Matthews International Corporation
Q1 Fiscal 2024 Earnings Teleconference Call and Webcast
February 2, 2024

Matthews INTERNATIONAL®

Operator: Good morning, and welcome to Matthews International First Quarter Fiscal 2024 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator instructions).

Please note, this conference is being recorded.

I will now turn the conference over to Bill Wilson, Senior Director of Corporation Development. Thank you. You may begin.

Bill Wilson, *Senior Director of Corporate Finance*. Thank you, Sherry. Good morning, everyone, and welcome to the Matthews International First Quarter Fiscal Year 2024 Conference Call.

This is Bill Wilson, Senior Director of Corporate Development. With me today are Joe Bartolacci, President and Chief Executive Officer, and Steven 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 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 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 will turn the call over to Joe.

Joe Bartolacci, *President and CEO*: Thank you, Bill. Good morning.

Despite the EBITDA shortfall, versus prior year, we are pleased with our fiscal 2024 first quarter results. All of our businesses exceeded our internal expectations, except Energy, which saw delays in our projected deliveries for our largest customer, which are outside of our control.

Overall, we reported a modest increase in consolidated sales to $450 million this quarter, from $449 million in the first quarter of fiscal '23. We cautioned last quarter, however, customer readiness to accept our equipment throughout the year will be—and in this quarter clearly was—the primary factor behind the performance of the Energy business, as delays have impacted the timing of anticipated revenues for our fiscal '24 first quarter.

Even with the timing of the Energy sales, sales for the Industrial segment increased, compared to the first quarter last year, and, together with OLBRICH and the rest of our Industrial Technologies segment, we have almost $260 million of backlog expected to be substantially delivered this fiscal year. Memorialization sales also increased, compared to last year, and SGK sales were modestly down, largely due to lower retail-based sales and continued weakness in the European brand markets.

For our Industrial segment, we continue to receive significant inbound interest for our unique Energy Solutions from almost all of the major global OEMs and battery manufacturers. The benefits of our solutions remain clear. By leaning on our industry-leading expertise, we have developed processes that reduce customer cost of production by lowering capital investment, labor costs and energy consumption, while greatly reducing any environmental concerns. As a result, we continue to see an influx of inquiries from potential customers who are still several years behind our largest customer. We believe that the breadth of these inquiries reflects a continued vibrancy in the EV space and expect to announce developments on orders throughout the course of the year.

Regarding other Energy Solutions news, I'm happy to announce that we landed our first significant order for the production of hydrogen fuel cell equipment and are in discussions with a major U.S. OEM on joint development work relating to hydrogen fuel cells. In addition, in collaboration with a well-known OEM, we have applied for federal funding for the joint development of a hydrogen fuel cell production facility here in the U.S., that we will own. Interest in hydrogen fuel cell production is growing, especially with heightened levels of government support in Europe and in the U.S. In light of these activities and discussions, coupled with the fact that we are still working through approximately half of the $200 million in orders we announced last year, we currently believe that the Energy Solutions revenue will be higher in fiscal 2024 than in the previous year.

With respect to our other Industrial Technologies businesses, our Product Identification and Surfaces business experienced good volume and pricing growth during the first quarter. We anticipate this is a trend that will continue. We continue to make good progress on our new print engine product, which remains on track to be launched around the end of the calendar year. We will provide an update on the launch timeline this summer.

As for Warehouse Automation, sales in the first quarter were lower on a year-over-year basis, consistent with what the overall market is seeing, but we believe this will recover in the second half of the year. Note that this business is typically slower in our first fiscal quarter due to the holiday shopping season. With that said, we did see a softening in the market during the quarter, but continue to anticipate a solid year, based on our existing backlog and mix.

Our Memorialization business performed modestly better than expected in the quarter, reporting $208 million in sales, despite a decline in casket sales, which returned to normalized levels. The business benefited from the contribution of our recent acquisition of Eagle Granite. As we look to the balance of the year, we are currently seeing higher than normal volumes in the past few weeks, so we are expecting this business to continue to perform well. Our Memorialization business continues to outperform pre-COVID operating results, reflecting improvements that were made to the business over the last few years, that led to higher sales and higher performance overall. As a testament to these improvements, we continue to win new accounts in our Memorialization segment, a reflection of the quality of our products and services. As I said before, we expect another solid year of results from Memorialization.

As for SGK, this segment reported solid operating results in the first quarter, despite reporting slightly lower sales, compared to the corresponding period in fiscal '23, thanks to pricing and cost actions taken over the past 12 months. U.S. and Asia-Pacific brand sales were relatively stable, and the lower retail-based sales was primarily due to timing of projects pushed into latter quarters, but we still continue to see softness in European brand markets. Our team at SGK should be commended for their work and commitment during this challenging period, as we won significant new business from several global brands, that are just beginning to be transitioned. The team is also beginning to see the benefits of the strategy to extend our marketing execution services to e-commerce digital marketing services, that we expect will reach over $40 million in sales this year. This platform places SGK ahead of significant competitors in the space and is a key differentiator, as we continue to win new work from our competitors. We believe that this strategy will drive future market share growth in the enormous market for digital marketing. We expect this business to deliver a good year, particularly as our customers are beginning to realize the need to reinvest in their brands.

Finally, Steve will provide greater detail on this, but I'm happy to announce that we renewed our revolving credit facility and extended it to 2029, with no major changes in pricing and terms and conditions. Having the comfort of access to capital and a supportive bank group during this extended period of uncertainty in the global economy is essential. Our leverage target is to approach 3 by the end of the year.

As we progress through 2024, we anticipate a reduction in working capital in the latter half of the fiscal year, as we convert to cash from the orders we received last year. Due to the timing of deliveries, we should see stronger cash flow trends in the latter portion of the fiscal year and into the next. We are currently projecting continued consolidated sales growth and EBITDA for the full year, despite the current delays in Energy.

As discussed above, interest in our fast-growing business remains strong, with over $100 million in backlog at the end of the first quarter. I caution, however, given the increased level of larger, long-term projects, the timing of order deliveries remains a wild card. We continue to expect our fiscal '24 results to exceed the prior year, but being more specific on growth levels is difficult to provide at this time.

I'll now turn it over to Steve for more insight in our financial results. Steve?

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

Consolidated sales for the fiscal 2024 first quarter were $450 million, compared to $449.2 million a year ago. The increase primarily reflected higher sales for the Industrial Technologies and Memorialization segments.

The Industrial Technologies segment reported a sales increase of $2.2 million, compared to a year ago, primarily reflecting higher Engineering, Product Identification and Surfaces sales.

Memorialization sales were $208.1 million for the current quarter, compared with $206.5 million a year ago, primarily reflecting higher granite sales and the acquisition of Eagle Granite last fiscal year.

Sales for the SGK Brand Solutions segment were $3.1 million lower than a year ago, primarily reflecting lower retail-based sales and continued softness in the European brand markets.

On a consolidated basis, changes in currency rates had a favorable impact of $5.1 million on current quarter sales, compared to a year ago.

On a GAAP basis, net loss attributable to the Company for the quarter ended December 31, 2023 was $2.3 million, or $0.07 per share, compared to income of $3.7 million, or $0.12 per share, in the prior period.

On a non-GAAP adjusted basis, earnings for the fiscal 2024 first quarter were $0.37 per share, compared to $0.53 per share a year ago. The decrease was primarily attributable to lower consolidated Adjusted EBITDA and higher interest expense for the current quarter, compared to a year ago.

Consolidated Adjusted EBITDA, which represents net income before interest expense, income taxes, depreciation and amortization, and other adjustments, for the fiscal 2024 first quarter was $45.5 million, compared to $49.3 million a year ago. The decrease reflected lower Adjusted EBITDA for the Industrial Technologies and Memorialization segments, offset partially by an increase in Adjusted EBITDA for the SGK Brand Solutions segment, and lower corporate and other non-operating costs. Changes in currency rates had a favorable impact of $354,000 on current quarter consolidated Adjusted EBITDA, compared to a year ago.

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

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

Sales for the Industrial Technologies segment for the fiscal 2024 first quarter were $111.4 million, compared to $109.1 million a year ago. The Engineering business reported higher sales for the current quarter, compared to a year ago, primarily reflecting further growth in the Energy Storage Solutions business. The Product Identification and Surfaces businesses also reported higher sales for the current quarter, compared to last year. Sales for the segment's Warehouse Automation business declined from a year ago, primarily reflecting the lower order rates we indicated in our previous call and the normal seasonality of this business. Sales for the Automotive Equipment business, that was acquired as part of the OLBRICH and R+S acquisitions, also declined, as we continue to wind down this small business. Changes in currency rates had a favorable impact of $3.7 million on this segment's current quarter sales, compared to a year ago.

Adjusted EBITDA for the Industrial Technologies segment for the current quarter was $9.6 million, compared to $12.2 million a year ago. The decrease primarily reflected lower margins for the Engineering business, compared to a year ago, which is influenced by the stage and timing of the projects, the impact of lower Warehouse and Automation sales, and a small divestiture. The declines were partially offset by higher sales and improved pricing for the Product Identification and Surfaces businesses and favorable currency rate changes. Changes in currency exchange rates had a favorable impact of $405,000 on this segments' current quarter Adjusted EBITDA, compared to a year ago.

Please turn to **Slide 9**. Sales for the Memorialization segment for the fiscal 2024 first quarter were $208.1 million, compared to $206.5 million for the same quarter a year ago. The increase primarily reflected higher granite memorial sales and the acquisition of Eagle Granite, partially offset by lower unit sales of caskets. Changes in foreign currency rates had a favorable impact of $381,000 on current quarter sales, compared to a year ago.

Memorialization Adjusted EBITDA for the current quarter was $36.7 million, compared to $39.1 million for the same quarter last year. The decrease primarily resulted from the impact of the decline in casket sales, which was partially offset by the increase in granite memorial sales, the acquisition of Eagle Granite and improved net pricing changes. Material and labor costs were higher for the quarter but were offset by the benefits of cost savings initiatives.

Please turn to **Slide 10**. The SGK Brand Solutions segment reported sales of $130.5 million for the quarter ended December 31, 2023, compared to $133.6 million a year ago. The decrease primarily reflected a decline in retail-based sales, primarily reflecting timing, and lower sales in the segment's European brand markets on a constant currency basis. The declines were offset partially by improved pricing, a small acquisition in December 2022, and the impact of favorable currency changes. Currency rate changes had a favorable impact of $969,000 on current quarter sales, compared to a year ago.

Adjusted EBITDA for the SGK Brand Solutions segment was $12.9 million for the current quarter, compared to $12.2million a year ago. The increase primarily reflected the benefits of improved pricing and the segment's recent cost reduction actions, offset partially by the impact of lower sales. Changes in currency rates had an unfavorable impact of $142,000 on Adjusted EBITDA, compared to a year ago.

Please turn to **Slide 11**. Cash used in operating activities for the quarter ended December 31, 2023 was $27.3 million, compared to $36.2 million a year ago. Operating cash flow for the prior quarter included payments of $24.2 million in connection with the termination and settlement of the Company's supplemental retirement plan. Current year operating cash utilization primarily reflected higher working capital. Our first fiscal quarter is seasonally slower from an operating cash flow perspective, primarily due to year end-related payments, such as performance-based compensation and the seasonality of earnings.

Outstanding debt was $862 million at December 31, 2023, compared to $790 million at September 30, 2023.

At December 31, 2023, the Company's leverage ratio, based on net debt, which represents outstanding debt less cash, and trailing 12 months' Adjusted EBITDA, was 3.71, compared to 3.31 at September 30, 2023. The increase primarily reflected the first quarter operating cash utilization I just referenced. At December 31, 2022, our leverage ratio was 3.85.

Additionally, earlier this week, we renewed our $750 million domestic revolving credit facility under generally the same pricing, terms and conditions as the previous facility. The term of the renewed facility is five years, subject to the terms and conditions of this facility. We had strong interest in the current renewal process, with total commitments from participating banks exceeding $1.1 billion.

For the fiscal 2024 first quarter, the Company purchased approximately 466,000 shares under the stock repurchase program at an average cost of $36.88 per share. A majority of the purchases were in connection with withholding tax obligations on equity compensation. Since equity compensation is generally awarded annually in November, a substantial portion of vesting activity occurs in our fiscal first quarter each year. Approximately 30.7 million shares were outstanding at the end of the fiscal 2024 first quarter.

Finally, the Board, last week, declared a dividend of $0.24 per share on the Company's common stock. The dividend is payable February 19, 2024 to stockholders of record February 5, 2024

This concludes the financial review, and we will now open the call for any questions. Sherry?

Operator: Thank you. (Operator instructions).

Our first question is from Dan Moore, *CJS Securities*. Please proceed.

Dan Moore: Thank you. Good morning, Joe. Good morning, Steve.

Joe Bartolacci: Good morning, Dan.

Steven Nicola: Good morning.

Dan Moore: Let's start with Energy Storage. Clearly, timing, or visibility around the timing of order intake is still difficult in the current environment, completely understandably. Having said that, maybe just talk a little bit more about discussions you're having not only with your large client, but with other potential customers, and when would you need to see a pickup in orders in order to generate the positive growth that you expect year-over-year not only in Energy Storage, but also in overall kind of revenue and EBITDA?

Joe Bartolacci: A lot of questions in that one. Let me try to parse it.

First off, we continue to discuss it with just about everybody. I mean, it's a very hot topic throughout the industry. Our discussions are complex, as you might expect. You need to understand—and we've tried to kind of say this to folks—what we provide is a very complex piece of solution to the puzzle. There is a lot of work in the front end and on the back end that we don't participate in. A lot of that work revolves around the chemistries, it revolves about the technical specifications, the processes they intend to use. We are a critical—I mean, utterly critical part of that process, but we don't control the balance of that puzzle, it's up to our customer. So, our discussions continue as they kind of develop their specification. We oftentimes will be modifying our solution, or customizing is a better way to put it, our solution to their needs, and that takes time. Our largest customer has the benefit of years of work in this, others are trying to catch up.

As it relates to the balance of the year, whether it be orders from our existing customers or whether it is new customers, it's hard to tell. We have a balance of at least $100 million for the balance of the year. We recognized some $30 million or so in this quarter. I think we recognized, if I recall correctly, about $150 million last year. It's not a long putt to be able to exceed that number throughout the course year as we go through this. Now, we have been pretty clear that the timing of some of these revenue recognitions are things that are outside of our control, given the readiness of customers to be able to accept product. I would tell you that right now we're confident and we think we can get there.

Dan Moore: Very helpful. Maybe switching gears, Memorialization, just housekeeping, remind me what the Eagle Granite contribution was, and just your expectations for growth, you know, ballpark terms, as we look at first caskets and then memorials and cremation equipment throughout the balance of the year.

Joe Bartolacci: Okay. So, I would tell you, as we look at the various businesses, as we said earlier, we're back to a more normalized death rate throughout the industry. However, we are seeing really elevated levels of mortality right now. Our casket sales for the month of January are strong. That is probably indicative of some of the pulmonary illnesses that are floating around in the country. So, we expect that over the next 60 days, 90 days to be where our Memorialization business will trend on the funeral home side. That, as you know, translates ultimately to more cemetery product sales. As we kind of go through the year, we're expecting some modest growth, maybe, relatively flat to modest growth in the overall Memorialization segment, but, as I said earlier, Dan, recognize that this business is materially higher at that reset level than it was pre-COVID.

Dan Moore: Very helpful. One more on Memorialization, and I'll jump back if I have any follow-ups, but the margin ticked lower. You said the business exceeded your internal expectations, although the overall margins ticked a little bit lower. If cremation continues to grow and memorials are steady or grow modestly, are those incrementals in those businesses enough to offset potential decrementals in caskets? I know we're seeing an uptick here in mortality this quarter, but, overall, the trend has been lower in caskets, so can you hold the line? In other words, can you get back to 18%, 20% margin in that business even if caskets tick lower by 1% or 2%? If you could just talk about that (inaudible), if you would, a little bit, and that's it. Thanks.

Steven Nicola: Sure, Dan. This is Steve. I'll speak to the first part of that question, and I'll let Joe jump in, but specifically with respect to the quarter, we saw the decline in casket unit volumes, as we mentioned, so that was our expectation going into the quarter. We did have a stronger quarter from a granite memorial sales perspective. So, on a like-for-like margin, that's what created some of the margin degradation, is just the lower casket offset by the higher granite memorial sales. But, with respect to the margins as we go throughout the year, as we get into the stronger seasonal months, whether it's the winter months for caskets and the spring/summer months for memorials, we do expect those margins to get better.

Dan Moore: Okay, great. I will jump back with any follow-ups. Thank you.

Operator: Our next question is from Liam Burke, *B. Riley*.

Liam Burke: Yes, thank you. Good morning, Joe. Good morning, Steve.

Joe Bartolacci: Hi, Liam.

Steven Nicola: Good morning.

Liam Burke: Joe, could you give us some sense on how the profit initiatives at OLBRICH are progressing? I mean, it was essentially a breakeven business. You've got a little more flexibility in terms of costs now. How's that progressing in terms of profit contribution?

Joe Bartolacci: We expect it to be nicely contributory this year, as we continued on the costs. As we said in the past, we are locked into union contracts that prevented us from being able to take action till the latter part of the summer, early part of this quarter, so those actions are in place and we expect to be it to be a nice contribution to the full year, which will help us achieve our results.

Liam Burke: Great, and I guess, Steve mentioned that on Memorialization, you're attracting new accounts. Is that all products or caskets or bronze and granite memorials?

Joe Bartolacci: I would say we're winning accounts across the portfolio as we move forward. Some of the gains that we had throughout COVID on the funeral home side, we've retained, and picked up others. We picked up cemetery products, as well. So, yes, the answer to your question is it is a broad mix of market share growth.

Liam Burke: On the cremation side, I know the business has gotten sort of lumpy because of the systems projects, but how is that shaping up—based on the end of the quarter, how is it shaping up for the rest of the year?

Joe Bartolacci: Well, we're looking at, hopefully, a good year in that business, as well. We're in the midst of another contract opportunity in the U.K., that we hope to win, of significance. As that starts to ramp up, we should be able to give you an update on that over the course of the next quarter. But we're expecting solid results out of cremation over the course of the year.

Liam Burke: Great. Thanks, Joe.

Joe Bartolacci: Yes.

Operator: We have reached the end of our question-and-answer session. I would like to turn the conference back over to Bill for closing comments.

Bill Wilson: Great. Thank you, Sherry, and thank you, everyone, 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. Thank you.

Operator: Thank you. This will conclude today's conference, you may disconnect your lines at this time, and thank you for your participation.

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