



# Matthews International Corp. (MATW)

Updated December 2<sup>nd</sup>, 2020 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$27	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$866 M
<b>Fair Value Price:</b>	\$35	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	11/27/2020
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.6%	<b>Dividend Payment Date:</b>	12/14/2020
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$41	<b>Years Of Dividend Growth:</b>	27
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	2.4%

## Overview & Current Events

Matthews International Corporation provides brand solutions, memorialization products and industrial technologies on a global scale. The company's three business segments are diversified. The SGK Brand Solutions segment is their top sales generator and provides brand development services, printing equipment, creative design services, and embossing tools to the consumer-packaged goods and packaging industries. The Memorialization segment sells memorialization products, caskets, and cremation equipment to funeral home industries. The Industrial technologies segment is smaller than the other two businesses and designs, manufactures and distributes marking, coding and industrial automation technologies and solutions. Matthews International was incorporated in 1850 and became a public company in 1994. They are headquartered in Pittsburgh, PA. The \$866 million market capitalization company trades on the NASDAQ under the MATW ticker and employs roughly 11,000 people in over 25 countries.

Matthews International reported fourth quarter and full fiscal year 2020 results on November 19<sup>th</sup>, 2020 for the fiscal year ending September 30<sup>th</sup>, 2020. For the fourth quarter, sales grew 1.7% to \$399 million. The increase was due to increased sales in the Memorialization segment, offset by lower sales in its other segments. Adjusted EBITDA grew by 8.3% year-over-year to \$64.1 million. Adjusted earnings were \$1.11 per share, up from \$1.01 per share a year ago.

For the full year fiscal 2020, consolidated sales fell -2.5% to \$1.5 billion. Just like for the fourth quarter, sales increases were seen in the Memorialization segment offset by lower sales in the other segments. Adjusted EBITDA fell -8% compared to FY2019 to \$203 million. Adjusted earnings of \$3.01 for 2020 is down by -9.1% compared to \$3.31 in 2019.

Net debt was reduced by \$112 million for the full fiscal year and is now \$793 million. The company repurchased roughly 174,000 shares in 2020. They also raised the dividend for the 27<sup>th</sup> consecutive year to \$0.215 per quarter.

Management has opted not to provide guidance for 2021 due to the uncertainties of COVID-19. However, they expect overall steady earnings on a consolidated basis due to the nature and stability of their larger businesses. The pandemic is causing increased demand for caskets and cemetery memorial products, and the company expects this to continue into the first half of fiscal 2021.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>Adj. EPS</b>	\$2.60	\$2.34	\$2.49	\$2.74	\$3.03	\$3.38	\$3.60	\$3.96	\$3.31	\$3.01	<b>\$2.95</b>	<b>\$3.42</b>
<b>DPS</b>	\$0.32	\$0.37	\$0.41	\$0.46	\$0.54	\$0.60	\$0.68	\$0.76	\$0.80	\$0.84	<b>\$0.86</b>	<b>\$1.10</b>
<b>Shares</b>	28.8	27.8	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2	<b>31.0</b>	<b>29.5</b>

Matthews International measures their performance with adjusted earnings per share, which is earnings excluding intangible amortization and the non-service cost portion of pension/post-retirement expense. The company has not produced much growth, but it has steadily climbed by around 4% compounded annually from 2010 to 2019. Currently the company is investing 2.5% of revenue into growth opportunities. The company is also searching for acquisition opportunities which can extend the capabilities in existing businesses or expand the corporation even further geographically. Continued debt reductions will reduce interest expenses, and Matthews International is working on cost structure improvements. The company is also committed to repurchasing shares opportunistically with excess cash flow.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



# Matthews International Corp. (MATW)

Updated December 2<sup>nd</sup>, 2020 by Quinn Mohammed

The Memorialization segment is currently experiencing growth while the other two businesses have declined in the last two years. We are forecasting intermediate-term earnings growth of 3% annually.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.1	13.7	17.1	17.8	17.6	22.7	14.5	10.3	11.5	8.3	9.2	12.0
Avg. Yld.	0.9%	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	3.2%	2.7%

The current P/E ratio based on our 2020 adjusted earnings per share estimate is near the lowest it has been in the last decade at 9.2 times earnings. Over the past ten and five years, the average P/E ratio has been 14.6 and 13.5, respectively. Given the ongoing uncertainty surrounding COVID-19 and its influence on the SGK Brand solutions and Industrial technologies segment, we are using 12 times earnings as a fair value starting point. Given the current P/E discount, shares could see a 5.6% annual improvement due to multiple expansion.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

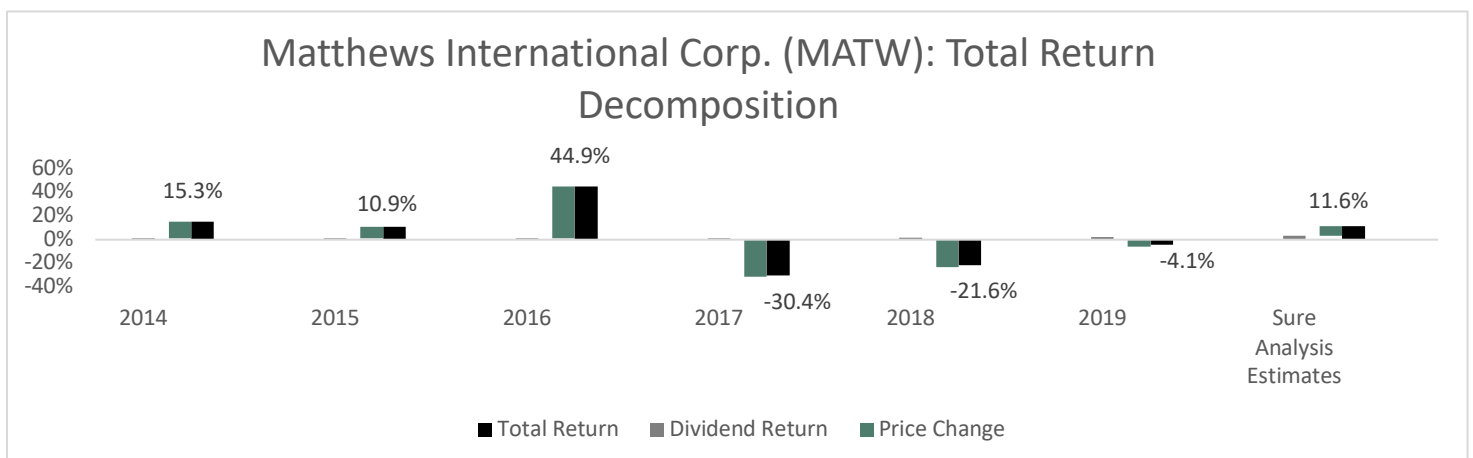
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	12%	16%	16%	17%	18%	18%	19%	19%	24%	28%	29%	32%

The dividend payout ratio for Matthews International has been very conservative and is nearing a decade peak at around 30%. This conservative payout ratio allows for Matthews to continue raising the dividend as it has for the last 27 years. We do not see any hurdles in terms of dividend payments or increases. The company has a small competitive advantage in that it is uniquely diversified across its businesses, which allows it to weather different storms on a consolidated basis. However, this also leaves the corporation open to more focused competition. The company also differentiates itself by offering a broad range of services on a global scale where it can gain market share in a fragmented industry. The Great Recession saw Matthews' earnings drop around -25%, but the company nearly recuperated this loss by the following year. Through the COVID-19 pandemic, earnings have not dropped significantly.

## Final Thoughts & Recommendation

Matthews International is a dividend champion with 27 years of dividend growth and a conservative payout ratio. We forecast total annual returns of 11.3% for the next five years consisting of the current 3.2% yield, 3% earnings growth and a 5.6% impact from the valuation expansion. Matthews trades below our estimated fair value and has strong expected returns above 11%. Shares earn a buy rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Matthews International Corp. (MATW)

Updated December 2<sup>nd</sup>, 2020 by Quinn Mohammed

## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	899	900	985	1,107	1,426	1,480	1,516	1,603	1,537	1,498
<b>Gross Profit</b>	352	337	357	392	529	556	568	584	542	498
<b>Gross Margin</b>	39.1%	37.4%	36.2%	35.5%	37.1%	37.6%	37.5%	36.5%	35.3%	33.2%
<b>SG&amp;A Exp.</b>	233	244	262	311	424	417	423	414	409	400
<b>D&amp;A Exp.</b>	28	29	38	43	63	65	68	77	91	119
<b>Operating Profit</b>	119	93	95	82	105	119	121	139	88	26
<b>Operating Margin</b>	13.2%	10.3%	9.6%	7.4%	7.4%	8.0%	8.0%	8.6%	5.7%	1.7%
<b>Net Profit</b>	72	55	54	43	63	67	74	107	(38)	(87)
<b>Net Margin</b>	8.1%	6.1%	5.5%	3.9%	4.4%	4.5%	4.9%	6.7%	-2.5%	-5.8%
<b>Free Cash Flow</b>	75	49	83	61	93	99	104	104	93	146
<b>Income Tax</b>	39	28	26	23	26	29	22	(9)	1	(19)

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	1,097	1,128	1,209	2,024	2,144	2,091	2,245	2,358	2,191	2,073
<b>Cash &amp; Equivalents</b>	62	58	48	63	72	56	58	42	35	41
<b>Accounts Receivable</b>	165	175	178	283	284	295	320	331	319	295
<b>Inventories</b>	126	131	130	153	171	162	171	180	180	175
<b>Goodwill &amp; Int. Ass.</b>	528	535	590	1,201	1,271	1,245	1,322	1,393	1,247	1,099
<b>Total Liabilities</b>	619	637	663	1,249	1,410	1,382	1,454	1,489	1,471	1,461
<b>Accounts Payable</b>	43	44	45	72	69	58	67	70	75	83
<b>Long-Term Debt</b>	317	320	375	729	903	873	911	961	941	835
<b>Shareholder's Equity</b>	465	478	543	771	731	709	790	868	718	611
<b>D/E Ratio</b>	0.68	0.67	0.69	0.95	1.24	1.23	1.15	1.11	1.31	1.37

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	6.9%	5.0%	4.6%	2.6%	3.0%	3.2%	3.4%	4.7%	-1.7%	-4.1%
<b>Return on Equity</b>	15.6%	11.7%	10.6%	6.5%	8.4%	9.3%	9.9%	13.0%	-4.8%	-13.1%
<b>ROIC</b>	9.5%	6.9%	6.3%	3.5%	4.0%	4.1%	4.5%	6.1%	-2.2%	-5.6%
<b>Shares Out.</b>	28.8	27.8	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2
<b>Revenue/Share</b>	31.20	32.34	35.93	38.85	42.96	44.99	46.53	50.30	48.93	48.04
<b>FCF/Share</b>	2.62	1.77	3.03	2.16	2.80	3.00	3.20	3.28	2.97	4.67

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.