



# Matthews International Corp. (MATW)

Updated November 26<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	8.6%	<b>Market Cap:</b>	\$965 M
<b>Fair Value Price:</b>	\$26	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	12/02/2024
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.0%	<b>Dividend Payment Date:</b>	12/16/2024
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$40	<b>Years Of Dividend Growth:</b>	31
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$965 million market capitalization company trades on the NASDAQ under the MATW ticker and employs approximately 11,000 people in over 30 countries.

Matthews International reported fourth quarter and FY 2024 results on November 21<sup>st</sup>, 2024. The company reported sales of \$447 million, a 7% decline compared to the same prior year period. The decrease was the result of a 19% sales decline in its Industrial Technologies segment. Adjusted earnings were \$0.55 per share, a 41% decrease from \$0.96 a year ago. The company's net debt leverage ratio rose from 3.3 one year ago to 3.6.

For FY 2024, Matthews' adjusted EPS fell 25% from \$2.88 to \$2.17.

Matthews expects \$205 million to \$215 million of adjusted EBITDA for fiscal 2025.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>Adj. EPS</b>	\$3.03	\$3.38	\$3.60	\$3.96	\$3.31	\$3.01	\$3.28	\$2.88	\$2.88	\$2.17	<b>\$2.00</b>	<b>\$3.08</b>
<b>DPS</b>	\$0.54	\$0.60	\$0.68	\$0.76	\$0.80	\$0.84	\$0.87	\$0.88	\$0.92	\$0.96	<b>\$1.00</b>	<b>\$1.28</b>
<b>Shares<sup>1</sup></b>	33.2	32.9	32.6	31.9	31.4	31.2	32.0	31.4	31.5	30.9	<b>30.5</b>	<b>32.0</b>

Matthews International measures its performance using 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 increase its geographic reach. 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 recently announced a new cost reduction program aimed at saving \$50 million annually. 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

<sup>1</sup> In millions

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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. However, customer delays and a lawsuit from Tesla are impacting near-term sales. Tesla is attempting to restrict the company from selling some of its battery solutions.

Its third segment, SGK Branding, has been turning the corner in terms of sales growth and margin improvements. We are forecasting intermediate-term EPS growth of 9% annually.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	17.6	22.7	14.5	10.3	11.5	8.3	11.1	10.3	13.6	12.5	15.2	13.0
Avg. Yld.	1.0%	1.0%	1.0%	1.5%	2.2%	3.0%	2.4%	2.9%	2.2%	3.6%	3.3%	3.2%

The current P/E ratio based on our 2024 adjusted earnings per share estimate is now above our estimated fair value of 13 times earnings. Over the past ten and five years, the average P/E ratio has been 13.2 and 11.2, respectively. Given the current overvaluation, shares could see a 3.0% annual decline from multiple contraction.

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

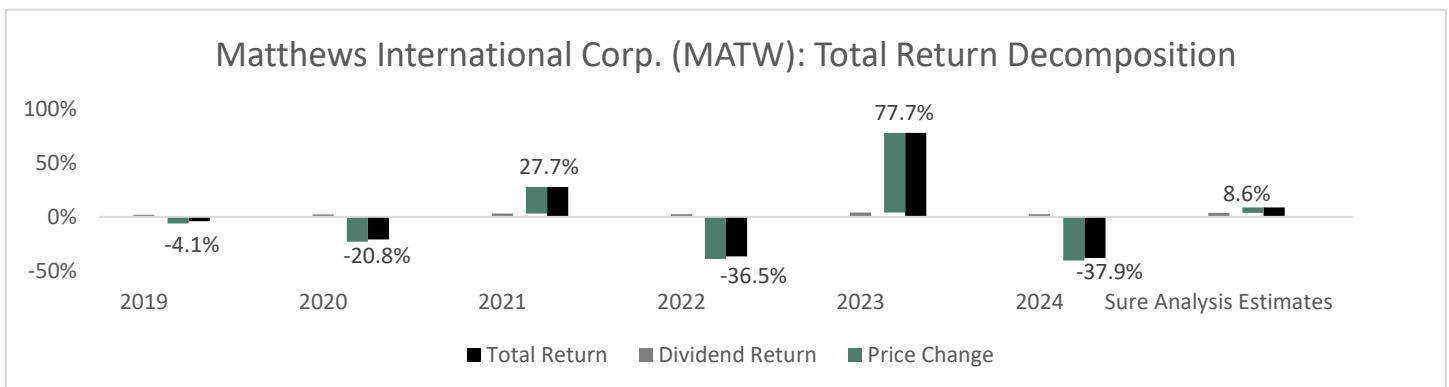
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	18%	18%	19%	19%	24%	28%	26%	31%	32%	44%	50%	41%

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 31 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 31 years of dividend growth and a conservative payout ratio. We forecast total annual returns of 8.6% for the next five years consisting of a 3.3% yield and 9.0% earnings-per-share growth, partly offset by -3.0% multiple contraction. Matthews trades at a 17% premium to our estimate of fair value and has expected total annual returns of 8.6%. As a result, we are downgrading MATW from buy to hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	1426	1480	1516	1603	1537	1498	1671	1762	1881	1796
<b>Gross Profit</b>	529	556	568	584	542	498	542	522	578	530
<b>Gross Margin</b>	37.1%	37.6%	37.5%	36.5%	35.3%	33.2%	32.4%	29.6%	30.7%	29.5%
<b>SG&amp;A Exp.</b>	424	417	423	414	409	400	416	427	447	488
<b>D&amp;A Exp.</b>	63	65	68	77	91	119	134	104	97	95
<b>Operating Profit</b>	105	119	121	139	88	26	42	39	88	4
<b>Operating Margin</b>	7.4%	8.0%	8.0%	8.6%	5.7%	1.7%	2.5%	2.2%	4.7%	0.2%
<b>Net Profit</b>	63	67	74	107	-38	-87	3	-100	39	-60
<b>Net Margin</b>	4.4%	4.5%	4.9%	6.7%	-2.5%	-5.8%	0.2%	-5.7%	2.1%	-3.3%
<b>Free Cash Flow</b>	93	99	104	104	93	146	128	66	29	34
<b>Income Tax</b>	26	29	22	-9	1	-19	6	-4	2	-10

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	2144	2091	2245	2358	2191	2073	2032	1883	1887	1835
<b>Cash &amp; Equivalents</b>	72	56	58	42	35	41	49	69	42	41
<b>Accounts Receivable</b>	284	295	320	331	319	295	310	221	208	206
<b>Inventories</b>	171	162	171	180	180	175	189	225	260	238
<b>Goodwill &amp; Int. Ass.</b>	1271	1245	1322	1393	1247	1099	1035	878	859	823
<b>Total Liabilities</b>	1410	1382	1454	1489	1471	1461	1396	1396	1362	1398
<b>Accounts Payable</b>	69	58	67	70	75	83	113	121	114	108
<b>Long-Term Debt</b>	903	873	911	961	941	835	764	799	790	776
<b>Shareholder's Equity</b>	731	709	790	868	718	611	637	487	526	437
<b>D/E Ratio</b>	1.93	1.95	1.84	1.71	2.05	2.39	2.19	1.64	1.50	1.78

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	3.0%	3.2%	3.4%	4.7%	-1.7%	-4.1%	0.1%	-5.1%	2.1%	-3.2%
<b>Return on Equity</b>	8.4%	9.3%	9.9%	13.0%	-4.8%	-13.1%	0.5%	-17.8%	7.8%	-12.4%
<b>ROIC</b>	4.0%	4.1%	4.5%	6.1%	-2.2%	-5.6%	0.2%	-7.4%	3.0%	-4.7%
<b>Shares Out.</b>	33.2	32.9	32.6	31.9	31.4	31.2	32.0	31.4	31.3	30.9
<b>Revenue/Share</b>	42.96	44.99	46.53	50.30	48.93	48.04	52.24	56.19	60.11	58.09
<b>FCF/Share</b>	2.80	3.00	3.20	3.28	2.97	4.67	4.02	2.09	0.92	1.10

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

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