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Transcript of Myers Industries, Inc.
Fourth Quarter and Full Year 2015 Earnings Call
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Participants
Monica Vinay – Vice President, Investor Relations and Treasurer
Dave Banyard – President and Chief Executive Officer
Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary

Analysts
Adam Josephson – KeyBanc
Chris Manuel – Wells Fargo Securities
Matthew Paige – Gabelli & Company

Presentation

Operator
Greetings and welcome to the Myers Industries Fourth Quarter and Full Year 2015 Earnings Conference Call.

At this time all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Monica Vinay. Thank you. You may begin.

Monica Vinay – Vice President, Investor Relations and Treasurer
Thank you. Good morning. Welcome to Myers Industries Fourth Quarter 2015 Earnings Call. I am Monica Vinay, Vice President of Investor Relations and Treasurer at Myers. Joining me today are Dave Banyard, President and CEO and Gregg Branning, Senior Vice President, Chief Financial Officer and Corporate Secretary.

Earlier this morning, we issued a news release outlining the financial results for the fourth quarter and full-year of 2015. If you have not yet received a copy of that release, you can access it on our website at www.MyersIndustries.com. It's under the Investor Relations tab. This call is also being webcast on our website and will be archived there along with a transcript of the call shortly after this event.

Before I turn the call over to Management for remarks, I would like to remind you that we may make some forward-looking statements during the course of the call. These comments are made pursuant to the Safe Harbor provision 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 and may be found in the Company's 10-K filing.

I am now pleased to turn the call over to Dave Banyard.

Dave Banyard – President and Chief Executive Officer
Thanks Monica and good morning, everyone. We're going to start on Slide 3 with an agenda. We're going to start the presentation with a summary of our fourth quarter and full-year and then turn the call over to Gregg and he is going to go into our financial results.

And then I am going to take it back and talk about our segment results and I thought it would be a good idea to pause there and talk about my on-boarding process and my impressions from my first 80 days here at Myers and then conclude with our outlook for 2016.

Next slide, I'll start on Slide 5 here with the fourth quarter. Our results were consistent with the pace of business we saw in the third quarter, but they did not meet our expectations and were down 9% on a constant currency basis in revenue.

Specifically, we expected to see better conditions in our food and beverage end market and to be clear, our Ag end market is included in that and it was up sequentially, which is what we normally see from a seasonality standpoint, but it was still down year-over-year, which is more in line with what we've seen in prior quarters.

Additionally, our auto aftermarket and Brazilian end markets softened in the quarter and finally some of our growth expectations in the quarter were based on some commercial initiatives that are taking longer than planned.

We did continue to see favorable input costs and good productivity improvements throughout the quarter, which we've seen throughout the year, resulting in a higher gross margin and an increase of 560 basis points year-over-year.

On a full-year, our adjusted earnings per share increased 8% to $0.57 on net sales that were flat on a constant currency basis and to remind you incremental sales from our Scepter acquisition offset the lower sales that we had throughout the year in our Ag end market.

Our adjusted gross margin increased 350 basis points to just under 30% and free cash flow decreased slightly and that was mainly due to an increase in working capital from a decline in our accounts payable and certain accruals.

We returned over $46 million to shareholders throughout the year in share repurchases and dividends and we reduced our net debt 20% to $186 million.

Next slide, I'll turn it over to Gregg here now to give you an overview of our financial statements. Gregg.

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Thanks Dave. If you turn to Slide 7, I'll cover the fourth quarter financial summary.

You'll see that our sales as Dave mentioned, were down 9% on a constant currency basis from $158.3 million to $139.2 million. I won't go in any more detail on that as Dave covered some of it and he'll be covering some more when he gets into the segment results.

Adjusted gross profit for the quarter came in at $40.8 million versus the prior year of $37.5 million, that was up 560 basis points and that was driven by cost controls net of price, which drove 403 basis points and we have a charge in Brazil that you'll recall in 2014 that did not repeat in 2015, that drove a 157 basis points.

Our adjusted SG&A was up 15% in the quarter and that was driven by the long-term compensation expense for retirement-eligible employees that we talked about in our earnings release of $1 million. We also had some one-time benefits for lower royalties in 2014 that was roughly $2 million and then we had some commercial investments that we made in 2015 for $1 million.

When you work your way down to our adjusted earnings per share from continuing operations, we came in at $0.06 versus the prior year of $0.08 and while we had cost controls, they were not able to fully offset the impact of lower sales.

If you turn to Page 8, for the full-year, you'll see that our sales came in at $601.5 million, down from 2014, but flat on a constant currency basis. Our adjusted gross profit was $179.9 million that was up from the $164.7 million, a 350 basis point improvement.

That 350 basis point improvement was driven by cost controls net of price, which drove 310 basis points and then the Brazil charge not repeating was 40 basis points.

Our adjusted SG&A was up 10% from $130 million to $143.4 million. The majority of that was driven by the inclusion of Scepter for a full year. You may recall that we acquired Scepter in the second-half of 2014 so that added $11 million of additional cost.

Then we had costs associated with additional stock compensation expense that we spoke of in the third quarter as well as the long-term compensation expense for the retirement of eligible employees that we spoke of here in the fourth quarter and those led to roughly $3 million.

For the full-year, our adjusted earnings per share from continuing operations came in at $0.57 a share, it's an 8% increase over the prior year and that was driven by our cost controls. We were able to drive higher profits despite the impact on the lower sales.

If you'll turn to Page 9, balance sheet and cash flow, we continue to focus on debt reduction as our net debt to adjusted EBITDA decreased from 3.5 to 2.6. I will point out that these numbers are different from what is in our covenant calculation that we disclose in our 10-K.

We continue to focus on improved cash flow as you can see by the two graphs at the bottom of the slide and particularly you can see the large improvement in working capital as a percentage of sales that is used to run the business and cash flow will continue to be a focus as it has been in past.

With that I will turn it over to Dave to discuss the segment results.

Dave Banyard – President and Chief Executive Officer
Thanks Gregg, I'll turn to Slide 11 and I will talk about material handling results first.

Sales in the fourth quarter were down 10% in constant currency and the primary driver of that was our Ag business, which was down double-digits and as a reminder to you, part of that decline is due to the fact that a portion of that business is indexed to resin price as resin price comes down, we have lower revenues as part of that.

We did complete several restructuring actions in the fourth quarter, one of which was a long-term project of a facility rationalization here in the United States and on that I would like to say Todd Smith and his team did a really great job. It was a very complex project. They completed it on time and with minimal customer disruption.

We also took some restructuring actions in our Brazilian operations. The Brazil economy continues to have downward pressure and we've takin some cost action there to right size that business for the future.

On the commercial side, in the past few quarters we've talked about reintroducing legacy products. You can see some of the results of that are shown on the slide. Those projects were awarded in the fourth quarter and they were booked and shipped in the same quarter and we also launched several new products within the quarter.

For the full-year, the Material Handling segment was flat in constant currency. We've already highlighted the reasons behind that, but this is where the lower Ag business volume was offset by the Scepter acquisition and the building revenue there.

Couple of highlights here, we did secure long-term contracts with some of our key Ag customers and we've launched several products one of which has been highlighted before - a mobile cleaning service that we expect to continue into 2016.

Now looking ahead for 2016, our focus is going to be on a couple of key areas. Primarily we're going to be focusing on executing on our existing product launches and project wins. Secondly we're going to make sure we have the right cost base in Brazil.

We'll continue to monitor the economy and review the business down there and make sure we've taken enough of the right steps in the fourth quarter. And then finally a longer-term project, one that's really important is that we're going to continue to build detail and rigor into our commercial processes making improvements around things like internal management, new product development and so forth and those all bring long-term benefits.

Next slide; let's talk about the Distribution segment. In the fourth quarter it was slower than expected which resulted in sales being down 5%. A big driver of that is some softness in certain regions within the United States and we also had continued headwinds in our international business from a strong U.S. dollar and I'll remind you there that we record sales of international in U.S. dollars.

The team did a decent job with decremental margins offsetting some of that impact with product sourcing and pricing actions. In terms of products that we've launched out in the field, we saw a 30% increase in our vending machine installations and while that's off a low base, we're encouraged by that and we think that's a great product that we're going to continue to focus on in 2016 and we did have a decent backlog coming out in the fourth quarter for that.

Probably the most important part of the fourth quarter for us in the distribution segment was the introduction of a new sales team initiative. The team has spent a lot of time developing this plan and I think it's a great one. It's a long-term project. This isn't something that's going to yield results immediately, but its process improvement across our entire sales team and how we operate.

The end-goal of this initiative is to help our sales team be more efficient and ultimately serve our customers better and grow the business. For the full-year, our Distribution segment sales were down 2%, and, again similar issues to what we saw in the fourth quarter including mixed U.S. markets, strong dollar and we also did close our Canadian branch in 2014, which affects our comps year-over-year.

Couple of highlights from the year, we launched the new eCommerce system. That's a great building block for the sales team initiative that I just spoke about and an area that we'll be able to spend a lot of time talking about, we did expand our channel coverage for our highway marking products at our Patch Rubber business and we think that's a great first step for Patch Rubber to have some opportunities for growth.

Our focus for 2016 is really going to be primarily on the sales team initiative which requires a lot of work that we've already begun and I think we've made some great progress so far, but it's going to take a lot of energy and a lot of time in 2016.

In addition to that, we're going to spend some time better segmenting our end markets and really diving deep into those markets to fully understand where we can best serve our customers and where we have the best opportunities for growth and as part of the sales team initiative that's really going to help us target that sales team in the best possible fashion.

And along with that, is adding products into our mix that really focus into those targets allowing our sales team to be more effective and grow the business.

Next slide, so before we get to our outlook for 2016 and as I said earlier, I wanted to share a bit of my on-boarding process and then a few impressions from my first 80 days here at Myers and we'll do that starting on Slide 14.

So looking backwards to 2015, we completed the strategic realignment of Myers going from four segments to two segments with the sale of our Lawn & Garden business earlier in the year. We faced some tough challenges this year commercially: a couple of our major end markets, the Ag market and Brazil market were down significantly.

I think the team did a great job operationally reacting to that, both on the input cost as well as on the productivity side and we're going to continue that moving forward. As far as looking at the first half of 2016 my process in the first quarter is to listen and learn both internally and externally.

In the second quarter we're going to move on to strategic planning and what I mean by that is we're going to build strategies at the business level, we're going to focus on the business's core strength and we're going to focus on the opportunities that are right out in front of us today and executing on those.

Let me give you a couple of first impressions from my first quarter listen-and-learn process here and what I've learned about Myers since I've been here. I see Myers as a great collection of brands. We're well known, we're well respected in the market and that's a great place to start and a great building block for growth.

In addition, we have a lot of good ideas for growth. We need to do a better job at executing on that. So that's going to be our focus for this year is executing on the ideas that we have for growth and I'll give you a quick example of that.

I just had a great day recently with Bob Torokvei and his team up in Toronto. I know they run a separate business and this is a team that really possesses deep domain knowledge of their markets, their customers and their product and constant great innovation to capitalize on that domain knowledge, but we struggle to get those products to market and that really comes back to process.

And that's what we intend to do is help Bob and his team with process and to really embrace that we're going to put better new product development processes in place and then the ultimate end result of that is we're able to increase the speed of our product development and ultimately the volume of new products that we can launch.

And that's really if you think about of the advantage of a smaller company like Scepter joining a larger company like Myers is that they can bring in domain expertise and we can help bring some of that process improvement to them.

Beyond the first couple of quarters in 2016, our focus for the year is going to be really mainly on the things that we can control, things we’ve said a couple of times already, but we’re going to execute on the growth initiatives that are right in front of us.

In addition to that I want to do a deep dive into our end markets to better understand where we should be playing, where we're strong, where we're going to be weak and really realign ourselves to make sure we're targeting the right spots. Ultimately, the outcome of that is going to be that we develop an enterprise strategy that positions us for growth.

Next slide, so moving on to our 2016 outlook, on this slide you'll see on the right side, we’ve got our macro end markets in a bar graph with the revenue associated from our 2015 results with each of those macro end markets.

Further to the right you have our view of the growth outlook for those particular market segments and we've built this looking at a lot of leading indicators, listening to proxy and other peer commentary in those markets and we think this is a good view of where the markets are going in 2016.

If you aggregate all this together, we expect our markets to be flat to down-low-single digits for the year and I’ll give you a couple of examples to help clarify. These are the macro markets. Again we're a smaller company so we're playing in little more niche segments within these, but let’s take consumer as an example.

We feel that the housing activity is a good indicator for that particular macro market and we’ve seen strength in that in the fourth quarter. It's been a bit choppy recently, but we do see some optimism around that and if the consumer spending can hold up, we think that's a good place for us to grow in the year.

Flip that around, if you look at the food and beverage segment, which I’ll remind you includes our agriculture business, a lot of mixed signals there, a lot of the seed companies are talking about being flat and I think for them that probably feels pretty good at this time of year, but farm incomes continue to be down and if you listen to any of the commentary from the large equipment manufacturers in the Ag business it's still fairly gloomy for the year.

So that’s a mix bag and so we're not as optimistic about that market having a huge rebound if anything flat would be probably pretty good there. So that's just an example of how we're looking at our markets going forward.

As I mentioned several times, we’re going to be focusing not necessarily just on that in the short term, that’s more of a long-term view, but in the short term, we’re going to be focusing on growth initiatives that we have control over.

I’ve listed a few on here that from a topline perspective and, in addition to that, there are margin growth initiatives that we have and again as I mentioned earlier, the team did a nice job in 2015 managing the costs and we’ll continue to do that work as we move forward here.

Finally our capital allocation priorities for 2016 are listed here. Spending capital to maintain and grow the business, paying dividends and paying down our debt. We will evaluate other uses of capital as appropriate, but for today these are our priorities.

So with that, I'll turn it back over to the operator for any questions.

Operator
Thank you. [Operator Instructions] Our first question is from Adam Josephson from KeyBanc. Please go ahead.

<Q>: Thanks. Good morning and Dave best of luck in your new role.

Dave Banyard - President and CEO
Thanks Adam.

<Q>: Gregg, few questions for you, just on leverage, did you end the year at 2.5 and can you remind us of your target range?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Yes, Adam we did end under 2.5, our target range is ultimately to get below 2.

<Q>: Okay. One on CapEx Gregg, it looks like you're only going to spend about half of D&A this year, is that because of weak market conditions, the balance sheet, or something else?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
So I think it's just a continued look at what we're spending our capital on as Dave talked about looking at commercial execution and making sure that we do well there and then when you factor away the amortization side on the D&A we'll be closer to just the pure D as to what our CapEx will be.

<Q>: So what do you think a more normal level of—what is a normal level of CapEx for the company?

Dave Banyard – President and Chief Executive Officer
Okay, let me jump in on that. My approach is to make sure we're clear, we're going to spend the capital needed to run the business, in other words is it the best machine or not. We're going to replace them or fix them.

I think we're spending our time this year making sure we understand the answer to your second question which is what's the normal amount? We're very cognizant and cash is the best measure of performance and we want to make sure we're spending our cash wisely on investments that are going to yield a great return for shareholders.

<Q>: Thanks for that clarification Dave, Gregg a couple more, one on resin. How much of an earnings benefit did you have in 2015 from lower raws, specifically resin?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Yeah, Adam so on resin as you know a fair amount of our sales are indexed to resin and so as resin moves, price moves with it. For competitive reasons we don't want to get into exactly what happened with the non-index resin.

We certainly saw some benefit, but the bigger issue was we continue to value price, value sell our products and look at what the right selling price is for the product that we're delivering.

<Q>: Are you expecting more resin benefit this year Gregg or what is your expectation with respect to polypropylene etcetera.

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Yeah, good question.

Dave Banyard – President and Chief Executive Officer
I can jump in on that Adam, I think we're seeing continued benefits in polyethylene throughout the year and polypropylene is a bit more of capacity constraint and that could have the opposite effect on what we've seen. So we continue to monitor with really great people here who understand it well and I'm learning a lot about it, but we've got some really great people who are very close to that.

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
And Adam I would add, our mix between PE and PP is about 80-20, 80%PE and 20% PP.

<Q>: So it is based on your outlook for polyethylene and polypropylene, but do you expect continued earnings benefit this year?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Yeah, right now it would look like it. Obviously what happens with either of them over the course of the year is anybody's best guess, but certainly we're encouraged by where PE is right now.

As Dave said, there is certainly some pressure on the PP from a supply side and obviously we watch both of those and then there is also the whole aspect of using regrind and recycled material that we always are looking at and using whenever possible.

<Q>: Got it, thanks Gregg and just two more, one on your guidance for this year so you earned $0.57 last year, you're talking about constant currency sales being flat to down in 2016 presumably you'll have FX translation drags as well.

Obviously you had a significant resin benefit last year although perhaps you'll expect, you'll get a comparable one this year. Based on all that, do you expect earnings to be down this year and if so, can you give us any sense as to the order of magnitude?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Yes, so, I think the key is what Dave mentioned, we would expect our top line to be flat to slightly down. But we would expect to be able to work to mitigate any downward sales through our cost actions.

<Q>: Okay. And then just last one on the auto aftermarket and industrial, can you talk about what you experienced in auto aftermarket in the quarter and what you're experiencing in your core industrial markets and what your experience was as the quarter progressed and into January for that matter and thanks very much.

Dave Banyard – President and Chief Executive Officer
Sure. Well let me start with the auto aftermarket. I think the answer to both is that there are some mixed results. So if you look at the auto aftermarket, we have some exposure both on highway and off highway and the off highway is not good and that's driven by commodity issues more now than in the past that's everyone's seen.

So passenger car is better, miles driven is better, but you see things like replacement activity in cars is flat and then in the bit more industrial side of tires the transportation metric in the off highway stuff is down.

So when you put that mix together that weighs on us in terms of regionally. I will say that moving forward, the sales issues that we're working on do have some challenges for us. Change is hard and so that's going to probably weigh on us a little bit regardless of market.

So there is a bit of execution in here that's going to weigh on us as we implement a lot of these sales tools. Ultimately it's the right thing to do. I've been through a lot of it with Alex and his team and I really think it's the right thing to be doing, but in the short term it has an impact.

On the industrial side, it's a very mixed picture. So we play mostly in manufacturing—on the manufacturing side of things. So we might be insulated a bit from some of the commodity and natural resource type impact that some of the investor businesses are seeing out there.

But the signals are very mixed. So it's really hard to tell. The best thing was that towards the end of the year, through our main distribution channels and e-retailing, we won some nice new business and that helped and then some of those have flattened out through January.

So it's that wait and see mindset. If you listen to all the industrials that have reported, there are a lot of different views on the world and not a lot of it's really upbeat. So I would say we're in a wait and see mode. We have a couple of growth initiatives that hopefully can offset some of this but really the market itself is pretty soft.

<Q>: Thanks Dave and best of luck and speak to you soon.

Dave Banyard – President and Chief Executive Officer
Great, thanks Adam.

Operator
Our next question is from Chris Manuel from Wells Fargo Securities. Please go ahead.

<Q>: Good morning, ladies and gentlemen. How are you?

Dave Banyard – President and Chief Executive Officer
Great Chris.

<Q>: Welcome Dave. A couple questions for you, first I appreciate 80 days and thank you for kind of the background as you've begun to look through businesses, but I wanted to kind of dive a little bit further into your thought process as you sit today.

So as you've looked across all your different businesses now and have a good sense of what Myers Industries result for the collection does, where do you see some of your best opportunities as you head into '16 and beyond and specifically are there scenarios that you really like and think are terrific growth platforms, are there some that you look at and think I kind of wonder how strategically we're set up here etcetera. So if you can give us a sense as you look across your businesses that would be helpful?

Dave Banyard – President and Chief Executive Officer
Sure. I think there are two questions here, one is sort of the long-term strategic view and I think it's premature to be talking about that, but obviously I have been spending a lot of time with the businesses to try to understand the key drivers for them.

And I think I characterize it this way; all the businesses have some opportunity. They all have some challenges as well and so I think for 2016, our focus is going to be on where our strengths are within each of the businesses, how can we play at those strengths and grow and overcome some of the challenges we see in the market.

And if you look at our last slide here, that's what we highlighted in some of these businesses. So the sales team initiative in distribution is the right idea, it's the right way to go. It's going to take some time to implement and if we can implement that effectively, we can grow that business.

New products, I've talked about that and we have talked about that a lot. It's about getting them out there and winning with them. Buckhorn is a very project-driven business. So you have to have a good funnel of opportunities and I think that's an area that we can improve on. But that is an opportunity as well.

But that's how I look at things right now. In terms of the end market exposures we've outlined on the last page. I think all those markets have their strengths and weaknesses. The key is finding their niche and where we can really win in those end markets and that's what I highlighted as one of the things we're going to be doing this year is really doing a deep dive into the markets. I am a big fan of market segmentation and finding that right segment that we can own and win it.

<Q>: Right that's helpful, maybe just one follow-up along these lines, given your background and quite frankly Gregg's background both coming from companies that have been famous for doing a lot of portfolio tuning, looking at what your expectations for '16 are and not having M&A listed there as one of them.

Should we read into that that this is more of a temporary thing meaning until you get your arms around everything that maybe as we look forward to '17 and '18 and beyond before you get to more adjustments or tuning within the portfolio, would that be a fair way to think about?

Dave Banyard – President and Chief Executive Officer
Let me tell you about my approach to M&A and that may answer your question. So first and foremost I think M&A is a great way to deploy capital and I've learned from the best people in the business but M&A requires discipline and that discipline comes from having a clear and crisp enterprise strategy that the organization has conviction around and we're not there yet.

So it would be premature to try to go and do things when you don't have that discipline. You don't have that conviction. I am sure there is going to be imbalance throughout the year and we will look at those. And that's why I framed our capital allocation in the way I did. They're priorities and generally that's what's you're going to hear from me as I prioritize things.

And so those are the priorities we have and obviously priorities can change over time, but that's really my approach to M&A and that's how we're going to look at it.

<Q>: No that's very helpful and that's actually a good segue, Gregg, I wanted to just quickly ask you it's now been about 18 months to what you reported here what the Scepter business, where are you tracking with that business?

Is it on plan with where you would anticipate it would be, I fully appreciate that materials markets of resin etcetera is up and down and we have good winners, bad winners, all of those adjustments changes. But how are you tracking with expectations vis-à-vis where you are today?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Yeah, thanks Chris. For Scepter we're still very pleased with the acquisition. It's been very accretive to us. It is in line with our expectations. I think the biggest things that we've seen relative to the expectations is certainly as the U.S. dollar strengthened against the Canadian dollar, we've seen some headwinds on the topline that are obviously hard to overcome.

But from a profitability standpoint, we've been very pleased with the performance of Scepter and it's proving to be a very nice acquisition for us.

Dave Banyard – President and Chief Executive Officer
And Chris let me add on to that. In my short period of time, I have a very similar impression. I like the acquisition. Couple of key things about it, as I mentioned earlier, they have deep domain knowledge in their market segment and that's great, that's hard to find and I really like that.

In addition it's a good cash generator and those are key things that I look for in any kind of acquisition. I would rather the cash had a U.S. in front of it instead of a C at this point, but that is what it is at this point.

<Q>: Okay, that's helpful. The next question I wanted to ask was help us put together some of the pieces that you've given us here thus far. So as we look at working through the different components and you can choose how you want to answer this Greg, but as you think of 2016 and your expectations today, it sounds like CapEx will be down a little bit.

You've given us some D&A numbers and some interest numbers, whether you want to address this from an EBITDA or cash flow perspective, it sounds like you had some puts and takes as you worked through the year of some currency headwinds, but yet and you should have lapsed at this point the Ag set down.

You had some new products I believe that were to be stepping into the market that were kind of the legacy retail products. As we think about whether it's EBITDA or cash flow etcetera or how you want to address this for '16, can we pull the line and kind of be flat given the headwinds or do you think we can grow those numbers a little bit? How would you want us to think about that?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Hey Chris. I think the wildcard simply comes down to what the top line is going to do as we've outlined we think our sales are going to be flat to slightly down. We do have cost measures in place and we've preformed nicely with respect to some of the cost measures in 2015 and we have further items in place for 2016.

So, we think that any slight down headwind on sales we're able to mitigate from the standpoint of profitability when it's all said and done and so it really comes down to the top line.

Certainly we're going to be watching the markets very closely and be cautious with our spending to make sure that we continue to drive positive free cash flow at the end of the day.

<Q>: Okay. Last question with respect to cash flow stuff, when you—working capital anticipation looks like you've done really, really well last few years but kind of where you think you need to be?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Yeah, I think we are where we need to be. We've done well. We've obviously as you've been with us Chris and seen us, we've seen a nice improvement as working capital as a percentage of sales. It will continue to be important to us in all respects and we'll continue to work those, but I think as a percentage of sales we're close to where we want to be.

<Q>: Okay. That's helpful and Dave welcome again to Sunny Northeast Ohio. I was looking out of my window and you're getting a nice dose of what it's like here.

Dave Banyard – President and Chief Executive Officer
Thanks Chris.

Operator
Our next question is from Matthew Paige from Gabelli & Company. Please go ahead.

<Q>: Hey, good morning. As you look to your auto aftermarket business, what impact if any did weather have on your sales and do you expect to recover any of those as we move into 2016?

Dave Banyard – President and Chief Executive Officer
Yes so weather does have an impact particularly towards the tail end of the year -- I try to focus more of our attention on the things that we have control over.

So weather does impact that business. It does impact our sensor business but these aren't things that we can control and so we're going to pay attention to them, but it's hard to bake into our plans what we think that weather is going to do.

<Q>: Okay. And then looking at your cost structure, you did a good job of controlling costs over the quarter. Could you provide some color on to what leverage you were able to pull and what if anything remains for you to use in 2016?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
So this is Gregg. What I would say is we continue to look at strategic pricing and our cost, our input cost, but at the same time we look very closely. We've been working hard on facility rationalization that I believe Dave mentioned that we completed with Todd Smith's business. It went very well. That certainly is helping us from a cost perspective not only in the fourth quarter, but we'll continue to see benefits throughout 2016.

And then we continue to work on our Brazilian operations in the cost structure there and managing those costs too. So we will continue as I mentioned to Chris earlier. We'll continue to monitor cost very closely and be careful with any new cost that we would initiate as to the timing of that relative to what's going on with our market.

<Q>: Great. And then last for me. I just want to follow-up on an earlier question, I appreciate your first thoughts on the business and understand it's still early in your tenure days, but in the time that you spend, are there any obvious changes whether that be in the portfolio adjustments or any initiatives you want to start or stop immediately?

Dave Banyard – President and Chief Executive Officer
In the list that you provided there is nothing that I am focused on in that regard. I think the big focus right now is on execution. We've had some good ideas out there but we have to get those across the finish line here and then build strategy through deeper dives into our end markets and make sure we fully understand our advantages there.

<Q>: All right. Great. Appreciate your time and good luck in 2016.

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Thanks Matthew.

Operator
Our next question is from Adam Josephson from KeyBanc. Please go ahead.

<Q>: Yes thanks for taking my follow-up, Gregg or Dave I just—this is for either one of you, impact to resin for a second, can you remind us the expense of the changes in resin cost given the company's effort several years ago to practically immunize itself from changes in resin.

I know Scepter is not a pass-through model. So that business is clearly benefiting from falling resin, but I'm not sure what will happen when the opposite happens, eventually resin costs likely will go up again presumably.

And Dave what is your goal exactly in terms of wanting the company to be sensitive or insensitive to fluctuations in raws because again years ago the Company said that it did not want to be sensitive but recently it's tune has changed a bit because of Scepter and Scepter's competitive advantages and resulting ability to hold price in the face of falling raws, so just your thoughts—the company sensitivity now and what you would like it to be would be helpful.

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
Adam this is Gregg. On sensitivity we're somewhere between 18% and 25% of our business is indexed. As you know from our legacy—some of our legacy businesses and non-Scepter we have more indexing outside of Scepter.

But from a pricing standpoint at the end of the day the real key is the value itself is making sure that we're driving the right price for the right product regardless of what the input cost is doing, but then from an input cost as resin moves it certainly has an impact on the use of recycled and alternate resin.

So as we've seen a significant drop in resin cost that has had a major compression and the benefit of recycled and alternative resin. As resin goes back up that benefit goes up as well.

So it's something that we work hard at. It's also in some of our cases we're able to switch between PE and PP for some of our products and so that gives us some opportunities as well that does impact us going forward and helps to mitigate even outside of the indexing.

<Q>: So obviously polyethylene cost have fallen significantly over the past year and half or so along with oil, if the opposite were to happen, what would you expect to happen to Scepter's margins and EBIT?

Gregg Branning – Senior Vice President, Chief Financial Officer and Corporate Secretary
I'm not going to get into the individual businesses Adam because it is part of our segment. Clearly from a segment perspective we would work hard to try and offset any impact by higher use of alternative resins and regrind and to make sure we offset that.

But then again continue to look at pricing. The new product introductions are very important that we're going to be putting into the market to drive additional sales and profits as well.

Dave Banyard – President and Chief Executive Officer
Let me add a little bit because I think and this is more just a structure for how to think about not necessarily how we've been implementing it per say but longer term in the contract I am going to want to be indexed.

So I have a commitment on a project that's a fixed price or something because Adam I'm going to want to have an index that's baked into that. So that factors in. So whenever we have situations where we're signing up for longer term contracts and pricing we're going to want to have an index associated. So that's one scenario for that.

The other scenarios are in situations where we don't have as much of a competitive advantage. Every business has that and so we're going to want to make sure those situations that -- those customers are going to be more sensitive to price. We would rather be indexed in those cases.

In other situations, it's on a case by case basis, but as Gregg was talking about showing the value of the product, quite often the average sales price of some of these products isn't very high and so you don't -- if you can avoid that and sell on the value, you can get a better margin throughout either economic environment for resin.

And I think part of it about resin is that to some extent, not completely, but to some extent it is based off of the price of fossil fuels and so in a more downward market, economically those prices tend to go down as well.

So you tend to follow along as your volume goes down, demand for oil and gas goes down and that helps you on the input price side, but it does flow and it's never perfect, but if you think about how it flows throughout history, that's how it should match up, does that make sense?

<Q>: Yeah, no that makes sense, Dave just one follow-up to that, what is your optimal raw material environment? They've fallen significantly, but that's on several factors and it's not necessarily reflective of the healthy economy. So what is your ideal raw material scenario?

Dave Banyard – President and Chief Executive Officer
Well I feel it's one where we have very good stability. So choppiness makes it hard to plan so whether it's high or low, I think stability is the key to that for input cost like this.

<Q>: Got it and you referenced some of this eCommerce from your customers on the Ag side earlier on the call, do you have any specific expectations for corn and soybean prices this year and based on whatever those expectations are what do you expect to happen in your Ag business as the year progresses?

Dave Banyard – President and Chief Executive Officer
Yeah, I don't have any specifics—I don't want to forecast commodity prices, but I think if you look at some of the fundamentals with corn prices they are affected by the use of ethanol. The prices of gas has come down and so that weighs on that market and that's just going to remain on the market for a while.

What I referenced when you look at the commentary on the year, out on CNN , some of these equipment manufacturers, they're talking about farm incomes being down significantly again and that you have to pay attention to that when you play in the Ag market.

Now I don't know that we function exactly like a heavy equipment provider that's obviously a much larger piece of capital equipment than what we sell in this market and our customers are really the seed companies.

But it's the market dynamic that we can't ignore and so I don't—I think that that market is still going to be challenged for a period of time here and we'll be monitoring that. Fortunately, if you can call it fortunate, we've been through a pretty big down cycle here and so the comps are here for sure but it's still not a market that I would expect to see a lot of growth out of.

<Q>: Thanks, and just one last one I know you talked about your first couple months at the company and then some of the changes you're hoping to implement. Can you talk about culture a little bit and are you satisfied with what you've seen from the company's culture and what if any changes along those lines are you hoping to implement?

Dave Banyard – President and Chief Executive Officer
Yeah, I think the culture—a lot of great people here and it's been great -- they've been very welcoming and I think it's what I would simplify as all the best of mid western culture which is we have great people and so I've enjoyed meeting everybody.

I think there is—it's a great group of people. The area that I talked about a bit here is in process improvement and putting rigor in the process and that over time becomes a culture and so that's an area that we're going to focus on and it's very common for smaller industrial companies to have some rigor in some areas, but not in a broader sense.

And so I think our operations teams have learned how to do that. We have a phenomenal safety record that doesn't come from luck. That comes from great implementation of great processes. I want to apply that further into the company into our commercial processes.

<Q>: Thanks a lot, Dave.

Operator
Our next question is from Chris Manuel from Wells Fargo Securities. Please go ahead.

<Q>: Hey hello again, just a couple of quick follow ups, Dave in your earlier remarks you referred to 2015 as a challenging year commercially, can you expand upon that a little bit and tell us also what you anticipate will be different in '16?

Dave Banyard – President and Chief Executive Officer
Sure, when you have your -- probably your largest end market drop off at a double digit pace that's a pretty big challenge and being able to flex and being able to deal with that challenge is hard to do.

And I think in a lot of ways we did a lot of good work to react to that, but $50 million of revenue loss of our product line for our businesses is significant. We also saw lot of challenges in Brazil. The economy in Brazil is down. It doesn't look like it's getting better anytime soon and so that affects us as well.

<Q>: Okay. And then also just within 4Q and your summary on 4Q for Material Handling you referenced some facility rationalization in U.S. and Brazil. Could you maybe give us some color there as well?

Dave Banyard – President and Chief Executive Officer
Sure in the U.S. it was a long-term project that we conducted throughout the year and I think it's a good idea that we always take a look at our operations and understand what kind of capacity we need, how we utilize in that capacity and I think the team did that.

It's a project that started early on in the year and executed throughout and it was completed in the fourth quarter and its yielding nice productivity improvements and cost savings.

In Brazil little different story and that wasn't necessarily reaction to any particular end market like the U.S. It was more of an overall look at our footprint and saying this is the right thing to do.

In Brazil a little different story with the recession setting in and really I think coming—the team coming to the realization that things weren't going to improve any time soon, you have to make the tough call at that point and that getting that business into the right cost base for the new reality of commercial activity there was what was accomplished in the fourth quarter and we're going to continue to look at that throughout 2016 to make sure that we've done enough.

<Q>: All right, that's helpful. And you indicated in your fourth quarter on Slide 5 that the initiatives were taking longer than planned. So is it an issue or something that happened that's taking longer.

It just sounds like it's taking longer for business to pick back up. That's really kind of where I was probing or trying to understand?

Dave Banyard – President and Chief Executive Officer
I understand, sorry. What I was referring to there is we have a number of growth initiatives launching new products etcetera for example. We expected those products to be out in the market in the fourth quarter and they aren't.

I think the decision to not launch those products is the right one. We're not going to put something out into the field that either we're not ready to produce or is not a completed product.

So it's the core team and their decision there, but we have to get better at speed and more or less in our product development process because that's how you're getting your volume through is improving on the process and so that's the kind of example that I am talking about where we expected certain things to happen and they haven't. So we'll work on that so that we can get better and faster.

<Q>: Okay. Now I understand a little better. One of the other components was reintroducing some or getting back into some of the markets on a somewhat transient basis that you could in Material Handling, Buckhorn-side in particular, how are you working with that?

I think some was supposed to phase up in 4Q and then you have a big slug coming here at the beginning of the year to replace half, two thirds or some portion of the $50 million you referenced of revenue to disappear. How are you coming along with that process? Is it on pace? Are you ahead, behind there etcetera?

Dave Banyard – President and Chief Executive Officer
Yes I think we saw a little bit of that in revenue in the fourth quarter that I highlighted in the comments about Material Handling, but it's -- this is slightly different story to the product development. This is more around funnel management and that process and Joel and his team and I have talked a lot about this already, but it's about having a good pipeline.

Buckhorn is a very—it behaves as a project based type of business where you got to win big chunks of business that come in and then you have to win other big chunks of business.

And if you don't have a deep pipeline of that ready to go, you find yourself in positions where you have some gaps and so that's where we're going to spend a lot of time this year making sure we have a good process for that.

Joel and his team are on board with that. That involves marketing activities, selling activities, it's a bunch of different activities. It's not just a sales process and that's why I call it a commercial process.

So that's not -- that was not as far developed as we had expected in the fourth quarter and so we're going to focus on maybe a few new ways of looking at that from my perspective that Joel and his team haven't thought about it.

Specifically to your question, we are winning in some of these legacy products that we've talked about, and that's certainly planned to be a benefit for us in '16, but from a long-term and rather that would be more institutionalized profits.

<Q>: Okay. That's helpful. Good luck in the quarter.

Dave Banyard – President and Chief Executive Officer
Thanks Chris.

Operator
Thank you. With no further questions; I would like to turn it back over to Ms. Vinay for any closing remarks.

Monica Vinay – Vice President, Investor Relations and Treasurer
Thank you. We thank all of you for your time and participation today and your interest in Myers Industries. As a reminder, a transcript of this call will be available on our website within approximately 24 hours. A replay will be immediately available via webcast or call. Details can be found on our website under the Investor Relations tab. Thanks and have a great day.

Operator
Thank you. This concludes today's conference. You may disconnect your lines at this time.