



RIP

Matthews International

Nasdaq: MATW

1850 - 202?

Matthews International Corp.

| Nasdaq: MATW |

INVESTMENT RESEARCH REPORT

"Til Death Do Us Part"

RECOMMENDATION: *Strong Sell*

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Executive Summary

Spruce Point believes it is time for significant change at Matthews International. Based on our research, we are calling for the resignation of its CEO, CFO and Controller for its embarrassing financial and operational failures.

Spruce Point Capital Is An Industry Recognized Research Activist Investment Firm Founded In 2009

- Founded by Ben Axler, a former investment banker with 17 years experience on Wall Street
- Ranked the #1 Short-Seller in the world by [Sumzero](#) after a comprehensive study of 12,000 analyst recommendations dating back to 2008 (March 2015)
- Ranked the #13 Most Influential FinTweeter on Twitter according to [Sentieo analysis](#) (Dec 2016)

CEO Departures Post Recent Spruce Point Research Activism

Report Date	Company / Ticker	Enterprise Value At Report Date (\$ billions)	CEO Departure / Date
7/13/17	Gentex / GNTX	\$4.7	Fred Bauer / Jan 2018
4/13/16	Sabre Corp / SABR	\$11.2	Tom Klein / June 2016
12/17/15	Intertain / IT.TO	\$1.5	John FitzGerald / Feb 2016
8/19/15	Caesarstone / CSTE	\$1.7	Yos Shiran / May 2016
2/10/15	Greif / GEF	\$3.2	David Fischer / Oct 2015
11/13/14	AMETEK / AME	\$14.0	Frank Hermance / May 2016
1/15/14	LKQ Corp / LKQ	\$11.8	Robert Wagman / March 2017
3/5/13	Boulder Brands / BDBD	\$1.0	Stephen Hughes / June 2015
6/14/12	Bazaarvoice / BV	\$1.2	Bret Hurt / Nov 2012

Spruce Point Has Established A Short Position in Matthews Int'l (MATW) And Sees 55% - 65% Downside For The Following Reasons:

- 1 Poorly Organized Company With Significant Fundamental Headwinds:** Matthews Int'l (Nasdaq: MATW) is comprised of three unrelated businesses in the death care (“Memorialization”), branding and packaging services (“SGK Brand Solutions”), and Industrial Technologies. In our view, each business is mediocre and struggling from a variety of issues, resulting in organic sales to decline in aggregate. In Memorialization, cremation rates are rising causing less casket sales, cheaper imports from China are causing price and margin compression, while virtual memorials are an easy substitute for MATW’s bronze/granite structures. Matthews SGK business is being weighed down by spending deferrals of consumer packaging companies and FDA regulatory delays. Its Industrial Technology business (just 9% of sales) has margins near all-time lows while management has been investing for years into R&D for “new product development” with little details provided to investors; at best, it is a carrot to bait investors for some upside amongst its portfolio of lagging businesses
- 2 Recent Acquisitions Have Failed To Deliver:** Hoping to spark growth, MATW has completed 10 acquisitions since FY 2013 and spent \$1.0 billion. Its two largest acquisitions were Schawk (\$616m/Brand Solutions/2014) and Aurora Products (\$219m/Memorialization/2015). Based on our research, these deals have failed miserably to meet expectations. As a result, MATW is bloated and saddled with declining organic growth of 1-3% in Memorialization and 3-5% in Branding. All along, MATW has been promoting how its ERP investment would yield great benefits and allow for seamless acquisitions, but after six years of implementation (average implementation time is 21 months), investors have no clue how much MATW has spent on this project, and not a single accounting disclosure has been made on its software amortization policies. Don’t be shocked that years ago Schawk admitted software capitalization accounting issues
- 3 Mounting Evidence of Dubious Financial Results:** MATW has taken classic measures to obscure its problems such as realigning segment reporting and promoting highly “adjusted” figures. MATW has reported \$176.8m of pre-tax charges since 2012 (with ~\$165m related to acquisitions and strategic cost reductions). Charges have totaled a whopping 16% of its deal costs. When put into context of other successful calls Spruce Point has made identifying companies struggling to integrate targets (eg. NCR, ACM, ECHO, CECE, GEF), MATW is the worst we’ve ever seen! When we look closer at its operational footprint, we find little evidence that it has accomplished anything. SG&A margin is rising as are other fixed cost of operations. Not surprisingly, management is now touting “adjusted free cash flow” metrics, which we think overstates 3yr cumulative cash flow by nearly 30%. With sales slowing, and accounts receivables ballooning, Matthews quietly initiated an accounts receivable securitization facility in April 2017; in our view, a tacit admission by the Company its cash flow isn’t as robust as it appears

Spruce Point Sees 55% to 65% Downside Risk In MATW For The Following Reasons:

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Debt Ballooning To Near A Billion Dollars With Very Little Covenant Cushion: MATW's acquisition ambitions are problematic now that organic growth is declining, interest rates are rising, and nearly 60% of its assets are goodwill and intangibles ready to be impaired. MATW sells equity investors on its heavily Adjusted EBITDA of \$238m. However, equity investors would be wise to look carefully at MATW's credit agreement, which we estimate places the EBITDA for covenant purposes at closer to \$220m, or 7% lower. We estimate its Total Leverage Ratio is close to 4.0x vs. a maximum leverage covenant of 4.5x. Matthews recently issued a senior unsecured bond at 5.25% due 2025, but it has significant other maturities coming due in 2019-2021. Liquidity could become an issue of focus for investors in this junk credit. Almost 100% of cash and equivalents are permanently invested abroad, which makes MATW heavily dependent on its credit facility to balance its capital needs for \$50m/yr of capex, \$20m/yr in dividends, and to continue pursuing its reckless acquisition strategy (note: its last \$50m acquisition "announcement" in Nov 2017 was quietly filed as an 8-K, and MATW didn't even disclose the company's name)

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Serious Financial Control Issues and Governance Concerns: We have little reason to trust MATW's ability to maintain financial order. Setting aside the fact that Schawk had previously restated financials, reported material weaknesses, and received a Wells Notice from the SEC, in July 2015 MATW revealed a material weakness of financial controls when it disclosed theft from a long-time employee of nearly \$15m, making MATW the subject of Western Pennsylvania's largest corporate embezzlement in history. This event came after another MATW employee was sentenced to jail in Jan 2015 for running a fake invoicing scheme. By Nov 2015, MATW declared its Material Weakness had been solved, and changed auditors from PwC to E&Y in December 2017. Spruce Point believes that investors should be extremely cautious in light of our own findings that MATW:

1) incorrectly accounts for dividends and share issuance in its equity accounts, 2) has taken frequent and large charges that don't reconcile between its SEC filings and investor presentations, and have not resulted in meaningful cash flow gains, and 3) management's compensation has risen at a 30% CAGR during this same period of mediocre performance

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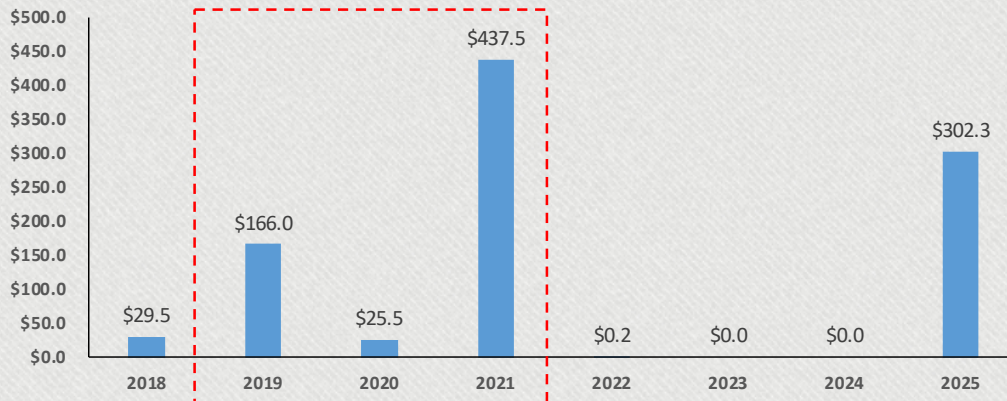
Sum-of-Parts Valuation Gets Us To 55%-65% Downside: We believe MATW should fire management and split up the Company. However, we believe this would expose MATW's extreme overvaluation. Shares might "look" cheap at 1.6x, 10x, and 14x 2018E Sales, EBITDA, and P/E but it's because Street estimates take management's highly adjusted results at face value, and pencil in low single digit growth. Even management doesn't seem confident in its outlook, and only says adjusted earnings will grow at a rate consistent with FY2017, without further elaboration. Yet, the analysts covering MATW see 48% upside to nearly \$78/sh – a major disconnect! Given our evidence that adjusted financial results appear dubious, we base our valuation on GAAP results, assume no growth, and apply peer trading multiples at a slight discount to reflect MATW's mediocre businesses and below average margins and growth. Our sum-of-the parts valuation implies \$18.50 - \$24.50 or approximately 55% - 65% downside

Astute investors are looking carefully at MATW's high leverage in a rising rate environment and lack of organic growth. Spruce Point will detail MATW's struggling acquisitions, low earnings quality, and financial control concerns

Stock Price	\$52.50	Street Valuation (1)	2017E	2018E
Diluted Shares	32.1	EV / Sales	1.7x	1.6x
Market Capitalization	\$1,687.8	EV / Adj. EBITDA	10.6x	10.1x
Revolving Credit Facility due April 2021 @ 3%	\$254.1	Price / Adj. EPS	14.4x	13.5x
Senior Secured Term Loan due April 2021 @ 3%	\$232.5	Price / Tangible Book	NM	NM
Securitized Receivables due April 2020 @ 2%	\$95.8	Growth and Margins		
Total Secured Debt Outstanding	\$582.4	Sales growth	3.3%	4.0%
Senior Unsecured Note due 2025 @ 5.25%	\$300.0	EBITDA Margin	15.8%	15.8%
Other Notes and Short-Term Debt	\$26.6	EPS growth	7.4%	6.4%
Capital Leases	\$5.1	Credit Metrics (3)		
Total Debt Outstanding	\$914.1	Senior Secured Debt / EBITDA	2.4x	2.2x
Less: Cash and Equivalents (2)	\$57.5	Total Debt / EBITDA	3.9x	3.6x
Total Enterprise Value	\$2,544.4	EBITDA / Intrest Expense	8.4x	7.0x

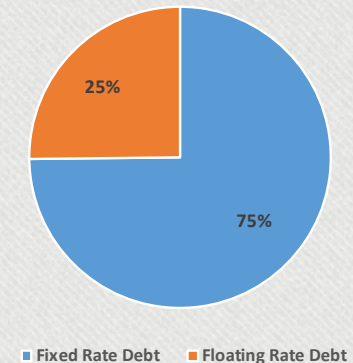
1. Pro forma for \$300m unsecured note issuance, but excludes the pending unnamed \$50 acquisition disclosed in 8-K in Nov 2017
2. As of 9/30/17 \$56.2m of its \$57.5m cash was permanently invested abroad in foreign markets
3. Based on Spruce Point interpretation of credit agreement EBITDA. MATW is rated Ba3 / BB by [Moody's](#) and S&P. Moody's calculates total leverage at 4.5x. Covenants: 4.5x, 3x, and 4x for Total Leverage, Snr Secured Leverage and EBITDA interest coverage

Significant Debt Maturities Coming Due In A Rising Rate Env't



25% of Debt Exposed To Rising Interest Rate

Floating exposure is net of \$414m of floating to fixed swaps





Evidence of a Failed Company

Matthews International (MATW): A Mish-Mash of Mediocre Business

Spruce Point believes that Matthews International is a terribly organized business. We believe the management team should be fired by the Board for failure to create value for shareholders

Three unrelated and underperforming business segments

Memorialization

2017 Sales: \$615.9 (41% of total)
2017 EBIT: \$80.7 (72% of total)

Overview: Manufactures and markets a full line of memorialization products used primarily in cemeteries, funeral homes and crematories. Products include cast bronze memorials, granite memorials, caskets, cremation equipment and other memorialization products

Key acquisitions: Aurora Products (2015)
Organic Growth: declining 1-3% p.a (1)
Margins: Stable in the 13% range
Capex Intensity: 1-2% of sales

SGK Brand Solutions

2017 Sales: \$770.2 (51% of total)
2017 EBIT: \$24.9 (22% of total)

Overview: Provides brand development, deployment and delivery - consisting of brand management, pre-media services, printing plates and cylinders, and imaging services for consumer packaged goods and retail customers, merchandising display systems, and marketing and design services

Key acquisitions: Schawk (2014)
Organic Growth: declining 3-5% p.a.
Margins: Under pressure, low single digits
Capex Intensity: 3% of sales

Industrial Automation

2017 Sales: \$129.5 (9% of total)
EBIT: \$7.0 (6% of total)

Overview: Designs, manufactures and distributes a wide range of marking and coding equipment and consumables, industrial automation solutions, and order fulfillment systems

Organic Sales Growth: N/A
Margins: Declining significantly, were >10% a few years ago, now 5.4%
Capex Intensity: 3-5% of sales

(1) Supported by market casket leader Batesville issuing long-term sales guidance through 2020 of 1-3% ([Dec 2017](#))

A Critical Look At MATW's Acquisitions

MATW has spent \$1.0 billion on acquisitions since FY 2013 to acquire 10 business with revenue contribution estimated at \$739 million. What's most troubling is that MATW is now making acquisitions and not even telling investors the name of the targets. For example, it recently acquired an unnamed business for \$50m at a time when it essentially has no excess cash available (1)

\$ in millions

Closed	Company	Segment	Enterprise Value	Contingent Consideration	Sales	EBITDA	EV / Sales	EV / EBITDA
11/27/17	"Undisclosed"	Industrial Tech	\$50.0	--	N/A	N/A	N/A	N/A
3/1/17	Equator (GJ Creative Ltd)	SGK	\$37.6	--	\$26.0 (2016)	N/A	1.4x	5.7x
2/28/17	RAF Technology	Industrial Tech	\$8.7	--	N/A	N/A	N/A	--
1/13/17	VCG (Holdings)	SGK	\$10.7	--	\$25.7 (2016)	\$1.0	0.4x	10.7x
1/3/17	A + E Ungricht	SGK	\$25.2	--	\$26.4 (2015)	N/A	1.0x	--
11/30/16	Guidance Automation	Industrial Tech	\$9.9	--	N/A	N/A	N/A	--
1/1/16	DDI	Industrial Tech	\$7.7	--	N/A	N/A	N/A	--
8/19/15	Aurora	Memorial	\$210.0	Up to \$10m	\$142.0 (2014)	\$21.0	1.5x	--
7/29/14	Schawk	SGK	\$616.7	--	\$443.0 (2013)	\$56.0	1.4x	11.0x
12/1/12	Pyramid	Industrial Tech	\$26.2	Up to \$3.7m	\$18.0 (2011)	N/A	1.5x	--
11/26/12	Wetzel	SGK	\$54.7	--	\$58.8 (2011)	N/A	1.0x	--

Source: Company information, Spruce Point Research. Excludes minority purchases

(1) As of 9/30/17 \$56.2m of its \$57.5m cash was permanently invested abroad in foreign markets

Evidence MATW's Largest Deal To Acquire Schawk A Major Disappointment

Matthew's largest deal to acquire Schawk in 2014 for \$616m was heavily promoted by management. Yet, relative to expectations set in the proxy statement, it is clear that the combined entity has been a bust. Even with the inclusion of the added acquisition of Aurora Caskets in 2015, we estimate Matthews has missed its internal sales and EBITDA projections by 15% and 30%, respectively. It should be no surprise that members of the Schawk family cashed out early in May 2016 by selling 970,000 shares at \$50.69 back to MATW (1)

Matthews Stand-Alone Projections

	Fiscal Year Ending September 30,		
	2014	2015	2016
	(in 000's, except per share data) ^(a)		
Sales	\$ 1,043,000	\$ 1,085,000	\$ 1,125,000
Operating profit	\$ 119,860	\$ 137,000	\$ 150,000
Net income	\$ 66,740	\$ 78,000	\$ 87,000
Capital Expenditures	\$ 30,000	\$ 30,000	\$ 30,000
Depreciation and Amortization	\$ 40,113	\$ 40,000	\$ 40,000
Non-GAAP EPS Reconciliation			
Earnings per share	\$2.17-\$2.35	\$2.72-\$2.86	\$3.01-\$3.21
Pension and postretirement expense adjustment ^(b)	\$ 0.10	\$ 0.08	\$ 0.05
Cost reduction initiatives and other charges	\$0.18-\$0.25	—	—
Litigation costs	\$0.07-\$0.10	—	—
Earnings per share, as adjusted	\$2.62-\$2.70	\$2.80-\$2.94	\$3.06-\$3.26

(a) All per-share amounts are net of tax.

Schawk Stand-Alone Projections

	2014P ⁽¹⁾	2015E	2016E	2017E	2018E
	(in thousands)				
Net Revenues	\$452,726	\$463,049	\$472,544	\$482,456	\$492,805
Management Adjusted EBITDA ⁽²⁾	65,000 ⁽⁴⁾	65,191 ⁽⁴⁾	69,377	73,802	78,480
Management Adjusted EBITDA Post-Project One ⁽³⁾	65,000 ⁽⁴⁾	69,191 ⁽⁴⁾	77,377	85,802	96,480

Note: Calendar year Dec 31 estimates

Source: [Proxy Statement](#), June 25, 2014

Schawk Deal A Huge Bust Relative To Expectations

Metric	MATW PF Estimated 2016E (2)	MATW Actual 2016	Miss vs. Expected	Miss vs. Expected (3)
Sales	\$1,600	\$1,480	-\$120 / (7.5%)	-\$262 / (15%)
Adj EBITDA	\$301	\$239	-\$62 / (20%)	-\$83 / (30%)

- 1) [8-K](#) Schawk family sells shares to MATW
- 2) Schawk projections adjusted for Sept 30th year end. EBITDA estimate includes \$40m of incremental cost synergies, the midpoint of management's estimate ([source](#))
- 3) In August 2015, MATW acquired Aurora Casket, adding \$142m of run-rate revenues and \$21m of EBITDA and projected cost synergies of \$15 - \$20m ([source](#)). Thus, Matthews performance was an even greater disappointment when considering the incremental financial contribution from Aurora

SGK Brand Solutions: MATW's Largest Business Declined Organically

Based on Spruce Point's research, MATW and its largest operating segment encompassing Schawk declined organically by 5% in 2017. Schawk has outsized exposure to consumer packaged goods (food / tobacco) – a sector under pressure - and under-exposure to digital media marketing and advertising, an area that's growing and becoming more competitive with global consulting firms such as Accenture, Deloitte, IBM, and McKinsey vying for client spending budgets. (1)(2)

CEO Schawk [Deal Announcement](#), March 2014: *"We are excited to be partnering with Matthews International and look forward to capitalizing on the opportunities this transaction will create. With Matthews International's trusted reputation in Europe and ours in North America, Europe and Asia Pacific, this alliance is expected to form a stronger global offering and provide greater value to our clients and the markets we serve, along with enhancing our ability to expand into key brand-development markets. Together, we will be a global market leader, with anticipated annual revenues of approximately \$850 million for the combined business under the SGK banner."*

MATW [Q4'17 Earnings Release](#): *"The SGK Brand Solutions segment reported sales of \$770.2 million for fiscal 2017, compared to \$756.0 million last year. Sales growth in its U.K. and Asia Pacific markets and the impact of recent acquisitions were the principal contributors to the increase in sales. The segment's sales in the U.S. and European markets were lower for the year primarily reflecting weaker brand market conditions. Changes in foreign currency exchange rates had an unfavorable impact of \$12.1 million on the segment's sales for fiscal 2017 compared to last year."*

MATW's Estimated Organic Growth (excluding FY 2017 acquisitions)

\$ in mm	Deal Close	Run Rate Revenues	% of Yr. Revenue Contribution	2016	2017	Growth
Reported Sales	--	--	--	\$756.0	\$770.2	+2.0%
Equator, Ltd	3/1/17	\$26.0	0.58	--	(\$15.2)	
VCG	1/13/17	\$25.7	0.71	--	(\$18.3)	
A+E Ungricht	1/3/17	\$26.4	0.74	--	(\$19.5)	
Organic Revenue (ex: Acquisitions) (at constant currency)				\$756.0	\$717.2	-5.0%
				\$756.0	\$729.3	-3.5%

Source: MATW and Spruce Point Estimates

- Schawk's final 2013 [10-K](#) as a public company noted 86.8% of revenues tied to CPG and that its clients shifting more to digital was a Risk Factor
- "Global Consultancies Are Buying Up Agencies and Reshaping the Brand Marketing World" - [AdWeek](#) March 12, 2017

Memorialization Segment And Aurora Acquisition Also A Bust

Memorialization, or products and services tied to the funeral industry, represent 41% and 72% of MATW's 2017 revenues and operating profits. The business has suffered significantly, despite the acquisition of Aurora Casket in August 2015 for \$210m, which was touted to have produced \$144m / \$21m of sales and EBITDA in 2014, and supposed to add \$35-\$40m of incremental EBITDA (1). We estimate the segment has declined 1.5% organically since 2014. Trends in the industry leave MATW poorly positioned; notably, cremations are rising and expected to account for >70% of death ceremonies by 2030. We estimate that ~10% of MATW's segment revenues (5% of total revenues) are tied to cremations.

Reasons why cremations are rising: 1) growing awareness that funeral homes offer cremation as an option, 2) increasing religious tolerance to cremation and weakening role of religion on society, 3) baby boomer acceptance of cremation, 4) cost of cremation (as low as \$700) vs. burial ceremony and casket (\$7,000 and up), 5) and regulatory change increasing public awareness that caskets can be marked-up as much as 300% between wholesale and retail

Alternative memorialization options exist and gaining popularity: MATW produces bronze, granite and other memorial products. However, online memorials have been growing in popularity as a cheap/fast alternative; even Facebook allows memorialization of deceased profiles (2)

Trends Favoring Greater Cremation


CY Dec 31	2010	2015	2018E	2020E	2025E	2030E
Traditional Burial %	53.3	45.2	40.6	37.8	30.3	22.7
Cremation %	40.4	47.9	53.3	56.2	63.8	71.3
Other/unreported %	6.3	6.9	6.1	6.0	5.9	6.0

Source: [National Funeral Directors Association](#), 2017

1) MATW CEO on Q1'16 [Conference Call](#) (includes \$15-\$20m of synergies)

2) "How to Make an Online Memorial For a Departed Loved One" [Huffington Post](#)

MATW's Memorialization (Death care) Trends

FY Sept 30	2012	2013	2014	2015(3)	2016	2017
Total Sales	\$492	\$517	\$508	\$508	\$610	\$615
% cremation	9%	9%	10%	 No Longer Disclosed		
% funeral home	46%	47%	46%			
% cemetery	44%	45%	44%			
Operating Profit	\$63	\$72	\$68	\$70	\$68	\$81
% margin	12.7%	13.9%	13.4%	13.8%	11.2%	13.1%
Pre-Need Inventory (4)	328,870	323,708	319,134	312,273	307,946	330,716
a. Memorials	<u>234,115</u>	<u>228,936</u>	<u>224,204</u>	<u>218,627</u>	<u>214,583</u>	<u>221,713</u>
b. Vases	562,985	552,644	543,338	530,900	522,529	552,429

Source: Matthews International

3) Aurora acquired on August 2015. Aurora CY2014 sales were \$144m prior to acquisition and were included in Funeral Home Products segment. **Pro forma CY2014 (Aurora/MATW) revenues were \$651m, which illustrates the decline of the business which just reported \$615m of FY17 sales**

4) Disclosed in MATW's revenue recognition section and represents pre-sales of death care products sitting in inventory

Other Bad Trends In Caskets

Caskets are a commodity product and producers such as Matthews/Aurora compete on price, style and ease of purchase. By law in the U.S. funeral homes must give price transparency and allow families to use a casket purchased from any source (1). With rising imports from China and mass online retailers selling direct to consumers, market share and margins are under pressure.

On Commoditization: "The only thing that a casket does is hold the body for a ceremony or transport it to the grave. ... They all do the same thing." – Josh Slocum, Executive Director of the [Funeral Consumer's Alliance](#)

Online Price Competition: Mass market retailers such as [Amazon](#), [WalMart](#), [Costco](#), [Overstock](#) along with a bunch of funeral specific website [BestPriceCaskets.com](#), [CasketSite.com](#), [Memorials.com](#)

On Chinese Casket Imports: "You could import caskets from China with a 100 percent import tax and still they would be cheaper than manufacturing in the United States," Dan Asard, Funeral Industry Expert at [The Foresight Companies](#), March 2017 (1)

Top Exporters To The U.S.

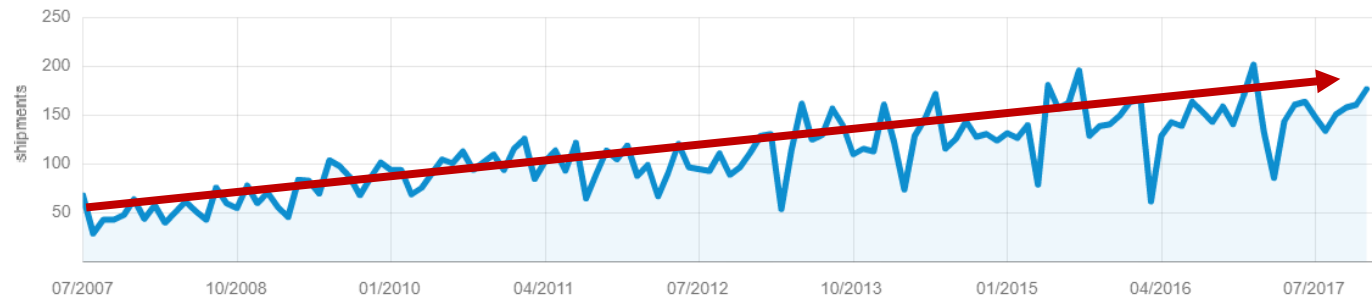
Country	Metal	Wood
China	2,067	1,109
Hong Kong	372	198
South Korea	86	73
Taiwan	--	43
Anguilla	71	40
Germany	45	--
Vietnam		11
Panama	32	--
Spain	24	--
Thailand	16	5
Mexico	15	--

Source: [Panjiva](#)

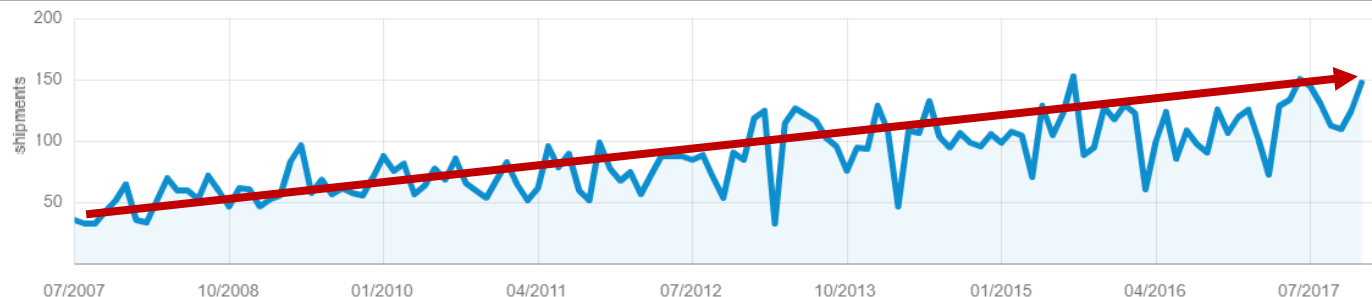
1) [Federal Trade Commission](#)

2) "This Southern Town Made Wooden Caskets. Now a Mexican Town Will" - [Huffington Post](#)

Wood Caskets Imported Into The U.S.



Metal Caskets Imported Into The U.S.



Lots of Hype (With Few Details) In The Industrial Technology Segment

Spruce Point believes that MATW's industrial segment is a "show-me" story, and just a repackaged old business. MATW claims to be working on a disruptive new warehouse control system for e-commerce. It has made several small acquisitions in the segment (RAF/DDI/Guidance), yet doesn't disclose the acquisition sales contribution, making it difficult to determine if sales growth is organic. However, we note that segment return on assets and operating margins have declined to all-time lows.



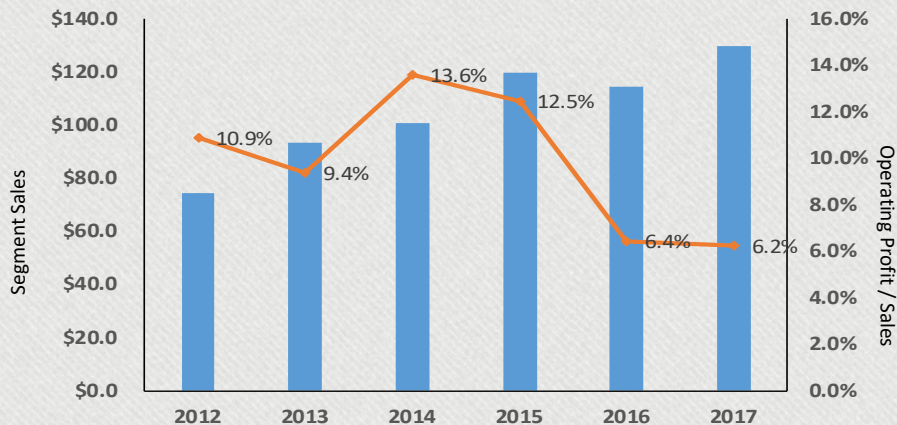
CEO Bartolacci (Q2'16): "During the quarter we have chosen to rename our industrial segment to better reflect the true nature of the underlining business. Many of you may recall this segment to have been our marketing products division at historical roots of our business. Today, given the evolution of this business and the scope of its current and future product lines there's no better descriptor that encompasses the core of this business other than industrial technologies."

Anything Complex About Printing on Boxes?



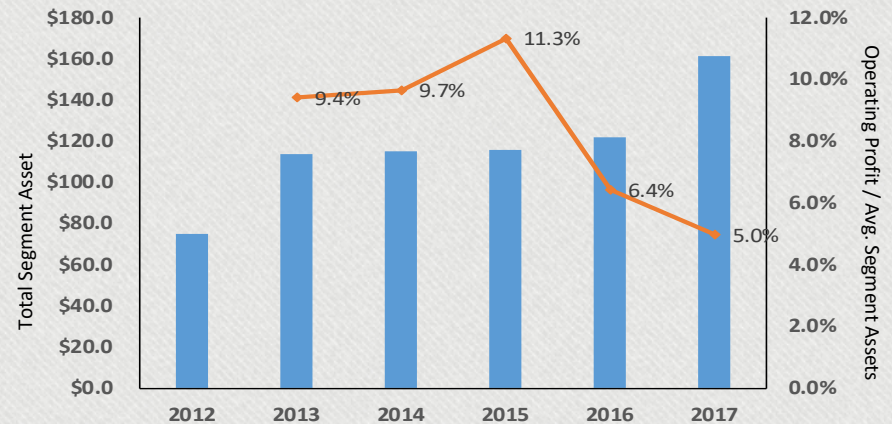
Source: [MATW Investor Presentation](#), Slide 14

Operating Margin All-Time Low



Source: MATW SEC Filings

Operating Profit / Total Assets All-Time Low





Dubious Financial Results And Serious Financial Control Concerns

Four strikes and you're out: Spruce Point believes that MATW's financial controls are so poor that its Controller, CFO, and CEO should resign immediately. How can investors have confidence in a company that allowed the largest corporate embezzlement in Western Pennsylvania's history and cannot even count dividends correctly?



[Jan 2011](#): Schawk receives a Wells notice from the SEC relating to a financial restatement for the years 2005-2006 disclosed in 2008, and an admission of material weaknesses tied to revenue recognition, software capitalization, and accounting for taxes.

[March 2014](#): Matthews acquires Schawk in 2014 for a 49% premium and a rich 11.0x EBITDA



[Jan 2015](#): Matthews International employee Peter Kalemon sentenced to prison for theft from 2010 – 2013 in a fake invoice scheme amounting to systematic theft of \$415,000. No mention of theft or material weakness in MATW's annual reports from 2010 – 2013. [July 2015](#): During the recent quarter, the Company identified a theft of funds from the Company by [Cynthia Mills](#) (a treasury and cash specialist at Matthews) that had occurred over a multi-year period through May 2015. The cumulative amount of the loss was approximately \$14.8 million. MATW determined the matter constituted a material weakness in internal controls. The embezzlement is believed to be the largest scheme in Western Pennsylvania history. Mills is sentenced to 8 years in prison



[Nov 11, 2015](#): MATW claims to remedy the weakness, *"In response to the material weakness, management took immediate action to remediate the material weakness and implemented changes in the design of this internal control to ensure appropriate segregation of duties within the Company's treasury process.. The Company has completed the documentation and testing of the corrective actions described above for a sufficient number of periods in order to conclude that the material weakness has been remediated as of September 30, 2015."*

[December 23, 2015](#): MATW's Audit Committee dismissed PwC (auditor since 1983) and appointed E&Y



Spruce Point identifies a number of worrisome financial control issues and discrepancies

- Equity accounts inaccurate due to improper dividend and share issuance accounting
- Improbable amount of charge-offs with little evidence of improved financial condition or cash flow
- Discrepancies between SEC filing figures and investor presentations
- Irreconcilable financial debt balances

Alarming Amount of Repeated Charges

MATW has reported a total of \$176.8m of pre-tax charges (with approximately \$165m related to acquisitions and strategic cost reductions). We believe this is an alarmingly high figure and will illustrate why on the next slide

CEO Bartolacci (July 2016): “Even with the remaining Aurora integration cost, we expect combined SGK and Aurora integration cost to be substantially lower in 2017 than has been incurred to date.” >> **Total Charges Increased From FY2016 to FY2017**

CEO Bartolacci (July 2017) “Regarding our recent acquisitions, we are approaching the end of our initiatives on SGK and expect integration expenses to be substantially completed in the next quarter or two. **Aurora on the other hand, is expected to continue to incur significant integration cost, largely over the next 12 to 18 months.**” >> **Layoffs Reported By Local News Two Months Later, Are These Really Integration Costs or Severance Costs? (1)**

\$ in mm	2012 (2)	2013 (2)	2014 (2)	2015	2016	2017
Pre-Tax Charge To Income	\$8.8	\$15.4	\$41.3	\$36.9	\$36.1	\$38.5
Disclosed Reason For Charge:						
Acquisition-related	--	\$3.4	\$28.7	\$38.8	\$35.9	\$29.3
Strategic Cost Reduction	\$2.5	\$7.9	\$6.9	\$2.2	\$0.2	\$9.2
Trade Name Write-Off	--	\$1.0	--	\$4.8	--	--
Theft of Funds	--	\$1.3	\$1.7	\$2.3	--	--
Legal Dispute	--	\$2.8	\$3.0	--	--	--
Incremental ERP Cost	\$2.5	\$0.8	--	--	--	--
Unfavorable Tax	--	--	\$1.3	\$1.3	--	--
Other: Inventory Write-off (step-up) in Gross Profit Schawk 2014, Aurora (2015/16)	--	--	\$9.5	\$1.8	\$4.0	--

Source: Footnotes to “Selected Data” in 10-K Annual Reports, Appendices of investor presentation (1, 2) and [press release](#)

1) [Eagle Country Online](#) “More Layoffs Feared At Aurora Casket” September 8, 2017 > [Prior year article](#) cites employees claiming “low demand” for products and declining production rates

2) Pre-tax charges were revised higher by MATW from 2012-2014 (used to be \$7.9, \$14.1, \$39.6m)

Benchmarking Acquisition Costs

MATW has reported \$132.7m of acquisition costs for the period covering its largest deals of Aurora and Schawk which amounts to 16.1% of the deal cost (1). We've compared these costs to other problematic acquisitions and companies Spruce Point has profiled in the past. MATW is the most aggressive

\$ in millions

Company / Spruce Point Research Date	Key Deals	Acquisition Period	Total Cost of Deals	Total Acquisition Charges	Deal Costs / Total Deal Value
Matthews International	Aurora / Schawk	2014-2017	\$826.7	\$132.7	16.1% (1)
Aecom / 2016	URS	2014-2016	\$4,900.0	\$639.3	13.0%
Greif, Inc / 2015	Various	2010-2011	\$521.1	\$51.5	9.9%
Service Corp (1)	Stewart Ent.	2013-2015	\$1,556.0	\$106.0	6.8%
Echo Global Logistics / 2016	Command Transport	2015-2016	\$407.0	\$14.0	3.4%
CECO Environmental / 2017	PMFG/ Met-Pro	2013-2015	\$460.5	\$16.0	3.6%
NCR Corp. / 2015	Digital Insight / Retalix / Radiant	2011-2014	\$3,741.0	\$100.0	2.7%

1) When strategic initiative and other charges of \$18.2m are also included, the figure rises to 18.2%





2) A notable and large deal in the death care industry. Includes acquisition and system transition costs

Source: Company financials

Bloated Cost Structure Remains

We are highly skeptical of MATW's recurring and excessive charges. We have looked closely at its cost structure and find compelling evidence that it has worsened. For example, MATW's lease expenses are rising despite manufacturing and distribution consolidation and fewer leased properties finally reported in 2017.

\$ in millions

Metric	2013	2014	2015	2016	2017
Annual Rent Under Operating Leases (1)	\$17.7	\$21.8	\$31.8	\$32.7	\$36.4 
Total Non-Cancelable Operating Lease Expense (2)	\$24.3	\$65.1	\$44.0	\$63.6	\$75.7 
Total Leased Properties (1)	27	58	56	57	46 
Non-Cancelable Lease Costs / Total Leased Properties	\$0.90	\$1.12	\$0.79	\$1.12	\$1.65 








1) Disclosed in Item 2. Properties of 10-K

2) Disclosed under "Long-Term Contractual Obligations and Commitments" section of 10-K

More Evidence of A Bloated Company

With all the acquisitions and cost savings programs, it's apparent from the analysis below that Matthews has not extracted any synergies either in sales or costs. We find that revenue per average employee has declined every single year, while SG&A as a % of sales rises every year, SG&A cost per employee remains stubbornly high.

\$ in millions

Financial Metric	2014	2015	2016	2017	Trend
Revenue	\$1,106.6	\$1,426.1	\$1,480.5	\$1,515.6	
Selling + Administrative Expense	\$311.0	\$424.4	\$437.6	\$450.8	
<u>Less: Acquisition/Integ. Costs</u>	<u>(\$17.8)</u>	<u>(\$37.1)</u>	<u>(\$31.9)</u>	<u>(\$26.0)</u>	
Adj. S&A Expense	\$387.3	\$387.3	\$405.7	\$424.8	
% of Sales	26.5%	27.2%	27.4%	28.0%	
Employees	9,400	10,300	10,300	11,000	
Average Employees	7,600	9,850	10,300	10,650	
Revenues / Average Employee	\$145,605	\$144,778	\$143,734	\$142,310	
Adj. SG&A / Average Employee	\$38,579	\$39,320	\$39,388	\$39,887	

Source: Company financials

A Close Look At MATW's ERP Odyssey

MATW's has hyped for years that its ERP implementation would provide great cost savings and facilitate acquisition integration. Started in November 2011, the project continued all the way to 2017, an astounding six years or 72 months (1). A recent consulting report by Panorama suggests that ERP implementations run 21 months on average (2). MATW has never disclosed the full costs of the ERP project, and MATW does not account for software or technology in its PP&E accounts consistent with best practice disclosures. These circumstances heighten our worry about potentially misleading charges on the income statement

ERP Discussion in 2013

CEO on the ERP (Q1'13): "I mean, the ERP, as you heard in my comments earlier, I would tell you that **we're past the challenging portion of that implementation.** I'd say we have another quarter of some outside assistance in trying to get us to where we would like it to be from an efficacy standpoint. We will continue to tweak and turn it for years to come, frankly. But at that point -- by the end -- this past quarter, **I would say the significant challenges are behind us.**"

Recent ERP Discussion in 2017

CEO on ERP (Q1'17): "We've entered the final phase of our SGK related ERP implementation and I'm pleased to say that for the most part it is expected to end this year, **on time and reasonably within budget.**"

- 1) Q1'2012 [press release](#) and FY 2017 results, [Nov 2017](#)
- 2) 2016 Panorama Consulting [Report](#) on ERP Systems
- 3) Schawk 2008 [10-K](#), p. 43

MATW PP&E Accounts Do Not Contain Accounts for Software/Computers

	2017	2016
Buildings	\$ 104,604	\$ 102,153
Machinery and equipment	412,980	378,650
	517,584	480,803
Less accumulated depreciation	(335,346)	(305,613)
	182,238	175,190
Land	16,845	19,705
Construction in progress	36,450	24,597
	\$ 235,533	\$ 219,492

Recall: Schawk, which MATW acquired in 2014 disclosed material weaknesses tied to software accounting policies (3)
Note: MATW doesn't disclose spending on technology, have a line item account for computers /software in PP&E, or even discuss software amortization policies in its 10-K. Are earnings being inflated by leaving substantial costs in the "Construction in progress" account, which has ballooned from \$10.4m to \$36.5m since 2014

Management Milking Compensation For Terrible Performance

Cemetery products might be slowly dying, but management compensation is thriving. Management's incentives are clear: keep the status quo and enjoy 30% p.a. compensation growth while business declines organically and the assets become more indebted

Total Compensation of MATW Executives

Fiscal Yr Sept 30 th \$ in millions	2012	2013	2014	2015	2016	CAGR
J. Bartolacci, CEO	\$2.7	\$3.4	\$4.6	\$6.1	\$7.7	+30%
S. Nicola, CFO and Chief Acct'g Officer	\$1.3	\$1.3	\$1.9	\$2.7	\$3.0	+23%
B. Dunn, EVP Strategic and Corp Development	\$0.8	\$0.8	\$2.4	\$1.1	\$1.2	+11%
D. Schawk, President SGK Brand Solutions	--	--	\$1.4	\$1.1	--	--
S. Gackenbach, Group President Memorialization	\$0.5	\$1.1	\$0.9	\$1.2	\$1.4	+29%
B. Walters, VP and General Counsel	--	\$0.6	\$0.8	\$1.2	\$1.2	+26%
Total Comp. % of GAAP EBIT	\$5.3 5.7%	\$7.2 7.6%	\$12.0 14.8%	\$13.4 12.8%	\$14.5 12.2%	+29%

Spruce Point’s research shows more evidence to suggest management is milking the corporation while business suffers. Subsidiary records show MATW owns Kedzie Aircraft LLC which has a Learjet registered in Pittsburgh. Flight records show many trips to Naples where director and SGK president Schawk resides. Who is footing these costs?

Matthews Int’l Disclosures on Perks

On compensation philosophy: *“The Company de-emphasize the use of perquisites except for business purposes”*

On director perks: *“The Company does not provide any retirement benefits or perquisites to any of its non-employee directors”*

On aircraft usage: **NOTHING**

Source: Matthews [Proxy Statement](#)

Schawk’s Perks Disclosed In Its Proxy Statement Prior To Acquisition

“In addition, the Company has permitted in the past the personal use of a corporate aircraft in which the Company owns a fractional interest by the Company’s Chief Executive Officer and his family provided that the Company receive reimbursement of all incremental costs to the Company related to its personal use. Effective 2010, as part of the Chief Executive Officer’s compensation, Mr. Schawk is entitled to personal use of corporate aircraft at the Company’s expense, provided that the value of the flights attributed to Mr. Schawk as compensation does not exceed \$100,000 annually (excluding amounts to tax effect (gross up) such compensation). The Committee believes that personal use of the Company’s aircraft represents a valuable perquisite for Mr. Schawk that is appropriate considering his value to the Company and that such benefit can be provided by the Company for relatively minimal cost.”

Source: Schawk 2013 [Proxy Statement](#), p 22

Learjet 45



Note: Not the actual plane owned by Kedzie

Plane Hasn’t Been To Pittsburgh Where MATW is Headquartered In Over A Month

Date	Departure	Arrival
1/5/18	Sarasota, FL	Naples, FL
1/1/18	Marco Island, FL	Nashville, TN
12/26/17	Chicago, IL	Naples, FL
12/23/17	Orlando, FL	Naples, FL
12/15/17	Naples, FL	Grand Rapids, MI
12/8/17	Grand Rapids, MI	Savannah Hilton Head
12/5/17	Allegheny, PA	Grand Rapids, MI

Note: Table is a partial list of flights. There are 42 flight records from 12/1/17 to 1/7/18.
Sources: MATW [subsidiaries](#); FAA [registry](#); [Schawk/Naples](#)

Here's direct evidence of questionable charges and that management cannot keep its dubious numbers straight even in the same document.

(Dollars in thousands)

	Fiscal year ended September 30,		
	2015	2016	2017
Consolidated			
Operating Profit	\$ 105,023	\$ 118,815	\$ 112,603
Acquisition-related items	38,865	35,894	29,250
Intangible asset write-offs	4,842	-	-
Litigation matter	(8,996)	-	-
Strategic initiative and other charges ⁽¹⁾	2,172	163	9,209
Adjusted Operating Profit	\$ 141,906	\$ 154,872	\$ 151,062

Note: See Disclaimer (Page 3) for Management's assessment of supplemental information related to adjusted operating profit.
(1) – See Disclosure (Page 3).

Appendix B
EBITDA and Adjusted EBITDA
Non-GAAP Reconciliation

(Dollars in thousands)

	Fiscal year ended September 30,		
	2015	2016	2017
Net Income	\$ 63,449	\$ 66,749	\$ 74,368
Interest expense	20,610	24,344	26,371
Income taxes	26,364	29,073	22,354
Depreciation and Amortization	62,620	65,480	67,981
EBITDA	\$ 173,043	\$ 185,646	\$ 191,074
Acquisition-related items	38,865	34,674	25,748
Intangible asset write-offs	4,842	-	-
Litigation matter	(8,996)	-	-
Strategic initiative and other charges ⁽¹⁾	4,968	241	9,209
Loss recoveries, net of costs	-	-	(10,683)
Pension settlement	(11,522)	-	-
Stock-based compensation	9,097	10,612	14,562
Pension and postretirement expense ⁽²⁾	5,677	8,413	8,773
Adjusted EBITDA	\$ 215,974	\$ 239,586	\$ 238,683

Source:
MATW Q4'17
[Investor Presentation](#)

More Evidence of Financial Control Issues (cont'd)

Investors should be very worried that MATW cannot correctly account for dividend payments and stock issuance

Statement of Cash Flow			
	2017	2016	2015
Cash flows from financing activities:			
Proceeds from long-term debt	417,043	90,421	279,377
Payments on long-term debt	(388,447)	(120,380)	(100,218)
Payment on contingent consideration	—	—	(484)
Purchases of treasury stock	(14,025)	(57,998)	(14,567)
Proceeds from the exercise of stock options	14	6,406	4,015
Dividends	(21,762)	(19,413)	(17,847)
Transactions with noncontrolling interests	—	(5,566)	(904)
Settlement of multi-employer pension plan obligation	—	—	(18,157)
Other financing activities	—	(2,318)	—
Net cash (used in) provided by financing activities	(7,177)	(108,848)	31,215

Source: MATW 2017 [10-K](#)

Statement of Consolidated Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive (Loss) Income (net of tax)	Treasury Stock	Non-controlling Interests	Total
Balance, September 30, 2015	36,334	115,890	843,955	(150,326)	(115,033)	3,226	734,046
Net income	—	—	66,749	—	—	(588)	66,161
Minimum pension liability	—	—	—	(12,576)	—	—	(12,576)
Translation adjustment	—	—	—	(17,655)	—	—	(17,744)
Fair value of derivatives	—	—	—	(1,311)	—	—	(1,311)
Total comprehensive income	—	—	—	—	—	—	34,530
Stock-based compensation	—	10,612	—	—	—	—	10,612
Purchase of 1,132,452 shares of treasury stock	—	—	—	—	(57,998)	—	(57,998)
Issuance of 404,307 shares of treasury stock	—	(5,972)	—	—	14,162	—	8,190
Cancellation of 5,237 shares of treasury stock	—	244	—	—	(244)	—	—
Dividends	—	—	(14,480)	—	—	—	(14,480)
Transactions with noncontrolling interests	—	(3,686)	—	—	—	(1,880)	(5,566)
Balance, September 30, 2016	36,334	117,088	896,224	(181,868)	(159,113)	669	709,334

More Evidence of Financial Control Issues (cont'd)

Below are financial control issues from allocation of depreciation and amortization. Figures presented in the Segment Information of the annual report don't reconcile to MATW's Adjusted EBITDA in its investor presentation

Segment Depreciation From Annual Report

	<u>SGK Brand Solutions</u>	<u>Memorialization</u>	<u>Industrial Technologies</u>
Depreciation and amortization:			
2017	41,941	19,808	2,863
2016	41,238	19,223	2,503
2015	46,594	12,410	2,294

**Segment
Depreciation and
Amortization
Does Not Reconcile:**

**Compare The
Figures Underlined
in Red With
Reported Figures in
the Annual Report**

(Dollars in thousands)	Fiscal year ended September 30,		
	2015	2016	2017
SGK Brand Solutions			
Operating Profit	\$ 21,864	\$ 42,909	\$ 24,919
Depreciation and Amortization	47,215	42,471	43,508
Other (1)	2,538	662	4,877
EBITDA	\$ 71,617	\$ 86,042	\$ 73,304
Acquisition-related items	33,605	24,380	19,541
Intangible asset write-offs	4,842	-	-
Strategic initiative and other charges (2)	1,016	120	8,620
Loss recoveries, net of costs	-	-	(4,968)
Pension settlement	(11,522)	-	-
Stock-based compensation	4,236	5,180	6,639
Pension and postretirement expense (3)	2,669	4,122	4,080
Adjusted EBITDA	\$ 106,463	\$ 119,844	\$ 107,216
Memorialization			
Operating Profit	\$ 70,064	\$ 68,252	\$ 80,652
Depreciation and Amortization	13,019	20,305	21,408
Other (1)	2,484	580	4,983
EBITDA	\$ 85,567	\$ 89,137	\$ 107,043
Acquisition-related items	5,260	10,294	5,851
Litigation matter	(8,996)	-	-
Strategic initiative and other charges (2)	3,952	(511)	-
Loss recoveries, net of costs	-	-	(5,074)
Stock-based compensation	4,022	4,523	6,893
Pension and postretirement expense (3)	2,611	3,618	4,167
Adjusted EBITDA	\$ 92,416	\$ 107,061	\$ 118,880
Industrial Technologies			
Operating Profit	\$ 13,095	\$ 7,654	\$ 7,032
Depreciation and Amortization	2,386	2,704	3,065



Worrisome Debt Situation

Worrisome Debt Levels

MATW's acquisition spree has left it dangerously levered and its balance sheet bloated with goodwill and intangible assets that looks ripe for substantial impairment.

\$ in millions

Financial Metric	2012	2013	2014 (1)	2015 (2)	2016	2017
Unadjusted EBITDA	\$123.9	\$131.1	\$120.9	\$173.0	\$185.6	\$191.1
Total Debt	\$319.7	\$374.7	\$729.3	\$903.0	\$872.5	\$911.1
Cash and Equivalents	\$46.3	\$48.1	\$63.0	\$72.2	\$55.7	\$57.5
Contractual Obligations (3)	\$346.6	\$399.6	\$834.7	\$948.4	\$942.5	\$988.2
Goodwill and Intangibles	\$535.2	\$589.6	\$1,201.2	\$1,270.7	\$1,245.3	\$1,322.1
Total Assets	\$1,128.0	\$1,209.2	\$2,008.0	\$2,143.6	\$2,091.0	\$2,244.6
Total Employees	5,400	5,800	9,400	10,300	10,300	11,000
Debt / Total Assets	28%	31%	36%	42%	42%	41%
Debt / EBITDA	2.6x	2.9x	6.0x	5.2x	4.7x	4.8x
Contractual Obligations / EBITDA	2.8x	3.0x	6.9x	5.5x	5.1x	5.2x
Goodwill and Intangibles / Total Assets	47%	49%	60%	59%	60%	59%
Debt / Average Employee	\$64,782	\$71,352	\$109,824	\$96,284	\$91,504	\$92,791

Source: Matthews International Financials

- 1) Metrics distorted due to Schawk acquisition closed 7/29/2014
- 2) Metrics distorted due to Aurora acquisition closed 8/19/2015
- 3) Total contractual obligations disclosed in footnotes to financials

Questionable and Distorted Free Cash Flow Presentation

In Spruce Point's experience, companies under financial stress try to present their free cash flow in an overly optimistic light [see our reports on NCR (2015) and Greif (2014)]. We observe that MATW presents its adjusted free cash flow in an aggressive manner (bottom left) suggesting cumulative free cash flow of \$387 from 2015-17. However, when calculated under the traditional definition, we calculate \$278m of free cash flow (28% less).

Adjusted Free Cash Flow

Matthews
INTERNATIONAL

(Dollars in thousands)

Fiscal year ended September 30,

	2015	2016	2017
Net Income	\$ 63,449	\$ 66,749	\$ 74,368
Depreciation and Amortization	62,620	65,480	67,981
Stock-Based Compensation	9,097	10,612	14,562
Pension Cost (non-service portion)	5,677	8,413	8,773
Subtotal	140,843	151,254	165,684
Capital Expenditures	(48,251)	(41,682)	(44,935)
Free Cash Flow ⁽²⁾	92,592	109,572	120,749
Adjustments to Net Income ⁽¹⁾	20,481	23,742	20,344
Adjusted Free Cash Flow ⁽²⁾	\$ 113,073	\$ 133,314	\$ 141,093
Cash Provided from Operating Activities	\$ 141,064	\$ 140,274	\$ 149,299

(1) Adjusted net income reflects certain adjustments, net of tax, to facilitate comparability. See reconciliation at Appendix D.
(2) See Disclaimer (Page 3) for Management's assessment of supplemental information related to free cash flow and adjusted free cash flow.

Free Cash Flow Up Just \$21m Since 2013 (Pre-Acquisitions)

\$ in mm	2013	2014	2015	2016	2017
Operating Cash Flow	\$108.1	\$90.1	\$141.1	\$140.3	\$149.3
Less: Capex	(24.9)	(29.2)	(48.3)	(41.7)	(44.9)
Less: Pension Plan Settlement (1)	--	--	(18.2)	--	--
Spruce Point Free Cash Flow	\$83.1	\$61.4	\$74.6	\$98.6	\$104.4

1) MATW attempts to portray a payment to settle a pension obligation as a financing payment. However, in the absence of settlement, MATW would have paid these employee obligations through 2034 as operating cash payments

A Tale of Two EBITDA's

MATW is precariously levered and experiencing declining organic growth. It presents an Adjusted EBITDA figure to equity investors that Sprue Point believes should be carefully evaluated. We believe investors should instead focus on its credit agreement EBITDA, which is 7% below the promoted EBITDA. We estimate MATW's Leverage ratio is 3.9x vs. a 4.5x covenant – leaving it with ~\$30m of “cushion” before tripping a covenant.

Component	EBITDA Promoted By MATW To Equity Owners	Credit Agreement EBITDA
Net Income	\$74.3	\$74.3
Interest Expense	\$26.3	\$26.3
Income Taxes	\$22.3	\$22.3
Depreciation and Amort.	\$68.0	\$68.0
MATW Reported EBITDA	\$191.1	\$191.1
(+) Acquisition-items	\$25.7	--
(+) Cost Initiatives	\$9.2	\$9.2
(-) Loss Recovers, net	(\$10.7)	--
(+) Stock-comp	\$14.6	\$14.6
(+) Pension Expense	\$8.8	\$8.8
(-) Gain on asset sale	--	(\$0.8)
(-) Unrealized Investment Gains	--	(\$2.6)
Adjusted EBITDA	\$238.7	\$220.7
Total Net Debt / Adj EBITDA (Leverage Ratio)	3.6x	3.9x

How Much Debt Does MATW Have?

We previously noted financial control issues at MATW. We think investors should be aware that MATW's balance sheet debt doesn't reconcile with reported borrowings and repayments in the cash flow statement

Financial Statement	Financial Line Item	2013	2014	2015	2016	2017
Balance Sheet	Current Maturities of LT Debt	\$23.6	\$15.2	\$11.7	\$27.7	\$29.5
	Long-Term Debt	\$351.1	\$714.0	\$891.2	\$844.8	\$881.6
	Total Debt	\$374.7	\$729.3	\$903.0	\$872.6	\$911.1
	Change in Balance Sheet Debt	\$54.9	\$354.6	\$173.7	(\$30.4)	\$38.6
Cash Flow Statement	Proceeds LT Debt	\$116.5	\$415.7	\$279.4	\$90.4	\$417.0
	Payments LT Debt	(\$83.3)	(\$58.4)	(\$100.2)	(\$120.4)	(\$388.4)
	Change in Debt	\$33.2	\$357.3	\$179.2	(\$30.0)	\$28.6
	Variance in Debt Accounts	\$21.8	(\$2.7)	(\$5.5)	(\$0.4)	\$10.0

Source: Matthews 10-K SEC filings

We think investors should take notice that MATW recently initiated a receivables securitization facility in April 2017 and utilized 83% of the \$115m program. This is a classic sign of financial stress. We also note that almost 100% of MATW's cash is in foreign subsidiaries and intended to be permanently invested abroad. MATW recently issued \$300m of unsecured debt to reduce dependence on its credit facility

Financial Account	2017	Pro Forma for \$300m Snr. Unsecured Debt Issuance (1)
Cash and Equivalents	\$55.7	\$57.5
Less: Cash in foreign markets	(\$55.6)	(\$56.2)
Available Cash	\$1.3	\$1.3
A/R Securitization Facility (2)	\$115.0	\$115.0
Utilized	(\$95.8)	(\$95.8)
Available A/R Capacity	\$19.2	\$19.2
Senior Revolving Credit Facility	\$900.0	\$900.0
Utilized	(\$525.0)	(\$228.0)
Revolver Capacity	\$375.0	\$672.0
European Facility	\$41.3	\$41.3
Utilized	(\$26.1)	(\$26.1)
Available European Capacity	\$15.2	\$15.2
Liquidity	\$409.4	\$706.0 (3)

- 1) On [Dec 1, 2017](#) MATW issued 5.25% unsecured note due 2025 with net proceeds expected of \$297m to repay the senior credit facility
- 2) Disclosed in [10-Q](#) filed May 3, 2017
- 3) Excludes pending and unnamed \$50m acquisition disclosed in [8-K](#) which would reduce liquidity

Red Flag: AR Growing Faster Than Sales

We wanted to investigate why MATW decided to start an AR Securitization program in April 2017. A classic red flag, MATW's receivables have been growing meaningfully faster than sales after its two large acquisitions. A significant number of the Company's memorialization customers are small businesses and MATW has ~26% of sales to Europe and the UK which has struggled with lower growth. It's very abnormal that its allowance for doubtful accounts has barely grown; suppressing this account would enable earnings overstatement.

\$ in mm, FY Sept 30th	Schawk acquired (1)		Aurora acquired		
	2013	2014	2015	2016	2017
Total Sales	\$985.4	\$1,106.6	\$1,426.1	\$1,480.5	\$1,515.6
% annual growth	--	12%	29%	4%	2%
% cumulative growth	--	12%	45%	50%	54%
Accounts Receivable	\$177.6	\$282.7	\$284.0	\$298.9	\$319.6
<u>(+) Allowance for bad debts</u>	<u>10.0</u>	<u>10.9</u>	<u>10.0</u>	<u>11.5</u>	<u>11.6</u>
Gross Receivables	\$187.6	\$293.7	\$294.0	\$310.4	\$331.2
% annual growth	--	57%	0%	6%	7%
% cumulative growth	--	57%	57%	65%	77%

Receivables outpace sales by 23% post acquisitions

Very Abnormal That Allowances Have Barely Increased



Sum-of-the-Parts Valuation




MATW's Analysts Have Unrealistic Price Targets Suggesting 48% Upside

The few analysts covering MATW see significant upside with an average price target near \$78/share, implying approximately 48% upside. We think it inevitable that analysts will cut their price targets and lower their earnings estimates as MATW's struggles become clearer

Broker	Recommendation	Price Target
CJS Securities	Market Perform	\$66.00
FBR / B. Riley (1)	Buy	\$92.00
Great Lakes Review	Hold	N/A
Macquarie	Outperform	\$75.00
Average Price Target % Upside From Current (2)		\$77.67 +48%

1) Formerly at Wunderlich
2) Based on \$52.50 price

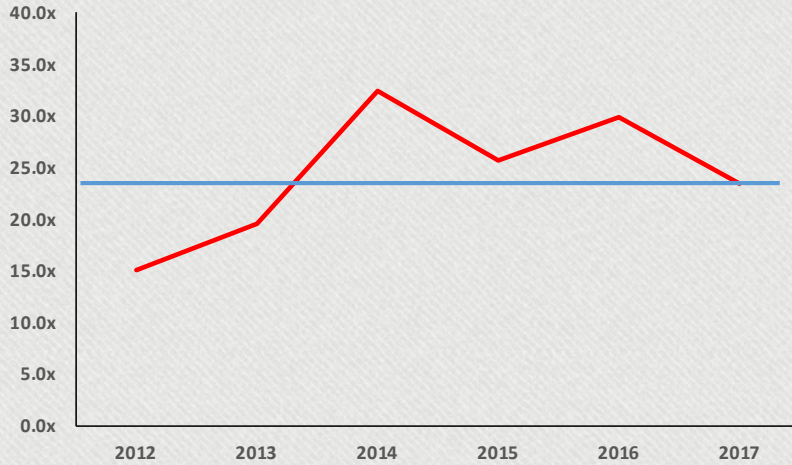
MATW's share price has been driven the past few years by the disappointing trend of passive index and ETF chasers, and not by insider buying or hedge fund positioning. We doubt the passive buyers have conducted an extensive forensic financial review in deciding to increase their ownership, and are likely just blindly buying management's questionable adjusted financial results

Month Ended November	2012	2013	2014	2015	2016	Trend
All Insiders	3.9%	3.9%	4.4%	4.6%	3.9%	
Blackrock	7.0%	7.5%	6.8%	8.3%	9.3%	
Vanguard	6.3%	5.9%	6.6%	7.4%	8.6%	

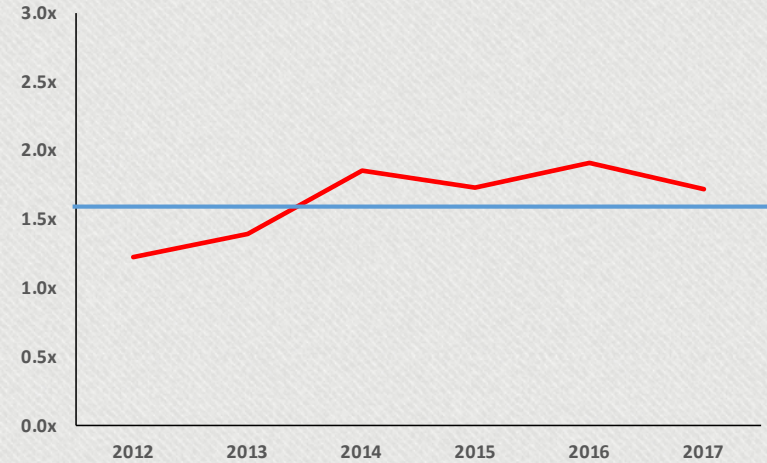
Source: Matthews International Proxy Statements

...Keeping Valuation Inflated At Or Above Long-Term Averages

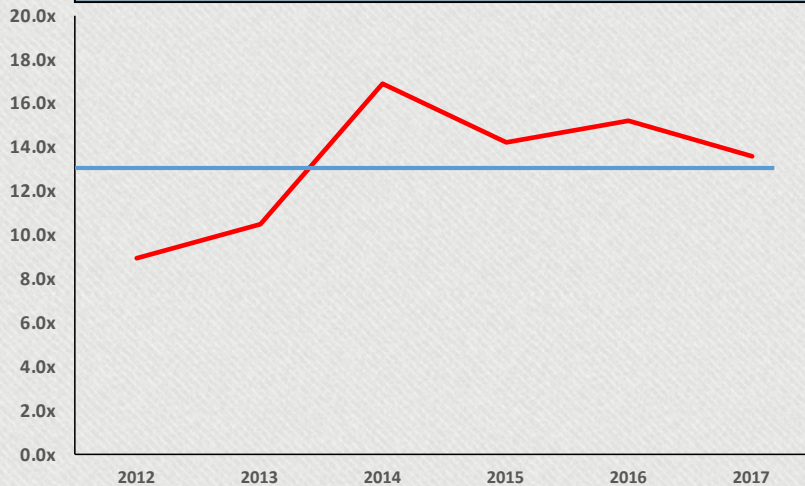
Price / LTM EPS



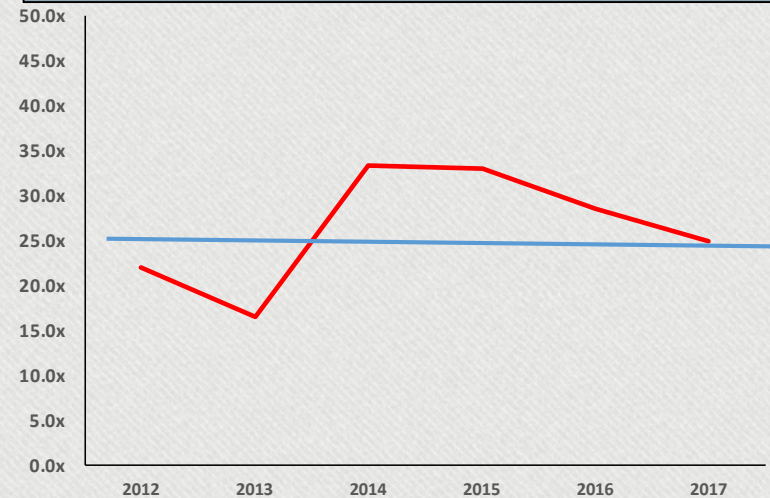
EV / LTM Sales




EV / LTM EBITDA




EV / Free Cash Flow




Bullish Promoters



“MATW’s cremation equipment business provides a natural hedge against the cremation trend”




“With modest top-line growth, memorialization provides a solid base of free cash flow. SGK offers top-line growth more in line with GDP while the industrial segment sees very strong long-term, top-line growth through the introduction of new innovative products”




“After the stock’s recent pull-back, the equity trades at a forward P/E under 16x. For a consistent 8%-9% annual bottom line grower, we find a sub-market valuation to be unwarranted. Over the last 3 years, MATW has generally traded in a range of 17x-22x earnings. Our \$75 target is derived by applying an approximately 17x multiple to our revised F2019 EPS estimate of \$4.34. If anything, this valuation could prove conservative, in our view.”


Spruce Point View



MATW stopped disclosing cremation sales in 2014. At that point in time, it represented just 10% of memorialization segment sales, and 5% of total company sales



A majority of the top-line growth appears to be acquired and actual organic growth is negative. MATW uses an aggressive presentation of free cash flow to make it appear stronger than normal. How can memorialization provide a stable cash flow base when it is shrinking?



MATW trades at or above its recent average valuation, despite mounting evidence of financial strain, dubious pre-tax financial charges and lack of organizational improvement from failed acquisitions. Recent EPS has been flattered by a significant decline in the tax rate (which has average 32%, but fell to 23.2%) in FY17 and a lower share count from buybacks. Spruce Point believes MATW should be valued on a Sum-of-the-Parts basis using GAAP results, not the dubious adjusted metrics provided by MATW management, which has demonstrated an inability to prevent theft and adequate financial controls



The best way to gauge valuation of Matthews is to understand what each business would be valued at on a standalone basis. Spruce Point has developed a set of comparable companies.

\$ in millions, except per share figures

Name	Ticker	Stock Price 1/10/2018	% of 52-wk High	Ent. Value	'17E-'18E		2017E EBITDA Margin	P/E		Enterprise Value				Price / Book	Net Debt/ 18E EBITDA	Dividend Yield	
					Revenue Growth	EPS Growth		2017E	2018E	EBITDA		Sales					
Funeral / Death Services																	
Service Corp	SCI	\$38.14	100%	\$10,439	3.6%	4.0%	26.8%	25.3x	24.3x	12.6x	11.8x	3.4x	3.3x	3.9x	3.5x	1.6%	
Hillenbrand	HI	\$44.05	95%	\$3,190	3.1%	7.2%	18.0%	19.2x	19.2x	11.0x	10.1x	1.9x	1.9x	3.6x	1.3x	1.9%	
Carriage Services	CSV	\$26.22	91%	\$785	7.4%	27.7%	26.9%	18.6x	14.6x	11.3x	9.7x	3.0x	2.8x	2.6x	4.1x	1.1%	
					Max	7.4%	27.7%	26.9%	25.3x	24.3x	12.6x	11.8x	3.4x	3.3x	3.9x	4.1x	1.9%
					Average	4.7%	13.0%	23.9%	21.0x	19.3x	11.6x	10.5x	2.8x	2.7x	3.4x	3.0x	1.5%
					Min	3.1%	4.0%	18.0%	18.6x	14.6x	11.0x	9.7x	1.9x	1.9x	2.6x	1.3x	1.1%
Branding, Marketing and Printing																	
RR Donnelly	RRD	\$9.33	50%	\$2,677	0.5%	8.3%	6.9%	8.6x	8.0x	5.6x	5.6x	0.4x	0.4x	NM	4.2x	6.0%	
Multi-Color Corp	LABL	\$76.55	87%	\$2,025	34.2%	16.8%	17.0%	20.4x	17.4x	9.3x	6.4x	1.6x	1.2x	3.0x	1.5x	0.3%	
Quad/Graphics	QUAD	\$22.63	78%	\$1,900	-3.4%	16.0%	11.2%	12.5x	10.8x	4.1x	4.5x	0.5x	0.5x	2.5x	2.5x	5.3%	
MDC Partners	MDCA	\$9.45	77%	\$1,509	5.9%	39.5%	13.4%	22.0x	15.8x	7.4x	6.6x	1.0x	0.9x	NM	4.0x	0.0%	
Viad Corp	VVI	\$54.50	88%	\$1,244	2.8%	10.7%	10.7%	20.9x	18.9x	8.9x	8.6x	1.0x	0.9x	2.4x	0.9x	0.7%	
InnerWorkings	INWK	\$9.95	83%	\$669	5.5%	16.3%	5.8%	20.3x	17.5x	10.2x	8.9x	0.6x	0.6x	1.8x	1.6x	0.0%	
					Max	34.2%	39.5%	17.0%	22.0x	18.9x	10.2x	8.9x	1.6x	1.2x	3.0x	4.2x	6.0%
					Average	7.6%	18.0%	10.8%	17.4x	14.7x	7.6x	6.8x	0.8x	0.7x	2.4x	2.5x	2.1%
					Min	-3.4%	8.3%	5.8%	8.6x	8.0x	4.1x	4.5x	0.4x	0.4x	1.8x	0.9x	0.0%
Small Cap Industrial Technology																	
Allied Motion Tech.	AMOT	\$34.92	99%	\$375	5.0%	27.3%	12.1%	31.7x	24.9x	12.5x	10.7x	1.5x	1.4x	3.8x	1.3x	0.3%	
AstroNova	ALOT	\$13.55	87%	\$107	NA	NA	7.0%	26.7x	NA	14.1x	NA	1.0x	NA	1.5x	NA	2.1%	
TransAct Tech.	TACT	\$14.00	90%	\$100	5.4%	3.2%	14.6%	22.2x	21.5x	11.9x	11.1x	1.7x	1.6x	4.0x	-0.4x	2.6%	
					Max	5.4%	27.3%	14.6%	31.7x	24.9x	14.1x	11.1x	1.7x	1.6x	4.0x	1.3x	2.6%
					Average	5.2%	15.2%	11.2%	26.9x	23.2x	12.8x	10.9x	1.4x	1.5x	3.1x	0.4x	1.7%
					Min	5.0%	3.2%	7.0%	22.2x	21.5x	11.9x	10.7x	1.0x	1.4x	1.5x	-0.4x	0.3%
Matthews Int'l	MATW	\$52.50	69%	\$2,544	4.0%	6.4%	15.8%	14.4x	13.5x	10.6x	10.1x	1.7x	1.6x	2.1x	3.4x	1.4%	

Sum-of-the-Parts Valuation Implies 55% - 65% Downside Risk

It's no surprise to us that none of the MATW analysts dare to conduct a sum-of-the-parts valuation. It is the natural valuation technique given the disparate businesses under its umbrella. Using our carefully selected group of public comps, we derive multiple ranges for each of MATW's businesses. However, we note that most of its businesses have inferior margins and growth profiles, so it is natural we discount the multiple ranges.

\$ in mm	SGK	Memorial	Industrial	Total	Notes
2018E Multiple Range	5.5x – 6.5x	9.0x – 10.0x	8.0x – 10.0x		Wall St. gives MATW a 10x multiple off its inflated Adj EBITDA. We see no justification for a valuation premium for the combo of these mediocre assets and a mgmt team that fails to execute
2018E Segment EBITDA	\$73.3	\$107.0	\$10.7	\$191.0	We expect flat EBITDA growth. We use unadjusted EBITDA given our documented concerns about dubious recurring charges
Valuation Range	\$403.2 – \$476.5	\$963.0 – \$1,070.0	\$85.6 – \$107.0	\$1,451.8 – \$1,653.3	
			Less: Debt	\$914.1	
			Plus: Cash	\$57.5	
			Diluted Shares	32.1	
			Price Target	\$18.50 - \$24.50	
			Approx Downside	-65% to -55%	
Notes	MATW overpaid for Schawk at 11x EBITDA. Peers valued at around 7.0x with more growth and slightly higher margins. Top end of our multiple range is 6.5x	Peers valued at 9.5x – 11.5x, but Hillenbrand is most relevant peer. Hillenbrand's casket business reports 25% casket EBITDA margins vs. MATW's 19%. MATW should trade at a discount	Publicly traded peers small cap industrial peers trade around 10x, but MATW's business has vastly inferior margins and less transparency		