



Matthews International Corp. (MATW)

Updated February 22nd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	6.3%	Market Cap:	\$1.1 B
Fair Value Price:	\$36	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	02/06/2020
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	02/22/2021
Dividend Yield:	2.5%	5 Year Price Target	\$42	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	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 \$1.1 billion market capitalization company trades on the NASDAQ under the MATW ticker and employs roughly 11,000 people in over 25 countries.

Matthews International reported first quarter results on January 28th. Sales grew 5.9% to \$21.8 million compared to the prior year quarter. The increase was due to increased sales in the Memorialization segment, offset by lower sales in its other segments. Adjusted earnings were \$0.68 per share, up from \$0.47 per share a year ago. The company reduced debt by \$9.9 million in the quarter, and \$142 million in the full 2020 calendar year. The company is expecting significant debt reduction during the fiscal 2021 year.

Management has opted not to provide guidance for 2021 but claims they are optimistic for the fiscal year. The increased demand in the Memorialization segment is expected to persist into the year.

Growth on a Per-Share Basis

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

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 1.6% compounded annually from 2011 to 2020. 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. 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.

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.



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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	11.5	12.0
Avg. Yld.	0.9%	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	2.5%	2.6%

The current P/E ratio based on our 2021 adjusted earnings per share estimate only slightly lower than our estimated valuation of 12 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 0.9% annual improvement due to multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

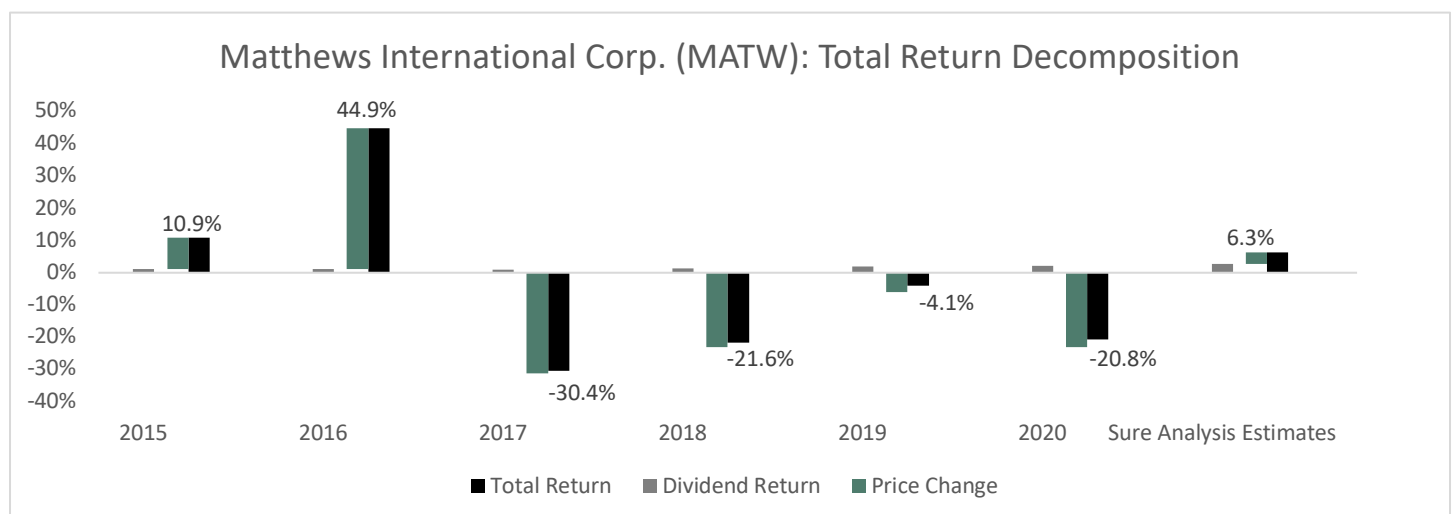
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	12%	16%	16%	17%	18%	18%	19%	19%	24%	28%	29%	32%

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 6.3% for the next five years consisting of the current 2.5% yield, 3% earnings growth and a 0.9% impact from the valuation expansion. Matthews trades below our estimated fair value and has respectable expected returns of 6.3%. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,097	1,128	1,209	2,024	2,144	2,091	2,245	2,358	2,191	2,073
Cash & Equivalents	62	58	48	63	72	56	58	42	35	41
Accounts Receivable	165	175	178	283	284	295	320	331	319	295
Inventories	126	131	130	153	171	162	171	180	180	175
Goodwill & Int. Ass.	528	535	590	1,201	1,271	1,245	1,322	1,393	1,247	1,099
Total Liabilities	619	637	663	1,249	1,410	1,382	1,454	1,489	1,471	1,461
Accounts Payable	43	44	45	72	69	58	67	70	75	83
Long-Term Debt	317	320	375	729	903	873	911	961	941	835
Shareholder's Equity	465	478	543	771	731	709	790	868	718	611
D/E Ratio	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
Return on Assets	6.9%	5.0%	4.6%	2.6%	3.0%	3.2%	3.4%	4.7%	-1.7%	-4.1%
Return on Equity	15.6%	11.7%	10.6%	6.5%	8.4%	9.3%	9.9%	13.0%	-4.8%	-13.1%
ROIC	9.5%	6.9%	6.3%	3.5%	4.0%	4.1%	4.5%	6.1%	-2.2%	-5.6%
Shares Out.	28.8	27.8	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2
Revenue/Share	31.20	32.34	35.93	38.85	42.96	44.99	46.53	50.30	48.93	48.04
FCF/Share	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.

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