depends, we're just not going to get out ahead of our skis. And -- but I think in '23, the environment is very favorable for us to do a deal that fits our screens that aligns with what we've been telling our shareholders, and we're very ready.

I've got a lot of confidence. You remember, Lance, my background is on a lot of integrations. And I brought more people to the company who are very experienced in integrations. And so I think like I said, we're right where we need to be, and I think '23 should be here when we continue to transform the company.

Lance William Vitanza

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Cowen and Company, LLC, Research Division

Well, that's great to hear. We look forward to that. We'd love to see you continue to be acquisitive. Obviously, the deals have to make sense as I'm sure that they would. But it'd be great to see the company grow through M&A as well.

Operator

[Operator Instructions] Our next question is from Steve Barger from KeyCorp.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

Mike, it seems like you've already put a lot of workflow improvements in for sales, purchasing and operations. How much of an incremental change is the Myers operating system going to be? And what kind of results do you expect it can produce?

Michael P. McGaugh
President, CEO & Director

Yes, Steve, it's a good question. I would say, in general, we are 6 out of 10; 7 out of 10; 4, 5 out of 10 in some functions. And what we found was we brought in a lot of outside capability on all the areas you talked about, manufacturing, purchasing, pricing, finance processes, sales and marketing processes. But what we needed to do was we needed to package it together and leverage it more. And so I'd say that we're -- nominally, we're halfway there.

So to package this up and leverage across all of our businesses is the remaining 1/2 of value creation. But we also felt, Steve, in order to really scale as we acquire companies, we need to have this lockdown, documented and crystallized. And we also wanted to [outlook] any of us. And so we've got a lot of experts here. As you all know, I've brought in a number of people who are kind of at the twilight of their careers.

They're very, very good. But what I said is, look, we need to crystallize this, lock it down, document it and be able to replicate it independent of the FTE, independent of the people in the chairs. And so really, this is more about resiliency, longevity of all the good things we brought here, I want to be sure that they continue to live on. They're part of our DNA and that we can seamlessly apply them to acquisitions. And so I'd say -- yes, I was just saying nominally, Steve, we're halfway to where I think we should be.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

And I know this will be a continual process, but how long does it take to get from halfway to 80% or 90%?

Michael P. McGaugh
President, CEO & Director

Yes. That's our work focus for '23 and '24 -- yes, '23 and '24, we've got a lot of documentation on here. We're a smaller company. We can't do it all in 1 shot because I don't want to dilute ourselves. I'd rather do 3 things well in a given year rather than chase 10 or 11 things. So we're really focused. But codifying, crystallizing this operating system, also bringing in a more robust approach to IT and updating our IT systems. Those are the 2 flanges, coupling that with what we're calling our M&A technology center, our M&A expertise center.

Those pieces, the expertise center on M&A, the operating system, coupled with renewal on IT, those 3 pieces are going to allow us to be -- to have more success in an acquisition mode, acquiring companies that may be outside of the scope of plastic products, metal products. And we feel we have the right people who can do that. But that's the work we're doing over the course of the year 2023 and 2024 because that's what's going to drive us from, let's say, $1 billion and change, $1.5 billion to $3 billion or $4 billion or more. But it's those 3 pieces -- those 3 legs of the stool. And again, that's what we plan to talk about on subsequent calls, quite frankly.

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Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

Well, since you brought it up, what would you contemplate outside the scope of plastic or metal products?

Michael P. McGaugh
President, CEO & Director

So if you look at our business, and Steve, if you look at it and we're really more in the storage and handling business. So we make high-performance branded products that move, store and organize. So if we look at our businesses in that lens rather than as a Buckhorn or Akro-Mils wins, you get some confidence in other things we can do in the storage and handling world or an auto aftermarket. Auto aftermarket, we make and sell high-quality repair and replacement parts for passenger cars, commercial vehicles heavy equipment.

We can broaden that scope. We do some of that well, but what else could we do? And then again, designed and engineered products, designed and engineered solutions. We do a lot in that space on the engineered product side, design product side. What else can we do to bring high-performance value-added products to our customers. So those 3 silos and Steve, I'll talk more about it in the future, it's exciting.

Because it takes all this operational excellence work we're doing and it really expands our horizons without getting us into some esoteric end markets, we're really trying to strike the right balance of opening the aperture but also sticking to our roots and know-how. And we think by taking the operating system, IT updates, ERP update and then an expertise center on M&A, I think those are the 3 pieces of the ingredients that are really going to help the company fly. I'm really excited about it.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

Yes, I'm looking forward to hearing more about that. Your team did a nice job driving the 370 basis points of gross margin expansion from the inflation mitigation efforts. As you think about mix and the consumer products, the trends that you talked about, do you think you can hold gross margin where it was last year? Or is that likely to come down a little bit as you work through the first half of the year? And I think the question is about the full year, but just as you think about the cadence?

Michael P. McGaugh
President, CEO & Director

Yes. Let me just -- Monica, do you want to hit that?

Monica Vinay
VP of Investor Relations, Treasurer & Interim CFO

Yes, Steve, we would still -- our focus and goal would still be to further expand gross margins in 2023, obviously not to the extent that we did in '22, but we're holding price wherever we can, and we're going to continue on operational efficiencies in order to continue to drive further margin expansion.

Michael P. McGaugh
President, CEO & Director

Yes. Steve, you saw a little bit of choppiness on the distribution margins. I think that was more related to -- remember, that business bought a sizable participant in the market with Mohawk. And you have 4, 5, 6 months of integration with 2 IT and ERP systems and merging a large -- very large sales force. And so you can see, based on that 7% EBITDA that our cost of goods got away from us a little bit.

So we've since announced beginning of the year some really robust price increases in the distribution segment. And I believe we'll start to see those show up in our financials in first quarter and second quarter. So on the distribution side, I feel good about the margins and the outlook there. And again, across the board, on the Material Handling side, we make high-quality niche products. We have a good reputation, a good service level, we've been able to hold. And I think that's -- we're going to continue to

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be able to hold, particularly as polyethylene wanes a bit. I think we're going to continue to have some expansion.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

As I -- just last question, as I think those -- through those 2 things that you just talked about for Distribution and Material Handling, does -- should I think that Distribution outgrows this year because of the weakness in the first half? Or can Material Handling make it up in the back half and outgrow Distribution?

Michael P. McGaugh
President, CEO & Director

I'll look to Monica for the specifics. A bit of it is there's just -- there are some unknowns in there. There are some unknowns in those end markets, Steve. I'm -- I feel pretty good about distribution. But let me -- go ahead, Monica, why don't you...

Monica Vinay
VP of Investor Relations, Treasurer & Interim CFO

Yes. I would say, currently, just based on the choppiness, we're outside of Mohawk, we're looking for distribution to still grow organically in the low single-digit range, low to mid-single, like -- just like our outlook. Whereas Material Handling is more likely to be comparable to last year, as I said in the remarks.

Operator

We currently have no further questions. I will now hand back to our speaker for final comments, Monica Vinay. Please go ahead.

Monica Vinay
VP of Investor Relations, Treasurer & Interim CFO

We appreciate your interest in Myers Industries. Thanks for joining us and have a great day.

Operator
Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines. Thank you.

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