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Myers Industries, Inc. (MYE)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to today's Myers Industries First Quarter 2022 Earnings Call. My name is Baylee and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to pass the conference over to Monica Vinay. Monica, please go ahead.

Monica Vinay

Vice President-Investor Relations & Treasurer, Myers Industries, Inc.

Thank you. Good morning. Thank you for joining us. I'm Monica Vinay, Vice President of Investor Relations and Treasurer at Myers Industries. Joining me today are Mike McGaugh, President and Chief Executive Officer; and Sonal Robinson, Executive Vice President and Chief Financial Officer. Earlier this morning, we issued a news release outlining the financial results for the first quarter 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 release or the PowerPoint, you can access them 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 along with the transcript of the call shortly after this event.

Before I turn the call over to Mike, 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 margin, adjusted operating income, adjusted EBITDA and adjusted EPS may be discussed on this call. Further information

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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, and I'm now pleased to turn the call over to Mike McGaugh.

Michael P. McGaugh

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

Thank you, Monica. Good morning, everyone and welcome to our first quarter 2022 earnings call. I'm pleased to share that first quarter 2022 was a record earnings quarter for Myers. Our strategic vision in One Myers approach have fundamentally changed the way we do business and how we operate our company. This vision has been our North Star helping us get aligned and grow together. Our teams are beginning to look more like the collegiate rowing teams on the Charles River in Boston, going together as a single unit in synchronously, there's less effort producing more speed.

The proof is in our first quarter results. Meyers delivered record EPS for the quarter and our sixth consecutive quarter of double digit revenue growth. During the quarter, we realized the benefits of pricing actions we've taken to counter inflationary pressures and we increased our production to meet heightened demand from our customers. These actions drove a 29% increase in net sales for the first quarter. This momentum continued through the income statement with a 127% year-over-year improvement in adjusted EPS and an 82% increase in adjusted EBITDA. Our strong results in the first quarter gave us confidence to raise both our net sales and adjusted EPS expectations for the full year. Sonal will discuss our revised guidance in her remarks.

Please turn to slide 4 which has a more detailed financial summary of the quarter's results. We had sales of $225 million, up 29% compared with the first quarter of 2021, which in part was due to stronger than expected seed demand, healthy demand in most of our end markets, and incremental revenues from acquisition of Trilogy Plastics.

Throughout the quarter we were able to realize the benefits of the pricing action taken by our commercial teams in 2021. These actions successfully countered cost headwinds stemming from strained raw material supplies and ongoing inflationary pressures in raw materials, freight and labor.

We also continued our efforts to be a highly reliable and value-added partner to our customers. We are true to our four corporate values with specific emphasis on being customer focused. As a result of this focus, our continued reliability supplying our customers, we generated the second consecutive quarter of operating margin expansion while also growing sales.

Before I turn the call over to Sonal for an update on our financials, I want to reiterate how gratified we are with Myers first quarter performance. This performance is one more proof point that demonstrates the opportunity and the potential that exists in Myers.

Our team has done a lot of work over the last two years in the area of self-help, in improving our plant, our capacity and our capability. The changes we made to this company are deep and will be long lasting.

Recently a potential investor took pause after listening to the changes I described that were underway at Myers. She cleverly remarked, you're taking large cap capabilities and bolting them into a small cap body. I think that's a great way to describe what we're doing, attaching large cap capabilities to a small cap body. I think we've uncovered an approach that will generate superior returns and long term shareholder value creation.

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We are a diversified industrial company that has the number one or number two position in most of our niche markets. We believe that much of our business is resilient to potential macroeconomic headwinds. It's compelling. As I say on every call, I like the progress I see, we are transforming the company. However, we are still just getting started and we are in the early innings of what's possible for Myers Industries.

Now, I'll turn the call over to Sonal to review the first quarter financial results and provide our updated 2022 outlook. I will then spend a few minutes discussing our progress to date and current goals for our 3-Horizon Strategy. Sonal?

Sonal P. Robinson

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

Thank you, Mike and good morning, everyone. Let me begin by reiterating that we are extremely pleased with our performance in the first quarter. As you can see on slide 4, sales were up $51 million or 29%, with healthy underlying demand across most of our key end markets. Adjusted gross profit increased 44% or $21.19 million, primarily driven by higher prices and our Trilogy Plastics acquisition.

Our pricing and sales teams executed pricing exceptionally well last year, which allowed us to realize our second quarter of a positive price to cost relationship. In addition to higher raw material costs, other inflationary pressures, particularly in our labor and manufacturing costs, continue to impact our results and partially offset some of our gross profit growth. Despite this, gross margin increased 320 basis points for the quarter from 28.9% in the prior year to 32.1% this year.

Adjusted operating income was $25.8 million, an increase of $14 million. Increased gross profit was partially offset by higher SG&A expenses related to higher salaries and incentive compensation costs, along with increased variable selling expenses. However, as a percentage of sales, adjusted SG&A expenses decreased to 20.9% in the first quarter, compared to 22.1% in the prior year.

Adjusted EBITDA was $31 million, an increase of $14 million or 82% compared to the prior year. Adjusted EBITDA margin was 13.8% for the first quarter compared with 9.8% in the prior year. Lastly, adjusted EPS was $0.50, an increase of $0.28 more than doubling last year's first quarter EPS.

Please turn to slide 5 for an overview of our segment performance for the quarter. Beginning with material handling, net sales increased $47 million or 36%, including the Trilogy acquisition, which occurred at the end of July 2021. On an organic basis, material handling net sales increased approximately 28%, driven by favorable pricing of 24%, and strong volume mix which contributed another 4%. Notably, organic net sales increased in the vehicle, industrial, food and beverage and consumer end markets.

Material handling's adjusted operating income increased $15 million or 88% to $31.9 million. As Mike mentioned, we did see better than expected seed sales during the quarter, which tends to be a fourth and first quarter event for us. Additionally, our pricing actions more than offset the higher raw material input costs in the quarter.

Inflationary pressures related to labor and other manufacturing costs partially offset these benefits. SG&A expenses were higher, primarily due to the Trilogy Plastics acquisition, higher compensation cost, increased variable selling expenses and higher facilities cost.

In the distribution segment, sales increased approximately $4 million or 10%. This increase was driven by our previously noted pricing actions. Distribution's adjusted operating income increased $1.3 million or 68% to $3.3 million. A favorable price to cost relationship more than offset the higher SG&A expenses.

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Turning to slide 6. Free cash flow was $2.2 million compared to $1.4 million for the first quarter of 2021. Cash from operations increased in the quarter driven by income growth, partially offset by an increase in cash used for working capital, primarily accounts receivable and inventory. Capital expenditures are $5.1 million for the quarter and cash on hand at quarter end was $17.6 million. Overall, our balance sheet remains strong with leverage at 1.2 times, and our capital structure continues to provide the flexibility needed to execute on our long term growth strategy.

On slide 7, turning now to our updated outlook for fiscal year 2022, given the strength of our results in the first quarter, along with the additional pricing actions we've taken, we now anticipate our net sales to increase in the low- to mid-double digit range versus our previous outlook of a high-single to low-double digit range. Approximately one quarter of the sales increase is attributed to the incremental seven months of sales related to the Trilogy acquisition. Significant pricing actions taken throughout 2021, combined with healthy underlying demand across most of our end markets are expected to drive growth in 2022.

We are also raising our full year adjusted EPS outlook from a range of $1.20 to $1.40 per share to a range of $1.30 to $1.50 per share. At the midpoint of our range, this reflects more than a 40% increase over our 2021 adjusted EPS. Once again, keep in mind that the first quarter was a record earnings quarter for the company.

While resin costs have somewhat moderated in the first quarter, we are beginning to see signals of upward movement in the near-term and have continued to take additional pricing actions in response. We expect that the pricing actions we've taken to date, along with our ability to continue to take future pricing to offset inflation should drive over 200 basis points of gross margin expansion for the full year. Recall that adjusted gross margin for fiscal year 2021 was 27.9%.

SG&A expenses are still expected to approximate 22% of net sales, primarily reflecting the investments we're making in our people, processes, and operational efficiencies. Other key modeling assumptions include depreciation and amortization expenses of approximately $23 million, CapEx in the range of $25 million to $28 million, interest expense of $5.5 million, and an effective tax rate of approximately 26%. Despite increased CapEx, we expect higher earnings to translate to increased cash flow in 2022.

Before I turn the call back to Mike, I want to extend my gratitude to the Myers team for their tireless efforts in delivering an outstanding quarter. I'm confident in our ability to foster long term growth and execute on our strategic plans in 2022 and beyond.

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

Michael P. McGaugh

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

Thank you, Sonal, and great work. Well done. Now, let's turn to slide 8. I'm now in my third year as CEO of Myers, and we've been running our 3-Horizon Strategy for about two full years. We're seeing meaningful and lasting results, which continue to give me confidence in delivering our Horizon 1 goal of a run rate of $1 billion annual revenue and a 15% EBITDA margin by the end of 2023.

Although we are technically in Horizon 1, we are starting our planning and our preparation for Horizon 2. The future is exciting and will be here soon. All that excitement aside, our key to meaningfully growing Myers in sales and profitability is executing against our core tenets of Horizon 1. Self-help, which provides the oxygen and the funding for the next two elements which are organic growth and bolt-on M&A. In the area of self-help, our internal

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pricing excellence group has helped our commercial teams analyze and better understand data, better understand the value our products bring and we are seeing the results and gaining traction in value-based pricing.

In addition to pricing excellence, we focused on making S&OP a core competence as well. Over the past few quarters, we piloted a robust sales and operation planning process in one of our plastics businesses. The results were very good. The plant had production and profitability records. We've since rolled out this pilot to a few of our other businesses and plan to continue to roll this out to all businesses in Myers, completing work over the next 12 to 24 months.

The enhanced S&OP increases output and ensures that we can reliably supply our customers. This reliability of supply puts us in good stead with our customers, often putting us in a preferential position to grow with them. In the area of organic growth, I am proud to say that this is our sixth consecutive quarter of double-digit sales growth and customer demand has continued.

Our sales training and market planning processes that I've spoken about before have been a breakthrough. The new sales and market planning processes have provided alignment across our commercial and operations teams. We are rolling together. Going back to my Charles River analogy, we're one of those eight person boats that are smooth and in balance, not flailing, not struggling, we have alignment. We're on [indiscernible] (00:15:15) and we're moving faster with more harmony across the water.

Just like watching those eights cut across the water, when we hit stride at Myers and we're rowing in synchronicity, it's a beautiful thing. We're having more of those moments with each passing month and quarter. Yes, we still have our moments of struggles when we fall out of sequence, those moments are becoming less and less frequent.

Regarding bolt-on M&A, Elkhart and Trilogy acquisitions continue to increase their contributions to our financial results. Elkhart and Trilogy are proof that we want discipline in our acquisitions. We will buy companies with an easy to see and easy to understand competitive moat. We'll buy talented leadership teams and we'll pay a fair price.

In Q1 we received numerous inbounds and have passed on many. We're not going to get starry eyed. We will have discipline in our acquisitions in which ones we pursue. This discipline is important. We treat the opportunity to shepherd our shareholders capital as an honor, not a right and we'll make decisions accordingly. From a pipeline standpoint, we are always evaluating potential M&A opportunities within both our material handling and distribution segments and we continue to be pleased with our prospects.

Slide 9 outlines the strategic pillars of Horizon 1 of our strategy. This one slide is the simple, clear playbook for our true North, our strategic objective. We will execute and deliver the strategic objective by driving the four pillars organic growth, strategic M&A, operational excellence and by having a high performing culture.

We will have success in execution because we have clearly defined the areas of focus for each of these four pillars. These areas of focus have specific action items for the year 2022 and are paired with a single executive team member who is accountable for delivering results, which drives alignment, it drives clarity. It's the coxswain that helps to keep tempo and row together.

Now I'd like to walk through our progress against those pillars quickly on slide 10. With the first pillar, we have seen encouraging and consistent organic growth in both top- and bottom-line, which has allowed us to hire new, excellent people with world class, global multinational training and experience. With respect to our sales efforts,

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our teams are better trained. That training continues. Our teams are focused, incentivized on profitable growth on cross-selling and on pricing our products for the value they deliver.

Now on to strategic M&A, which has been an integral part in helping the company get scale. Over the past two years, through the deals we've consummated and the opportunities we've evaluated, we've learned. These valuable lessons and approaches have been incorporated into our proven integration playbook, which is helping us better identify, negotiate and integrate newly acquired businesses.

Moving on to operational excellence. This is an area where we are truly transforming Myers and an area where we have added the greatest concentration of world class talent and capability. As I mentioned earlier, we continue to implement S&OP across our businesses. These improvements are helping us better schedule, plan and operate our plans. By doing this, we are identifying a hidden factor. We are identifying and unleashing additional capacity.

Finally, we've seen meaningful improvements in our high performing culture. We have and will continue to transform Myers mindset into a culture of winning. We are now doing company-wide employee development planning and succession planning. We've instilled robust world class frameworks and processes to ensure that we are developing our associates and leaders with an eye to their aspirations and needs over the next five years and the company's aspirations and needs over the next five years. We want our employees to have the career they seek here at Myers.

We run a low ego, servant-leader model. Servant leadership inspires all of us to serve our people. Servant leadership requires a roll up the sleeves and get the job done mindset. All of us take the hill together. The servant leadership approach is resonating very well, especially with the post-COVID mindset where our employees are interested in not only delivering great products reliably to our customers, and making a great return for our shareholders, they're also interested in doing good for society and doing good for each other.

We've now completed four waves of servant leadership training covering over 100 leaders. I've participated in all of the sessions. I often hear from seasoned veterans that this is the best training I've ever been through. It's remarkable. Something special is happening at Myers in terms of culture.

I'll close today by thanking our current investors for their confidence. We delivered solid results last quarter and I continue to believe that our performance will continue to build in the future. We can't forecast precisely how every quarter will shake out in the near term, however, with all the great things occurring at Myers, with our transformation underway, I'm confident that over the long term, we are moving the company up and to the right. The company is on a remarkable journey, and I encourage you to join us on that journey.

With that, I'll turn the call over for questions. Operator?

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question today comes from Steve Barger from KeyBanc Capital Markets. Steve, please go ahead. Your line is now open.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. Good morning, everyone.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Hey, Steve.

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

A

Good morning.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Great to see operating leverage come back on strong revenue growth. So I'll start with the guidance. Seems like 1Q will be the peak revenue and EPS quarter. Demand still seems solid. You're getting traction on the pillars. You've been aggressive on price. What will cause the operating margin to step back to more single digit for the rest of the year?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Yeah, Steve. So, this is Mike, I will address that and I'll ask Sonal to follow up. We still see some underlying pressure on raw materials. That's a bit uncertain to what degree that will take, but we see some underlying pressure on raw materials. There's a little bit of mix that we're watching, namely in our consumer segment with some of the fuel containers. You know it's been a colder, wetter spring, and so you have a little bit of a lag in some of the sales of those products. I think you'll see that in lawn and gardening, with most of all segments.

What we've got also, just some uncertainty with inflation, with the macros, with the war, with product availability. So, maybe Sonal do you want to add anything to that?

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

A

Sure. Good morning, Steve.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning.

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

A

So, I would just reiterate that Q1 was a very strong quarter for us. We had extremely strong seed box sales. We realized the accumulated benefits of pricing actions that we took in 2021 as you recall. A lot of that really benefited us last year in Q3 and Q4. So, from a lapping standpoint, we will get a greater benefit in Q1 and Q2 of this year. That will start to moderate then as we go throughout the back of the year. And then as we mentioned in Q1, we did see resin costs starting to moderate. So sequentially it was down but still up year-over-year. And as Mike mentioned, we are seeing some inflationary pressures on that in the short term there.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. And Mike, you made the comment that much of the business is resilient to macro headwinds. And I know you list consumer is 15%, but what percentage of products would you consider more consumer discretionary, stuff that goes into recreational activities like RVs, boats, coolers?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Let's see. Well, I may have to get back to you on that one, Steve. I'd say the lion's share of our products, if you look at how diversified we are, was for being a smaller company and then the traction and uptake of those particular products, the end markets, we're still seeing strong demand. We're still seeing strong demand. And again, like I said, I think our product mix is relatively resistant, even if we have some difficult headwinds in the back half of the year from a inflationary environment and some cooling in the economy. And I think our products are going to be quite resilient. I think our product mix is going to be quite resilient. On the specific break out there off, I may have to come back to you on that.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Longer term question, working through the guidance, it seems like you expect EBITDA margin in the mid 11% range this year, maybe 12%. So you'd need 300 to 350 basis points of expansion in 2023. Will that be mix or price or volume? Just can you talk about what the margin expansion roadmap is from here to the end of Horizon 1?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Yeah, for sure. I think some of it is the S&OP work, lowering our cost position. Some of it is getting a continued pricing traction or and holding prices as raw materials start to wane. And then some of it is just volume and operating leverage across the company. So those are the – I would say it's a third, a third, a third. The margin targets we talked about is run rate's in 2023. Steve, I've got confidence in them. I can just see how much potential is in the company.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. I have more, but I will get back in line and see if anybody else has questions.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

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Thank, Steve. Thank you.

Operator: Thank you, Steve. [Operator Instructions] Your next question today comes from Jonathan Navarette from Cowen. Jonathan, please go ahead. Your line is now open.

Jonnathan Navarrete
Analyst, Cowen & Co. LLC

Q

Hey, good morning everyone and congrats on the quarter.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Good morning and thank you.

Jonnathan Navarrete
Analyst, Cowen & Co. LLC

Q

I'd like to start with the pricing. So you know the team has done exceptionally well, as you mentioned in 2021. And I'm wondering here with all of the inflationary pressures that the whole country is facing, the world, for that matter. How quickly can Myers adjust to the rising costs? How quickly can we pass on those costs to [indiscernible] (00:26:18) the price actions? And what is the typical lag that pricing has with cost?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Yeah. Jonnathan, typically as we've talked in the past, it's a quarter, maybe two depending upon the product line. But this was a real area of focus for us over the last 24 months as we talk about not pricing to our costs, but pricing to the value we deliver to our customers and being a highly reliable supplier. And in these times, that's been highly important to our customers, is being able to deliver the right product at the right time.

That's given us, as I talked about, a bit of a leg up we believe in partnership and preference from our customers. Not to say the pricing doesn't matter, but it's been a secondary issue many times, availability. Our customers are more concerned with availability. So we do price to the value we create. That's a whole different mindset. And we've brought in a number of people who have helped us change that mindset. So going back to the original question quarter to two lag, but I just think it's going to be sustainable in a way that's not been present in Myers in the past.

Jonnathan Navarrete
Analyst, Cowen & Co. LLC

Q

Good. And I guess that answers – since the company's pricing is based on value, despite the costs have – whether costs go up or down in future it seems like the value can only increase, right, perhaps the pricing will stay and it won't go down in tandem with cost, correct?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Yeah. Again, we can't hold it forever if we have a significant recessionary environment on a US economy basis or a global basis. But the spreads between our costs and our sales price, we're going to continue to drive a wedge between that. We have good products. We have good brands. We make quality products. Most of the time, we have a competitive moat.

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As I've mentioned before, we make big, bulky products. We don't have competition from faraway lands. I think there's a resurgence of US-based manufacturing. There's a resurgence of made in America. I think that it's going to be a tailwind for us for many years and we've brought in a number of world-class people that are helping us dial in our plants. Our OE, operating rates are some of the best they've ever been. And so I think all these things are coming together and the outlook for the company is I'm very, very bullish on it.

As I mentioned before, look, every time you pick up the newspaper, every podcast, every news broadcast, there's a discussion on uncertainty, inflation, interest rate, the war. There's so much uncertainty. It's tough for us to get too aggressive, May 5, about our outlook for the next year and years. But as I said, look, our heading is up into the right. There's just a lot of good things going on here. And that's what makes me very excited and bullish.

Jonnathan Navarrete
Analyst, Cowen & Co. LLC
Q

Right. And then just my last one. You mentioned one of the most important things to your customers is availability. And that's something that is resounding throughout all of our coverage universe, really. And to that end, given the demand is so robust right now, are you – is the company having or can potentially see trouble meeting demand perhaps in the second half of the year or given the inventory build-up that there is, like you guys are in a good point right now where you can meet demand and it can even meet, if they were to increase.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Yes, yes. We can to answer your question. So how we're doing that is we've put a lot of focus on employee recruitment, on contingent staffing, on how we schedule and run our plants, the shift schedules so that they allow us to get most product out the door in a way – in creating an environment that is good for our employees and allow us to retain them. That's more the factory and the shop floor. Feel good about that. On – so that's, yeah, I feel good about that piece – now, obviously did that.

Jonnathan Navarrete
Analyst, Cowen & Co. LLC
Q

Okay. Got it. Thank you so much. Congrats again.

Sonal P. Robinson
Executive Vice President & Chief Financial Officer, Myers Industries, Inc.
A

Thank you.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Thank you.

Operator: Thank you, Jonnathan. Next up, we have a follow up question from Steve Barger from KeyBanc Capital Markets. Please go ahead. Your line is now open.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

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Thanks. Mike, can you give some more tangible examples around what you're finding with the hidden factory comment? How is that working and manifesting?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Yeah. So Steve, I'll give you an example. So we have – depending on how you count it, 80 to 100 machines across our plastic side, what we found, some of these businesses that we've acquired as well as some of the people we brought in, have a really good experience set with running S&OP, doing better supply planning, better demand planning and even just optimizing the shift schedule. So we've gone through it at different shift schedule.

As an example, in our roto business, it's called three, five, eight, three shifts a day, five days a week, eight hours a day. And that discipline and that rigor and that approach, what we're finding is we have more capacity than we anticipated. We look at a particular plant, Middlebury, Indiana; Bristol, Indiana, and we thought we were sold out. We brought in a SWOT team to help us better schedule these plants and better schedule our machines, get the right products on the right machines, Steve, have longer runs, and those longer runs and less changeover and less downtime, the results have been remarkable. And as a result, we're finding that we've got in 20%, 30% more capacity in some of these locations than we ever thought we had.

And so the great thing is, it's really it's free capacity. It's free capacity. So we can be a better and more reliable supplier. We're running our employees less hard and less ragged. And then we're also finding that we can just really put our foot on the gas and chase sales in a way that we maybe thought wasn't available 12 months ago.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

That's great to hear. Very positive. Shifting to M&A, the macro world is obviously changing. Can you just update us on how you're thinking about the multiple that you're willing to pay, time requirements for a deal to show accretion or hitting corporate ROIC or just how your thinking has changed around M&A, if at all?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

Yeah. Steve, it hasn't did a lot. I mean, what we're always trying to do is buy privately owned businesses that have good bones, that probably need some improvement in how they're operated. We feel we can operate them better. In buying those businesses, we can typically get it for a turn or two less. Some of these businesses seek to not be acquired by a financial buyer. And oftentimes, these owners will take a turn or two less on their multiple to partner up with a company like Myers, which has a good reputation of taking care of the employees and growing the business. Oftentimes that's important to the owner. And so, we're able to buy businesses at reasonably good prices. And then through cost synergies and growth synergies, they become even more compelling.

The accretion and ROIC targets, IRR targets, quite frankly, all of the deals that we're looking at, all those numbers are really off the charts, I mean, directionally. And so we're finding that – we're getting more inbound. We're getting more inbounds, I think, at, I think valuation expectations are still pretty high. I believe that those valuation expectations may start to soften a bit, and I think it's going to play very well into our hands, given our balance sheet position and also the fact that, hey, we will have two or three or four of these deals under our belt, we'll be better at integrating them. Again, that gives me some optimism as well.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

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And I think you said that you had walked away from a few. Is that due to price or culture or just product fit? For the things you're passing on what's the...?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Yeah. Well, what we're finding, Steve, is that culture piece is so important. The culture piece is so important. But what we do is we'll find businesses that we think fit in terms of the leading position in a niche market segment. And that we can help them get better and they can bring something to us. But we'll go through it diligently and even if it were two, three months in, and even if we spent some money, if it's not right, it's not right. And so we'll constructively find a way to move on. But it's just we can't be starry eyed and chase things. If we start to see some things that make us a little concerned, I hate to say it, but we'll have to pull the plug and we've done that.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Got it. I have gotten a couple of questions from investors around your automotive exposure, just given volatile production schedules. I know you sell more to the factory floor, but has that affected you at all?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

No. At this point, it hasn't. In fact, that piece of business are [indiscernible] (00:36:00) because of all the model change overseas, it actually look – it actually would have a pretty good run rate for the balance of the year.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Yeah. Okay. And then the last one for Sonal, just from a near-term modeling perspective, do you expect revenue will be up sequentially coming off what was obviously a record quarter?

Sonal P. Robinson
Executive Vice President & Chief Financial Officer, Myers Industries, Inc.
A

Yeah. Steve, the way I would answer that is from a top line standpoint distribution, you saw some nice top line growth there in Q1 I would expect that to be in a similar type of range. As you think about material handling, we saw very nice growth in Q1. Clearly, we'll start lacking some of the pricing benefit that we saw in Q1 and Q2. And then also, given the strength of the seed box sales season in Q1, we would expect not to probably see as large of a growth there, but still a very nice sizable growth organically, double-digit.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Understood. Thank you. Yeah. I guess I do have one more. With higher fuel prices, does that effect – does a change in miles driven effect distribution. I mean, it seems like it showed some [indiscernible] (00:37:11) repair. How are you thinking about what the forward look is for that just given gas price is above $4?

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.
A

Yeah, Steve, that's a good point. I was with actually the blow molding team yesterday at one of their operational reviews. And on the MTS side, we're not seeing it as much. The distribution side, we're not seeing it as much. We are seeing it and we're watching it. And we don't know if it's a trend or just a data point.

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Look, we had a cold wet spring. Some of the fuel can sales were a little slow and as you would expect in the spring. We're also watching – our customers, so the Polaris' of the world, the Thors of the world, et cetera, they have positive outlooks on the recreational toys, recreational products. They have positive and bullish outlooks. What we don't know is, is inflation costing – going to have people not camp, not ride their ATVs, not take their boats out. What is that impact?

The signals we're getting right now is that the impact will be negligible, if any, but it may actually cause us to temper even our outlook a little bit. We just don't know. We just don't know how much inflation. I was in Walmart last week and looking at all the prices. Prices, it's almost like we caught six to seven years of inflation in four to five months.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

And I don't know how much that's going to affect consumer demand. It's just uncertain and that's causing us to have a little bit more of a tempered outlook.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. I should have been more clear on my earlier in the questioning. I mean, that really was the motivation for the consumer exposure question. It seems like there has to be an impact at some level to this recreational stuff.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

A

You would think. You would think. Again, the order book still seems strong. The reports of those customers are still bullish. But we're watching it, Steve. Things look okay for us. Like I said, I don't want to belabor it, but we did have a little bit of a slower start in that piece in second quarter, but it remains to be seen. And that's why I said is there's uncertainty. That's the reason we're not coming out with a bigger swing on some of our outlooks, because it's just 2022, there's going to be uncertainty.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. Thanks for the time.

Michael P. McGaugh
President, Chief Executive Officer & Director, Myers Industries, Inc.

Thank you.

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

Thank you.

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Monica Vinay

Vice President-Investor Relations & Treasurer, Myers Industries, Inc.

Thank you, Steve.

Operator: Thank you, Steve. [Operator Instructions] There are no additional questions waiting at this time. So that concludes the Myers Industries first quarter 2022 earnings call. Thank you for your participation. You may now disconnect your lines.

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