

**Operator:** Greetings, and welcome to the Matthews International Corporation Fourth Quarter Fiscal 2019 Financial Results.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Bill Wilson, Senior Director of Corporate Development for Matthews International Corporation. Thank you. You may begin.

**William D. Wilson:** Thank you, Melissa. Good morning everyone, and welcome to the Matthews International Fourth Quarter 2019 Earnings Call. This is Bill Wilson, and with us today are Joe Bartolacci, President and Chief Executive Officer; and Steve Nicola, our Chief Financial Officer.

Before we start, I'd like to remind you that our earnings release and financial disclosures were posted on our website, [www.matw.com](http://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 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 disclosure and reconciliation table carefully as you consider these metrics. In connection with any forward-looking statements and non-GAAP financial information, please read the disclaimer also included in today's presentation materials located on our website.

Now I'll turn the call over to Steve.

**Steven F. Nicola:** Thank you, Bill. Good morning. Please turn to **Slide 4**. For the Fiscal 2019 fourth quarter, the Company reported consolidated sales of \$392 million compared to \$407 million a year ago. Consistent with the previous quarters this year, our consolidated sales comparability for the fourth quarter were significantly affected by unfavorable changes in foreign currency exchange rate, and the loss of a significant client account in our U.S. brand business early in the fiscal year.

In addition, sales for the current quarter were also impacted by delays in several significant projects in our Industrial Technologies segment. However, consolidated sales for the current quarter were favorably impacted by sales growth in the Memorialization segment, and higher private label brand market sales.

On a non-GAAP basis, the Company reported a loss per share of \$2.28 for the current quarter, compared to income of \$0.93 per share last year. The loss for the current quarter resulted from a non-cash goodwill write-down.

As we announced following our third quarter, the Company initiated a strategic review of several of its operations, including the commercial and operational structure within the SGK Brand Solutions segment. Based on the expected impact of this review on future operating structure and related projections, the Company reassessed the valuation of goodwill related to the Graphics Imaging reporting unit within the SGK Brand Solutions segment, and recorded a non-cash write-down of approximately \$78 million.

On a non-GAAP basis, adjusted earnings were \$1.01 per share for the Fiscal 2019 fourth quarter, compared to \$1.23 last year. The decline primarily reflected the decrease in consolidated sales and lower operating income for the current quarter.

Please turn to **Slide 5**. On a year-to-date basis, our consolidated sales were \$1.54 billion compared to \$1.6 billion last year. The combined impact of the previously-reported brand client account loss and significant currency headwinds unfavorably affected sales by an estimated \$56 million. However, despite an estimated decline in U.S. casketed deaths for the current

year, Fiscal 2019 sales for the Memorialization segment were higher than last year, primarily reflecting an increase in cremation and incineration equipment sales, particularly in the U.K., higher memorial product sales, and the partial year benefit of last year's acquisition of Star Granite & Bronze.

In addition, on a year-to-date basis, the private label brand business continued to grow, warehouse automation sales increased, and European brand sales were higher for the current fiscal year. These increases were offset primarily by the impacts of challenging U.S. brand market conditions for the current fiscal year and year-end project delays in the Industrial Technologies segment.

On a GAAP basis, the Company reported a loss of \$1.21 per share for the Fiscal Year ended September 30, 2019 compared to income of \$3.37 per share last year. The loss for the current year resulted from the goodwill write-down of approximately \$78 million or \$2.42 per share in the fourth quarter.

In addition, year-over-year earnings per share comparability was impacted by the following factors. First, the significant income tax benefit recorded in the first quarter last fiscal year from the U.S. Tax Cuts and Jobs Act. The new law had the immediate impact of a significant reduction in the Company's deferred tax balances net of an estimated repatriation transition tax. This prior-year tax benefit was \$0.82 per share.

Second, the Company's intangible amortization expense for Fiscal 2019 was \$14.2 million or \$0.39 per share, higher than Fiscal 2018. In connection with the commercial and operating structure changes within the SGK Brand Solutions segment, we accelerated the amortization of certain of the segment's trade names during the Fiscal 2019 fourth quarter.

Third, our year-to-date interest expense increased \$3.5 million or \$0.08 per share compared to last year, primarily reflecting higher average interest rates on a full year basis, due in part to our December 2017 bond offering.

For the year ended September 30, 2019, non-GAAP adjusted earnings per share were \$3.31 compared to \$3.96 last year, primarily reflecting the decline in sales and related impact on Adjusted EBITDA.

Adjusted EBITDA for the Fiscal 2019 fourth quarter was \$59 million compared to \$77 million a year ago. The decline resulted principally from lower consolidated sales, and higher material and freight costs.

Adjusted EBITDA for the Fiscal Year ended September 30, 2019 was approximately \$221 million compared to \$255 million last year. The decrease primarily reflected the impacts of lower consolidated sales and higher material and freight costs, which were partially offset by the impact of the Company's ongoing cost containment initiatives, including acquisition synergy realization and lower performance-related compensation costs.

Investment income for the Fiscal 2019 fourth quarter was \$100,000 compared to \$639,000 a year ago. Investment income for the year ended September 30, 2019 was \$1.5 million compared to \$1.6 million for Fiscal 2018. 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 Fiscal 2019 fourth quarter was \$9.9 million compared to \$10.6 million a year ago, reflecting a decline in average interest rates for the current quarter relative to the fourth quarter last year. During the Fiscal 2019 third quarter, the Company shifted approximately \$140 million of debt under its revolving credit facility from dollar-based to euro-based, lowering the effective interest costs. Interest expense for the year ended September 30, 2019 approximated \$41 million compared to \$37.4 million last year, primarily reflecting higher average interest rates on a full year basis, due in part to the December 2017 bond offering.

Other income and deductions net for the quarter ended September 30, 2019 represented a decrease in pre-tax income of \$5.5 million compared to income of \$455,000 for the same quarter last year. Other income and deductions net for the year ended September 30, 2019 represented a decrease in pre-tax income of \$8.9 million compared to \$4.7 million last year. Other income and deductions include the non-service portion of pension costs. For the year ended September 30, 2019, the non-service portion of pension cost was \$3.8 million compared to \$5.7 million last year.

In addition, the fourth quarter and year-to-date amounts for the current year included a \$3.7 million loss on a cost method investment and related assets. Fiscal 2018 other income included gains of \$3.8 million on the sale of certain cost method investments.

Consolidated income taxes for the three months ended September 30, 2019 was a benefit of \$3.6 million compared to expense of \$9.6 million for the same quarter last year. Consolidated income taxes for the year ended September 30, 2019 was expense of \$806,000 compared to a benefit of \$9.1 million last year.

Income taxes for the current quarter and fiscal year were significantly impacted by the goodwill write-down, which is substantially non-deductible for tax purposes. Fiscal 2018 reflected a significant income tax benefit recorded in the first fiscal quarter as a result of the U.S. Tax Cuts and Jobs Act. The new law had the immediate impact of a significant reduction in the Company's deferred tax balances net of an estimated repatriation transition tax. Excluding these significant impacts and the impact of other discrete items for both periods, the Company estimated its consolidated effective rate at approximately at 23% in Fiscal 2019, compared to 26% in Fiscal 2018.

Please turn to **Slide 6** to begin a review of our segment results. In the SGK Brand Solutions segment, sales for the Fiscal 2019 fourth quarter were \$186 million compared to \$203 million a year ago. For the year ended September 30, 2019, sales for the SGK Brand Solutions segment were \$744 million compared to \$805 million last year. The declines were mainly driven by unfavorable currency rate changes and the previously-disclosed brand client account loss.

Compared to last year, changes in foreign currency exchange rates had an unfavorable impact of \$27 million and the client account loss unfavorably impacted sales by approximately \$24 million. In addition, European market conditions softened later in the Fiscal 2019 fourth quarter, which unfavorably impacted the segment sales for the current year.

The segment reported higher sales in the private label brand market for the Fiscal 2019 fourth quarter and Fiscal Year. In addition, the current quarter and year-to-date results reflected the impact of the acquisition of Frost Converting Systems, which was acquired in November 2018.

Fiscal 2019 fourth quarter Adjusted EBITDA for the SGK Brand Solutions segment was \$32.9 million compared to \$47.3 million a year ago. The segment's Adjusted EBITDA for the year ended September 30, 2019 was \$119.5 million compared to \$150.2 million last year. The year-over-year changes primarily reflected the impact of lower sales and unfavorable product mix shift in Europe, and unfavorable currency changes, partially offset on a year-to-date basis by lower performance-based compensation costs.

Please turn to **Slide 7**. Memorialization segment sales for the Fiscal 2019 fourth quarter were approximately \$163 million compared to \$156 million a year ago. Memorialization segment sales for the year ended September 30, 2019 were approximately \$637 million compared to \$631 million a year ago. Sales of memorial products and caskets increased for the current quarter compared with a year ago. For the fiscal year, the segment reported increased sales of memorial products and cremation and incineration equipment. Casket sales were lower on a year-to-date basis, reflecting an estimated decline in U.S. casketed deaths. In addition, the current year-to-date results included the benefit of the acquisition of Star Granite & Bronze, which was acquired in February 2018.

Fiscal 2019 fourth quarter and Fiscal Year sales for the Memorialization segment were also impacted by the divestiture of a controlling interest in the pet cremation business during the Fiscal 2019 first quarter, and changes in currency rates had an unfavorable impact of \$697,000 and \$3 million respectively on the segment sales compared with the same quarter and year-to-date period last year.

Memorialization segment Adjusted EBITDA for the Fiscal 2019 fourth quarter was \$32.9 million compared to \$37.9 million a year ago. Memorialization segment Adjusted EBITDA for the year ended September 30, 2019 was \$134.3 million compared to \$145.5 million last year. The current year periods primarily reflected the impacts of higher material and freight costs, the divestiture of a controlling interest in the pet cremation business, and, on a year-to-date basis, the decline in U.S.

casketed deaths on casket sales. These declines were partially offset by the segment's cost reduction initiatives, including acquisition synergies, and on a year-to-date basis, the acquisition of Star Granite & Bronze.

Please turn to **Slide 8**. Sales for the Industrial Technologies segment were \$43.8 million for the quarter ended September 30, 2019, compared to \$48.1 million a year ago. Sales for the Industrial Technologies segment were \$156.5 million for the year ended September 30, 2019, compared to \$165.9 million last year. Compared with the fourth quarter last year, the segment sales for the current quarter were unfavorably impacted by delays from customers of several significant identification product orders. The decline for the year primarily resulted from lower product identification, partly attributable to these delays, and lower applied technology sales, which were partially offset by an increase in warehouse automation sales. Changes in foreign currency rates had unfavorable impacts of \$397,000 and \$2.3 million respectively on the segment's current quarter and fiscal year sales compared to last year.

Adjusted EBITDA for the Industrial Technologies segment for the Fiscal 2019 fourth quarter was \$8.4 million compared with \$9.1 million a year ago. Adjusted EBITDA for the Industrial Technologies segment for the year ended September 30, 2019 was \$24.1 million compared with \$25.9 million a year ago. The declines in the segment's Adjusted EBITDA for the quarter and year-to-date periods primarily reflected the sales change. In addition, costs related to the segment's product development project were higher for the year-to-date period.

Please turn to **Slide 9**. Cash flow from operating activities for the Fiscal 2019 fourth quarter was \$41.7 million compared to \$64.8 million a year ago. For the year ended September 30, 2019, cash flow from operating activities was \$131.1 million compared to \$147.6 million last year. These declines primarily reflected the impact of lower Adjusted EBITDA for the respective quarter and year-to-date period.

At September 30, 2019, consolidated long-term debt, including current portion, approximated \$941 million, representing a reduction of \$39 million from the balance at September 30, 2019. At September 30, 2018, the Company's outstanding debt was \$961 million, representing a reduction for the current fiscal year of approximately \$20 million.

Approximately 31.3 million shares were outstanding at September 30, 2019. During the Fiscal 2019 fourth quarter, the Company purchased approximately 140,000 shares under the share repurchase program, and approximately 710,000 shares year-to-date. At September 30, 2019, we have approximately 712,000 shares remaining under the current share repurchase authorization.

Finally, the Board last week declared a dividend of \$0.21 per share on the Company's common stock, representing the twenty-sixth annual increase in the Company's dividend since becoming a publicly traded company in 1994. The dividend is payable December 9, 2019 to stockholders of record at November 25, 2019.

With that, this concludes the financial review, and Joe will now comment on the Company's operations.

**Joseph C. Bartolacci:** Thank you, Steve. Good morning. Our fiscal year fell short of our expectations. We had expected a very strong fourth quarter, but due to factors outside of our control, we are unable to make up the shortfall.

As you are aware, during the quarter, we continued to face the impact of the loss of a significant brand account and increased commodity and freight costs. But several other challenges prevented us from achieving our goals. Specifically, significant orders in our Industrial Technologies segment, both in our product identification business and our warehouse automation businesses were pushed out into Fiscal 2020. In addition, delays in the release of several cremation equipment orders and a significant waste-to-energy incineration project impacted our fourth quarter Memorialization results relative to our expectations. Finally, a significant drop in orders from our tobacco customers and a significant shift to lower margin surfaces products during the quarter significantly impacted the European portion of our brand business.

In general, we enter each quarter with potential pluses and minuses and our guidance usually reflects our best estimates of what we will deliver. Historically, we have had some wins and some losses in our estimates, which have yielded results

which have been relatively close. Rarely, however, have we had situations where none of our significant expected wins are realized during the quarter.

Despite these issues, our businesses remain strong and we are executing on our strategies. For example, we have long said that our Memorialization business continues to improve its operating efficiency and branch out into related areas, which we believe will mitigate the demographic trends we face. This quarter reflects that strategy well. We saw positive revenue trends in our funeral home products business, our bronze business, our granite business and our environmental solutions business, despite the deferral of several projects.

Our EBITDA results in this segment for the quarter continue to be challenged by commodity and freight costs, as well as significant ramp-up costs associated with the waste-to-energy business. From a positive perspective, however, commodity pressures have subsided and should benefit the second half of 2020, and we recently landed another waste-to-energy project in the U.K., which we believe to be the first of many in the years to come. Our efforts in the waste-to-energy market are creating interest outside of the U.K. as we are quoting work in the U.S. and Latin America as well.

In our Brand business, we saw improving conditions in our North American market where we saw modest growth for the quarter when you consider the CPG, private label and merchandising businesses together. Some of our clients have begun to innovate off of historically low new SKU launches. It is too early to call this a trend, but revenue in some of our largest clients is up, and we saw a good start to 2020. We have often spoke of the success that Equator, our business focused on private label services to global retailers, was adding new significant accounts in the private label market. Our efforts in this area continued to show very positive results during the quarter, and they are set up for another strong 2020 with wins and strong pipeline.

The Cylinders, Surfaces, and Engineering business, a business included in our Brand segment, saw a difficult quarter as our largest tobacco customer significantly curtailed spending during the quarter. In addition, the order rate for higher-priced and higher margin technical cylinders slowed, which we attribute to the weaker European economic conditions. We have seen the order rate for these products return to normal in the latter part of the quarter, but not in time to be produced and shipped.

As I have stated in the past, we are seeing significant opportunities in our Engineered Solutions business, again a part of the Brand business, where we use our gravure cylinder manufacturing expertise to extend into production equipment for markets like tissues, non-woven materials, laminated flooring, and particularly energy storage devices, including lithium-ion battery production. Specifically, our unique knowhow in the energy storage industry is drawing considerable interest, and we are proud to report a significant order for the auto industry, as well as strong orders for the other Engineered Solutions, giving us a good backlog going into 2020. We have every expectation that, if successful, this business can be a significant contributor to our future growth.

As we've noted in the past, now that we have substantially completed our ERP implementation, we have kicked off an initiative to capitalize our investment by better aligning our cost base with our revenue levels. We expect this initiative to benefit our Brand business, but also to reduce our overall back office costs as we centralize more of the back office functions and capitalize on the automation facilitated by our ERP. We expect this initiative to deliver an annual savings run rate of over \$25 million within the next couple of years.

As discussed above, our warehouse automation business had significant projects get pushed into 2020 from several of our customers. As a result, this business had a strong year, but could have significantly outperformed if the orders were released as expected.

As for the balance of the Industrial segment, product identification had successfully landed several new accounts, which were expected to contribute significantly to the fourth quarter. Unfortunately, ramp-up in several accounts was slower than expected, and orders in several accounts were pushed off into 2020. The group continues to successfully expand into the CPG market with large scale installations, but timing of those installations is not often in our control.

With regard to our investment in the new product for our Industrial Technologies segment, we remain confident with our development process and of our strategy. Unfortunately, full launch will remain delayed as we continue to work through some early production issues. The issues appear resolvable, and we believe they mostly revolve around the process through which our print engine is produced. We hope to have more to speak to you about in the coming quarters.

As we look at 2020, we remain positive about our businesses and the opportunities for growth. In our guidance, we are making several assumptions that are critical. First, we expect foreign currency exchange rates to remain stable. We also expect modest sales growth in our Memorialization and our Technologies segments, largely driven by the delayed orders that we had expected in the fourth quarter of 2019. Finally, we also expect our Brand business to have modest sales growth, driven by the large energy storage equipment order that I referenced above.

Given these expectations, our guidance for Fiscal 2020 is that our non-GAAP EPS and Adjusted EBITDA will grow in the mid-single digits.

I want to remind you that, although you might have expected better than mid-single digit operating performance from the delayed projects and our efforts, the current labor market is increasingly difficult. As a result, our Fiscal 2020 guidance reflects a return to normal bonus awards after a year when most employees earned no incentive compensation.

With that, let's open it up for questions.

**Operator:** Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Jason Rodgers with Great Lakes Review. Please proceed with your question.

**Jason Rodgers:** Yes, good morning.

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

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

**Jason Rodgers:** The delayed orders that you talked about in Industrial, and then for the cremation and incineration equipment; any way to quantify those, and would you expect to realize most of those in the first quarter?

**Joseph C. Bartolacci:** Well, the orders are significant, let's put it that way. Meaning, they range anywhere from—some of the cremation equipment at \$150,000 to \$200,000 that was delayed, to some of the installations at our product identification that were in the \$1.5 million to \$3 million range. We had, on the automation side, the \$6 million or \$7 million—not all of which would have occurred in the fourth quarter.

The fact of the matter is, they are orders that we have received, and that orders will be delivered in 2020. Some of those orders cannot be delivered in the first quarter, where we started in the second quarter. For example, the warehouse business, you aren't in people's warehouses during the Christmas season. We won't even start that now until early January, beginning of February. It will be in 2020, but not necessarily in the first quarter.

**Jason Rodgers:** I wonder if you could talk more about the waste-to-energy market, what your expectations are as far as revenues in Fiscal '20, and then longer-term. Then, how do you see that whole market developing for you?

**Joseph C. Bartolacci:** We are very, very, very early into the marketplace. This is something that's going on in the U.K. but is expanding greatly around the world. Just to give you an example, we got a call the other day from a cruise ship operator to look at these facilities for islands where they have landing zones for some of these cruise ships. The market is beginning;

each one of these installations can go anywhere from \$2 million to \$5 million, and the potential for these would be material, let's put it that way, material to our Memorialization business, and is part of why we say our business will continue to grow the top line over time.

**Jason Rodgers:** Is there anything that you're doing that maybe the competitors aren't in that market, or is it just such a new and developing market it's too early to talk about that?

**Joseph C. Bartolacci:** There are very, very, very few players at our size. I mean, there are plenty of guys that produce very, very big incineration equipment for municipal sites. Ours generally operate somewhere around 20,000 tons a year. They're smaller, more adapted for smaller locations, smaller towns, smaller facilities, whatever it may be. There really has not been anybody in there; it's just an extension of our cremation equipment business, just a lot bigger.

**Jason Rodgers:** All right, thank you.

**Joseph C. Bartolacci:** Sure.

**Operator:** Thank you. Our next question comes from the line of Dan Moore with CJS Securities. Please proceed with your question.

**Daniel Moore:** Hi, good morning, I wanted to—

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

**Joseph C. Bartolacci:** Hi, Dan.

**Daniel Moore:** Thanks, Joe and Steve. Can you maybe help frame or bucket the \$25 million projected annual cost savings you expect to achieve from the restructuring, kind of run rate as we exit Fiscal '20, and then the overall cost to achieve? I think there was \$10 million called out in Q4. I'll leave it at that, and then follow-up. Thanks.

**Steven F. Nicola:** Sure, yes, Dan, you're right. We had a fair amount of cost to achieve as we were going through the project, or at least the start of the project in the fourth quarter. But as you would expect, there's still more to come, in fact, particularly as we get to the implementation stages of it.

There will not be a significant amount of that realized, the benefit realized, I should say, in Fiscal 2020. When we talk about a \$25 million annual run rate, we expect to be at that run rate, I would say, toward the end of Fiscal 2021. If I'm putting a number on it, maybe a \$5 million run rate by the end of Fiscal 2020, but obviously, a lot of the benefit really starts to come in, in '21 and beyond.

**Daniel Moore:** Timing very helpful; in terms of bucketing those, whether it's personnel, corporate...

**Joseph C. Bartolacci:** Just to give you a framework—

**Daniel Moore:** (Cross-talking), yes, that's helpful.

**Joseph C. Bartolacci:** As we kind of see it, Dan, this is two parts. First off, it's the back office we've talked about.

**Daniel Moore:** Yes.

**Joseph C. Bartolacci:** As you know, we've grown this business through a lot of acquisitions; it's time to integrate those businesses into a centralized function. We think there's opportunity of \$10 million to \$12 million in back office functions as we consolidate globally in the three sites.

The balance is projected to come out of SGK. It's really capitalizing on what we have done from the ERP system to be able to connect these businesses around the world, and more level load, and move more work into offshore sites that we currently operate at. It's a heavy lift, I won't suggest it's not, but a large portion of it is taking businesses that we are currently doing in certain parts of the world and continuing to move it to our offshore sites.

**Daniel Moore:** Perfect, helpful. Switching gears, Joe, you gave some color, which is appreciated, in terms of the signs of improvement that you're seeing in Brand Solutions.

**Joseph C. Bartolacci:** Yes.

**Daniel Moore:** Any more specificity; are you seeing actual orders, uptick in orders in tobacco, other areas? We've had some head fakes in the past, so trying to get a sense for your level of comfort.

**Joseph C. Bartolacci:** Yes, we've had some head fakes. Well, here's what we do know. I mean, we generally operate on something that's about six weeks out, so our backlog is not always as significant as we'd like. But we have subscribed to some information that kind of gives us a look back over the last several quarters, actually over the last 10 years, of new SKU launches. I would tell you, over the last three quarters, we are at historically low SKU launches. We are, in some cases, trending at about 30% below on a run rate basis. We expect that'll turn to normal.

As that turns to normal—I don't think it's going to happen in a quarter, but it'll happen over time. We think that that will ultimately be a good sign for this business as we continue to reduce our cost structure; take advantage of our ERP, the drop-through will be more significant.

**Daniel Moore:** Okay, and I'll try one more and then jump back into queue maybe.

**Joseph C. Bartolacci:** Sure.

**Daniel Moore:** In terms of product development, you have spent a good amount over the last few years. Just talk about your confidence in achieving a return on that investment, given some of the delays that we've had in the new products, and just generally, what are your expectations for product development spend in Fiscal '20 relative to '19 and '18? Thanks.

**Joseph C. Bartolacci:** Well, let's put it real simple for you. I mean, this is what we look at. This is a \$1.5 billion market we don't participate in today to any great extent. We think the product that we're developing, we've spent somewhere in the \$35 million range. The opportunity, Steve, has—what's—

**Steven F. Nicola:** Cumulative.

**Joseph C. Bartolacci:** Cumulatively, yes. Not in any year.

**Daniel Moore:** Right. No, indeed.

**Joseph C. Bartolacci:** But we've spent about \$35 million for it. We think the opportunity that has presented to recover those costs and have a substantial rate of return over a period of time is significant. We're not as concerned about the rate of return as we are about getting the product on the shelf. We also don't want to make a mistake here and go out too early and have it fail in the field for us. We've had some fits and starts on some of the production side. It's a pretty tight process we're on right now, and we expect to have better information for you in the next several months, or maybe a couple quarters. But we remain confident that if the solutions works as we believe it will, the return won't be the issue.

The other thing you should also know, Dan, you should see these opportunities as we see them. We don't call out a lot of these items that are going on, but the waste-to-energy solution is an R&D project. The energy storage facility, the knowhow and the patents that we own in that space is an R&D project. We don't call out a lot of this stuff because it's not as significant,



and frankly, not as big of a market opportunity as the one we're calling out, but we have other things like this that have yielded the results historically, and we have a track record of getting there.

**Daniel Moore:** Mm-hmm. Then just the overall level of spend embedded in the guidance, Steve?

**Steven F. Nicola:** Excuse me, Dan, say that again?

**Daniel Moore:** The level of R&D spend embedded in the mid-single digit EPS guidance, just year-over-year, that's all.

**Steven F. Nicola:** It's about, I'd say \$5 million to \$6 million range.

**Daniel Moore:** Thank you very much.

**Joseph C. Bartolacci:** No problem.

**Operator:** Thank you. Our next question comes from the line of Jamie Clement with Buckingham Research Group. Please proceed with your question.

**James Clement:** Joe, Steve, good morning.

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

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

**James Clement:** Hey, following up a little bit on Dan's question, as we look to Fiscal '20, the cost to achieve those ultimate cost savings, but also looking at whether it's residual acquisition integration costs, residual ERP stuff or just other strategic initiatives; just trying to bridge Adjusted EBITDA to free cash flow. What do you think the cash costs in those buckets might be?

**Joseph C. Bartolacci:** It's going to be about \$20 million to achieve this, and most of that's going to be severance related. It has everything to do with, you can call it residual acquisition integration, you can call it taking our business into a more futuristic state, whatever you would call it. If we had this ERP system when we bought these businesses, it would've been called out as acquisition costs. We would have integrated them at that time.

Today, we're going back and integrating after we got an ERP. That's how we look at it, Jamie.

**James Clement:** Okay. All-in, Steve, I think, was the all-in number maybe \$24 million or \$25 million or so in 2019, is that right, all those things?

**Steven F. Nicola:** I guess I'm not sure what you're asking.

**Joseph C. Bartolacci:** Cost to achieve, Jamie?

**James Clement:** Yes, I'm looking at the—as I think about bridging Adjusted EBITDA to free cash flow for next year, right? This past year, acquisition costs, I think, were like \$8.4 million, and ERP integration, \$5.8 million, strategic initiatives and other charges, \$10.6 million. I think that's, what, \$24 million, \$25 million or so, so (cross talking)—

**Steven F. Nicola:** Yes, actually, Jamie, on a pre-tax basis, those items would be about \$30 million.

**James Clement:** Okay, and you're saying the \$20 million is on a pre-tax basis?

**Steven F. Nicola:** Correct.

**Joseph C. Bartolacci:** Correct.

**James Clement:** Okay, thank you very much. Then capital spending?

**Joseph C. Bartolacci:** Low 40s.

**Steven F. Nicola:** Yes, capital spending, this year it was a little bit lower than our average. I expect it to be about our average, so call it low 40s.

**Joseph C. Bartolacci:** The one thing I would say, Jamie, is we might have a little of a bump in there as we are building a new facility in Indonesia to support our tobacco customers. That'll be in our numbers this year.

**James Clement:** Then Joe, now that you mentioned tobacco, you spoke, I think, about a little bit more comfort about the sales outlook in Brand in Europe.

**Joseph C. Bartolacci:** Yes.

**James Clement:** Obviously, you had some reasonably significant broader macro headwinds in Europe. Are you comfortable enough with, for example, your tobacco business over there that you can call for more stabilization, and potentially even improvement in a couple quarters?

**Joseph C. Bartolacci:** I mean, the way I look at it is that, given where we are, we finished the fourth quarter unexpectedly. I don't expect that to change in the first quarter, because we have—that's the one customer we do have some visibility on, customers that we see some visibility on. I would expect to start to see some more order intake by the end of this calendar year that would start to be realized into the second quarter or so.

**James Clement:** Yes, I guess what I'm getting—

**Joseph C. Bartolacci:** (Cross-talking). I don't think there's a lag.

**James Clement:** Yes, no, what I'm getting at is, I mean, I think tobacco is kind of a unique situation where, that's conceivably a reason why you could feel more comfortable despite the macro backdrop being kind of dicey over there.

**Joseph C. Bartolacci:** Well, that, as well as the large energy storage project we talked about. I mean, that's a significant project.

**James Clement:** Okay.

**Joseph C. Bartolacci:** We think that is a pretty good top line opportunity for us, as well as the bottom line. We've got to execute on it, and it's a first of a kind project, but we think it's got some legs.

**James Clement:** Okay, terrific. Thanks very much for your time.

**Joseph C. Bartolacci:** All right, Jamie.

**Steven F. Nicola:** Thanks, Jamie.

**Operator:** Thank you. Ladies and gentlemen, as a reminder, if you'd like to join the question queue, please press star, one at this time.

Our next question comes from the line of Austin Nelson with AIG. Please proceed with your question.

**Austin Nelson:** Hi, thanks for the question. Just looking at your Memorialization performance this year, the EBITDA margins are down on the higher material and transportation costs. Just trying to get a sense for what the mid-single digit EBITDA growth assumes in that segment next year, just given that lumber's at or near all-time lows, steel has been falling dramatically and freight has come down quite a bit. Are you expecting a benefit in that model, or...?

**Joseph C. Bartolacci:** Yes.

**Austin Nelson:** Yes, okay.

**Joseph C. Bartolacci:** Austin, so in my comments I said that we saw the mitigating of the commodity costs. Unfortunately for us, though, it works through our inventory system; it's about a five to six month process to get it to our bottom line. We saw that drop off towards the latter part of our fiscal year. It'll start to be a benefit to us, we believe, into the second and third quarter of 2020.

**Austin Nelson:** Of 2020. We should actually—if this were to persist, we could see a benefit into '21 as well?

**Joseph C. Bartolacci:** And as part of what we're anticipating from our bottom line growth opportunity.

**Austin Nelson:** Okay. Then just one last one. Despite the pressures, the cash generation has still been pretty good, and I understand cap ex was a little bit lower this year.

**Joseph C. Bartolacci:** Yes.

**Austin Nelson:** You paid down debt but also bought back some stock. Just kind of given where your stock is trading, and I know you boosted the dividend, how do you think about use of cash? I mean, you've slowed down acquisitions, I understand you're trying to—now you've got the ERP system and you're trying to integrate. Should we expect additional acquisitions, is it a more balanced approach? I know you still want to get leverage down, just trying to understand the cash.

**Joseph C. Bartolacci:** This past year, Austin, was a relatively unique year in terms of some of the cash demands from the acquisition standpoint. As you know, some of the things, we don't get to pick and choose when things come to market. We don't currently see things that are imminent that I have to pull a trigger on otherwise I lose the opportunity.

I would tell you, in the near-term, you'd see us more focused on the debt repayment. Where stock prices were in the high 20s, low 30s, we would have been very active in the stock buybacks. We'll see where the stock ends up over the course of the next six weeks and decide whether we need to be active or not, but I would tell you that we're mostly focused—you'll see continuing pay down of debt.

**Austin Nelson:** That's great. Thank you guys.

**Joseph C. Bartolacci:** You're welcome.

**Operator:** Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Wilson for any final comments.

**William D. Wilson:** Okay, thank you, Melissa. Thank you for joining us today and your interest in Matthews. For additional information, I remind you to look at our Company website for our financial and more information about our Company results.

Thank you, and enjoy the rest of your day.

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