

**Operator:** Greetings, and welcome to the Matthews International Corporation First Quarter Fiscal 2023 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Bill Wilson, Senior Director of Corporate Finance. Thank you, Bill. You may begin.

**William D. Wilson, Senior Director of Corporate Finance.** Thank you, Paul. Good morning, everyone, and welcome to the Matthews International First Quarter Fiscal Year 2023 Results Conference Call.

This is Bill Wilson, Senior Director of Corporate Development. With me 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](http://www.matw.com), in the Investors section last night. The presentation for our call can also be accessed in the Investors section of the website.

Any forward-looking statements in connection with this discussion are being made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Factors that could cause the Company's results to differ from those disclosed 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 Joe.

**Joseph C. Bartolacci, President, Chief Executive Officer.** Thank you, Bill. Good morning.

We are pleased with our Fiscal '23 first quarter results. During the quarter, we had higher revenue thanks to the particularly strong performance of our Industrial Technologies segment. This segment is on track to have yet another strong year of growth, thanks to the addition not only of OLBRICH Automotive and R+S, but, most importantly, thanks to the recently announced \$200 million plus in orders in the energy storage business. These orders cover client needs for new calendaring and coating equipment, spare parts, roller refurbishment and maintenance.

Aside from our historical clients, our orders were received from leading battery customers, like Automotive Cell Company, otherwise known as ACC, a consortium consisting of Mercedes, Chrysler, Jeep, Fiat, Peugeot, and Saft, a global advanced battery manufacturer and a subsidiary of TotalEnergies. These orders also include Ola Electric, an Indian e-mobility manufacturer with significant government backing, with aspirations to be on the world stage.

During the quarter, we also saw significant demand in orders from several hydrogen fuel cell component suppliers. These orders, although smaller, reflect the growing interest in our hydrogen fuel cell capabilities and give us confidence that in time this business will grow, like our dry electrode battery technology has grown. Although we don't expect to announce \$270 million of new orders every quarter, we will keep you apprised of significant orders as they are received. From Fiscal 2020 to Fiscal 2022, the energy business, driven by our dry battery electrode technology, has grown from \$20 million to almost \$100

million last year. This year, we are confident that our energy business, in total, will continue that strong growth.

As for the entire Technologies segment, our total order intake during the first quarter was almost \$270 million, a record amount of orders for this segment. So, that's the \$200 million of previously announced orders in our energy business, plus another \$70 million in other businesses that comprise the Industrial Technologies segment. The Industrial Technologies segment reported roughly \$230 million in revenue in Fiscal 2020, but this year, it is on track to double those results.

Warehouse automation and product identification had good order intake during the quarter, as well, from customers like Lands' End, Luxottica, Louisiana-Pacific and Estiframe. As we have been saying for quite a while, this segment is comprised of our fastest growing businesses with unique selling propositions, making our products and services must-haves for the industries that we serve. Our expectation is that revenues for this segment will approach \$500 million this year.

Our Memorialization business also delivered very good results despite the post-COVID substantial normalization of death rates. Even with the lower volumes, our revenues remain strong, thanks to good funeral home product mix, strong cemetery product sales and pricing throughout the business. Our margins in this business are beginning to normalize as some of the cost pressures that we have felt for the past year or so have begun to subside. This business has performed exceptionally well throughout the past several years and is poised to maintain that success into 2023. We continue to see strong order rates in our cemetery products business, particularly our bronze cemetery business, which will help partially offset the lower casket sales that are expected. As I've said before, this segment has reset its normalized revenues to a level that is materially higher than just a few years ago. We currently expect EBITDA results to be relatively comparable to prior year, even with the lower volumes.

In SGK, we continue to be challenged by the European market conditions and negative currency translation. Revenues reported for the quarter were \$11 million lower due to negative currency translation. We have begun actions to reduce the size of our European business, which we expect will help the coming quarters. Moreover, we still have one more quarter of difficult comparisons in this business, which began to feel the impact of the Ukraine war and significant currency degradation at the end of our second quarter last year.

As we look forward to the balance of 2023, we are expecting continued consolidated sales growth. As discussed above, our order rates in our fastest growing businesses remain high, which bodes well for the continued development of these businesses. Also, subsiding commodity costs in our Memorialization business will benefit future quarters and allow us to return to more normal margins. Cost actions at SGK should make comparables more favorable starting in our third quarter.

However, all this positive news is offset by the economic uncertainties which we cannot predict. Therefore, with these factors in mind, we are reaffirming our previously announced Fiscal 2023 EBITDA expectations to be between \$215 million and \$235 million. Although we have the orders in hand to potentially deliver towards the high end of this range, we remain prudent at this time given the yet to be determined timing of our deliveries in the energy business. We will continue to provide updates as we progress through the year.

I will now turn it over to Steve for our financial review.

**Steven F. Nicola**, *Chief Financial Officer and Secretary*. Thank you, Joe, and good morning.

I'll begin with **Slide 7**. For the Fiscal 2023 first quarter, we reported consolidated sales of \$449.2 million, compared to \$438.6 million for the first fiscal quarter last year, representing an increase of \$10.6 million, or 2.4%. Changes in currency rates continue to have a significant unfavorable impact on the reported

sales, compared to a year ago. On a constant currency basis with last year, consolidated sales for the Fiscal 2023 first quarter were \$27.6 million, or 6.3% higher than a year ago. The increase primarily reflected higher sales for our Industrial Technologies segment, which included the impact of the recent acquisitions of OLBRICH GmbH and R+S Automotive GmbH.

On a GAAP basis, the Company's net income was \$3.7 million, or \$0.12 per share, for the current quarter, compared to a loss of \$19.8 million, or \$0.62 per share, for the same quarter last year. The first quarter last year included a loss of approximately \$31 million, or \$0.74 per share, on the termination and settlement of the Company's U.S. principal pension plan.

On a non-GAAP basis, consolidated Adjusted EBITDA, which represents net income before interest expense, income taxes, depreciation and amortization, and other adjustments, was \$49.3 million for the Fiscal 2023 first quarter, compared to \$53.3 million last year. Changes in currency rates had an unfavorable impact of \$1.6 million on Adjusted EBITDA, compared to the same quarter last year. As I'll discuss further in a few minutes, the decrease reflected lower Adjusted EBITDA for the Memorialization and SGK Brand Solutions segments, offset partially by an increase for the Industrial Technologies segment.

Adjusted earnings per share for the current quarter was \$0.53, compared to \$0.74 a year ago. The decline primarily resulted from lower Adjusted EBITDA and an increase in interest expense for the current quarter. Please see the reconciliations of Adjusted EBITDA, non-GAAP adjusted earnings per share and constant currency sales and Adjusted EBITDA provided in our earnings release.

Interest expense for the Fiscal 2023 first quarter was \$10.2 million, compared to \$6.5 million a year ago. The increase reflected higher interest rates compared to a year ago and higher average debt levels.

The Company's consolidated income tax expense for the Fiscal 2023 first quarter was \$1.3 million, compared to a benefit of \$6.6 million a year ago. The benefit last year primarily reflected the pre-tax loss on a GAAP basis.

Please turn to **Slide 8**, to begin a review of our segment results.

The Industrial Technologies segment reported sales of \$109.1 million for the current quarter, compared to \$74.3 million a year ago, representing an increase of 47%. The recent acquisitions of OLBRICH and R+S were the significant contributors to the year-over-year increase. Energy storage solutions and product identification sales for the current quarter were also higher than a year ago. Warehouse automation sales were lower than a year ago, reflecting a large low-margin project completed in the first fiscal quarter last year. Changes in currency rates had an unfavorable impact of \$4.8 million on the segment sales, compared to the same quarter last year.

Adjusted EBITDA for the Industrial Technologies segment increased approximately 70% to \$12.2 million for the Fiscal 2023 first quarter, compared to \$7.2 million a year ago. The increase primarily resulted from the segment's sales increase and improved margins in the energy storage solutions and warehouse automation businesses. Changes in currency rates had an unfavorable impact of \$1.1 million on the segment's Adjusted EBITDA, compared to the same quarter last year.

Please turn to **Slide 9**. Memorialization sales were \$206.5 million for the current quarter, compared to \$210.7 million for the first quarter last year. Changes in currency rates had an unfavorable impact of \$1.5 million on the segment's sales, compared to the same quarter last year. On a constant currency basis, Memorialization sales were relatively steady compared to a year ago, declining only 1.3%, despite lower death rates. Consistent with our Fiscal 2022 fourth quarter, U.S. deaths have substantially normalized from the higher pandemic levels. As a result, unit sales volumes for casket and bronze memorial products

were lower than a year ago. However, these declines were largely mitigated by improved pricing and higher granite memorial product and U.S. cremation equipment sales.

Memorialization segment Adjusted EBITDA for the Fiscal 2023 first quarter was \$39.1 million, compared to \$43.4 million a year ago. The decrease primarily reflected the impacts of lower sales and higher material costs compared to a year ago. In addition, the current quarter reflected increased labor and freight costs, higher project-related costs, and other inflation-related cost increases.

Please turn to **Slide 10**. Sales for the SGK Brand Solutions segment were \$133.6 million for the quarter ended December 31, 2022, compared to \$153.5 million a year ago. Currency rate changes had an unfavorable impact of \$10.7 million on the segment sales for the current quarter, compared to last year. In addition, sales in the segment's European markets were lower than a year ago, reflecting continued challenging market conditions. In addition, U.S. sales were also lower.

Fiscal 2023 first quarter Adjusted EBITDA for the SGK Brand Solutions segment was \$12.2 million, compared to \$15.4 million a year ago. Changes in currency rates had an unfavorable impact of \$1 million on the segment's Adjusted EBITDA, compared to the same quarter last year. In addition, the decrease reflected the impact of the sales decline, lower margins for the European packaging business, and other inflation-related cost increases.

Please turn to **Slide 11**. Cash flow used in operating activities for the Fiscal 2023 first quarter was \$36.2 million, compared to \$27.2 million a year ago. Operating cash flow is typically slower in our first fiscal quarter, reflecting seasonality of the businesses and payments on year-end accruals, including performance-based compensation. In addition, operating cash flow for the current quarter included final payouts in connection with the termination and settlement of the Company's supplemental retirement plans. Operating cash flow a year ago included contributions for the termination and settlement of the Company's principal U.S. retirement plan. As of December 31, 2022, the Company's accrued pension liability was \$13.8 million, compared with \$149.8 million a little over two years ago, September 30, 2020.

Outstanding debt was \$837 million at December 31, 2022, compared to \$799 million at September 30, 2022. At December 31, 2022, the Company's leverage ratio, based on net debt, which represents outstanding debt less cash and trailing 12-months Adjusted EBITDA, was 3.8. As we anticipated, our debt levels have recently increased, primarily as a result of investments in our recent acquisitions and the energy storage solutions business. Based on our projections for the remainder of the fiscal year, we expect these levels to decline as Fiscal 2023 progresses.

Approximately 30.4 million shares were outstanding at December 31, 2022. During the Fiscal 2023 first quarter, the Company purchased 89,000 shares at a cost of \$2.5 million. The purchases were largely in connection with withholding tax obligations on equity compensation. At December 31, 2022, the Company had remaining authorization of approximately 1.2 million shares under the repurchase program.

Finally, the Board this week declared a quarterly dividend of \$0.23 per share on the Company's common stock. The dividend is payable February 20, 2023 to stockholders of record February 6, 2023.

This concludes the financial review, and we will now open the call to questions. Paul?

**Operator:** Thank you. We will now be conducting a question-and-answer session. One moment, please, while we poll for questions.

Thank you. Our first question is from Daniel Moore with CJS Securities. Please proceed with your question.

**Daniel Moore, CJS Securities:** Thank you. Good morning, Joe. Good morning, Steve.

**Joseph C. Bartolacci:** Good morning, Dan.

**Steven F. Nicola:** Good morning, Dan.

**Daniel Moore:** Let's start with energy storage, and I appreciate the color. Can you give maybe a little more detail regarding the increased order intake; specifically, roughly how much of the \$200 million relates to lithium-ion battery production versus emerging technologies, like hydrogen fuel cells, and any breakdown in terms of how much of it is from some of the new customers that you described versus existing customers that were previously beta testing?

**Joseph C. Bartolacci:** Yes, we're not going to break down between customers, but I can tell you, as it relates to technologies, I would tell you about 90% of it is going to be related to the lithium side of our business, between coatings, spare parts, calendaring equipment, and otherwise, but the balance is going to be in the new hydrogen fuel cell side, or things related to that. Does that answer your question?

**Daniel Moore:** Yes, that's helpful, and it just gives a sense of where momentum is building. If we look at the midpoint of guidance, roughly, what percentage of those orders, or actually the \$270 million orders in total, how much of those are (inaudible) delivered for the remainder of '23 versus maybe '24?

**Joseph C. Bartolacci:** Dan, I mean, I know you're trying to get to a model, but with \$200 million worth of orders in a matter of three months—if you recall, when we made the acquisition of OLBRICH, one of the things that we said is we were buying capacity. We have put on 160 engineers, 500,000 square of manufacturing capabilities, low-cost production in the Czech Republic, all that just months before we landed these orders, so the timing of these deliveries is going to be really dependent on both our customers' readiness to be able to accept the orders, which is not insignificant, and our ability to kind of corral that very extensive portfolio of talent and space to be able to deliver it. So, at this point in time, I can't give you modeling information, but suffice it to say we have every expectation that we will maximize deliveries this year.

**Daniel Moore:** Okay. Switching gears maybe to Memorialization, just to clarify—it sounds like, overall, you expect profitability to be roughly flattish, I'm just making sure I heard that right; and two, would you expect pricing to remain fairly sticky even if input costs continue to decline?

**Joseph C. Bartolacci:** You know, we never control everything, but as it relates to the businesses that we control, yes. As it relates to, for example, our funeral home business, we'll watch what our competitors do and be responsive to that. We expect to be able to manage pricing throughout the year to make sure that we deliver consistent kind of performance at the bottom line level as commodities begin to drop. It's a little early to say what's going to happen on the pricing side.

As you know, Dan, from the time that commodities drop to the time they hit our P&L, especially in the funeral home business, from raw materials through the warehouses and distribution to the customer, can be upwards of three to six months, so it takes a little time. We're seeing that subside, which will continue to improve our margins. How pricing will be reflected is not in my control.

**Daniel Moore:** Okay, and maybe one more just from a capital allocation perspective. As you mentioned, leverage ticked a little higher. Where would you expect it to exit the year, maybe a range in terms of leverage, and is that paydown your primary focus, outside of internal investments, or would you continue to buy back stock and look for M&A, as well? Thanks.

**Joseph C. Bartolacci:** Sure. As you heard in the commentary, we had a fairly significant uptick in the investments made in, principally, our energy storage business with the acquisition and some buildup in working capital associated with orders and other things of that nature. We expect that to be a timing

issue. As we flow through the year, our current projections will get us closer to 3, 3.5, as we kind of work out, based on what we see today. Obviously, in that mix is collections, it is a focus of ours, but we are also not dealing with mom-and-pop shops when we talk about energy, we're dealing with very large organizations that are substantially larger, and we do have some clout in that position given what we are delivering, but at the same time, you can imagine what the auto industry is relative to mom-and-pop funeral homes.

**Daniel Moore:** Understood, appreciate it. I'll follow up if I have any follow-ups. Thank you.

**Joseph C. Bartolacci:** Okay.

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

**Liam Burke, B. Riley:** Thank you. Good morning, Joe. Good morning, Steve.

**Joseph C. Bartolacci:** Good morning, Liam.

**Steven F. Nicola:** Good morning, Liam.

**Liam Burke:** Joe, could you give us some sense—I mean, I know the revenues on warehouse automation were down year-over-year on the project delivery a year ago, but could you give us a sense of how the backlog is doing if we normalize for that order?

**Joseph C. Bartolacci:** The backlog is strong. I would tell you we have almost the full year booked out, with orders continuing to come in, and that is part of that \$70 million on top of the \$200 million plus of orders that we receive. We gave you some color on who the clients are when we announced Lands' End and Luxottica, largely because—I mean, some of the feedback I have received is people think that we play in the small ranges. I wish I can only describe to you the larger customers that we do business with, but they are significant players in the retail and CPG world that are using our accounts, and those come in fairly significant chunks when they come.

**Liam Burke:** Fair enough, and on SGK, Europe is obviously still weak. Are you seeing any stabilization there? I know you've had to do some adjustments on the expense side of the ledger, but are you seeing any kind of relief from what looks to be a tough market?

**Joseph C. Bartolacci:** What we are seeing really, frankly, which is a little bit surprising for us, is in the U.K., and other countries beyond the German-speaking world, it's principally our German- and Polish-related businesses associated with that part of the world that are feeling the impact, but that is, as you know, Liam, a significant part of our European presence. Our U.K. team which covers some of the other countries, that manages the other countries, is feeling pretty bullish about the balance of the year. The cost actions, Liam, you recognize this is Europe, so we take charges as we have identified the plants to be able to take those actions. The ability to implement those require works councils and other negotiations that go on, so it'll take a little bit of time throughout the balance of the quarter to get those benefits. That's why we said third and fourth should be a far more comparable from the standpoint of improvements and seeing those flow through.

**Liam Burke:** Great. Thank you, Joe.

**Joseph C. Bartolacci:** Sure.

**Operator:** Thank you. Our next question is from Justin Bergner with Gabelli Funds. Please proceed with your question.

**Justin Bergner, Gabelli Funds:** Good morning, Joe.

**Joseph C. Bartolacci:** Good morning, Justin.

**Justin Bergner:** Good morning, Steve. How are you?

**Steven C. Nicola:** Good morning, Justin. Good.

**Justin Bergner:** The first question would be on non-energy storage-related Industrial Technologies orders. Should I see that \$70 million or so as representing, you know, a book-to-bill modestly above one for the non-energy storage Industrial Technologies businesses?

**Joseph C. Bartolacci:** Good question. Let me kind of do the math in my head. I hadn't really focused on it that way. I would tell you "modestly above" would probably be a fair way to look at it, but I will caution you, Justin, because it is a little lumpy. I wouldn't say this was an extraordinary quarter by any stretch, either on the downside or on the topside, but modestly higher is a fair way to look at it.

**Justin Bergner:** Great, and then, as you look at your annual EBITDA guide and the first quarter, would you characterize the first quarter revenue as coming in above your own Management expectations, and if so, in which parts of the businesses?

**Joseph C. Bartolacci:** I would tell you our Memorialization business came in slightly higher, not significantly, but slightly higher. The balance are pretty much in line with our expectations for the guidance. The issue, I think, for us is the comparability with currency. If you recall what I said last earnings call, our—we finished last year, I believe, around 218, Steve, if I'm looking at it here, 218 on a full year basis for EBITDA. On a comparable basis, our guidance, when we set it out, was at 225 to 245, and what we're saying today is, given the strength of our orders, only controlled by our ability to deliver, we hope to be able to—we have the orders in-house to be towards that higher end.

**Steven C. Nicola:** To clarify, that range that Joe just mentioned would have been if the currency were constant from year-over-year.

**Joseph C. Bartolacci:** Right, and currency is changing, so we'll see where that ends up. It's anybody's guess.

**Justin Bergner:** Okay, fantastic. I know that you've highlighted a lot of the strength in the energy storage business, but is there anything you just wanted to point out in terms of what helped trigger the sort of acceleration in orders in that business in the first quarter.

**Joseph C. Bartolacci:** Sure. We've been saying for a long time, and I think the message is getting out loud and clear, what we deliver is a substantially more effective, cheaper, faster, better solution than current technology that's out there for what's called wet electrode, and what is happening is there are other components to the process which are front ended, like material handling, as well as the balance of it. What you're starting to see is significant accounts realizing that they can get the benefits of our technology if they can figure out those other pieces. I think the IRA, the Inflation Reduction Act, has stimulated a lot of willingness to take that chance to move forward. We expect this kind of acceleration to continue. The market for dry battery electrode, we believe, over time, is very significant. There is a lot of discussion in the market about what solid-state is. Solid-state batteries is the ultimate Holy Grail, I guess, of battery technology on the lithium side. This is a necessary step to get there. We think this is the beginning of a trend. Will it be as consistent as \$200 million a quarter? Most likely not. But, at the same time, do I think this trajectory is where we're going? Absolutely.

**Justin Bergner:** Great. Thank you very much.

**Operator:** Thank you. There are no further questions at this time. I'd like to turn the floor back over to Bill Wilson.

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

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