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Earnings Call

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Call Participants

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Presentation

Operator

Good morning. Thank you for joining today's Myers 2025 Second Quarter Earnings Results Call. My name is Makhaye, and I will be the moderator for today's call.

[Operator Instructions]

At this time, I would like to pass the call over to our host, Meghan Beringer. Meghan, you may begin today's call.

Meghan Beringer
Senior Director of Investor Relations

Thank you. Good morning, everyone, and welcome to Myers Second Quarter 2025 Earnings Review. Joining me today are Aaron Schapper, President and Chief Executive Officer; and Dan Hoehn, Vice President, Corporate Controller and Interim Chief Financial Officer.

After the prepared remarks, we will host a question-and-answer session. Earlier this morning, we issued a press release outlining our second 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.

Please turn to Slide our 5 of our presentation as I will now 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 review of our second quarter, then I will provide an update on Focused Transformation, including announcements to accelerate our progress that we published this morning in our press release. Following my comment, Dan will provide a detailed review of second quarter financials and our outlook for the year.

Second quarter review was lower year-over-year.

We achieved strong growth in certain applications, notably in industrial, where demand for our military products remain healthy. However, we did encounter demand headwinds in most other end markets, primarily in vehicle and automotive aftermarket, resulting in lower sales across both segments. As Dan will detail in a few moments, we believe some of the softness is timing related. Our outlook for the second half of the year is positive, backed by our substantial backlog, primarily in industrial markets, especially military as well as infrastructure projects. We remain encouraged by the longer-term trends within our markets.

We demonstrated progress against our goal to reduce SG&A, bringing those expenses down year-over-year and keeping us on pace to achieve our targeted $20 million cost reduction, primarily SG&A by the end of this year. For the quarter, we earned $0.26 per share. Adjusted EPS was $0.31. I'm pleased with

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the way our team has navigated challenging end market environments and remain confident that we are on track to improve performance.

Turning to Slide 6. I would like to provide an update on our Focused Transformation program. We introduced this initiative earlier this year to improve our performance and deliver more consistent and reliable results. Today, we announced 3 actions that we believe will accelerate our transformation and bring us closer to obtaining our goals. I would like to discuss each of these.

First, our Board of Directors has approved launching a strategic review of our Myers Tire Supply business that serves automotive aftermarket. The history of our company cannot be told without Myers Tire Supply business. MTS is where the company began here in Akron, where we are headquartered. It is a business with strong market position, leading brand with loyal customers and great people. However, as we move forward with our Focused Transformation and create a portfolio of businesses that align with our mission of protecting assets from the ground up and provide us with the opportunity to apply our competitive advantages for high-return applications, we have determined that this business may achieve greater success under different ownership where it can benefit from focused investment.

One of our Focused Transformation objectives is to create clear strategies to improve the profitability of our overall portfolio. The strategic review process we are launching will enable us to achieve this as well as simplify and focus our portfolio on core businesses that align with our mission. The second update we are providing today is the consolidation of our rotational molding production capacity. We have reviewed our operating footprint and decided that we will idle 2 of our 9 rotational molding facilities, better utilizing our operating assets. These actions will result in annual savings of at least $3 million. Production from these facilities will be consolidated into other facilities as needed.

Lastly, we are on track to deliver $20 million in cost savings, primarily SG&A by the end of 2025. With the manufacturing consolidation, we have line of sight to $18 million, well on our way to our $20 million goal. With 6 months left, we feel confident in achieving this full year target.

With those 3 announcements as a backdrop, let us turn to Slide 7 and review the 4 objectives of our Focused Transformation program and summarize our progress. We start with establishing a culture of execution and accountability to drive performance. Across the organization, we are emphasizing lean principles to drive clear, efficient processes. We are already seeing positive impacts from this focus as the team creates and rallies behind action plans that get us back on track to prioritize work that adds profit.

This leads us to our second objective to create clear strategies with action plans and specific KPIs to improve the profitability of our entire portfolio. A significant step in meeting this objective is the MTS strategic review. Completing this will enable us to devote more resources and effort to driving performance in the remaining businesses and target our investments to high-growth markets aligned with our competitive advantages.

Our third objective is to deliver consistent and reliable results by effectively controlling what we can control. I already discussed our path to achieving the $20 million target with the majority of savings driven by organizational and footprint consolidation, followed by a reduction in outside services. The team is doing a great job of controlling costs, and I'm confident will help us significantly improve our margin profile.

Our fourth and final objective is to optimize cash flow and support disciplined capital allocation deployment. We are proud to report strong free cash flow generation of $25 million in the quarter. This allows us to continue investing in organic growth with CapEx of around 3% of sales and focusing on high-growth opportunities that deliver superior returns. We also continue to ensure our balance sheet is strong with repayment of debt. We have established a good foundation with our disciplined and balanced capital allocation approach that we can build on to enhance shareholder value into the future.

I am pleased with the progress we are making against our Focused Transformation objectives and confident in our team's ability to deliver improved financial results from the changes we are making.

Turning to Slide 8. We have made significant progress over the first 6 months of 2025. It is clear that 2025 is a year of Focused Transformation, one that began with building a strong foundation of corporate

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culture that drives high performance through execution and accountability. On top of this, we added financial discipline with $20 million in cost savings and $10 million share buyback program. With today's announcements, we have made a large significant step to simplify and focus our portfolio with the MTS strategic review. We are also rationalizing our operations with the consolidation of rotational molding production.

Looking forward, we anticipate sharing more details with you before the end of 2025 on our updated strategy, including our platforms for growth, competitive advantages to differentiate Myers, strength aligned to our high-performing assets and value creation for our shareholders. This is an exciting time to be associated with Myers, and I'm excited to see what we'll be able to accomplish.

With that, I will turn the call over to Dan to discuss our second quarter results and updated market outlook. Dan?

Daniel W. Hoehn
Interim CFO, VP & Corporate Controller

Thank you, Aaron, and good morning, everyone. Turning to our financial results on Slide 10. Second quarter net sales were $209.6 million, down 4.8% from last year. Revenue was lower in both segments. Strong sales of our military products and our industrial end market were offset by lower sales in vehicle and automotive aftermarket. We remain confident in second half growth based on our strong backlog for both military products in the industrial end market and for infrastructure products, along with continuing positive customer bookings.

The adjusted gross margin fell 220 basis points to 33.9% due to the lower volume, product sales mix and lower pricing, primarily in the Distribution segment. Adjusted operating income decreased to $22.8 million, with margin compressing 220 basis points to 10.9% of sales. We reduced adjusted SG&A expenses 5%, keeping them essentially flat as a percentage of sales as we are beginning to see results from our Focused Transformation initiatives. As these actions continue to be completed, plus the expected benefit from the strategic moves that Aaron mentioned earlier, SG&A will continue to decrease through the balance of the year.

When 2024 is normalized for incentive compensation and to include a full year of Signature results, we have taken actions to achieve $15 million of run rate savings as of June. The production consolidation we announced today will bring us to $18 million, and we have a pipeline of opportunities to achieve the full $20 million of run rate savings by the end of the year. To date, savings have primarily come from reduced workforce, most of which was implemented at the end of the second quarter, reductions in spend on outside services and reduced operating footprint.

In connection with idling 2 of our 9 rotational molding operating facilities, we expect costs of up to $14 million, including approximately $1 million of cash costs, approximately $4 million of noncash write-downs and additional expected costs related to long-term facility leases. Adjusted EBITDA margin was 15.7% and diluted adjusted earnings per share were $0.31.

Turning to Slide 11. Material Handling net sales were down 4.4% as strong sales of military products in our industrial end market were offset by lower volume in vehicle and other end markets. Within vehicle, we saw lower demand from heavy truck and auto manufacturers, while RV and marine remained flat. Within food and beverage, the cyclically low seed box demand continued, but we expect that demand to improve in the second half. In addition, project timing and tariff-driven order delays impacted the infrastructure end market during the quarter.

Material Handling adjusted EBITDA margin was 23.9%, slightly lower than last year, primarily due to lower volumes and to a lesser extent, pricing. Distribution net sales decreased 6% on lower pricing and also lower volume from our Patch Rubber business. Adjusted EBITDA margin was 4.8%. We are beginning to see market stabilization and the positive impact of actions we took in 2024 to reduce expense and improve margins, including distribution center consolidation.

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As a reminder, our Distribution segment includes Myers Tire Supply, which had trailing 12-month sales of $189 million as of June and Patch Rubber, which had trailing 12-month sales of $26 million, including intercompany sales.

Turning to Slide 12. Operating cash flow was $28.3 million. This is an improvement of $18.2 million sequentially and $14 million from the prior year on improved cash generation from working capital. CapEx was $3.6 million, which was slightly lower than the prior year. This resulted in free cash flow of $24.7 million in the quarter, up $22.7 million sequentially and up $14.8 million from the prior year. At June 30, we had $239.7 million of availability under our revolving credit facility and cash on hand of $41.3 million, providing us with additional flexibility to support our capital allocation priorities.

Please turn to Slide 13. We reduced debt by $13 million in the second quarter, bringing total debt to $379 million. Our net leverage ratio was 2.8x. We remain committed to achieving our target ratio of 1.5x to 2.5x. We repurchased $0.5 million in shares during the quarter, bringing total year-to-date repurchases to $1.5 million. This leaves $8.5 million available under our current authorization. We plan to continue making opportunistic share repurchases to complement our ongoing dividends as part of our capital allocation strategy to return cash to shareholders.

Turning to Slide 14. We are reconfirming our market outlook for 2025 that was provided during our first quarter earnings call. We still see both risks and opportunities for the businesses, and we'll continue to monitor end market 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 now expect sales of our military products to exceed $40 million for the full year of 2025. We expect sales growth to be partially offset by lower sales of bulk container and organizational products.

In infrastructure, ongoing strong project spending supported by material conversion from wood matting should continue to support strong growth. This is reinforced by our strong backlog for these infrastructure products, along with an expanding customer base with new customers contributing over 20% of revenue so far this year, a pace ahead of what we saw in 2024.

We expect the vehicle end market to be down as a result of economic uncertainty driven by developing tariff impacts. This end market includes RV, marine, heavy truck and automotive manufacturing customers.

In consumer, we anticipate stable sales of fuel containers and an expected return to a more normalized storm season. As a reminder, hurricane-driven sales are largely dependent on the location and preparation time for approaching storms.

Our food and beverage end market, which includes agriculture, is projected to be stable for the full year. While there have been headwinds with some of our food processing customers, we are currently expecting second half improvement with our agricultural customers led by seed boxes.

Automotive aftermarket distribution is expected to be slightly down. We are working to stabilize this business as we improve our cost structure, pricing, sales territory alignment and digital sales strategy. We will continue to look for opportunities to expand our market presence and deliver solutions to our customers. At the same time, we expect financial results to improve as we make progress on our focused transformation.

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, Dan. We've made significant progress over the first 6 months of our Focused Transformation journey. The pace of our progress accelerated with today's announcements regarding the strategic review

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of MTS, rotational molding production capacity consolidation and confirmation of achieving our cost reduction goals. While these actions will not complete our transformation, they bring us much closer to our goals.

With strong support and leadership from our Board of Directors, we are clarifying our mission and laying a solid foundation upon which we are building our long-term strategy. I'm very pleased with our progress and more confident on our journey towards success.
With that, I'd like to turn the call over to the operator for questions.

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Question and Answer

Operator

[Operator Instructions]

The first question is from the line of Christian Zyla with KeyCorp.

Christian Zyla
KeyBanc Capital Markets Inc., Research Division

Very exciting news in today. Aaron, you launched Focused Transformation a couple of quarters ago, and it's clear you really meant it. Just first question, was there a final straw that broke the camel's back that got you to this point? Or was it a culmination of what you're seeing in your business and the market? Just any overall thoughts of the process of how you got here.

Aaron M. Schapper
President, CEO & Director

Yes. So this -- the MTS piece has been -- it's been an internal topic of discussion for some time. So coming in here, I grew up in manufacturing, manufacturing in my background, but I really knew kind of the agriculture and more of the infrastructure businesses. And so with my move to Myers, I really felt the need to take some time to learn the auto industry, and that primarily meant gathering data, gathering inputs and opinions from people that knew the business, knew it better than I did and to make sure that I spent time meeting with customers, meeting with stakeholders and meeting with our Board and just gathering all the data needed for the decision to do the strategic review for MTS. And so the first 6 months was really just to take the proper time to do the evaluation, Christian.

Christian Zyla
KeyBanc Capital Markets Inc., Research Division

Got it. Understood. Again, exciting news regardless of what happens. It's good to see actual changes being talked about and coming to fruition. I guess next question is just on the backlog. This is probably one of the first times we've heard you guys talking about a backlog, and it's very encouraging to see the soft guidance for 3Q sales. How big is the backlog relative to sales? And how much visibility does that give you? Is that backlog primarily Signature related? Or have you seen order patterns changing? Or is there something different that's being changed with customer order patterns?

Daniel W. Hoehn
Interim CFO, VP & Corporate Controller

So when we think about our infrastructure sales, so for the composite matting, right, those tend to be large projects. So you get a little bit of visibility into how those are going to unfold. So for that business and as we grow in military, we'll see more backlog in those specific areas. I think for the other businesses, it depends, and we see a lot more kind of book and bill as we go. So we're really encouraged by the large backlog that we're seeing in those 2 areas, and it does give us a lot of confidence as we go into the back half.

Christian Zyla
KeyBanc Capital Markets Inc., Research Division

Got it. And if I could just sneak in one more question. Free cash flow of $25 million in the quarter was exceptionally strong. What drove that? Is there some seasonality in there that we should be thinking of? And then just bigger picture, can you give us a sense of what you could or should do annually for free cash flow, assuming both scenarios of keeping or not keeping distribution within Myers. Just how do we think about your annual potential?

Daniel W. Hoehn
Interim CFO, VP & Corporate Controller

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Yes. So obviously, I think the cash flow is indicative of what we can and should be doing, right? Remember, we talked about timing in the last quarter. We clearly made that up and then some a little bit. And historically, we've had a little bit more cash flow in the back half. So as you think about that, I expect similar trends this year. Now there can be timing from quarter-to-quarter. As I mentioned, with some of these large backlog orders, they tend to ship in large chunks as well. So any one quarter might not be indicative. But on a general trend, I think we're showing what the business can do. I think the -- if you look at the EBITDA mix between our 2 segments, you can get an idea of what that does with our cash flow with and without MTS.

Operator

The next question is from the line of Anna C. Jolly with Gabelli & Company, Inc.

Carolina Jolly

It's Carolina. Just, I guess, the first one, what gives you confidence, I think, in the rebound in seed boxes in the second half of the year?

Aaron M. Schapper
President, CEO & Director

Yes. So really, it comes from our customers, looking at what our customers' demand is in the back half of the year. And they will put in orders and give us an indication of kind of the seed box need that they're going to need. And we've already been working on orders for replacement parts as well. So when we look at the replacement parts, it gives us kind of a general idea that the back half of the year. And the normal seasonality for those seed boxes is the back half of the year anyway. And so it's good to kind of get feedback from our customers, understand what they're seeing out there, and that's what gives us confidence in the back half of the year will be better on the seed box side.

Carolina Jolly

Perfect. And then also, I know the Signature acquisition was back in the beginning of 2024. So I'd still just be interested in any commentary on how the company is being integrated and the progress there?

Aaron M. Schapper
President, CEO & Director

Yes. Let's -- the Signature culture is a great add to Myers in general. We're happy to have them on board. I think that they bring a unique set of operational talents that we're actually able to really utilize across more of our material handling footprint. So what you're going to see is the talent operations folks are working with our rest of the Myers industry operations group to share best practices and do what they do best and then Myers teaches them what we do best. So I think between the 2, it really is a good synergy of operations and looking at the operations side of the business.

Additionally, having Signature adds a real growth opportunity for us in the infrastructure side of the business. Obviously, my background on the infrastructure side is complementary. So we're really excited to take Signature and grow that business and look at other growth opportunities in the year. And we're also excited to be talking about that. I mean, we talked about doing a strategic review later in November. So we're excited to come back and talk to you and the market about what we're doing in the infrastructure business and how we intend to grow and intend to grow our portfolio on that side of the business.

Operator

The next question is from the line of William Dezellem with Tieton \Capital Management.

William Joseph Dezellem
Tieton Capital Management, LLC

That's Bill Dezellem. And let me switch to Signature's tariff impact. Did we hear correctly in the opening remarks that there was some weakness tied to tariffs? And if so, would you help us understand the mechanics of how that impact happened?

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Daniel W. Hoehn
Interim CFO, VP & Corporate Controller

Yes. Sure, Bill. I think when we think about the tariffs, it's a similar story to what we talked about in the past and that our input costs are largely unaffected. We have a small amount within the distribution business. But we do have a small but growing part of export sales. And what we've seen is some customers kind of delaying purchases as they just wait for some certainty or weigh those additional tariff costs. So there's still a lot of interest in our product for the applications that our customers are using, and they're just -- it can affect the timing of those sales or has affected the timing of those sales.

Aaron M. Schapper
President, CEO & Director

Yes. And Bill, as we expect some of these kind of tariff resolutions as we're kind of rolling through the summer, I mean, we're hoping that those are disconnections in the market on a short-term basis. But Signature does have an export business, and it was affected by kind of that uncertainty in the quarter.

William Joseph Dezellem
Tieton Capital Management, LLC

And has that cleared up? Or is there still enough uncertainty -- maybe I should ask, where are those sales going? And I guess the clarity will be whether we have a final deal or not with those countries?

Aaron M. Schapper
President, CEO & Director

Yes. Specifically, there were really -- that one was both Europe and Canada at the time. And so we do have some resolution, which is good, both with the latest Europe resolution. So we do have some resolution. So we hope to not have those kind of disconnects in the next quarter.

William Joseph Dezellem
Tieton Capital Management, LLC

And then just taking this one step further, if -- is there a level of tariff that's currently being talked about with Canada in particular, that would essentially eliminate those sales. And so that's a risk that you have to deal with? Or is that not a factor here?

Aaron M. Schapper
President, CEO & Director

No, I don't believe that will be a big factor going forward. I think that when you're going through the different pieces and parts of the tariffs, I think more than anything else, people just want resolution one way or the other. And then I think the market has stabilized. We're comfortable with our position in the market. We're comfortable with our pricing in the market. I think it's just there's always caution and a little bit of uncertainty when you don't know what that next tariff rate is going to be or by the time you get -- because these are -- look, remember, these are backlog orders.

And then when you get to the final projects that are usually planned well in advance. And so when you finally get to the final shipping dates, you want to know that the policy is going to be the same as what you budgeted for. So when you look at it with that infrastructure lens and that kind of backward lens, it makes a little more sense that you'd like to have that certainty of tariff rate out there. And so as we kind of get to resolution, I think that, that noise will go away.

William Joseph Dezellem
Tieton Capital Management, LLC

That's very helpful. And then relative to the 2 idled rotational molding lines, do you anticipate that if volume increases that those lines will be needed? Do you anticipate moving those lines to other locations? So let's fill out the big picture on those -- on that situation for us, please?

Aaron M. Schapper

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President, CEO & Director

Yes. So there are 2 rotational molding plants, not just production lines that are going to be idled. So look, the rotational molding kind of operational footprint was built during a really strong automotive, very strong RV backdrop in lens where there was pretty brisk market conditions at the time. And so just looking at the operational footprint and especially looking at -- when we look at OEs and other operational metrics, as we could do a lot more with the footprint that we currently have. So -- and looking at efficiencies and looking at the size of those 2 plants that they're not needed at this time.

Now obviously, we have options, and we always like to keep our options open on the backside for those plants in the future. But right now, that capacity is not needed. And so our customers have also been looking closely at capacity. We're just aligning with our customers' needs and making sure that we provide the most efficient operational structure for them.

William Joseph Dezellem
Tieton Capital Management, LLC

And those 2 plants, are they owned or leased? You're trying to understand how you're thinking about the physical facilities with time.

Aaron M. Schapper
President, CEO & Director

Yes, there are 2 leased facilities.

Operator

There are currently no questions registered.

[Operator Instructions]

There are currently no questions registered at this time. I'd like to pass the call back over to Meghan for any further remarks.

Meghan Beringer
Senior Director of Investor Relations

Thank you for joining us today. If you'd 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
Thank you all. This now concludes today's call. We appreciate your participation, and you may now disconnect your lines.

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