



Matthews International Corp. (MATW)

Updated February 6th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	10.9%	Market Cap:	\$868 M
Fair Value Price:	\$32	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	02/02/2024
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date²:	02/19/2024
Dividend Yield:	3.3%	5 Year Price Target	\$43	Years Of Dividend Growth:	30
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

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 \$868 million 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 February 1st, 2024. The company achieved sales of \$450 million, a 0.2% increase compared to the same prior year period. The small increase was the result of 2% sales growth in the Industrial Technologies segment, and 0.8% growth in the Memorialization segment, partly offset by a 2.3% decrease in SGK Brand Solutions. Adjusted earnings were \$0.37 per share, a 30% decrease from \$0.53 a year ago. The company's net debt leverage ratio was up sequentially from 3.3 to 3.7.

Matthews reaffirmed it expects growth of sales and adjusted EBITDA in fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Adj. EPS	\$2.74	\$3.03	\$3.38	\$3.60	\$3.96	\$3.31	\$3.01	\$3.28	\$2.88	\$2.88	\$2.58	\$3.45
DPS	\$0.46	\$0.54	\$0.60	\$0.68	\$0.76	\$0.80	\$0.84	\$0.87	\$0.88	\$0.92	\$0.96	\$1.23
Shares³	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0	31.4	31.5	31.0	33.0

Matthews International measures its performance with adjusted earnings per share, which excludes 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 0.6% compounded annually from 2014 to 2023.

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 aiming to achieve a 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 expense, 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

¹ Estimate based on last year

² Estimate based on last year

³ In millions

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the top line. However, this benefit is now in the rearview as U.S. death rates have normalized from prior high pandemic levels. The Industrial Technologies segment is growing 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 6.0% annually.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.8	17.6	22.7	14.5	10.3	11.5	8.3	11.1	10.3	13.6	11.3	12.5
Avg. Yld.	1.0%	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	2.4%	2.9%	2.2%	3.3%	2.8%

The current P/E ratio based on our 2023 adjusted earnings per share estimate is below our estimated fair value of 12.5 times earnings. Over the past ten and five years, the average P/E ratio has been 13.8 and 11.0, respectively. Given the current undervaluation, shares could see a 2.1% annual gain due to multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

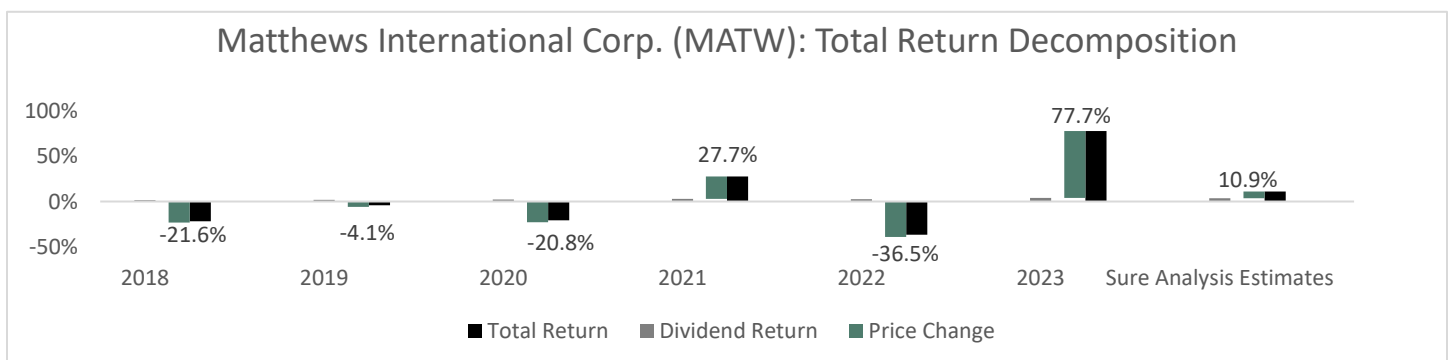
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	17%	18%	18%	19%	19%	24%	28%	26%	31%	32%	37%	35%

The dividend payout ratio for Matthews International has been very conservative and only recently eclipsed one third of earnings. This conservative payout ratio allows Matthews to continue raising the dividend as it has for the last 30 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 30 years of dividend growth and a conservative payout ratio. We forecast total annual returns of 10.9% for the next five years consisting of the 3.3% yield, 6.0% earnings-per-share growth, and 2.1% multiple expansion. Matthews trades at a 10% discount to our estimate of fair value and has expected total annual returns of 10.9%. Matthews earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1107	1426	1480	1516	1603	1537	1498	1671	1762	1881
Gross Profit	392	529	556	568	584	542	498	542	522	578
Gross Margin	35.5%	37.1%	37.6%	37.5%	36.5%	35.3%	33.2%	32.4%	29.6%	30.7%
SG&A Exp.	311	424	417	423	414	409	400	416	427	447
D&A Exp.	43	63	65	68	77	91	119	134	104	97
Operating Profit	82	105	119	121	139	88	26	42	39	88
Operating Margin	7.4%	7.4%	8.0%	8.0%	8.6%	5.7%	1.7%	2.5%	2.2%	4.7%
Net Profit	43	63	67	74	107	-38	-87	3	-100	39
Net Margin	3.9%	4.4%	4.5%	4.9%	6.7%	-2.5%	-5.8%	0.2%	-5.7%	2.1%
Free Cash Flow	61	93	99	104	104	93	146	128	66	28.9
Income Tax	23	26	29	22	-9	1	-19	6	-4	2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2024	2144	2091	2245	2358	2191	2073	2032	1883	1887
Cash & Equivalents	63	72	56	58	42	35	41	49	69	42
Accounts Receivable	283	284	295	320	331	319	295	310	221	208
Inventories	153	171	162	171	180	180	175	189	225	260
Goodwill & Int. Ass.	1201	1271	1245	1322	1393	1247	1099	1035	878	859
Total Liabilities	1249	1410	1382	1454	1489	1471	1461	1396	1396	1362
Accounts Payable	72	69	58	67	70	75	83	113	121	114
Long-Term Debt	729	903	873	911	961	941	835	764	799	790
Shareholder's Equity	771	731	709	790	868	718	611	637	487	526
D/E Ratio	1.62	1.93	1.95	1.84	1.71	2.05	2.39	2.19	1.64	1.50

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.6%	3.0%	3.2%	3.4%	4.7%	-1.7%	-4.1%	0.1%	-5.1%	2.1%
Return on Equity	6.5%	8.4%	9.3%	9.9%	13.0%	-4.8%	-13.1%	0.5%	-17.8%	7.8%
ROIC	3.5%	4.0%	4.1%	4.5%	6.1%	-2.2%	-5.6%	0.2%	-7.4%	3.0%
Shares Out.	28.5	33.2	32.9	32.6	31.9	31.4	31.2	32.0	31.4	31.3
Revenue/Share	38.85	42.96	44.99	46.53	50.30	48.93	48.04	52.24	56.19	60.11
FCF/Share	2.16	2.80	3.00	3.20	3.28	2.97	4.67	4.02	2.09	0.92

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

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