

Operator: Greetings. Welcome to the Matthews International Third 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. (Operator instructions).

As a reminder, this conference is being recorded.

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

Bill Wilson, Senior Director, Finance and Corporate Development. Thank you, Christine. Good morning everyone and welcome to the Matthews International Third Quarter Fiscal Year 2023 Financial 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, 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 Chief Executive Officer. Thank you, Bill. Good morning.

Let me first thank all of our employees globally for their continuing contributions to our success last quarter.

Again this quarter, we're quite pleased with our results as all of our businesses performed well on a year-over-year basis. As we expected, we continued to see growth in our Industrial Technologies business, driven by our recent significant orders and the ongoing interest in our Energy Solutions business. We also saw continued growth in our Warehouse Automation and our Product Identification businesses, which were solid contributors to our overall performance.

In addition, we had strong results in our Memorialization Segment, and improving results in SGK which showed improvement year-over-year.

Consolidated sales for the Company increased by almost 12% and Adjusted EBITDA improved by 22%; all in all, a very good quarter.

As I look at the performance of our individual businesses, the Industrial Technologies segment grew by 66% over prior year, primarily through higher sales for our energy storage solutions business as well as benefits gained from the acquisitions of Olbrich and R+S Automotive. These acquisitions increased our capacity and provided the additional resources necessary to support our ability to execute on the recent orders and meet the growing demand for our Energy Solutions business.

We are continuing to make progress in fulfilling the over \$200 million of energy orders announced earlier this year. These orders, together with other orders that we have already received and orders that we anticipate in the near term, will carry over into next fiscal year and provide a very good start for another strong year in our Energy Solutions business. Discussions on additional business opportunities are ongoing, and we will continue to share our progress on the new orders as they are finalized.

Now that we have much of the required capacity and resources to meet increased demand, we are focusing on improving the operating platform at Olbrich and R+S, which have impaired the performance of the business over the past few quarters. Beginning this quarter, cost actions will be taken over the next 12 to 18 months that will improve the performance of these acquisitions and contribute directly to the bottom line. We had been prevented from taking action earlier due to the labor contracts in place at the time of our acquisition, but those contracts have now expired.

In our Memorialization business we continued to outperform pre-pandemic result, driven by the significant effort made by the team. We have retained much of the market share gains that we have made during COVID and improved our operating efficiencies. Thus, we have reset this business to a higher performance level than before the pandemic. As a result of those efforts and the recent acquisition of Eagle Granite, operating results in the Memorialization segment grew by almost 3% in the fiscal '23 third quarter, and by 29% when compared to the corresponding period before the pandemic began.

Moving on to SGK, top line results continue to be impacted by the market challenges in Europe and unfavorable currency rate changes. With that said though, we were pleased with the direction of operating results for the quarter as SGK was able to pass along cost increases and take actions to improve its performance relative to prior year. We anticipate additional cost actions to be taken over the coming year, geared towards further driving margin improvement in '24.

As for our Warehouse Automation business and the Product Identification business, we saw good results but did see some softening in order activity in the warehouse business as we advised in our last quarterly earnings call. In particular, throughout the third quarter we saw a decline in quoting activity, which began to strengthen early into the fourth quarter. It is still early to forecast the impact to fiscal '24 of any softening, but the recent uptick in activity bodes well for another strong year next year.

Our Product Identification business also contributed a good quarter, driven by select price increases and volume increases. During the quarter, we made progress on our new print engine in our Product Identification business and are finalizing production plans this coming quarter. We expect to give you a better understanding of the timing of the rollout of the new product in our year-end earnings call.

Looking ahead to the fourth quarter, we continue to feel good about our future outlook in all of our businesses. The Industrial Technologies segment and, in particular, the strength of our Energy Solutions business, is expected to have another solid quarter. This performance, combined with continued steady results from Memorialization and a trend towards improving results in SGK gives us the confidence to finish the year strong.

As a reminder, the fourth quarter of fiscal '22 benefited from the closing of projects in our Energy Solutions business, resulting in particularly strong results. Although we do not have similar project closures in our upcoming quarter, we do anticipate operating results in our Industrial Technologies segment to remain relatively in line with prior year results as we make progress on the recent orders. We remain on track to recognize about half of those orders in fiscal '23 and the remainder over the first half of '24. This

performance should result in about a 40% increase year-over-year in our Energy Solutions business, bringing our fiscal '23 revenue to about \$140 million. Moreover, our total Industrial Technologies segment is expected to report revenues that approach \$500 million, more than double what they were in fiscal 2020.

As I've laid out on earlier calls, the Energy Solutions business consists of large orders subject to revenue recognition accounting rules, and thus, the timing of our revenue recognition is not entirely in our control. Our Memorialization business is expected to continue to perform well in the fourth quarter, and at SGK, as we noted earlier, we are expecting to see continued margin improvement on a year-over-year basis. The wild card in our forecast remains the economic environment, which continues to hinder our efforts in Europe. With that in mind, and given the aforementioned assumptions, we believe it is prudent to remain cautious on our outlook. Therefore, we are maintaining our previous guidance for fiscal '23 with our current projections of at least \$220 million of Adjusted EBITDA.

Let me now hand it over to Steve, who will discuss the financial results for the quarter in detail.

Steve Nicola, *Chief Financial Officer and Secretary*. Thank you, Joe, and good morning. I'll begin with **Slide 7**.

Consolidated sales for the fiscal 2023 third quarter were \$471.9 million compared to \$421.7 million a year ago, representing an increase of \$50.2 million or 11.9%. The increase primarily reflected higher sales for the Industrial Technologies segment. The Industrial Technologies segment reported a sales increase of \$52.1 million or 66.4% compared to a year ago, primarily reflecting higher engineering energy storage sales and the impact of the acquisitions of Olbrich GmbH and R+S Automotive GmbH in August last year.

Memorialization segment sales increased \$5.6 million for the current quarter, and sales for the SGK Brand Solutions segment were \$7.5 million lower than a year ago.

On a consolidated basis, changes in currency rates had an unfavorable impact of \$1.7 million on current quarter sales compared to a year ago.

On a GAAP basis, the Company's net income was \$8.7 million or \$0.28 per share for the current quarter compared to \$2.9 million or \$0.09 per share for the same quarter last year. The increase primarily reflected higher operating income and an income tax benefit for the current quarter, offset partially by higher interest expense.

On a non-GAAP basis, consolidated Adjusted EBITDA, which represents net income before interest expense, income taxes, depreciation and amortization and other adjustments for the fiscal 2023 third quarter was \$56.2 million compared to \$46 million a year ago, representing an increase of \$10.2 million or 22.1%. The increase reflected higher Adjusted EBITDA for all three of the company's reporting segments. Changes in currency exchange rates had an unfavorable impact of approximately \$600,000 on current quarter consolidated Adjusted EBITDA compared to a year ago.

Adjusted earnings per share for the current quarter was \$0.74 compared to \$0.58 for the same quarter a year ago. Similar to GAAP earnings per share, the increase primarily reflected higher Adjusted EBITDA and a lower income tax expense impact for the current quarter, offset partially by higher interest expense. Please see the reconciliations of Adjusted EBITDA, non-GAAP adjusted earnings per share and Adjusted EBITDA 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 2023 third quarter were \$130.5 million compared to \$78.4 million a year ago, representing an increase of \$52.1 million or 66.4%. Recent acquisitions—primarily Olbrich and R+S Automotive—contributed \$25.2 million to the current quarter.

The engineering business reported higher sales for the current quarter compared to a year ago, primarily reflecting continued growth in our energy storage solutions business. Our Warehouse Automation and Product Identification businesses also reported higher sales for the current quarter compared to last year. Changes in currency rates had an unfavorable impact of approximately \$350,000 on the segment's current quarter sales compared to a year ago.

Adjusted EBITDA for the Industrial Technologies segment for the current quarter was \$15 million compared to \$11.8 million a year ago. The increase primarily reflected the segment's sales growth for the current quarter. The segment's Adjusted EBITDA margin percentage was unfavorably impacted by recent acquisitions, which reported operating losses for the current quarter. As we have previously discussed, these acquisitions were not anticipated to contribute to Adjusted EBITDA immediately, but their results are expected to improve next fiscal year as we continue with integration actions.

Please turn to **Slide 9**. Sales for the Memorialization segment for the fiscal 2023 third quarter were \$208.7 million compared to \$203.2 million for the same quarter a year ago. The increase primarily reflected the benefits of improved pricing, higher sales of U.S. cremation equipment and the acquisition of Eagle Granite Company, which were partially offset by lower unit sales of caskets and memorials, reflecting lower COVID-related deaths.

Memorialization segment Adjusted EBITDA for the current quarter was \$39.9 million compared to \$32.1 million for the third fiscal quarter last year. The increase primarily resulted from higher sales, improved pricing and benefits from operational cost savings initiatives. These increases were partially offset by the impact of lower casket and memorial sales volumes and increased materials, labor and other inflation-related costs.

Please turn to **Slide 10**. The SGK Brand Solutions segment reported sales of \$132.6 million for the quarter ended June 30, 2023, compared to \$140.1 million a year ago. The segment's European businesses continued to be challenged by unfavorable market conditions. Retail-based sales, which includes private label and merchandising were also lower for the current quarter. Changes in currency rates had an unfavorable impact of \$1.2 million on current quarter sales compared to a year ago.

Adjusted EBITDA for SGK Brand Solutions was \$16.4 million for the fiscal 2023 third quarter compared to \$14.5 million a year ago. Despite lower sales, Adjusted EBITDA for the segment increased for the current quarter, primarily reflecting improvements in the ability to pass along cost increases and benefits from the segment's recent cost reduction actions. Changes in currency rates had an unfavorable impact of \$473,000 on Adjusted EBITDA compared to a year ago.

Please turn to **Slide 11**. Cash flow from operating activities for the fiscal 2023 third quarter was \$32.2 million compared to \$11.6 million a year ago. The increase primarily reflected higher earnings and a reduction in cash used for working capital in the quarter.

For the nine months ended June 30, 2023, operating cash flow was \$76.9 million compared to \$84.4 million a year ago. Operating cash flow for both year-to-date periods reflected final payouts for the settlement of the Company's U.S. retirement plan obligations. The final payouts for the settlement of the supplemental retirement plans totaled \$24.2 million in the fiscal 2023 first quarter. Final payouts for settlement of the Company's principal U.S. pension plan totaled \$35.7 million in the first fiscal quarter last year. In addition, operating cash flow for the current year reflected an increase in working capital, primarily resulting from higher inventories and reduced current liabilities.

Outstanding debt was \$775 million at June 30, 2023, representing a decrease of \$3 million during the current quarter. Outstanding debt was \$778 million as of March 31, 2023, and \$799 million on September 30, 2022.

At June 30, 2023, the Company's leverage ratio based on net debt, which represents outstanding debt less cash, and trailing 12 months Adjusted EBITDA was 3.35 compared to approximately 3.5 at both March 31, 2023, and September 30, 2022.

Approximately 30.5 million shares were outstanding as of June 30, 2023. During the fiscal 2023 third quarter, the Company purchased 2,100 shares which were in connection with withholding tax obligations on equity compensation. At June 30, 2023, the Company had remaining authorization of approximately 1.2 million shares under its repurchase program.

And finally, earlier this week the Board declared a quarterly dividend of \$0.23 per share on the Company's common stock. The dividend is payable August 21, 2023, to stockholders of record August 7, 2023.

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

Operator: Thank you. We will now be conducting a question-and-answer session. (Operator instructions).

Thank you. Our first question comes from the line of Daniel Moore with CJS Securities. Please proceed with your question.

Pete Lucas, CJS Securities, Inc. Hi. Good morning. It's Pete Lucas for Dan.

I guess just touching on Warehouse Automation, you touched on it in the prepared remarks. You mentioned you saw some softening in Q3 and early strength in Q4. Can you give us any more color in terms of activity and what growth is likely to look like as we look into fiscal year '24?

Joe Bartolacci: Pete, that's actually the challenge we're facing here. We saw some slowing in quoting. Quoting is generally the starting point for order intake. It's early for us. Fortunately, as we look into '24, the first quarter is generally the slower of the quarters, of the four that we have, given that nobody wants you in their warehouses, so it's too early for us to begin to look at the impact on '24.

Pete Lucas: Fair enough. In terms of Memorialization, what are your expectations for the trajectory of revenue as we look to '24? And also, EBITDA margins have recovered nicely, now back above 20% for the past two quarters. How do you think about margins in terms of leveling off, and what is sustainable do you think for the mid-term outlook of say three to five years?

Joe Bartolacci: Top line is difficult to project. Death rates are something that obviously we don't have control of, but I would tell you that it's a modest grower for us. We're not expecting multiple double-digit growth in the Memorialization segment.

From a margin standpoint, I would say that we were pretty close to stable at this point in time. You're going to have quarters where you're going to be up and down a little bit, but at the end of the day we have stabilized at around our historic rates. We think that's where we should be.

Pete Lucas: Last one for me, jumping to the SGK Brand Solutions, do you anticipate revenue declines slowing or perhaps even reversing over the next few quarters? And in terms of margins, what needs to happen to get margins back up to the low to mid teens, and is that still achievable and sustainable there? I know you have made some improvements there, but just wondering about the outlook.

Joe Bartolacci: The story with respect to top line and to the margins is Europe, Europe, Europe. It's completely there. Today, the balance of our business in the North America and the APAC region are operating at historic rates or better. The team has done a great job in the markets in which we have operated in for a long, long time.

The challenge we're facing is things that are somewhat out of our control. I don't have a good feel for the European market as to when or if it will recover to a profitability that is similar to the balance of the business, but we are going to take actions to shrink that size of that footprint over there. Not an easy task to do as we move forward, but that's the only way we see right now, getting that part of the world back to a more palatable margin rate.

Pete Lucas: Very helpful. Thank you. I'll jump back in the queue.

Operator: Our next question comes from the line of Liam Burke with B. Riley. Please proceed with your question.

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

Joe Bartolacci: Hi Liam.

Steve Nicola: Good morning, Liam.

Liam Burke: On the Memorialization, you talked about market share gains. Specifically, that's both in Memorialization products and with caskets, or is this across the board of all the product lines including cremation?

Joe Bartolacci: I would tell you that we picked up market share in just about every one of the businesses that we operate in North America, but they're small. These are incremental. But as you know, that incremental drop-through is positive.

The bigger issue, Liam, I think is—I think the street may have keep missing this. I mean if you look at where our business was just three years ago, it's materially higher at this point in time. That is a period of time that's both through pricing and as well as with market share pickups; this is a different business than it was just three years ago.

Liam Burke: Great. You have talked about primarily Olbrich, but these acquisitions and your ability now to take a look at costs in those businesses, will you see any benefit in 2023, or is this all a '24 event?

Joe Bartolacci: As we begin to deliver more revenue recognition, I would say, in the orders that we've talked about in the energy side, you'll start to see the utilization of some of the Olbrich capacity. So that will improve margins, but they have been negative throughout the course of the year. I would tell you the impact should reverse into second, third quarter of next year.

Liam Burke: Got it. Great.

Steve, real quickly, you did highlight increased working capital needs and its effect on operating cash flow for the year. Is there any specific business that you need to increase inventory? Is it Energy Solutions, or are there other businesses that require additional working capital investment?

Steve Nicola: The two businesses where we saw the inventory increase, Liam, for the year were the granite business, and that was addressing some of the built-up backlog in that business. And some of that increase you see on the balance sheet relates to our acquisition of Eagle Granite.

Then the second business as the business has grown, is our energy business. As you would expect, as our revenues have increased, the working capital related to that business has increased. Those are the two areas that were impacted.

Liam Burke: Got it. Thank you, Joe. Thank you, Steve.

Joe Bartolacci: You're welcome.

Steve Nicola: You're welcome.

Operator: Our next question comes from the line of Justin Bergner with Gabelli. Please proceed with your question.

Justin Bergner, Gabelli Funds, LLC. Hi Joe. Hi Steve.

Joe Bartolacci: Good morning, Justin.

Steve Nicola: Good morning.

Justin Bergner: Good morning. First question would be on energy storage. I mean, you mentioned that half of the \$200 million or so of orders announced early in the year are likely to be recognized in fiscal year '24. Beyond that \$200 million, are there additional drivers that should cause energy storage to meaningfully step up from '23 levels in '24, or is that the next leg up more of a '25 event?

Joe Bartolacci: So if you assume around \$100 million we carry, as you might expect, we've been receiving orders throughout the last couple of quarters since the announcements that we made. Obviously not to the magnitude that we announced, otherwise we would have put that announcement out. But yes, we'll start the year with a very strong backlog ready to move forward, but we are also in discussions with multiple players for the beginning of what I would call production lines, so that could change dramatically. But I would expect it to be a good year next year from a revenue standpoint. The bigger year will probably be in '25.

Justin Bergner: Okay. Thank you. That's helpful. And that bigger year in 2025 would hopefully relate to some of these production line discussions translating to...

Joe Bartolacci: Revenue.

Justin Bergner: ... material chunks of revenue. Okay.

Joe Bartolacci: Yes.

Justin Bergner: Second question would be just on SGK Brand Solutions. Nice quarter, nice pickup. Given that the margins are improving, are you in a position where you might be closer to considering sales of non-core businesses in the distant future, or do you think you'd still like to see improvement over a 12- to 24-month or longer period before you're ready to consider those actions?

Joe Bartolacci: The bigger driver, I think, Justin, is where we stand on the energy side and the development of the whole Industrial Tech. As you heard Steve earlier talk about the additional capital that we consumed, we'll need more capital and as those businesses get to scale, we would look to portfolio management. Will that be next year? Would it be the year after? It is a difficult answer for me to say at this point in time, but we are still very pleased with where the direction of SGK is moving. For that matter, the performance of the Memorialization segment as well.

Justin Bergner: Got it. Thanks. Then are you sort of targeting normalized margins or sort of recovery margins for SGK at sort of the mid teens or the low to mid teens?

Joe Bartolacci: Low to mid teens.

Justin Bergner: I'm just trying to get a sense...

Joe Bartolacci: Low to mid-teens.

Justin Bergner: Sorry?

Joe Bartolacci: Low to mid-teens on a blended basis across all markets.

Justin Bergner: Okay, so you're not too far away from that based on this quarter.

Joe Bartolacci: No.

Justin Bergner: Okay. Then lastly, Memorialization, great performance, great margins. It's great to see the margins sort of at or close to 20%. Is there anything that gives you concern that margins could step back down over the next couple of years? I mean I realize there are all sorts of unpredictable things that can happen, but do you think that outside of anything unpredictable you can just sort of hold the margins at these levels for the next couple of years?

Joe Bartolacci: What we have proven is that rapid spikes in commodity costs are things that we take a long-term look at from a business standpoint. We don't necessarily recover every last nickel of it all in one period. So yes, we could have a period of time where if we had rapid escalation of commodity costs, we could have a period of time where our margins are impaired, but over the course of a normal business cycle we will return to these kind of margins.

Justin Bergner: Okay, great. Thanks for taking my questions.

Joe Bartolacci: Sure.

Operator: Thank you. We have reached the end of the question-and-answer session. I would now like to turn the floor back over to Mr. Wilson for closing comments.

Bill Wilson: Thank you, Christine.

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

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.