



Matthews International Corp. (MATW)

Updated August 9th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	5.8%	Market Cap:	\$1.1 B
Fair Value Price:	\$42	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	11/27/2020
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date²:	12/14/2021
Dividend Yield:	2.1%	5 Year Price Target	\$49	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	A	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 third quarter results on July 29th. Sales grew 19.2% compared to the prior year quarter, to \$428.4 million. The increase was due to higher sales in all three of the company's segments. Adjusted earnings were \$0.91 per share, up 13.8% from \$0.80 a year ago. Adjusted EPS year-to-date is \$2.48, up 31% from the comparable period last year. The company reduced their net debt leverage ratio to 3.1 and remain on target for the near-term objective of 3.0 times.

Management provided a 2021 outlook for adjusted EBITDA to be at least \$225 million, but few other details. Additionally, they are anticipating the energy solutions business' revenues to double in 2021 compared to 2020.

During the quarter, Matthews announced the acquisition of the assets of Terrella Energy Systems, Ltd. Terrella is a supplier of technology solutions to the global hydrogen fuel cell industry, and folds into Matthews' Saueressig Engineering business. With this addition, Matthews is now a leader in the renewable energy market and possesses advanced manufacturing solutions for Lithium-ion batteries.

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	\$3.25	\$3.77
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
Shares³	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 targeting 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

¹ Estimate based on last year

² Estimate based on last year

³ In millions

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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.

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	12.5	13.0
Avg. Yld.	0.9%	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	2.1%	2.2%

The current P/E ratio based on our 2021 adjusted earnings per share estimate is only slightly lower than our estimated valuation of 13 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 13 times earnings as a fair value starting point. Given the current P/E discount, shares could see a 0.7% annual gain due to multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

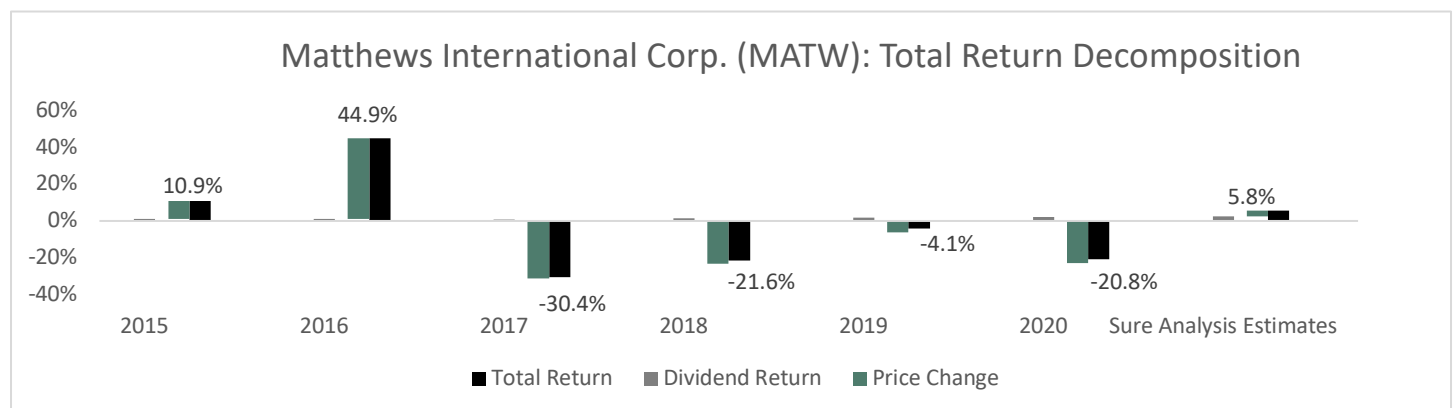
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	12%	16%	16%	17%	18%	18%	19%	19%	24%	28%	26%	29%

The dividend payout ratio for Matthews International has been very conservative and is nearing a decade peak at near 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 5.8% for the next five years consisting of the current 2.1% yield, 3% earnings growth and a 0.7% gain from the valuation expansion. Matthews trades just above our estimated fair value and has respectable expected returns of 5.8%. 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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