



# Matthews International Corp. (MATW)

Updated December 2<sup>nd</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$36	<b>5 Year CAGR Estimate:</b>	6.6%	<b>Market Cap:</b>	\$1.1 B
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	02/05/2022
<b>% Fair Value:</b>	94%	<b>5 Year Valuation Multiple Estimate:</b>	1.2%	<b>Dividend Payment Date<sup>2</sup>:</b>	02/22/2022
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$44	<b>Years Of Dividend Growth:</b>	28
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<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 \$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 fourth quarter and full fiscal year 2021 results. The company achieved record annual sales of \$1.67 billion, compared to \$1.5 billion in 2020. The increase was due to higher sales in all three of the company's segments. Adjusted earnings were \$3.28 per share, up 9.0% from \$3.01 a year ago. company reduced their net debt leverage ratio to 3.1 and remain on target for the near-term objective of 3.0 times. The corporation reduced debt by \$70.8 million in the fiscal year.

Leadership provided vague guidance into fiscal 2022, touching on the strength of the energy solutions business and how it should grow significantly in 2022 as it did in 2021. Growth in consolidated sales in anticipated in fiscal 2022 but increases in commodity costs is a headwind for the company's adjusted EBITDA, which is projected to decline modestly. Cash flow management and debt reduction are big focuses of management in the coming year.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Adj. EPS</b>	\$2.34	\$2.49	\$2.74	\$3.03	\$3.38	\$3.60	\$3.96	\$3.31	\$3.01	\$3.28	<b>\$2.94</b>	<b>\$3.41</b>
<b>DPS</b>	\$0.37	\$0.41	\$0.46	\$0.54	\$0.60	\$0.68	\$0.76	\$0.80	\$0.84	\$0.87	<b>\$0.88</b>	<b>\$1.12</b>
<b>Shares<sup>3</sup></b>	27.8	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0	<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 3.8% compounded annually from 2012 to 2021. 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 structure improvements. The company is also committed to repurchasing shares opportunistically with excess cash flow.

<sup>1</sup> Estimate based on last year

<sup>2</sup> Estimate based on last year

<sup>3</sup> In millions

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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.7	17.1	17.8	17.6	22.7	14.5	10.3	11.5	8.3	11.1	12.2	13.0
Avg. Yld.	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	2.4%	2.4%	2.5%

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 14.5 and 11.1, 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 1.2% annual gain due to multiple expansion.

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

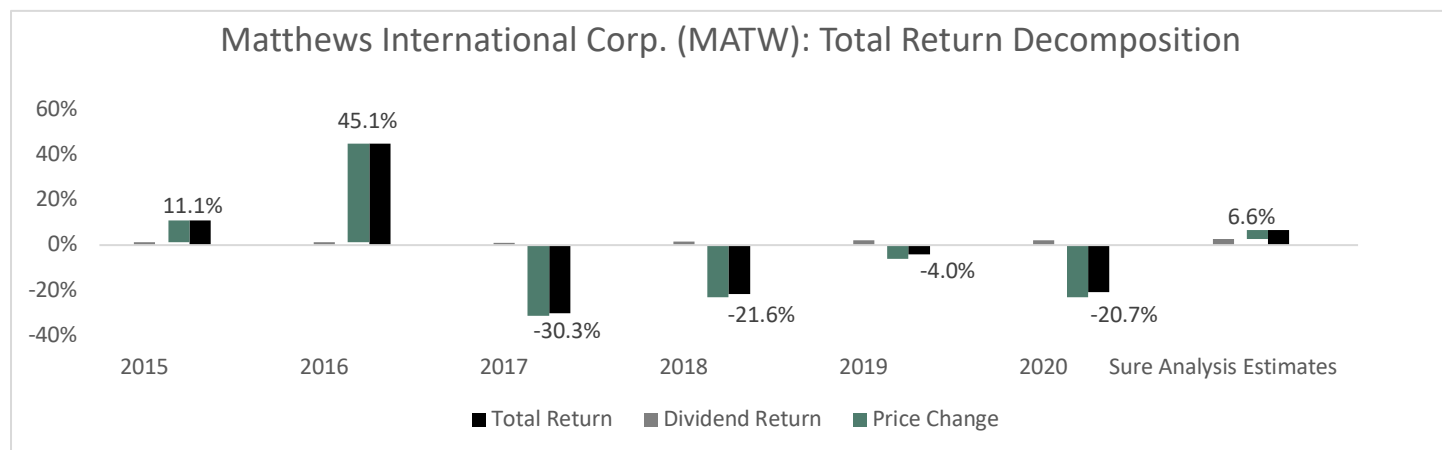
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022	2027
Payout	16%	16%	17%	18%	18%	19%	19%	24%	28%	26%	30%	33%

The dividend payout ratio for Matthews International has been very conservative and is nearing a decade peak at 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 28 years of dividend growth and a conservative payout ratio. We forecast total annual returns of 6.6% for the next five years consisting of the current 2.4% yield, 3% earnings growth and a 1.2% gain from the valuation expansion. Matthews trades just below our estimated fair value and has respectable expected returns of 6.6%. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	900	985	1107	1426	1480	1516	1603	1537	1498	1671
<b>Gross Profit</b>	337	357	392	529	556	568	584	542	498	542
<b>Gross Margin</b>	37.4%	36.2%	35.5%	37.1%	37.6%	37.5%	36.5%	35.3%	33.2%	32.4%
<b>SG&amp;A Exp.</b>	244	262	311	424	417	423	414	409	400	416
<b>D&amp;A Exp.</b>	29	38	43	63	65	68	77	91	119	134
<b>Operating Profit</b>	93	95	82	105	119	121	139	88	26	42
<b>Operating Margin</b>	10.3%	9.6%	7.4%	7.4%	8.0%	8.0%	8.6%	5.7%	1.7%	2.5%
<b>Net Profit</b>	55	54	43	63	67	74	107	-38	-87	3
<b>Net Margin</b>	6.1%	5.5%	3.9%	4.4%	4.5%	4.9%	6.7%	-2.5%	-5.8%	0.2%
<b>Free Cash Flow</b>	49	83	61	93	99	104	104	93	146	128
<b>Income Tax</b>	28	26	23	26	29	22	-9	1	-19	6

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	1128	1209	2024	2144	2091	2245	2358	2191	2073	2032
<b>Cash &amp; Equivalents</b>	58	48	63	72	56	58	42	35	41	49
<b>Accounts Receivable</b>	175	178	283	284	295	320	331	319	295	310
<b>Inventories</b>	131	130	153	171	162	171	180	180	175	189
<b>Goodwill &amp; Int. Ass.</b>	535	590	1201	1271	1245	1322	1393	1247	1099	1035
<b>Total Liabilities</b>	637	663	1249	1410	1382	1454	1489	1471	1461	1396
<b>Accounts Payable</b>	44	45	72	69	58	67	70	75	83	113
<b>Long-Term Debt</b>	320	375	729	903	873	911	961	941	835	764
<b>Shareholder's Equity</b>	478	543	771	731	709	790	868	718	611	637
<b>D/E Ratio</b>	1.33	1.22	1.62	1.93	1.95	1.84	1.71	2.05	2.39	2.19

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	5.0%	4.6%	2.6%	3.0%	3.2%	3.4%	4.7%	-1.7%	-4.1%	0.1%
<b>Return on Equity</b>	11.7%	10.6%	6.5%	8.4%	9.3%	9.9%	13.0%	-4.8%	-13.1%	0.5%
<b>ROIC</b>	6.9%	6.3%	3.5%	4.0%	4.1%	4.5%	6.1%	-2.2%	-5.6%	0.2%
<b>Shares Out.</b>	27.8	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0
<b>Revenue/Share</b>	32.34	35.93	38.85	42.96	44.99	46.53	50.30	48.93	48.04	52.24
<b>FCF/Share</b>	1.77	3.03	2.16	2.80	3.00	3.20	3.28	2.97	4.67	4.02

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

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