MYERS INDUSTRIES INC
Form 10-Q
May 07, 2018

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 1-8524

Myers Industries, Inc.

(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-0778636 (IRS Employer Identification Number)
1293 South Main Street Akron, Ohio (Address of principal executive offices)	44301 (Zip code)

(330) 253-5592

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-Accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 30, 2018
Common Stock, without par value	30,587,796 shares

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Part I — Financial Information

Item 1. Financial Statements

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in thousands, except per share data)

	For the Three Months Ended March 31,	
	2018	2017
Net sales	$152,568	$136,572
Cost of sales	105,453	94,811
Gross profit	47,115	41,761
Selling, general and administrative expenses	35,473	34,539
(Gain) loss on disposal of fixed assets	(380)	(894)
Operating income	12,022	8,116
Interest expense, net	1,639	2,130
Income from continuing operations before income taxes	10,383	5,986
Income tax expense	2,628	2,528
Income from continuing operations	7,755	3,458
Income (loss) from discontinued operations, net of income tax	(911)	(344)
Net income	$6,844	$3,114
Income per common share from continuing operations:		
Basic	$0.25	$0.12
Diluted	$0.25	$0.11
Income (loss) per common share from discontinued operations:		
Basic	$(0.03)	$(0.02)
Diluted	$(0.03)	$(0.01)
Net income per common share:		
Basic	$0.22	$0.10
Diluted	$0.22	$0.10
Dividends declared per share	$0.14	$0.14

See notes to unaudited condensed consolidated financial statements.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
Net income	$6,844	$3,114
Other comprehensive income (loss)		
Adoption of ASU 2018-02	(315)	—
Foreign currency translation adjustment	(1,720)	901
Pension liability, net of tax expense of $67 in 2018	201	—
Total other comprehensive income (loss)	(1,834)	901
Comprehensive income	$5,010	$4,015

See notes to unaudited condensed consolidated financial statements.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Position (Unaudited)

(Dollars in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash	$3,015	$ 2,520
Restricted cash	8,668	8,659
Accounts receivable, less allowances of $1,866 and $1,777, respectively	80,552	76,509
Income tax receivable	9,354	12,954
Inventories, net	47,840	47,166
Prepaid expenses and other current assets	1,752	2,204
Total Current Assets	151,181	150,012
Other Assets		
Property, plant, and equipment, net	79,549	83,904
Goodwill	59,669	59,971
Intangible assets, net	36,783	39,049
Deferred income taxes	88	120
Notes receivable	18,844	18,737
Other	3,536	4,149
Total Assets	$349,650	$ 355,942
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable	$66,612	$ 63,581
Accrued expenses		
Employee compensation	11,663	15,544
Taxes, other than income taxes	1,474	1,664
Accrued interest	1,325	2,392
Other current liabilities	15,544	15,472
Total Current Liabilities	96,618	98,653
Long-term debt	144,363	151,036
Other liabilities	8,848	8,236
Deferred income taxes	3,895	4,265
Shareholders’ Equity		
Serial Preferred Shares (authorized 1,000,000 shares; none issued and outstanding)	—	—
Common Shares, without par value (authorized 60,000,000 shares; outstanding 30,560,682 and 30,495,737; net of treasury shares of 7,391,775 and 7,456,720, respectively)	18,598	18,547

Additional paid-in capital	210,248	209,253
Accumulated other comprehensive loss	(16,375)	(14,541)
Retained deficit	(116,545)	(119,507)
Total Shareholders' Equity	95,926	93,752
Total Liabilities and Shareholders' Equity	$349,650	$ 355,942

See notes to unaudited condensed consolidated financial statements.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Shareholders’ Equity (Unaudited)

(Dollars in thousands, except per share data)

	Common Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Deficit	Total Shareholders' Equity
Balance at January 1, 2018	$ 18,547	$ 209,253	$ (14,541)	$ (119,507)	$ 93,752
Net income	—	—	—	6,844	6,844
Adoption of ASU 2018-02	—	—	(315)	315	—
Foreign currency translation adjustment	—	—	(1,720)	—	(1,720)
Shares issued under incentive plans, net of shares withheld for tax	51	42	—	—	93
Stock compensation expense	—	953	—	—	953
Pension liability, net of tax of $67	—	—	201	—	201
Declared dividends - $0.14 per share	—	—	—	(4,197)	(4,197)
Balance at March 31, 2018	$ 18,598	$ 210,248	$ (16,375)	$ (116,545)	$ 95,926

See notes to unaudited condensed consolidated financial statements.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Three Months Ended March 31, 2018		2017	
Cash Flows From Operating Activities				
Net income	$	6,844	$	3,114
Income (loss) from discontinued operations, net of income taxes		(911)		(344)
Income from continuing operations		7,755		3,458
Adjustments to reconcile income from continuing operations to net cash provided by (used for) operating activities				
Depreciation		4,479		5,532
Amortization		2,166		2,422
Accelerated depreciation associated with restructuring activities		16		618
Non-cash stock-based compensation expense		1,098		894
(Gain) loss on disposal of fixed assets		(380)		(894)
Deferred taxes		—		374
Interest income received (accrued) on note receivable		334		(324)
Other		60		176
Payments on performance based compensation		(1,249)		(992)
Other long-term liabilities		(123)		(92)

Cash flows provided by (used for) working capital		
Accounts receivable	(4,473)	(1,496)
Inventories	(796)	(3,909)
Prepaid expenses and other current assets	447	2,000
Accounts payable and accrued expenses	3,504	5,517
Net cash provided by (used for) operating activities - continuing operations	12,838	13,284
Net cash provided by (used for) operating activities - discontinued operations	(2,085)	(233)
Net cash provided by (used for) operating activities	10,753	13,051
Cash Flows From Investing Activities		
Capital expenditures	(1,206)	(480)
Proceeds from sale of property, plant and equipment	2,353	1,027
Net cash provided by (used for) investing activities - continuing operations	1,147	547
Net cash provided by (used for) investing activities - discontinued operations	—	72
Net cash provided by (used for) investing activities	1,147	619
Cash Flows From Financing Activities		
Net borrowings (repayments) on credit facility	(6,722)	(9,310)
Cash dividends paid	(4,161)	(4,089)
Proceeds from issuance of common stock	452	247
Shares withheld for employee taxes on equity awards	(359)	(271)

Deferred financing costs		—		(975)
Net cash provided by (used for) financing activities - continuing operations		(10,790)		(14,398)
Net cash provided by (used for) financing activities - discontinued operations		—		—
Net cash provided by (used for) financing activities		(10,790)		(14,398)
Foreign exchange rate effect on cash		(606)		167
Less: Net increase (decrease) in cash classified within discontinued operations		—		24
Net increase (decrease) in cash, cash equivalents, and restricted cash		504		(585)
Cash, cash equivalents, and restricted cash at January 1		11,179		11,039
Cash, cash equivalents, and restricted cash at March 31	$	11,683	$	10,454

See notes to unaudited condensed consolidated financial statements.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except where otherwise indicated)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Myers Industries, Inc. and all wholly owned subsidiaries (collectively, the "Company"), and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2017.

During the fourth quarter of 2017, the Company completed the sale of certain subsidiaries in Brazil. As further discussed in Note 3, the results of operations and cash flows of these subsidiaries have been classified as discontinued operations in the condensed consolidated financial statements for all periods presented.

In the opinion of the Company, the accompanying condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2018, and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results of operations that will occur for the year ending December 31, 2018.

Accounting Standards Adopted

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which allowed SEC registrants to record provisional amounts in earnings for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of the Tax Cuts and Jobs Act. The Company recognized the estimated income tax effects of the Tax Cuts and Jobs Act in its 2017 Consolidated Financial Statements in accordance with SEC Staff Accounting Bulletin No. 118. Refer to Note 13 for further information regarding the provisional amounts recorded by the Company.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220). This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The new standard also requires certain disclosures about stranded tax effects. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 (as further discussed in Note 13) is recognized. The Company early adopted this standard effective January 1, 2018 and as a result of adopting this standard, $315 of stranded tax effects were reclassified from accumulated other comprehensive income to retained earnings in the first quarter of 2018.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires that an employer report the service cost component in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The ASU also allows only the service cost component to be eligible for capitalization when applicable. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The ASU should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Company adopted this standard effective January 1, 2018 and the adoption did not have a material impact on its consolidated financial statements as the pension plan is frozen.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

(Dollars in thousands, except where otherwise indicated)

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. This ASU requires that companies include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents, when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. The ASU should be applied using a retrospective transition method to each period presented and is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The Company adopted this standard effective January 1, 2018. The inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the consolidated statements of cash flows did not have a material impact on the Company's net cash flows.

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740). This ASU requires immediate recognition of the income tax consequences of intercompany asset transfers other than inventory. The ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The Company adopted this standard effective January 1, 2018 and the adoption of this standard did not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. Additional disclosures will also be required to help users of financial statements understand the nature, amount, and timing of revenue and cash flows arising from contracts. The Company adopted the new guidance effective January 1, 2018 using the modified retrospective approach and applied the new guidance to all open contracts at the date of adoption. Adoption of the new standard resulted in changes to the Company's accounting policy and disclosures related to revenue recognition. The impact of adopting this standard on the Company's consolidated financial statements was not material and there was no cumulative transition adjustment required.

Accounting Standards Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. This ASU eliminates Step 2 of the goodwill impairment test and requires goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The guidance allows for early adoption for impairment testing dates after January 1, 2017. While the Company has elected not to early adopt this guidance to date and will continue to evaluate the timing of adoption, it does not believe that the adoption of this guidance will have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which introduces new guidance for the accounting for credit losses on instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2019 including interim periods within that reporting period, with early adoption permitted for fiscal years beginning after December 15, 2018. The

Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet, and disclose key information about the amount, timing and uncertainty of cash flows arising from leasing arrangements. The new standard is effective for the Company beginning January 1, 2019, and must be adopted using either the modified retrospective approach, which requires application of the new guidance at the beginning of the earliest comparative period presented or the optional transition approach, which requires application of the new guidance at the beginning of the standard’s effective date. The Company will adopt the new guidance effective January 1, 2019 and has developed an implementation plan. The various activities of this plan include identifying the lease population, quantifying the right to use assets and lease liabilities, evaluating the potential use of the practical expedients available under the new guidance, and designing and implementing any changes to processes or controls necessary for adoption of the new standard. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

(Dollars in thousands, except where otherwise indicated)

Translation of Foreign Currencies

All asset and liability accounts of consolidated foreign subsidiaries are translated at the current exchange rate as of the end of the accounting period and income statement items are translated monthly at an average currency exchange rate for the period. The resulting translation adjustment is recorded in other comprehensive income (loss) as a separate component of shareholders' equity.

Fair Value Measurement

The Company follows guidance included in the Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures, for its financial assets and liabilities, as required. The guidance established a common definition for fair value to be applied under U.S. GAAP requiring the use of fair value, established a framework for measuring fair value, and expanded disclosure requirements about such fair value measurements. The guidance did not require any new fair value measurements, but rather applied to all other accounting pronouncements that require or permit fair value measurements. Under ASC 820, the hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is divided into three levels:

Level 1:	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2:	Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs that are observable either directly or indirectly.
Level 3:	Unobservable inputs for which there is little or no market data or which reflect the entity’s own assumptions.

The Company has financial instruments, including cash, accounts receivable, accounts payable and accrued expenses. The fair value of these financial instruments approximates carrying value due to the nature and relative short maturity of these assets and liabilities.

The fair value of debt under the Company’s Loan Agreement, as defined in Note 11, approximates carrying value due to the floating rates and relative short maturity (less than 90 days) of the revolving borrowings under this agreement. The fair value of the Company’s fixed rate senior unsecured notes was estimated using market observable inputs for the Company’s comparable peers with public debt, including quoted prices in active markets and interest rate measurements which are considered Level 2 inputs. At March 31, 2018 and December 31, 2017, the aggregate fair value of the Company's outstanding fixed rate senior unsecured notes was estimated at $76.9 million and $78.0 million, respectively.

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) are as follows:

	Foreign Currency	Defined Benefit	Total

		Pension Plans	
Balance at January 1, 2018	$(12,750)	$(1,791)	$(14,541)
Other comprehensive income (loss) before reclassifications	(1,720)	201	(1,519)
Reclassification of stranded tax effects to retained earnings[1]	—	(315)	(315)
Net current-period other comprehensive income (loss)	(1,720)	(114)	(1,834)
Balance at March 31, 2018	$(14,470)	$(1,905)	$(16,375)

(1) Reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act to retained earnings due to the adoption of ASU 2018-02 during the first quarter of 2018.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. The Company maintains operating cash and reserves for replacement balances in financial institutions which, from time to time, may exceed federally insured limits. The Company periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

MYERS INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)

(Dollars in thousands, except where otherwise indicated)

2. Revenue Recognition

The following table disaggregates the Company’s revenue by major market:

	For the Three Months Ended March 31, 2018			
	Material Handling	Distribution	Inter-company	Consolidated
Consumer	$17,231	$ —	$ —	$ 17,231
Vehicle	25,543	—	—	25,543
Food and beverage	37,657	—	—	37,657
Industrial				