

Operator: Greetings, and welcome to the Matthews International Corporation Second Quarter Fiscal 2021 Earnings Conference Call. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Bill Wilson.

Thank you, Bill. You may begin.

Bill Wilson, Senior Director, Corporate Development: Thank you, Paul. Good morning, everyone, and welcome to the Matthews International Second Quarter Fiscal Year 2021 Earnings Conference Call. This is Bill Wilson, Senior Director of Corporate Development. With us today are Joe Bartolacci, President and Chief Executive Officer, and Steve Nicola, our Chief Financial Officer.

Before we start, I would like to remind you that our earnings release was posted on our website, www.matw.com, in the Investor section last night. The presentation for our call can also be accessed in the Investor section of the website.

As a reminder, any forward-looking statements in connection with this discussion are being made pursuant to the Safe Harbor provisions of the Private Securities Litigation Act of 1995. Factors that could cause the Company's results to differ from those discussed today are set forth in the Company's Annual Report on Form 10-K and other periodic filings with the SEC.

In addition, we will be discussing non-GAAP financial metrics and encourage you to read our disclosures and reconciliation tables carefully as you consider these metrics. In connection with any forward-looking statements and non-GAAP financial information, please read the disclaimer included in today's presentation materials located on our website. Now, I'll turn the call over to Steve.

Steven Nicola, Chief Financial Officer: Thank you, Bill. Good morning. Please turn to **Slide 4**.

As provided in our earnings release yesterday, the Company reported consolidated sales of \$417.2 million and net income on a GAAP basis of \$5 million, or \$0.16 per share, for the quarter ended March 31, 2021 compared to sales of \$374.8 million and a GAAP net loss of \$86.4 million, or \$2.77 per share, for the same quarter last year. On a year-to-date basis, the Company reported consolidated sales of \$803.8 million and net income on a GAAP basis of \$3.2 million, or \$0.10 per share, as of March 31, 2021 compared to sales of \$739.7 million and a GAAP net loss of \$96.8 million, or \$3.11 per share, last year.

Key financial highlights for the Fiscal 2021 second quarter included: First, the Company's consolidated sales of \$417.2 million, a new quarterly record for the Company, represented an increase of \$42.4 million, or 11.3% compared to the same quarter last year. Second, consolidated Adjusted EBITDA for the quarter ended March 31, 2021 was \$60.9 million compared to \$49.4 million last year, representing a year-over-year increase of 23%. Third, adjusted earnings per share for the Fiscal 2021 second quarter was \$0.89 per share compared with \$0.63 for the Fiscal 2020 second quarter, representing 41% growth. Fourth, the Company again reported strong operating cash flow as we continued to emphasize cash generation in this challenging environment. As a result, for the six months ended March 31, 2021, the Company generated cash flow from operations of \$92.2 million compared to \$66 million last year.

Lastly, during the recent quarter, the Company again reduced its outstanding debt and leverage ratio. During the current quarter, the Company lowered its outstanding debt by \$42.1 million. On a net of cash basis, our net debt declined \$48 million. As a result, our net leverage ratio declined to 3.2 at March 31, 2021 compared to 3.9 at September 30, 2020 and 4.3 a year ago. Since March 31, 2020, the Company has reduced its outstanding debt by \$183.3 million.

With respect to COVID-19, all segments continued to experience some level of varying commercial impacts during the second quarter. These impacts remained difficult to project and, as the pandemic has continued into Calendar 2021, we expect ongoing impacts in the remainder of our 2021 Fiscal Year.

As I noted earlier, on a GAAP basis, the Company reported earnings per share of \$0.16 for the current quarter compared to a loss of \$2.77 per share last year. The net loss a year ago included a goodwill charge of \$2.63 per share. Earnings per share on a GAAP basis for both quarters included the impact of intangible amortization, primarily from the acceleration of the amortization of certain intangible assets in the SGK Brand Solutions segment and charges in connection with our cost-reduction initiatives and COVID-19 related costs.

Consolidated intangible amortization expense was \$22.9 million, or \$0.52 per share, for the Fiscal 2021 second quarter compared to \$17.9 million, or \$0.43 per share, a year ago. Intangible amortization expense for the six months ended March 31, 2021 was \$38.2 million, or \$0.88 per share compared to \$35.8 million, or \$0.86 per share, last year.

On a non-GAAP adjusted basis, earnings for the Fiscal 2021 second quarter were \$0.89 per share compared to \$0.63 per share a year ago. Our non-GAAP earnings for the six months ended March 31, 2021 were \$1.57 per share compared to \$1.10 per share a year ago. The increases primarily reflected higher Adjusted EBITDA and lower interest expense.

Adjusted EBITDA, which represents net income before interest expense, income taxes, depreciation, and amortization, and other adjustments, was \$60.9 million for the Fiscal 2021 second quarter compared to \$49.4 million a year ago, representing an increase of 23%. For the six months ended March 31, 2021, Adjusted EBITDA was \$115.7 million compared to \$89.6 million a year ago, representing an increase of 29%. The improvements primarily reflected the impacts of higher consolidated sales, particularly in the memorialization segment, in addition to realized savings from the Company's cost reduction program and lower travel-related expenses.

Please see the reconciliations of Adjusted EBITDA and non-GAAP adjusted earnings per share in our earnings release.

Investment income for the three months ended March 31, 2021 was \$969,000 compared to a loss of \$1.1 million for the same quarter a year ago. For the six months ended March 31, 2021, investment income was \$2 million compared to \$191,000 last year. Investment income at March 31 a year ago reflected the initial market impacts of COVID-19. Investment income primarily reflects the changes in the value of investments held in trust for certain of the Company's benefit plans.

Interest expense for the quarter and six months ended March 31, 2021 were \$7.2 million and \$15 million, respectively compared to \$9.6 million and \$18.9 million, respectively, for the same periods a year ago, primarily reflecting lower average debt levels for the current year.

Other income and deductions net for the quarter and six months ended March 31, 2021 represented reductions to pre-tax income of \$2.6 million and \$4.3 million, respectively compared to \$1.8 million and \$4.7 million, respectively, for the same periods a year ago.

Other income and deductions include the non-service portion of pension and post-retirement costs. For the current quarter and year-to-date periods, the nonservice portion of pension and post-retirement cost was \$1.9 million and \$3.8 million, respectively compared to \$2.2 million and \$4.5 million, respectively, for the same periods last year.

Other income deductions also include banking related fees and the impact of currency gains and losses on certain intercompany debt and foreign denominated cash balances.

The Company's consolidated income taxes for the three months ended March 31, 2021 were an expense of \$972,000 compared to a benefit of \$11.1 million a year ago. Consolidated income taxes for the six months ended March 31, 2021 were an expense of \$5 million compared to a benefit of \$16.5 million last

year. The year-over-year changes principally reflected the Company's pre-tax income for the current periods versus the pre-tax losses, resulting mainly from the goodwill charge last year. Additionally, Fiscal 2021 included discrete tax expenses primarily related to foreign operating losses, while Fiscal 2020 included discrete tax benefits from the closure of several tax audits.

Please turn to **Slide 5** to begin a review our segment results. Memorialization segment sales for the Fiscal 2021 second quarter were \$205.5 million compared to \$161.8 million a year ago. For the six months ended March 31, 2021 memorialization segment sales were \$388.7 million compared to \$316.2 million a year ago. The quarter and year-to-date increases resulted mainly from increased sales of caskets due to the impact of the pandemic on death rates. In addition, sales of cremation equipment, cemetery memorial products and mausoleums also increased.

The Company also completed an acquisition of a small cemetery products business during the quarter.

Changes in foreign currency exchange rates had favorable impacts of \$1.5 million and \$2.3 million, respectively, on current quarter and year-to-date sales compared to a year ago.

Memorialization segment Adjusted EBITDA for the Fiscal 2021 second quarter was \$51.6 million compared to \$35.2 million a year ago. Year to date, memorialization Adjusted EBITDA was \$95.7 million for the current year compared to \$65.3 million last year. The year-over-year increases primary reflected the benefits of higher sales, productivity initiatives, and lower travel-related expenses, offset partially by higher material costs and increased performance-based compensation expense.

Costs for the segment's main direct materials, bronze, steel, and lumber, rose significantly during the recent quarter, which is expected to have an unfavorable impact on the remainder of the year.

Please turn to **Slide 6**. Sales for the SGK Brand Solution segment were \$171 million for the quarter ended March 31, 2021 compared to \$172.9 million a year ago. For the first six months of Fiscal 2021, the segment sales were \$339.2 million compared to \$347.7 million last year. The decreases primarily resulted from declines in merchandising and other retail-based sales, much of which was attributable to the impact of COVID-19. Higher sales of purpose-built engineered products partially offset these declines. The increase in engineered products sales was primarily attributable to the energy storage business of our Saueressig subsidiary.

Changes in foreign currency exchange rates had favorable impacts of \$7.1 million and \$10.4 million, respectively, on the segment sales, compared with the same quarter and year-to-date periods last year.

Fiscal 2021 second quarter Adjusted EBITDA for the SGK Brand Solution segment was \$20.8 million compared to \$22.2 million a year ago. The decline primarily reflected the impact of lower sales and unfavorable changes in productivity due to the pandemic. The segment's year-to-date Adjusted EBITDA was \$42.2 million for the current fiscal year compared to \$41 million last year. Despite lower sales, the segment reported an increase in year-to-date Adjusted EBITDA, primarily as a result of realized savings from the segment's recent cost reduction initiatives and lower travel-related expenses.

Please turn to **Slide 7**. Sales for the industrial technology segment were \$40.7 million for the quarter ended March 31, 2021 compared to \$40.1 million a year ago. Year to date, the segment sales were \$75.9 million for Fiscal 2021 compared to \$75.8 million last year. The segment's warehouse automation sales were higher for the current quarter compared to a year ago, which were offset by lower product identification sales. Incoming orders for our warehouse automation solutions continued to build during the quarter, and product identification orders also increased recently.

Changes in currency rates had favorable impacts of \$856,000 and \$1.4 million, respectively, on the segment's quarter and year-to-date sales compared with last year.

Adjusted EBITDA for the industrial technology segment for the current quarter was \$5.8 million compared with \$6.2 million a year ago. The segment's year-to-date Adjusted EBITDA was \$9.3 million compared with \$10.5 million a year ago.

The year-over-year decreases primarily reflected the impact of lower product identification sales, increased performance-based compensation expense, and higher product development costs, partially offset by benefits from recent cost reduction initiatives and lower travel-related expenses.

Please turn to **Slide 8**. Cash flow from operating activities for the six months ended March 31, 2021 was \$92.2 million compared to \$66 million last year. The significant increase primarily reflected the Company's operating results and continued work in capital management efforts. As a result of this strong cash flow, the Company further reduced its outstanding debt during the second quarter by \$42.1 million. In the last 12 months the Company reduced its outstanding debt by \$183.3 million.

Outstanding debt was \$782.5 million at March 31, 2021, with net debt, which represents outstanding debt less cash, at \$735.5 million. The leverage ratio covenant in our domestic credit facility is based on net debt. Our net debt leverage ratio declined to 3.2 at March 31, 2021 compared to 3.9 at September 30, 2020 and 4.3 at March 31, 2020.

Approximately 31.7 million shares were outstanding at March 31, 2021. During the recent quarter, the Company purchased only 6,000 shares under its share repurchase program as we remain focused primarily on debt reduction. The Company has remaining authorization of approximately 370,000 shares under the current program.

Finally, the Board this week declared a dividend of \$0.215 per share on the Company's common stock. The dividend is payable May 24, 2021 to stockholders of record May 10, 2021.

This concludes the financial review and Joe will now comment on our Company's operations.

Joseph Bartolacci, President, Chief Executive Officer: Thank you, Steve. Good morning. Again, this quarter, we are very pleased with our results.

Consistent with prior quarters, our memorialization segment delivered very strong results driven by exceptional performance from our funeral home products business and our environmental solutions business, while the balance of the businesses continued to deliver steady results.

From an overall perspective, each of our businesses reported better sales than prior year except for Brand, where our retail-based businesses were again challenged.

More importantly, as we begin our third quarter, we believe that we are seeing the pandemic begin to subside in North America. As we have now lapped the start of the pandemic, funeral home products sales in April are tracking below prior year, and that will make comparable results in this segment difficult. However, as we have hoped, we are seeing other businesses ramp up order intake at rates that give us confidence in the balance of the year.

Cemetery products orders have been very strong recently. Several new incineration projects, together with higher cremation equipment orders, should be additive. Warehouse automation orders continue to be very strong, and as we ended the second quarter, we saw increasing orders in our product identification business and related consumables.

Finally, as expected, tobacco orders in our European brand business have started to return and are being driven by regulatory changes.

In the energy storage business of our Saueressig subsidiary, we have very strong order intake as our business begins to take hold of what we hope will be a significant opportunity for us in the years to come. It is important to note, however, that order intake is only half of the story, as we have had extensive discussions occurring with numerous industry partners which we hope will make this business a more significant contributor to our overall results. Although our energy storage business has principally focused on supporting lithium-based products, we are beginning to extend our application and know-how to rotary processing of bipolar plates stacks, a critical component of hydrogen fuel cell batteries. Although it is early, we hope to talk more about this innovation in the quarters to come.

As you can tell, we've been very busy during the last quarter and throughout the pandemic. Many of our businesses have improved market position during this period, and this has created opportunities for growth. All of this bodes well for the balance of our fiscal year and beyond. As noted above, the one portion of our business that continues to be challenged is the retail portion of SGK Brand Solutions.

Our expectations are that as more North America returns to normal and as retailers prepare for what will hopefully be more normal back to school and Christmas seasons, investment in retail marketing will return, and we are well positioned to capitalize on that opportunity. Nevertheless, again this quarter, our core packaging business remained relatively stable and has gained new accounts during the pandemic.

As you have seen, the continued good operating performance and strong cash management have allowed us to again reduce our gross debt this quarter. During the last 12 months, we have reduced gross debt by over \$180 million.

We believe that we have embedded a strong culture of cash conversion into the Organization that will make us a better Company going forward. And as we approach our target of 3 times debt coverage, we will soon look for other opportunities to put our capital to work.

Regarding the balance of 2021, we are optimistic about our situation but remain cautious as events outside of our control can still arise, which can impact our results. As you can tell by my earlier comments, we are confident that each of our businesses has the orders to deliver a very strong year. Therefore, given our performance to date and the strength of our order intake, we expect that our full year EBITDA results should be at least \$220 million.

Now, let's open it up for questions.

Operator: Thank you. Our first question comes from Daniel Moore with CJS Securities. Please proceed with your question.

Daniel Moore, CJS Securities: Morning, Joe. Morning, Steve. Thanks for taking the questions. Start with warehouse automation. When do you expect to be able to get back into your customers' facilities? I'm just curious if we should see any meaningful revenue ahead of this year's holiday peak shipping season, or is that benefit likely to get pushed out to Calendar '22?

Joseph Bartolacci: I think it's a combination of both. We're expecting strong results compared to last year, but we don't expect to get every last dollar out during the next six months. The fact of the matter is places like Canada haven't opened up their borders. We have some foreign installations that we'd like to get to as well that we're not able to get to yet. Frankly, there's going to be a capacity issue for us trying to get the quantity of orders, and they are significant for us, out during this fiscal year. But that bodes well. I mean, it goes into our forecasting, it helps us understand what we expect to deliver for the next several months and should build well into 2022 as we go forward.

Daniel Moore: Helpful. And then I was going to ask, and you commented on it already, but the pickup in higher margin product ID sales, we're hearing a fair bit of increased optimism on the general industrial front, so maybe if you can just provide any additional color there.

Joseph Bartolacci: Sure. We saw a pretty good intake of inks, the largest consumable part of our product identification business, which bodes well and is reflective of what's going on in the economy. That is very, very helpful to our bottom line but is indicative of the general economy that we see. PID, the product identification product, the actual printers and solutions that we sell are also ramping up, not at the same rate that we are seeing ink. As you might expect, you're seeing consumables get ramped up first, and then people begin to add additional product, released capital expenditures. That's more of a capital expenditure. We expect that also to be contributory to a better year for them during the balance of this year and beyond.

Daniel Moore: Got it. And then, energy storage obviously seeing momentum building. Can you just maybe update us on how the market's evolving and remind us who you're competing with in that arena?

Joseph Bartolacci: The market is evolving very, very, very rapidly. Our position in the market is somewhat unique today. We don't expect to remain the only unique solution that's out there, but I would tell you that we have years of head-start in a lot of these opportunities that we're dealing with. The process really begins with an NDA and then you go from an NDA to what we would call a lab machine. A lab machine is the testing machine through which our potential customers and clients evaluate their mix of formulation for lithium to determine whether or not they've got a viable solution. We have sold quite a few lab machines and we've signed quite a few NDAs on top of our ongoing revenue that is being produced for what we call production machines. So, we're pretty confident that we're going to start to see some significant change for us going forward, and our position, it will only get better, I think.

Daniel Moore: Very helpful. Last one for me. Memorialization, just can you talk about your expectations for funeral home products volumes for the quarter relative to what you experienced in March? I want to make sure we are sizing it correctly.

Joseph Bartolacci: Yes, and that is probably the biggest unknown. As you know, Dan, we have a lot of forecasting ability when it comes to large contracts in PID or warehouse or energy or SGK. We've got some visibility, but when it comes to caskets it's almost a two-day backlog, so it's not like you have a lot of visibility.

Our predictions are significant reductions, but those reductions are back to a more normal rate at this point in time that we've seen historically, but we don't expect a precipitous fall-off, but that's right now a guess. We don't know for sure. Our guidance looking forward anticipates a decline. When I said \$220 million is what we expect at least, as you can tell from just our trailing 12 months, we're anticipating a decline from that. It could be less, it could be more, but we have enough orders elsewhere to hopefully make up a lot of that shortfall.

Daniel Moore: Very helpful. I'll jump back if there are any follow-ups.

Joseph Bartolacci: Dan, one last thing for you. We're also seeing, as heard of my commentary, we did not see much of the increase from the death rates that occurred over the last 12 months in cemetery products throughout the pandemic. We are seeing that increase right now.

Daniel Moore: Perfect. Very helpful.

Operator: Thank you. Our next question comes from Liam Burke with B. Riley. Please proceed with your question.

Liam Burke, B. Riley FBR: Thank you. Good morning, Joe. Good morning, Steve. Joe, I mean, it's pretty clear that your casket sales will start normalizing sometime this year. Could you give us a sense as to the margin trade off with I'll call it deferred marker or memorialization products sales and the pick-up in cremations?

Joseph Bartolacci: It's a difficult—let me make sure I understand. Are you asking me what is the margin differential between incremental memorialization sales derived from the pandemic? Is that the question?

Liam Burke: No. What I'm suggesting is you've generated very nice EBITDA margins in the second quarter that's driven by higher volumes of caskets. Now, as those casket sales began to normalize, we're seeing a pick-up in deferred cemetery products sales and you're starting to build revenue on the cremation system side.

Joseph Bartolacci: Yes.

Liam Burke: Could you give us, I mean just generally, the margin trade-off as that product mix shifts?

Joseph Bartolacci: Yes. The interesting thing, Liam, is that when we take a look at the two businesses with our heavy fixed cost businesses—so, on the funeral home side of the business, we have nice margins on the incremental values that we're running through the P&L because of that fixed cost structure. We have the same dynamics that occur in our cemetery products business, more so on bronze than we will on stone, but at the end of the day, even stone and cremation equipment with higher volumes are going to see much better margins. I'm not going to suggest to you that our margin dollars are going to be the same, because generally a casket's going to sell more for a higher price than a cemetery marker will, but margin percentages should be fairly similar. Commodities are going to hit us going forward, just so you're aware, Liam. We are, as you might expect, seeing commodities coming through. Everybody's talking about it; so, we're no different than anybody else.

Liam Burke: Sure. I understand that, and if I look at the deferred cemetery products sales, are you still looking as much as a two-year backlog there? Or, you're reporting good sales numbers recently. Is that timeframe coming in less than the two years that we were just talking about?

Joseph Bartolacci: We have an estimate that our total revenue that has been deferred, or the incremental revenue associated with it, could be better than \$40 million worth of cemetery related products. We're seeing some of that starting to ramp up now. Generally, this is a pretty good quarter for us in that business because of Memorial Day; but summers in general are better period of times because markers get set. I would hope a large part of that, but not all of it, will get set before the winter sets in, but I can't tell you that's it all going to be there. I would expect within two years most, if not all, will be reflected in our P&Ls.

Liam Burke: Great. And just one more on SGK. You said that the CPG, or the consumer packaging business, is stable. You're adding accounts. Could you give us a sense if you're expecting growth out of that business now looking into the second half of the year? And do you expect any contribution from private brands?

Joseph Bartolacci: That's a two-part question. The first part of that, on the CPG side, we think what we're seeing out of CPGs today is let's wait and see what happens to retail to understand what they have to do. They've gone through a fair amount of innovation during the pandemic. You can expect—I mean, as you look across the shelves, sanitation products and COVID related protection and things of that nature has generated a lot of revenue for us around the world. As they roll out to what they hope to see is a different retail environment, we expect CPGs to also pick-up as well. But really where we have seen the downtrodden part of our business is retail; and when I say retail, I'm talking about the in-store display work, as well as our private label business.

In the private label business, we have won some significant new accounts that are helping us to get started into that; but our larger accounts, many of the names that you all would recognize, as I said on the phone, have still started to be slow in ramping up their initiatives. Their biggest issue has been supply chain. It's not just changing a package. If they're going to come out with a new private label, supplier's got

to be in line, packaging's got to be in line. Right now, for the last 12 months, all they've done is focus on keeping product on the shelf: difficult trying to get a whole new product onto the shelf. So, we expect it to be additive.

Liam Burke: Great. Thanks, Joe.

Operator: Thank you. Our next question comes from Austin Nelson with AIG. Please proceed with your question.

Austin Nelson, AIG: Hi, guys. Thanks for taking the question, and congrats on the quarter. I just had a relatively simple capital structure question. You've paid down a lot of debt over the past 12 months and you have, at this point, the relatively high coupon from where you sit bond that steps down toward the end of the year. Are you considering options there? And since you seem to be looking to continue to pay down debt, would you prefer to have a fully pre-payable cap structure?

Joseph Bartolacci: Austin, yes. When you say the high coupon, you're referencing our bonds, correct?

Austin Nelson: Yes. The bond is callable. I mean, everything else is on the revolver, right?

Joseph Bartolacci: Understood. Yes, right now we're not looking at the bond in terms of calling it any time soon. I do know that our bonds are trading above par today. It does carry a higher interest rate, but it is a form of permanent debt on our balance sheet as well. We do have pre-payable debt. It's certainly lower-rate debt. But to us, it's an equation that includes not only the interest rate, but also balancing risk, a balanced debt structure that includes some portion of permit. But the short answer to your question is, right now, we continue to pay attention to that, certainly with the rate where it is; but at the same time, it's not something that we're looking to call soon.

Austin Nelson: Okay. That's very helpful. Thank you. Good luck with the rest of the year.

Operator: There are no further questions at this time. I would like to turn the floor back over to Bill Wilson for closing comments.

William Wilson: Thank you, Paul. And thank you for joining us today and your interest in Matthews. For additional information about the Company and our financial results, please contact me, or visit our website. Enjoy the rest of your day.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Have a wonderful day.