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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	8

Call Participants

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Presentation

Operator

Hello and welcome to today's Myers Industries, Inc. Q2 2023 Earnings Call. My name is Jordan and I'll be coordinating your call today. [Operator Instructions]

I'm now going to hand over to Grant Fitz, Chief Financial Officer at Myers Industries to begin. Grant, please go ahead.

Grant E. Fitz
Executive VP & CFO

Thank you, Jordan. Good morning and thank you for joining us. I'm Grant Fitz, Chief Financial Officer 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 second quarter of 2023. We've also posted a 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 transcripts -- transcript of the call shortly after this to that.

Please turn to Slide 2 of the PowerPoint for our Safe-Harbor disclosures. I would like to remind you that we 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 risk, 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, adjusted EPS may be discussed on this call and are reconciled to the nearest GAAP metric and the exhibits to today's press release and to our presentation. For 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, Grant. Good morning, everyone and welcome to our second quarter 2023 earnings call. Before we discuss our quarterly performance, I want to take a moment to say how delighted we are to welcome our new CFO, Grant Fitz to our organization. Grant has considerable experience across the industrial, automotive and technology sectors. His financial acumen, experience and leadership will deliver meaningful contributions to Myers Industries and help us execute our 3 Horizon strategy. Welcome, Grant. We're glad you're here.

As I prepared my remarks for this quarter, many of my comments directionally echo the past few quarters. We continue to face demand headwinds in certain end-markets, primarily in recreational vehicles, in marine tanks and in high-dollar consumer discretionary items such as gas cans, in decorative planners and Home Goods. Just as in past quarters, we continue to offset the impact of these demand headwinds through our operational excellence and commercial excellence initiatives, what we call our self-help initiatives to drive performance improvements at Myers. We still have a long, multi-year runway of profit-improvement opportunities due to our self-help initiatives.

These improvements are largely within our control and we will continue to execute them through this year and beyond. One concrete example on the operational excellence side are the gains we've made in productivity, allowing us to streamline our asset footprint and take cost-out of the company. Due to running our plants in a more optimal fashion, we continue to on our new capacity, what we call the hidden

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factory. This enhanced productivity and new found capacity has allowed us to optimize our footprint and take cost out of the company.

An example of this is our recent move to consolidate 2 rotational molding facilities in Northern Indiana into a single facility. This move improves our efficiency and saves cost. Across-the-board, we're using our operational excellence focus to drive a more variable cost structure, reducing cost when demand is soft, but ensuring we are well-positioned to meet the demand when markets recover.

While we are serious about cutting costs, we're also serious about investing in-building critical capabilities that we need to improve our profit margins in Horizon 1 and execute our growth plans in Horizon 2 and 3. One example, we are investing to standardize and institutionalize our best practices by building out the Myers business system, which will allow company to scale faster, with fewer pitch points.

In an another example, we invested over $1 million this past quarter towards other building out our best-in-class M&A frameworks, tools and capabilities to help us acquire and integrate larger and more complicated companies. Both of these new capabilities, the business system and M&A will serve us well as we pursue meaningful acquisition opportunities. We are focused and disciplined in our approach to acquisitions, we have a world-class team, a strong balance sheet and are ready to act decisively on the right target. As we've said before, we won't get deal fever, we won't overpay, we are and we will continue to be disciplined in our M&A approach.

Now let's get to our results. Second quarter of 2023 was challenging, given the softness of some end-markets, but this quarter also demonstrated the resilience in our earnings and cash generation capabilities, driven in-part by our focus on our self-help actions and our disciplined execution in general and the consistent pursuit of our 3 Horizon strategy.

Fourth quarter, we had 8% growth in our Distribution segment, largely driven by the Mohawk acquisition. In our Material Handling segment, we experienced the softening demand across multiple end-markets, partially countered by the strategic actions we took, allowing us to expand our adjusted gross margin for the quarter by 90 basis points to 32.9%. While many of the end-markets in our Material Handling segment experienced lower demand due to the current macroenvironment, we continue to see many meaningful bright spots for the future. One example is our focus on the agriculture market, demand for our seed boxes continues to be strong and profitable.

Second opportunity is our effort to develop what we believe will be a large and lasting opportunity for our Scepter cases in military lightweighting projects around the world. A third example is our investment and focus to grow our e-commerce channel. We are investing in-building this capability and anticipate the gross sales-through this channel we'll approach $40 million in 2023, roughly doubling our e-commerce sales revenue from just 3 years ago.

In our Distribution segment, we made a change -- leadership change naming Jim Gurnee, our Vice President of Sales, Marketing and Commercial Excellence to also lead this segment. Over the past 3 years, Jim has done an excellent job advancing Myers' commercial capabilities. Jim's expertise leadership and ability to deliver on demonstrated results are precisely what's needed to take our Distribution segment performance to a higher-level.

Our recent EBITDA margins and distribution have been below my expectations and I'm confident that under Jim's leadership we will improve and expand our EBITDA margins in the near-term. Just as with Material Handling, we also have bright spots for the future of the Distribution segment. We have a bullish long-term view due expected growth for the tire industry, in-part driven by the growth of electric vehicles. I'm also bullish on the future of the Distribution segment due to the new leadership and the resulting impact on our reinvigorated, aligned and strong management team.

Now I'll pass the call to Grant to walk through our financial results for the quarter and expectations for full-year.

Grant E. Fitz
Executive VP & CFO

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Thank you, Mike. I want to take a moment to say how excited I am to be part of Myers Industries. Mike and his team have done a tremendous job positioning this business to reach new heights through the Myers business system. We have a strong platform here at Myers that is poised for growth across new end-markets, products and geographies over the coming years and I am honored to be part of that trajectory.

Please turn to Slide 4 for a summary of our second quarter results. Our second quarter net sales were down $24.7 million or 10.6% compared to the second quarter of 2022, primarily from lower sales in the Material Handling segment, largely due to reduced demand for RV and marine products, as well as softening in the consumer end-markets and the timing of seed box sales in Q2, which impacted the food and beverage end-market.

However, this decline was partially offset by incremental sales of $9.3 million from the Mohawk Rubber acquisition in our Distribution segment. On an organic basis, contributions from higher pricing in the Distribution segment were more than offset by lower volumes in both Distribution and Material Handling segments. Our quarterly adjusted profit decreased $6.1 million or 8.2% as the contributions from lower raw-material costs and the Mohawk Rubber acquisition were not enough to offset lower sales volumes.

Adjusted gross profit -- gross margin for the quarter increased 90 basis points to 32.9% compared with 32% in the second quarter 2022. Second quarter adjusted operating income decreased $4.6 million or 19.4% compared to the prior year, as a result of lower gross profit. After removing adjusting items, SG&A expenses were down $1.7 million year-over-year as a percentage of sales and as a percentage of sales increased to 23.8% compared with 22% in the same period last year.

Included in the Q2 SG&A expense is $1.3 million of M&A consulting to strengthen Myers acquisition capabilities, as we move into larger potential acquisitions in Horizon 2. Adjusted EBITDA was $24.7 million in the second quarter, a decrease of $4.2 million or 14.4% compared to the prior period. Adjusted EBITDA margin decreased 50 basis points to 11.9% for the second quarter compared with 12.4% in the same period last year. Lastly, adjusted EPS was $0.35 compared to $0.45 in the same period last year. EBITDA adjustments include environmental charge through remediation, investigation, acquisition integration cost and other restructuring cost actions.

Next, please turn to Slide 5 for an overview of our segment performance for the second quarter. For the Material Handling segment, net sales decreased $29.8 million or 17.2% compared to the prior year. This decrease was the result of lower sales in the consumer vehicle and industrial end-markets and timing of the food and beverage end-market sales. Declines in the RV and marine markets significantly impacted the Material Handling segment revenue, as well as overall softening of consumer spending in our markets and timing of agricultural orders.

Material Handling adjusted EBITDA decreased $2.7 million or 8.2% to $29.9 million. Lower sales volume and unfavorable pricing more than offset lower raw-material costs and favorable sales mix. Net sales for the Distribution segment increased $5.1 million or 8.5% year-over-year. Excluding the incremental $9.3 million of net sales from the Mohawk Rubber acquisition, organic net sales decreased 6.9%.

Distribution's adjusted EBITDA decreased $0.2 million or 3.7% to $4.7 million, primarily due to an increase in product costs and higher SG&A expenses year-over-year. SG&A expenses were higher year-over-year, primarily as a result of the Mohawk Rubber acquisition. The Distribution segment continues to integrate Mohawk Rubber and we are implementing new cost initiatives and further strategic pricing actions to kind of cost inflation and drive margin expansion.

Turning to Slide 6, free cash-flow for the second quarter of 2023 was $16.7 million compared to $21.1 million for the second quarter of 2022. The decrease in cash-flow versus the prior year was primarily the result of lower earnings. Working capital as a percentage of net sales decreased 70 basis points compared to the same period last year due to a continued focus by the team and working capital improvements.

On a sequential basis, working capital as a percent of net sales were flat. Capital expenditures for the second quarter of 2023 were $6.1 million and cash on hand at quarter end totaled $30.7 million. Our

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balance sheet remained strong and continues to support our growth runway with a debt-to-adjusted EBITDA of 0.9 times.

Now please turn to Slide 7 for an update on our outlook for the fiscal year 2023. Given the macro challenges that we've seen across our various end-markets, we elected to lower our top-line guidance to a decline in the mid-single digit range. However, with a proven ability to mitigate the impact of unfavorable market conditions, our profitability guidance for the year of net income per diluted share is in the range of $1.41 to $1.73 and we are reiterating our adjusted earnings per diluted share in the range of $1.55 to $1.85.

If current market conditions continue it's more likely that we will be closer to the lower end of the adjusted EPS range. We continue to retain a strong balance sheet, which is supported by consistent free cash generation. For the full-year, we expect capital expenditures to be in the range of $25 million to $30 million and an effective tax rate of approximately 25%.

Before I turn the call over to Mike for an update on our strategy, I'd like to extend my gratitude to the entire Myers team for their warm welcome and continued hard work during the quarter. I am very excited about where Myers is headed and I am pleased to be part of the effort to transform this company into a world-class organization. Mike?

Michael P. McGaugh
President, CEO & Director

Thank you, Grant. Please turn to Slide 8. We have consistency in our direction and in our purpose. I outlined our long-term vision 3 years ago. This multiyear road map is simple, clear and consistent and we continue to execute against it. I have confidence in our direction, in our company and in the shareholder value that this strategy delivers. Through Horizon 1, we have built a solid foundation of talent, operational capability and commercial excellence and in Horizon 2, we will build on that foundation as we transform Myers.

Please turn to Slide 9, which outlines the 4 strategic pillars that provide the framework of our strategy. We use these 4 pillars to guide the tactics and work plans that drive the transformation of our company. I'll spend a few minutes walking through our progress of each pillar on Slide 10. First, organic growth remains a crucial element in Myers transformation into a high-performing, high-growth company. We continue to make investments to further strengthen our commercial capabilities, preparing Myers for an accelerated return to strong organic growth as end market demand recovers.

Specific investments include continued third-party assessments and training for our sales team, as well as training and education on target account planning, market planning and value-based pricing for our commercial and marketing teams. We can sustain our investment in these critical capabilities due to the fact that our end markets and products are relatively diversified, providing us consistent cash flow and an ability to invest in ourselves.

As I mentioned earlier, we're capitalizing on favorable trends in both our Material Handling and Distribution segments that we believe will stimulate future organic growth. As an example, in our Material Handling segment, we are pursuing innovative growth projects like our lightweighting efforts for the military. We also expect positive impact in our distribution segment as a result of electric vehicle mandates because heavier EVs where tires down at an accelerated pace compared to traditional internal combustion vehicles. We expect both of these trends to be meaningful medium to longer-term tailwinds for Myers.

Before I leave organic growth, I do want to highlight that we're celebrating our recent significant target account win in the distribution segment, landing a new nationwide customer that will bring significant revenue to the segment.

Now moving on to the strategic M&A pillar. In second quarter, we worked with outside advisers to strengthen Myer's processes and capabilities and target assessment, due diligence and integration planning. We spent significant time and effort building and organizing our capabilities so that as we identify and pursue larger acquisition opportunities, we're well positioned to capture those opportunities and deliver meaningful cost and growth synergies.

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Our M&A playbook has been sufficient from previous Horizon 1 bolt-on deals and we're now well prepared to tackle larger Horizon 2 and 3 acquisitions. One word on M&A, we've seen strong deal flow over the past several months and many opportunities have been well aligned with our strategic screens. We've been disciplined in our assessment of potential synergies and valuation. In general, we see that financial performance of many businesses has been impacted by the recent economic environment. However, sellers projections of future performance are still quite optimistic, creating a disconnect in valuation expectations.

We feel we're in a good position as it relates to M&A and we have a strong balance sheet, a clear and consistent strategy and screening criteria and we are prepared to act decisively once we are confident that a transaction will create significant value for Myers shareholders.

Now moving on to the operational excellence pillar. We continue to focus on deploying better processes and purchasing in supply chain and in product and asset management. In past calls, I've spoken to the improvements we are realizing through a more centralized structured approach to purchasing.

On the supply chain and asset management side, I've spoken about the hidden factory of new and uncovered capacity that we are realizing by better operating and scheduling our plants. All of these are lowering our cost. The recent streamlining of our asset footprint that I highlighted earlier in this call is an example of obtaining lower cost through operational excellence. In spite of inconsistent end-market demand, we're confident that we continue to have the significant multi-year runway to deliver earnings per share gains through productivity and operational excellence. What's exciting is that these gains are largely within our control and will continue to provide EBITDA improvements year-over-year.

As I mentioned in the past two quarterly earnings calls, we continue to use the years 2023 and 2024 to institutionalize the progress we've made at Myers. We're doing this by creating a business system. The Myers business system is driving standard work and standard processes to ensure that our gains over the past 3 years are lasting and a part of Myer's DNA.

In the second quarter, we've invested time and financial resources to further build [VMBS]. We believe the Myers Business System is critical to transforming our company in ensuring that the improvements we have made in Horizon 1 are sustainable and scalable in Horizon 2 and 3.

Turning to the fourth pillar, our high-performing culture. In the second quarter, we strengthened our executive team with the hiring of Grant, as well as the decision to have Jim Gurnee lead the Distribution segment. With these 2 moves, I'm convinced we now have the strongest and most streamlined leadership team in my tenure at Myers. With this team, we are very well prepared to create significant shareholder value as we drive Myers into the future.

Our strategy of targeting and recruiting large-cap talent from strong industrial firms continues to be in place. This model has been a key ingredient of Myers transformation and progress so far and we plan to stick with it. While our ability to recruit talent to our company is a key strength, it's also important to note that we are building our bench strength by developing our next generation of leaders internally through new assignments, stretch assignments and new roles.

This type and level of talent development we are doing at Myers is more akin to the programs found in much larger companies. Yes, there's a cost to this investment and we're making it because the development of our bench is critical in order for us to deliver our growth aspirations over the next 5 to 6 years.

To conclude, I'm excited for Myers in our future. I'm proud of the results of our self-help initiatives and the progress on our long-term strategy. I'm confident in the structure and capabilities we are building both in M&A and in the Myers Business System. I remain committed to the disciplined approach in which we are investigating, vetting and evaluating prospective acquisitions. I continue to believe that for our team being a part of Myers is the opportunity of a lifetime and I continue to believe this opportunity will translate into attractive shareholder returns. Thank you for your continued interest and support in Myers Industries. With that, I'll turn the call over to the operator for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Jonnathan Navarrete of Cowen.

Jonnathan A. Navarrete
TD Cowen, Research Division

Jonnathan on for Lance. My first question is, it's very exciting, can you discuss the opportunity in electrical vehicles? And are there any big contracts for us to be aware of and see the benefits in, let's say, the second half of '23 or would this be more of a 2024 story?

Grant E. Fitz
Executive VP & CFO

This is Grant. Just let me walk through this a little bit. So first of all, I spent a fair amount of my career in the automotive industry, so -- and it was actually also on a public company Board for a electric charging company. So I spent a little bit of time in this space. What we see overall is that with the tire industry right now, that's expected to grow anywhere from 3% to 4% to 5% on which outlook you look at. Embedded within that is the electric growth for vehicle or vehicle -- electric vehicle growth, excuse me. And part of that is, as Mike mentioned, is electric vehicles, they tend to wear out the tires much faster. They are essentially -- we're out about 20% faster than what conventional internal combustion engine vehicles do.

It's really driven by two things, one is just the heavier weight of the vehicles causes more wear and additionally, there tends to be more torque that electric vehicles have, particularly front-end torque which can also drive down the increase where the vehicles. So we see that as a real tailwind as electric vehicles continue to be expand in the overall vehicle market.

And so with that, I would say that this bodes very well for our distribution business because it does -- as vehicles were out, there certainly will be more and more focus on what they can do to repair, replace and replenish tires in the industry. As far as additional opportunities, we really see it as an overall trend for the entire market that we'll basically be able to benefit from.

And so from that standpoint, we feel very good about our distribution segment and just where it's going from a market and our ability to capture that with some of the additional discipline that Jim Gurnee brought in as the new leader for our operations.

Jonnathan A. Navarrete
TD Cowen, Research Division

Moving on just to the end markets. Obviously, the second quarter, there were some softness in some key areas and I'm wondering as of what you have seen so far in a month in the third quarter, right? Have you seen operating conditions improve in any particular end market? And do you see a trend where some of the soft market in the second quarter are going to pick up perhaps sometimes during the middle of the third quarter or into the fourth quarter?

Michael P. McGaugh
President, CEO & Director

This is Mike. So it's a bit of a mixed bag -- a bit of a mixed bag. We do see some weakness on the wholesale side of RVs and that was a nice market for our company. We do see continued strong sales in the back half of the year for the seed boxes, which is in the food and beverage end market. The Industrial is still going to be soft. There's going to be some softness there. And on the Consumer side, right now, we're tracking a bit behind on the sale of some of our consumer products, most notably fuel containers or gas cans. It's our current expectation that we'll have an average year on hurricane. There may be some upside there, given some recent forecasts we may end up with an above-average hurricane season from an activity standpoint.

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But net-net, the next 6 months, you're going to continue to see softer demand for the storage handling products that we make in Material Handling on average.

Grant E. Fitz
Executive VP & CFO

I would just add as well too, Jonnathan, that we do see, as Mike mentioned, we do have a larger industrial customer for our distribution business that we've been able to secure that contract. So that will provide some upside revenue for the distribution business that we've also reflected that in our range. And then overall, the momentum that we continue to grow with the e-commerce business is something that is very positive for us. And certainly, the military that we talked about in the past provide some good opportunities and how quickly that will ramp is still a TBD, but we certainly see some upside opportunity there as well.

Michael P. McGaugh
President, CEO & Director

Yeah, that's correct.

Jonnathan A. Navarrete
TD Cowen, Research Division

And my last one is with the revenue guidance now going a little bit lower than before, but you still have the ability to maintain some key profitability metrics, right? So I'm wondering, should the need arise, what other key cost levers if you will does the company have that they can poach should they need to -- in order to maintain this type of profitability guidance?

Michael P. McGaugh
President, CEO & Director

Yeah, there's some opportunity to continue to drive procurement savings as we've standardized that department and we've had some gains there. So on the raw material side, we expect to continue to have some runway. We also on SG&A continued rationalization of SG&A and cost out to be sure we have the right size of structure given the demand that we face in the short to medium-term, so some SG&A savings.

Then ultimately, there's some additional cost savings as we evaluate the opportunity to consolidate manufacturing facilities. As I've mentioned before, the advantages in some of our businesses we have actually quite a extensive grid in production locations, but we brought in a lot of training capability on sales and operations planning. We're scheduling and optimizing and running our plants better. We actually have more capacity, I talk about the hidden factory. What that's allowing us to do is to keep our output and capacity flat, but actually combine select assets and footprint to take cost out there.

So there's probably going to be some additional cost on asset consolidation without meaningfully impacting our capacity. We're really sensitive to that, I mean we believe all these markets will turn. We're seeing some green shoots in select end markets and so we want to be sure that we don't throttle down our capacity too much and overreact because we believe we've got great products, we have great brands. We have leading positions in all of our niche end markets and so we want to be sure that we're ready to go when these things turn back.

Grant, any additional points?

Grant E. Fitz
Executive VP & CFO

And I think you covered it well. One thing I would just add is, from my side coming in new to Myers, certainly one of the things that really attracted me is the Myers business system. And I think embedded in that is just this whole culture of continuous improvement and driving out waste in the organization and that resonates very well with just kind of the background that I have of really strong execution on initiatives. And so I would say that although we have certain ones we're working on, I would see us

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continuing to work those from new initiatives and opportunities on an ongoing basis, it's just part of our standard DNA for the company.

Operator

Our next question comes from Steve Barger of KeyCorp (sic) [KeyBanc].

Unknown Analyst

This is actually [Christian Dylan] on for Steve Barger. [indiscernible] Can you just talk about the contribution from -- good morning. Can you just talk about the contribution from volume and price in the quarter? I know you've had a couple of price increases this year and last year, with the raws coming down a bit despite labor and other costs staying elevated, do you see more price increases in the near future?

Michael P. McGaugh
President, CEO & Director

So on the distribution side, our product cost rose. Now we capture some of that with price in select markets and in select products. We probably would need to go after and hit it again on the distribution side. And then in select -- some of our niche products where we have the need and have the ability to price our products for the value they create or to price our products for the high service levels we provide. As we have that opportunity for sure, that's an area of focus that I brought to the company is a more aggressive approach to raising price. And so yes, the increases are on the table. We're trying to thread the needle whilst we manage volume.

Unknown Analyst

And then last quarter, you talked about new business wins. Can you just elaborate on those business plans a little bit? What part of the business were those in? And is that predominantly new customers or a larger wallet share of your existing customer base?

Michael P. McGaugh
President, CEO & Director

Yeah and so what we'll do is we'll kind of tag team this year. I'll address it from my perspective, but I also would like Grant to speak to it again, just given -- he has fresh set of eyes here. On the distribution side, that's one that's really compelling. In our space, we're the largest by a factor of 3 or 4 and our ability to serve, given our warehouse footprint post Mohawk is, it's very good, it exceeds our competitors. And so what we're finding is that the customer base for tire service centers consolidates, a lot of independents are being acquired by some of the nationwide chains. Those nationwide chains want to deal with a supplier who can match their needs from a supply standpoint.

Myers is in a very good position with that. So we actually just received confirmation in the tailwind -- first quarter moving into second quarter that we won one of the largest tire supply stores, their nationwide business, given our supply capabilities, that's ramping. It's going to ramp through the balance of this year because of the complexity of it. But that last mile in providing all the tire service components, the TPMS sensors, the patches, the valves and even some of the equipment that we provide in the way that we can do it and the service levels we have, it's valuable to these tire service centers.

And so we won a piece of business there we're excited about. And I think that that's part of a trend, well, as I mentioned, over the next 2 to 3 years not only do you have EVs that are tuning up tires and they're going to drive some business there. But also you're having consolidation in the customer base on the tire service centers, we too are consolidating and we have the best ability, the greatest ability to serve those at a professional level. So that's one.

Another area is, we continue with incremental line extensions for our various containers and boxes. The line extensions are more geared towards customer need and customer request. I've said before and I want to do new, new and just invent for the purpose of indenting. But if a customer comes to us with a product that they need, we are actually pretty good at being able to invent those and deliver against it. That's -- you don't see that in the volume because that's offsetting so much of the weakness in RV, in marine and

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then even in consumer. We continue to see where the customer -- because their wallet is being used up to buy necessities, they have less ability to buy a discretionary, even a gas can that's up in price or planters, mailbox sheets, home goods that we sell.

So we actually are doing incremental innovation, continuing to drive growth, it's masked right now because of the downturn in some of these other markets. What we are excited about is, we've been active in military for the last 10 to 15 years, selling governments and militaries outside of the United States, with the rearmament that's been catalyzed by the Ukrainian conflict, worldwide militaries are rearming and we have a very good product that's been now approved and qualified for the U.S. and there's a significant need there on the artillery shell casing, so that's been discussed publicly.

We believe that, that will be a tailwind for us for many years and we believe it will be a sizable tailwind for us. So it's actually exciting. It actually helps offset some of the long-term weakness that you may have in gas kits as electrification takes root. We believe that military will more than cover that and we're excited about it.

Grant?

Grant E. Fitz
Executive VP & CFO

Yes, nothing really quantitative just to add to what Mike said, but the one thing that really struck me is learning the business is when we have customers in the distribution segment, they've basically said we're coming back to Myers because of the fact that we try to do some of this work ourselves. And you just -- we just can't do it to the same level of quality and service that you provide. And so I think that just really bodes well for the opportunities that we have in the distribution segment.

And then just to add, also the building momentum on the e-commerce, although it may not be one specific customer. We continue to have good traction and I've spent a fair amount of time with that team just really stress testing and really been impressed with their strategy and approach on that. And I think that really should provide future opportunities for us as well.

Unknown Analyst

Very exciting business ones out there. Switching gears a little bit, if I take your first half sales and run rate then for the year, I get about $850 million seems to match your -- what your updated guidance indicates. If I connect that to your Horizon 1 and upcoming Horizon 2 plans, how should we think about that $1 billion Horizon 1 sales target that you guys laid out? I know that excludes M&A, but do you think that target is achievable in '24? Or is that a '25 or somewhere down the line, I'm not...

Michael P. McGaugh
President, CEO & Director

Yeah, I think we're basically, let's say, year behind, that's a fair question. I laid out those targets in the summer of 2020 in the midst of COVID and they were directional, but I felt like they were correct. I still feel that they're correct. We've had some downturns the RV downturn in some of the marine tanks that downturn has been meaningful in terms of revenue and then also some of the -- just the softness in consumer.

Now again, we are backfilling that with military, backfilling with e-commerce, backfilling with distribution. But I think directionally to look at it and say, hey, it's a year behind schedule due to some recessionary conditions in the end markets in which we participate, I think it's probably a reasonable way to think about it.

On the EBITDA percent and the EBITDA quality, those numbers are still obtainable. Again, when we lose some revenue, we lose some volume, at our scale, it's a little harder to bridge that gap. But as far as the -- a directional number on where we -- what we believe the company can do on a quality standpoint, it's still there. Again, maybe that's delayed a year. But I'm still confident that this company and these businesses should be able to obtain that quality.

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So, Grant?

Grant E. Fitz
Executive VP & CFO

Yes, just -- looking at it right now and I've been in companies before that have set revenue targets and that became the ultimatum to try and hit those revenue numbers. I think what's different at Myers is the team is very disciplined and that they're not going to deteriorate the earnings capability or the cash generation capability within the business. And so I feel that the building blocks are certainly there. We strengthened our M&A process quite a bit with the second quarter work that we had with our consulting on really getting ready for Horizon 2. And having spent a fair amount of time in the M&A space, I really think that the team is in a good position for this.

But as Mike said, we will work that process with the M&A, but we're going to be very disciplined and we are not going to overpay and we really want to look to create value for the shareholders. So -- as maybe it is off a year, but I don't think those are -- I would not view that as necessarily been a bad situation, I think it's really point of the discipline that Myers follows. And that with that, I think we've got a process that can continue to drive growth for the business.

Michael P. McGaugh
President, CEO & Director

Yeah, I'm sure you guys are seeing this. It's a tough environment in M&A right now. We're seeing targets that we like, just the value expectations are still too high versus what we think the asset should bear. So we're going to build our capability, we're going to refine our strains, we're going to build our team. We're going to be ready to execute, but it's just -- we're going to make a decision when it's the right decision for Myer shareholders. And so we're not going to rush that and I think ultimately for the long-term those are the right decisions as it relates to acquisitions.

Unknown Analyst

And then just on supply chain, can you just talk about the current supply chain landscape and if and where you see ongoing pressures. I know you guys have been active in really contributing on the self-help initiatives in optimizing that supply chain and production, but what are some of the areas you guys are focusing on to continue driving some of those efficiencies?

Michael P. McGaugh
President, CEO & Director

Yeah, that's great. I've talked about this in the past. It's -- we call it the salt model, SALT, standardized aggregate leverage titrate and it's a model I've used in many of our team and procurement have used for two, three decades. And it's a consistent and relentless focus to standardize the grades of the products that you use, aggregate the buy into a single contract, go to the market and qualify as many suppliers as you can. This sounds really simple, but the companies I've advised, companies I've been at most of the time it's not done with as aggressively or relentlessly as it needs to be done. And so there's always value there. And then what you do after you standardize your buy, you aggregate your buy, you really do and you qualify additional suppliers most -- in most of our categories, we have dramatically increased the number of available suppliers, most of the time we've doubled it, maybe more.

And so then you go out and you leverage the base, you leverage the supply base and then you titrate it. You work for that last penny. And ultimately, all those procurement savings just drop to the bottom line. We think that on the polyethylene side, there's actually some looseness in the market to get some additional capacity in North America has come on. And we think that, that -- given our SALT model, we actually feel there's going to be some good value for our company in those pounds and translating into lower price.

Now on the all the other cats and dogs that we buy, whether it's office supplies or software or fittings or closures or caps, it's the same thing, standardize aggregate leverage titrate. We don't see any restrictions -- severe restrictions on supply chain. There may be an odd or an in there that's limited. In the pandemic,

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if you recall, we actually were worried because we did have some Asian supply lines that we were concerned about. So we loaded up on some inventory in our MTS business. That really isn't an issue anymore right now.

So again, what we're doing right now on the Distribution side is actually working down inventory, freeing up working capital because when we did the combination between Mohawk and MTS, we wanted to preserve our service levels and so we went rich on inventory. Now that we're a year into that, we're actually bleeding that down and releasing some working capital from inventory on that side. So hopefully that's what you're seeking, but relentless, relentless focus on raw material procurement. And then on the specific S&OP model, we're bringing in -- that's that big company expertise. We've got a lot of big company veterans in our planning roles, in our scheduling roles, in our asset management roles and that's where just running these plants better, scheduling them better, bringing in better software, better solutions.

We're able to increase our nameplate capacity now I've said directionally by a 1/3 with limited CapEx. And so that's why I'm bullish even in choppy end markets, I'm bullish over the next year or 2 or 3 the EPS that we can create, the EBITDA we can create by just running the company better with all these components I've just mentioned.

Unknown Analyst

Last question for me. I know you guys focus more on the aftermarket tire segment, but one of the big tire OEMs came out very recently, pretty big commercial and replacement tire volume drop with signaled inventory destocking looks to be complete. Can you just help us connect your comments with those reported volumes and just with your updated optimism on the tire market dynamics?

Grant E. Fitz
Executive VP & CFO

Yeah, again, just coming from the auto industry, you have to really separate it into what I would say our short-term adjustments in inventories versus the long-term growth trajectories. And so you can see within quarter-over-quarter, there could be some pluses and minuses within the tire industry. And certainly, I think in general, with the entire auto industry, there is some just some focus on some companies that are certainly building up more vehicle inventory.

I would suspect similar to what Mike said on the supply chain issues that the tire industry had built up some additional inventory just for the -- to manage through any supply chain prices. But I don't think that really changes my point of view of seeing the tire industry on a long-term growth trajectory as we look at the future. And I think most analysts would support that and what they see with the overall tire growth on both the national as well as global basis.

And certainly without question, at some point, as more momentum comes into play with the electric vehicles I mean it's just will be a physics question that there's going to be more use, more [indiscernible] into our tires that's going to drive more tire volume. So I think it's -- in my view, I think it's more of some adjustments that are done in the short-term versus a longer-term view.

Operator

With that, we have no further questions on the line. So I'll hand back to the team for any closing remarks.

Grant E. Fitz
Executive VP & CFO

Thank you, everyone. It's -- for my first call here, it's been very good to meet all of you and look forward to many future calls coming up here. And I think with that, we can conclude our Q2 earnings call for Myers Industries.

Operator
This concludes today's call. Thank you for joining. You may now disconnect your lines.

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