



Matthews International Corp. (MATW)

Updated August 2nd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	9.3%	Market Cap:	\$860 M
Fair Value Price:	\$32	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	08/05/2022
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date²:	08/22/2022
Dividend Yield:	3.2%	5 Year Price Target	\$37	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

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 \$860 million market capitalization company trades on the NASDAQ under the MATW ticker and employs roughly 11,000 people in over 26 countries.

Matthews International reported third quarter results on July 28th. The company achieved sales of \$422 million, a 6.7% decrease compared to the same prior year period. The decrease was in part due to changes in foreign currency exchange rates. Adjusted earnings were \$0.58 per share, down 36% from \$0.91 a year ago. The company's net debt leverage ratio increased from the year-ago period, from 3.1 to 3.5, with a near-term objective of 3.0 times. The corporation maintains their focus on debt reduction this fiscal year.

Leadership lowered its fiscal 2022 outlook. Growth in consolidated sales is anticipated in fiscal 2022 but increased costs remain a headwind to the company's adjusted EBITDA, projected to be about \$205 million (down from \$220 million).

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Adj. EPS	\$2.34	\$2.49	\$2.74	\$3.03	\$3.38	\$3.60	\$3.96	\$3.31	\$3.01	\$3.28	\$2.81	\$3.26
DPS	\$0.37	\$0.41	\$0.46	\$0.54	\$0.60	\$0.68	\$0.76	\$0.80	\$0.84	\$0.87	\$0.88	\$1.12
Shares³	27.8	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0	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 3.8% compounded annually from 2012 to 2021.

The company is searching for complementary acquisition opportunities which can extend its capabilities in existing businesses or expand the corporation even further geographically. Matthews is targeting to achieve long-term annual return on invested capital of at least 12% on these acquisitions.

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 has boomed as a result of COVID-19, as increased deaths and rising cremation rates adds to the top line. The Industrial Technologies segment has also grown strongly, primarily as a result of growing sales in its

¹ Estimate based on last year

² Estimate based on last year

³ In millions

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energy storage solutions at its Saueressig subsidiary, which develops equipment used in the manufacturing of lithium ion batteries and embossing plates used in fuel cells. Its third segment, SGK Branding, has been lagging in terms of meaningful growth and is focusing on redesigning, rebranding, and bundling its products and services. 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	9.7	11.5
Avg. Yld.	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	2.4%	3.2%	3.0%

The current P/E ratio based on our 2022 adjusted earnings per share estimate is lower than our estimated fair value of 11.5 times earnings. Over the past ten and five years, the average P/E ratio has been 14.5 and 11.1, respectively. We are using 11.5 times earnings as a fair value starting point given ongoing uncertainties in the global economic landscape. Given the current P/E discount, shares could see a 3.5% annual gain due to multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

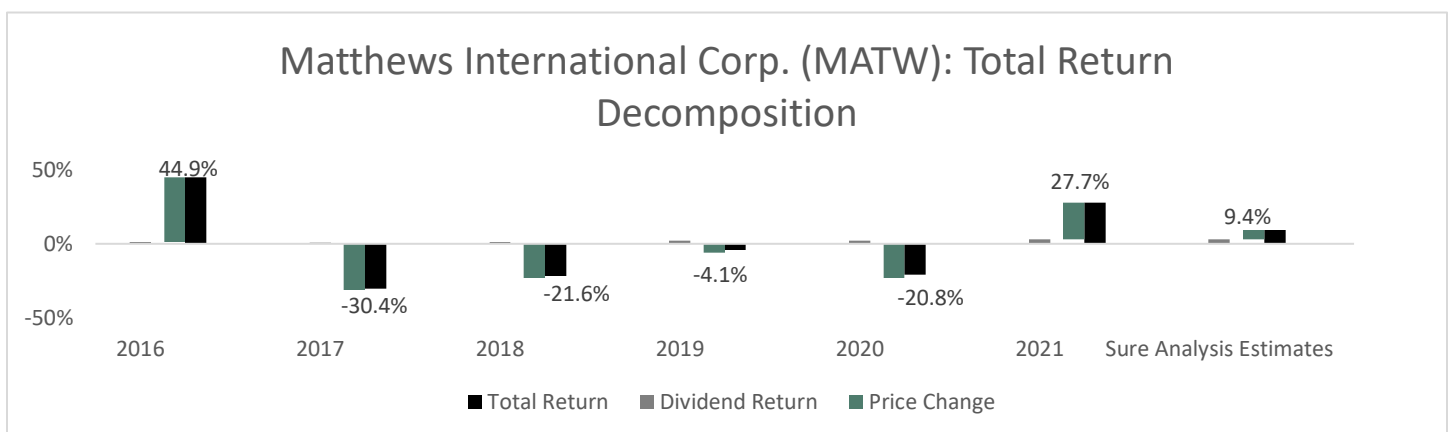
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022	2027
Payout	16%	16%	17%	18%	18%	19%	19%	24%	28%	26%	31%	34%

The dividend payout ratio for Matthews International has been very conservative and is nearing a decade peak at 31%. This conservative payout ratio allows for Matthews to continue raising the dividend as it has for the last 28 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 9.3% for the next five years consisting of the current 3.2% yield, 3% earnings growth and a 3.5% gain from the valuation expansion. Matthews trades below our estimated fair value and has strong expected returns of 9.3%. 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
Revenue	900	985	1107	1426	1480	1516	1603	1537	1498	1671
Gross Profit	337	357	392	529	556	568	584	542	498	542
Gross Margin	37.4%	36.2%	35.5%	37.1%	37.6%	37.5%	36.5%	35.3%	33.2%	32.4%
SG&A Exp.	244	262	311	424	417	423	414	409	400	416
D&A Exp.	29	38	43	63	65	68	77	91	119	134
Operating Profit	93	95	82	105	119	121	139	88	26	42
Operating Margin	10.3%	9.6%	7.4%	7.4%	8.0%	8.0%	8.6%	5.7%	1.7%	2.5%
Net Profit	55	54	43	63	67	74	107	-38	-87	3
Net Margin	6.1%	5.5%	3.9%	4.4%	4.5%	4.9%	6.7%	-2.5%	-5.8%	0.2%
Free Cash Flow	49	83	61	93	99	104	104	93	146	128
Income Tax	28	26	23	26	29	22	-9	1	-19	6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1128	1209	2024	2144	2091	2245	2358	2191	2073	2032
Cash & Equivalents	58	48	63	72	56	58	42	35	41	49
Accounts Receivable	175	178	283	284	295	320	331	319	295	310
Inventories	131	130	153	171	162	171	180	180	175	189
Goodwill & Int. Ass.	535	590	1201	1271	1245	1322	1393	1247	1099	1035
Total Liabilities	637	663	1249	1410	1382	1454	1489	1471	1461	1396
Accounts Payable	44	45	72	69	58	67	70	75	83	113
Long-Term Debt	320	375	729	903	873	911	961	941	835	764
Shareholder's Equity	478	543	771	731	709	790	868	718	611	637
D/E Ratio	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
Return on Assets	5.0%	4.6%	2.6%	3.0%	3.2%	3.4%	4.7%	-1.7%	-4.1%	0.1%
Return on Equity	11.7%	10.6%	6.5%	8.4%	9.3%	9.9%	13.0%	-4.8%	-13.1%	0.5%
ROIC	6.9%	6.3%	3.5%	4.0%	4.1%	4.5%	6.1%	-2.2%	-5.6%	0.2%
Shares Out.	27.8	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0
Revenue/Share	32.34	35.93	38.85	42.96	44.99	46.53	50.30	48.93	48.04	52.24
FCF/Share	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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