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Earnings Call

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Call Participants

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Presentation

Operator

Hello, everybody, and welcome to the Myers 2025 Third Quarter Results. My name is Elliot, and I'll be coordinating your call today. [Operator Instructions]

I would now like to hand over to Meghan Beringer, please go ahead.

Meghan Beringer
Senior Director of Investor Relations

Thank you. Good morning, everyone, and welcome to Myers Third Quarter 2025 Earnings Review. Joining me today are Aaron Schapper, President and Chief Executive Officer; Sam Rutty, Executive Vice President and Chief Financial Officer; and Dan Hoehn, Vice President and Corporate Controller. After the prepared remarks, we will host a question-and-answer session. Earlier this morning, we issued a press release outlining our third quarter financial results.

In addition, a presentation to accompany today's prepared remarks has been posted. Both documents are available on the Investor Relations section of our website at myersindustries.com. This call is being webcast live on our website and will be archived along with the transcript of the call shortly after this event.

Please turn to Slide 3 of the 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. Further information concerning these risks, uncertainties and other factors are set forth in the company's periodic SEC filings.

Also, please be advised that certain non-GAAP financial measures such as adjusted gross profit, adjusted operating income, adjusted EBITDA and adjusted earnings per share may be discussed on this call.

Now please turn to Slide 4 of our presentation as I turn the call over to Aaron.

Aaron M. Schapper
President, CEO & Director

Thank you, Meghan. Good morning, everyone, and thank you for joining us. I will begin today's call with a review of our third quarter, then I will provide an update on our focused transformation program. Following my comments, Sam will provide a detailed review of the third quarter financials and our outlook for the year.

Turning to Slide 5. Third quarter net sales were $205.4 million, slightly higher year-over-year as infrastructure and industrial growth was offset by continued soft demand in Automotive Aftermarket and vehicle end-markets. In addition, consumer sales, specifically fuel containers, were lower with the absence of weather-driven events. Within infrastructure, we continue to see strong demand as customers switch from wood to composite matting products used in construction, utility and other infrastructure projects. Industrial growth was driven by ongoing demand for military products. With the exception of consumer sales, our end market outlook is relatively unchanged as demand and backlog across our larger infrastructure and industrial end-markets remain steady.

For the quarter, we earned $0.19 per share. Adjusted EPS was $0.26, up year-over-year. Cash flow improved significantly with free cash flow doubling compared with last year. We continue to make steady progress against our objectives, and I remain confident in our ability to improve performance.

Turning to Slide 6. I would like to provide an update on our focused transformation program. We made meaningful progress during the quarter as we focus on tasks that have the biggest impact. Chief

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among the milestones we achieved this quarter was the completion of our MTS strategic review and the conclusion that the right decision is for us to sell this business. We have formally launched this process, partnering with KeyBanc to execute the transaction. Once complete, this divestiture will be a large step towards optimizing our portfolio with the remaining businesses better aligned with our mission of protecting assets from the ground up, enhancing our ability to apply our competitive advantages for high-return applications.

We have made progress on each of our 4 objectives. Some of these changes are already visible across our organization. For example, we have made tremendous progress this year establishing a culture of execution and accountability by implementing KPIs to measure the progress and success of our business and aligning incentive plans with long-term targets and objectives to ensure that we are creating long-term value for our shareholders.

We continue to build on this with continuous improvement mindset to drive performance now and into the future. We are creating clear strategies to improve performance on our entire portfolio to ensure we are achieving optimal profitability. The decision to sell MTS is a step in the right direction as it will have a notable impact towards improving our margins. We're also doing a better job of sharing best practices across the organization. For example, through a collaboration with Buckhorn, Signature has improved their structural foam mold change process, which has reduced downtime and improved throughput.

As we develop this operational excellence discipline, we will become more aware of opportunities to drive best practices across the portfolio. We are on track to deliver $20 million in annualized cost savings, primarily SG&A by the end of 2025, having already identified $19 million. We consolidated production in idled 2 of our 9 rotational molding facilities to improve utilization and reduce cost. We are continuing to be diligent about costs and investigate areas where we can be more efficient as an organization while maintaining customer services that distinguish Myers in our markets. I am encouraged by the progress.

We have updated our approach to developing and implementing our long-term strategy as a part of our focused transformation. This is a new framework for Myers and one that I've seen to drive proven measurable results through a disciplined approach. It begins with a strategic planning session. For this, we gathered broad key leadership, representing a cross-functional group from across our businesses for a disciplined and more collaborative process. We discussed where each of our businesses will play to win, their unique differentiators and our growth potential. This was a tremendously valuable exercise and led to great insights that will inform our strategic direction.

With the strategic plan established, we are prepared to implement a strategic deployment tool, which will support disciplined planning and breakthrough objectives. We started by rolling the tool out to senior leaders who will cascade it down throughout their organizations. The tool helps businesses break down long-term goals into an annual objective, identify key improvement initiatives and metrics and assign ownership for each action. With the implementation, we will shift towards a culture of delivering results where progress is visible, measured and shared across teams. This progress on our focused transformation objectives positioned us well for the next leg of our journey. As we continue to strengthen the foundations of our business and build platforms for growth, we are creating operational rigor and instilling a mindset of continuous improvement. These will serve us well and enable us to become a highly successful company that I am confident we can become.

At this time, it is my pleasure to formally welcome our new CFO, Sam Rutty, to the call. She joined us a little over 5 weeks ago. Sam Rutty made a positive impression across the organization with her energy and vision. I'm excited to have her join our executive leadership team and look forward to working with her as we launch our new long-term strategy. Her arrival will accelerate the transformation of both the business and our culture. Sam brings incredible knowledge, turnaround success and more than 2 decades of financial leadership experience across global services and manufacturing companies. She was the CFO of Brink's North America and spent 20 years with Eaton Corporation in a series of senior financial roles. She's consistently taken on big challenges and has helped her team succeed, and I know she will do the same here.

Before I turn the call over to Sam, I want to thank Dan Hoehn for stepping into the interim CFO role these last 6 months. Dan is a steady hand, clear thinker and understands the business and the numbers

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intimately. I'm personally grateful for the partnership during the time that Dan served in this role, and I look forward to continuing to work with him as he resumes his role as our Corporate Controller.

With that, I will now turn the call over to Sam.

Samantha Rutty
Executive VP & CFO

Thank you for that introduction, Aaron, and good morning, everyone. I'm excited about this opportunity to join Myers, a manufacturing company with a clear vision and customer value proposition. I spent the early part of my career in manufacturing, an area where my true passion lies, and I'm eager to work with Aaron and the team to drive operational excellence across the organization and support the achievement of our long-term strategic objectives.

I also want to thank Dan and the team for sharing your knowledge and bringing me quickly up to speed. Let me start by reviewing our third quarter results, and then I will wrap up with the outlook by end market for the remainder of the year.

Please turn to Slide 8. Third quarter net sales were $205.4 million, slightly higher than last year. Material handling growth was offset by lingering distribution softness. Adjusted gross margin increased 150 basis points to 33.9% due to higher volume, favorable mix and cost productivity as well as lower material costs. Adjusted operating margin improved 20 basis points to 10.2% as higher SG&A offset some of our gross margin benefits. Overall, we reduced inefficient spend as the culture of the company shifts to a continuous improvement mindset. We are performing better this year and therefore, maintain our accruals for performance-based incentive compensation compared to this period last year when we reversed those accruals.

We are pleased to be able to reward the hard work of our team as they drive improved performance. The quarter reflected strong execution despite a few unusual SG&A expenses from legal fees and medical claims. Our employees are proactively finding ways to reduce recurring inefficient costs while continuing to support our growth initiatives. I'm excited about the opportunity before us to drive continuous improvement and look forward to partnering with our business leaders to support their progress.

Turning to Slide 9. Material Handling net sales were up 1.9% as strong sales of military products and composite matting were partially offset by lingering vehicle softness and lower storm-driven demand for fuel containers. Adjusted EBITDA margin was 24%, expanding 180 basis points with the benefit of higher volumes and favorable material costs. Distribution net sales decreased 4.4% on lower volumes. Adjusted EBITDA margin fell 260 basis points as the impact of lower volume was partially offset by lower SG&A.

Turning to Slide 10. Operating cash flow was $25.8 million and CapEx was $4.2 million, resulting in free cash flow of $21.5 million. By managing our working capital effectively and maintaining disciplined capital spending, we doubled free cash flow year-over-year. As we evaluate our portfolio to focus on core products and addressable markets for growth, we will align our capital strategy accordingly and continue to target capital expenditures near 3% of sales. We ended Q3 with a cash balance of $48 million and total liquidity of $292.7 million, providing us with ample flexibility to support our capital allocation priorities.

Please turn to Slide 11. We reduced debt by $10 million, bringing total debt to $369 million. Net debt per the credit agreement was $339 million, bringing our net leverage ratio down to 2.6x. We remain committed to achieving our target ratio of 1.5 to 2.5. We repurchased $500,000 in shares during the quarter, bringing total year-to-date repurchases of $2 million. The share repurchase program was an additive measure to complement our ongoing dividend as part of our capital allocation strategy to return cash to shareholders.

Turning to Slide 12. We are updating our market outlook for 2025 that was provided during our second quarter earnings call. We still see both risks and opportunities for our end-markets, and we'll continue to monitor conditions for impacts from tariffs or other factors that may influence demand trends. Let me review our expectations by market. Industrial should continue with moderate growth, driven by demand for military products as militaries around the world replenish their inventories as evidenced by a strong backlog. We still expect sales of our military products to exceed the $40 million target for the year 2025.

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Year-to-date, military sales are up 119%. We expect this sales growth to be partially offset by lower sales of other industrial products as manufacturing operations slow their buying cadence in response to softer general industrial trends.

In infrastructure, strong ongoing spending for large construction and utilities projects supported by conversion from wood to composite matting should continue to drive strong growth. This is reinforced by our strong backlog for these infrastructure products, most of which should be converted in the fourth quarter. We expect the vehicle end market to be down as a result of economic uncertainty. This end market includes RV, marine, heavy truck, and automotive manufacturing customers. In Consumer, we now anticipate sales to be down due to less than typical storm-related activity in 2025. On average, there are 3 landed storms in the Continental U.S. per year. This year, there have been none.

Our food and beverage end market, which includes agriculture, is projected to be stable for the full year. While there were headwinds earlier in the year, we achieved 8% growth year-over-year in Q3 and are expecting further improvement in Q4 with our agricultural customers, led by a strong backlog in seed boxes. Automotive Aftermarket distribution is expected to be down. We continue to manage the business closely as we navigate a challenging end market and proceed through the process to identify potential buyers.

In closing, I would like to simply state again how excited I am to be part of the Myers team. I look forward to meeting many of you in the coming weeks. I would now like to turn the call back to Aaron for some closing comments before we take your questions. Aaron?

Aaron M. Schapper
President, CEO & Director

Thank you, Sam. As I look back on the progress we've made throughout 2025, I believe more than ever in our focused transformation plan. I know our journey of continuous improvement will take time. Myers has a portfolio of well-regarded brands and products designed to protect. We are working with urgency to rightsize the organization, drive accountability and deploy capital to support growth in these brands. I'm confident that we are transforming into a focused company with a high-performance culture that drives growth with consistent, reliable results that create value for shareholders.
With that, I'd like to turn the call over to the operator for questions. Operator?

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Question and Answer

Operator

[Operator Instructions] First question comes from Christian Zyla with KeyCorp.

Christian Zyla
KeyBanc Capital Markets Inc., Research Division

Sam, welcome officially. My first question, it looks like Material Handling organic growth flipped positive for the first time in like 11 quarters. I guess the primary driver of that growth is Signature. Can you just talk about how you see that business progressing since you've acquired it? And what are some additional growth opportunities that you're targeting in Signature and maybe in your defense business?

Aaron M. Schapper
President, CEO & Director

Yes. We're happy with the growth trajectory of Signature. I mean there's a lot of tailwinds on the infrastructure construction market that continues to push that. And then just from the current product that they offer. And also, we are excited to line up new offerings in that market, too. So we'll have some new offerings coming out in the next -- well, about 2 quarters that we think can help strengthen our business on the stadium side. And we have some good pipeline -- innovation pipeline.

I think, Christian, we spent some time over the summer getting the team together and really talk about our strategic plan and then very specifically make sure that we are continuously -- continuing to develop and innovate new products, and Signature was a major part of that. They have a lot to offer the market, and we have a good pipeline of new products that not only help in the construction spaces, but will also help in other areas so we can continue to have that growth.

So we're excited where we are with Signature. We believe the growth will continue to be strong. And we've got a great operational team behind that growth to make sure that we continue to get good margins.

Christian Zyla
KeyBanc Capital Markets Inc., Research Division

And sorry, just in defense, any further growth opportunities? Is that just contract running really well? Are there more opportunities for additional customers or additional...

Aaron M. Schapper
President, CEO & Director

Yes, sorry, specific to the Scepter side, absolutely. As kind of our militaries, both in NATO and the U.S. militaries look at a future kind of near-peer kind of competition. When you look at near-peer competition, one of the things that has been concerning for that -- for the defense industry was just making sure that the consumption of ammunition matches something that's closer to a near-peer conflict. As a result, what you get is a lot of people looking at the consumables of warfare. And so those consumables are ammunition. A lot of that ammunition needs to be packaged. And that's where Scepter not only plays a role in today, but will play a continuing growing role in the future.

So for us, it's making sure that we take care of our customer, whether it be the U.S. military or our NATO allies and positioning our manufacturing to take advantage of that growth in the coming years.

Christian Zyla
KeyBanc Capital Markets Inc., Research Division

Great. And then my next question, Sam, maybe this one is for you. Gross margin held in really well, but SG&A still seems to be high. I guess with the cost down restructuring that you guys have done, do you expect to see a decrease in SG&A dollars in 4Q? Or is that more of a 2026 and beyond event?

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Samantha Rutty
Executive VP & CFO

I mean we are expecting our SG&A costs to start to come down. We had some unusual items in Q3 that impacted us, medical and some legal costs. A couple of those items, I would say, can sometimes be a little bit difficult to predict exactly, but we are confident that our transformation savings are going to start to deliver reductions in SG&A. And the onetime or larger impact in Q3 from the compensation incentives last year being zeroed out and was a material impact. And had we not had that, we would have seen a bigger decline in SG&A. And yes, we are confident that we'll start to see those savings impact SG&A on the top.

Christian Zyla
KeyBanc Capital Markets Inc., Research Division

Got it. Last one for me, and I'll turn it over. Really nice free cash flow quarter with about $22 million. What drove that? And then is that increase in part of the changes you've been making? Or is there something else that we should be thinking about? And then do you expect 4Q to be another solid quarter for free cash flow like you guess at the time?

Samantha Rutty
Executive VP & CFO

Yes, I think a lot of focus on working capital across the organization, which will continue. It's something I plan to continue to put a lot of focus on. Capital spend is a little bit lighter, some timing going on there. So maybe a little bit higher in Q4 from a CapEx perspective. But generally, we are confident around our efforts around working capital, particularly inventory, we're trying to really focus on reductions and are anticipating a fairly good month quarter in Q4 as well.

Operator

[Operator Instructions] We now turn to William Dezellem with Tieton Capital Management.

William Joseph Dezellem
Tieton Capital Management, LLC

Relative to Scepter, would you please walk through the additional opportunities you see with military beyond the current application?

Aaron M. Schapper
President, CEO & Director

Yes. So Bill, we haven't specifically to put numbers or guidance out for what we see on the military side. We put the numbers out for what we're going to hit this year in military. We've already well exceeded that number. So we're very confident in the growth numbers on that side. However, so the military projects are all programmatic in nature. So the way that we look at the business is we make sure that we have -- as the program kind of runs through whether we're going to get to stack the next program and the next program behind that.

So right now, we haven't broken out publicly what each of those programs are or the size of it. But I will tell you that we expect to -- continue to expect strong growth from that side, and we also are going to be putting CapEx plans and have CapEx plans around those growth opportunities. So you'll continue to see strong growth on the Scepter military business. We're very happy with the way that's progressing. And we're very happy with the team. The team is very -- is aggressively pursuing those goals.

And I think our customers are realizing the value of making the material switches over to a lot of the plastic products that we offer as a superior product to what they're using in both steel and wood. So we feel good about where we are in that, and we keep continuing to add programs and new products to help grow that business.

Operator

We have no further questions. I'll now hand back to Meghan Beringer for any final remarks.

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Meghan Beringer
Senior Director of Investor Relations

Thank you for joining us today. If you would like to continue the conversation, my contact information can be found on the final slide of this presentation. We look forward to staying in touch. With that, we'll conclude the call. Have a great day.

Operator
Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.

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