



Matthews International Corp. (MATW)

Updated February 2nd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	3.1%	Market Cap:	\$1.1 B
Fair Value Price:	\$32	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	02/03/2023
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date²:	02/20/2023
Dividend Yield:	2.4%	5 Year Price Target	\$39	Years Of Dividend Growth:	29
Dividend Risk Score:	A	Retirement Suitability Score:	B	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 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 12,000 people in over 30 countries.

Matthews International reported first quarter results on January 26th, 2023. The company achieved sales of \$449 million, a 2.4% increase compared to the same prior year period. The increase was due to 47% sales growth in the Industrial Technologies segment. Adjusted earnings were \$0.53 per share, down 28% from \$0.74 a year ago. The company's net debt leverage ratio increased from the last quarter, from 3.5 to 3.8 as a result of the company's recent acquisitions.

Leadership maintained its fiscal 2023 outlook for adjusted EBITDA to be about \$225 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Adj. EPS	\$2.49	\$2.74	\$3.03	\$3.38	\$3.60	\$3.96	\$3.31	\$3.01	\$3.28	\$2.88	\$2.79	\$3.39
DPS	\$0.41	\$0.46	\$0.54	\$0.60	\$0.68	\$0.76	\$0.80	\$0.84	\$0.87	\$0.88	\$0.92	\$1.17
Shares³	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0	31.4	31.0	30.0

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 2013 to 2022.

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. Some such examples are recent acquisitions OLBRICH GmbH and R+S Automotive GmbH made in August 2022, which expanded the company's global presence and its position in the industrial and automotive components business.

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 added to the top line. However, this benefit is now in the rearview as U.S. death rates have normalized from prior high pandemic

¹ Estimate based on last year

² Estimate based on last year

³ In millions

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levels. The Industrial Technologies segment is growing strongly, primarily as a result of growing sales in its 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, as well as its recent acquisitions. 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. This segment is also reducing costs in an effort to increase margins as currency headwinds weigh on the business. We are forecasting intermediate-term earnings growth of 4% annually.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.1	17.8	17.6	22.7	14.5	10.3	11.5	8.3	11.1	10.3	13.7	11.5
Avg. Yld.	1.1%	1.0%	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	2.4%	2.9%	2.4%	3.0%

The current P/E ratio based on our 2023 adjusted earnings per share estimate is higher than our estimated fair value of 11.5 times earnings. Over the past ten and five years, the average P/E ratio has been 14.1 and 10.3, respectively. Given the current overvaluation, shares could see a 3.4% annual drag due to multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

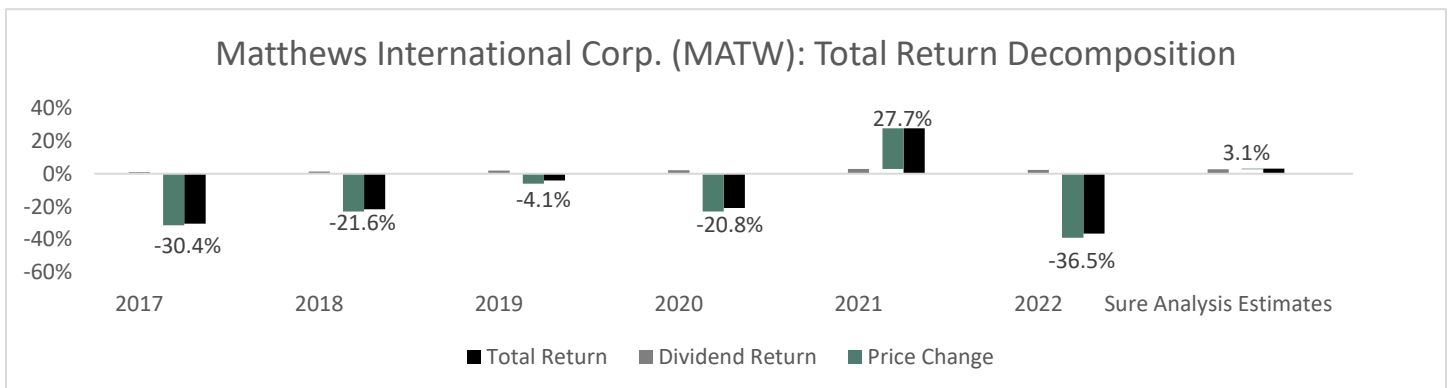
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	17%	18%	18%	19%	19%	24%	28%	26%	31%	33%	35%

The dividend payout ratio for Matthews International has been very conservative and is nearing a decade peak at 33%. This conservative payout ratio allows for Matthews to continue raising the dividend as it has for the last 29 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 29 years of dividend growth and a conservative payout ratio. We forecast total annual returns of 3.1% for the next five years consisting of the current 2.4% yield and 4.0% earnings growth, possibly offset by -3.4% multiple contraction. Matthews trades 19% above our estimate of fair value and has lackluster total annual expected returns of 3.1%. Matthews just barely retains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	985	1107	1426	1480	1516	1603	1537	1498	1671	1762
Gross Profit	357	392	529	556	568	584	542	498	542	522
Gross Margin	36.2%	35.5%	37.1%	37.6%	37.5%	36.5%	35.3%	33.2%	32.4%	29.6%
SG&A Exp.	262	311	424	417	423	414	409	400	416	427
D&A Exp.	38	43	63	65	68	77	91	119	134	104
Operating Profit	95	82	105	119	121	139	88	26	42	39
Operating Margin	9.6%	7.4%	7.4%	8.0%	8.0%	8.6%	5.7%	1.7%	2.5%	2.2%
Net Profit	54	43	63	67	74	107	-38	-87	3	-100
Net Margin	5.5%	3.9%	4.4%	4.5%	4.9%	6.7%	-2.5%	-5.8%	0.2%	-5.7%
Free Cash Flow	83	61	93	99	104	104	93	146	128	66
Income Tax	26	23	26	29	22	-9	1	-19	6	-4

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1209	2024	2144	2091	2245	2358	2191	2073	2032	1883
Cash & Equivalents	48	63	72	56	58	42	35	41	49	69
Accounts Receivable	178	283	284	295	320	331	319	295	310	221
Inventories	130	153	171	162	171	180	180	175	189	225
Goodwill & Int. Ass.	590	1201	1271	1245	1322	1393	1247	1099	1035	878
Total Liabilities	663	1249	1410	1382	1454	1489	1471	1461	1396	1396
Accounts Payable	45	72	69	58	67	70	75	83	113	121
Long-Term Debt	375	729	903	873	911	961	941	835	764	799
Shareholder's Equity	543	771	731	709	790	868	718	611	637	487
D/E Ratio	1.22	1.62	1.93	1.95	1.84	1.71	2.05	2.39	2.19	1.64

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.6%	2.6%	3.0%	3.2%	3.4%	4.7%	-1.7%	-4.1%	0.1%	-5.1%
Return on Equity	10.6%	6.5%	8.4%	9.3%	9.9%	13.0%	-4.8%	-13.1%	0.5%	-17.8%
ROIC	6.3%	3.5%	4.0%	4.1%	4.5%	6.1%	-2.2%	-5.6%	0.2%	-7.4%
Shares Out.	27.4	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0	31.4
Revenue/Share	35.93	38.85	42.96	44.99	46.53	50.30	48.93	48.04	52.24	56.19
FCF/Share	3.03	2.16	2.80	3.00	3.20	3.28	2.97	4.67	4.02	2.09

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

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