

Operator: Greetings, and welcome to Matthews International Corporation First Quarter Fiscal 2019 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to Karen Howard, Investor Relations for Matthews. Thank you. You may begin.

Karen Howard: Thank you, Cheri, and good morning, everyone. Thank you for joining us to discuss the Matthews International Fiscal 2019 First Quarter Results for the period ended December 31, 2018.

We certainly appreciate your time today. You should have a copy of the news release that crossed the wire yesterday afternoon detailing Matthews' results. We also have slides associated with the commentary that we're providing here today. If you don't have the release or the slides, you can find them on the company's website at www.matw.com on the [Investor Overview](#) page. We have also provided additional preliminary financial information, including our condensed consolidated balance sheet and cash flows information, as well as segment results. Those can be found on the [Investor Financial Reports](#) page of our website.

On the call with me today are Joe Bartolacci, our President and Chief Executive Officer; and Steve Nicola, our Chief Financial Officer. Steve will review the financial results for the quarter and Joe will review the business progress as well as our outlook for the remainder of fiscal 2019. We will then open the lines for Q&A.

But before we do, I would like to highlight our safe harbor statement, which is on Slide 2 of our presentation as well as within our release. As you are aware, we may make some forward-looking statements during this discussion as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties as well as other factors which could cause actual results to differ materially from what is stated on this call. These risks and uncertainties and other factors are provided in the earnings release and in the slide deck as well as with other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We've provided reconciliations of comparable GAAP to non-GAAP measures in the tables accompanying today's earnings release.

And with that, it's my pleasure to turn the call over to Steve to begin. Please go ahead, Steve.

Steven Nicola: Thank you, Karen, and good morning. Please turn to **Slide 4**. Beginning with our first quarter results on a GAAP basis, the year-over-year change in earnings per share primarily reflected the following factors:

- First, the significant income tax benefit recorded in the first quarter last year from the U.S. Tax Cut 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 one-time net tax benefit of \$0.76 per share was excluded for purposes of our non-GAAP earnings presentation.
- Second, during the recent quarter, we recorded a pretax loss of \$4.5 million or \$0.10 per share on the sale of a controlling interest in the pet cremation business.
- Third, as a result of our \$300 million bond offering in the first quarter a year ago, our average interest rate was higher in the current quarter and the primary reason for an increase of \$2.5 million or \$0.06 per share in the company's interest expense.

- And fourth, due to challenging equity market conditions in the recent quarter, as evidenced by the declines in the S&P 500 and Mid-Cap stock indexes, a net investment loss of \$1.4 million was reported for the current quarter compared to income of \$467,000 a year ago, principally related to investments held in trust for certain of the company's benefit plan. This change represented approximately \$0.04 per share.
- Last, we had some discrete items that favorably impacted tax expense last year. As a result, the effective tax rate in fiscal 2019 will be higher. This had about a \$0.05 impact on the first quarter comparison.

On a non-GAAP adjusted basis, earnings per share for the fiscal 2019 first quarter was \$0.50 compared to \$0.64 a year ago. As our adjusted EBITDA was relatively steady for the quarter, this change was primarily driven by non-operating factors, which included:

- The increase in interest expense primarily related to last year's bond offering
- Higher income tax expense in the current year resulting from discrete tax benefits last year that do not repeat in the current year
- The loss related to investments held in trust for certain of the company's benefit plan that I noted earlier.

In addition, currency changes had an unfavorable impact of approximately \$0.01 per share on our reported operating results compared to a year ago.

Please turn to **Slide 5** for a summary of our first quarter operating results. Before beginning the discussion on operating results, please note that beginning in fiscal 2019, we changed our primary measure of segment profitability from operating profit to adjusted EBITDA. Adjusted EBITDA is defined by the company as earnings before interest, taxes, depreciation, amortization and certain noncash and/or nonrecurring items that do not contribute directly to management's evaluation of its operating results. These items include stock-based compensation, the nonservice portion of pension and postretirement expense, acquisition cost, ERP integration cost, strategic initiatives and other charges. This presentation is consistent with how management evaluates the results of its operations and makes strategic decisions. For these reasons, we believe that adjusted EBITDA represents the most relevant measure of our segment profit and loss.

In addition, management evaluates the operating performance of the segments as described above on a pre-corporate cost allocation basis. Accordingly, for segment reporting purposes on our earnings release as well as in our Form 10-Q, which will be filed later today, we've discontinued allocating corporate cost to our reportable segments beginning in fiscal 2019. For your convenience, we have posted to our website on the Financial Reports page, the schedule of segment operating results on a quarterly basis for fiscal 2018 and 2017 on this new basis.

Consolidated sales for the quarter ended December 31, 2018, were \$374.2 million compared to \$369.5 million for the same quarter a year ago. On a consolidated basis, the increase was primarily driven by organic sales growth in the Memorialization and Industrial Technologies segments and incremental sales from recent acquisitions. These increases were partially offset by customer project delays, a significant brand client electing to transition their work internally and the unfavorable impact of \$5.8 million from foreign currency changes compared with the prior year.

Referring to the chart in the upper right, the decline in gross profit as a percent of sales included the impact of higher commodity costs and transportation costs in our Memorialization segment and an unfavorable sales mix in the SGK Brand Solutions segment.

With respect to adjusted EBITDA, despite currency headwinds, higher commodity costs, customer delays on several projects in each of our segments, and a significant brand client electing to transition their work internally, we were able to maintain adjusted EBITDA performance as shown in the lower right chart consistent with last year, primarily as a result of acquisition synergy realization and the continuous operating improvements in our businesses.

Consolidated selling and administrative expenses, excluding intangible amortization as a percent of sales, were 27.3% for the quarter ended December 31, 2018, compared to 28.5% for the same quarter last year, with the improvement primarily reflecting the benefit of cost reduction initiatives and the benefits of acquisition synergies.

As noted earlier, due to challenging equity market conditions in the recent quarter, a net investment loss of \$1.4 million was reported for the current quarter compared to income of \$467,000 a year ago, principally related to investments held in trust for certain of the company's benefit plans.

Interest expense for the fiscal 2019 first quarter was \$10.3 million compared to \$7.8 million for the first quarter last year. The increase primarily reflected higher average interest rates during the current quarter, reflecting the rate on our December 2017 bond offering.

Other income and deductions net for the 3 months ended December 31, 2018, represented a decrease in pretax income of \$924,000 compared to \$2.1 million for the same quarter last year. Under new accounting requirements, other income and deductions now includes the nonservice portion of pension cost, which was lower than a year ago.

Our consolidated income taxes for the 3 months ended December 31, 2018, were \$605,000 or 16.9% of pretax income compared to a net benefit of \$25.2 million for the same quarter last year. The prior year quarter included a net benefit of \$24.4 million related to the impact of the U.S. tax regulation changes. The current quarter included a benefit of \$300,000 related to these changes. In addition, both periods included tax benefits discrete to their respective periods. Excluding these discrete items, the company's estimated consolidated effective rate for fiscal 2019 and 2018 is approximately 26%.

Please turn to **Slide 6** to begin a review of our segment results. In the SGK Brand Solutions segment, sales for the fiscal 2019 first quarter were \$185.3 million compared to \$191.8 million a year ago. Changes in foreign currency exchange rates had an unfavorable impact of \$4.7 million on the segment sales compared with the same quarter last year. In addition, the decrease reflected lower sales in the U.S., including delays in timing of client projects, which were partially offset by increased sales in Europe and the U.K. and the impact of the acquisition of Frost Converting Systems in November 2018. In addition, as I noted earlier, a significant brand client electing to transition their work internally was a significant factor in lower sales in the U.S.

Fiscal 2019 first quarter adjusted EBITDA for the SGK Brand Solutions segment was \$27.4 million compared to \$30.9 million a year ago, reflecting the impact of the decline in sales and an unfavorable change in sales mix. The segment's fiscal 2019 first quarter adjusted EBITDA margin was 14.8% compared with 16.1% a year ago.

Please turn to **Slide 7**. Memorialization segment sales for the fiscal 2019 first quarter were \$153.9 million compared to \$144.9 million a year ago, representing an increase of \$9 million or 6%. The growth reflected increase in sales of Memorial products, caskets and cremation equipment in the U.S. and the benefit of the acquisition of Star Granite & Bronze in February 2018.

Memorialization segment adjusted EBITDA for the fiscal 2019 first quarter was \$30.3 million compared to \$28.4 million a year ago, representing an increase of \$1.9 million or about 7%. The current quarter benefited from higher sales, acquisition synergies and other cost improvements,

partially offset by higher material and freight costs. The segment's fiscal 2019 first quarter adjusted EBITDA margin was 19.7% compared with 19.6% a year ago.

Please turn to **Slide 8**. Sales for the Industrial Technologies segment were \$35 million for the quarter ended December 31, 2018, compared to \$32.8 million a year ago, representing an increase of \$2.2 million or nearly 7%. The increase reflected a combination of organic sales growth, primarily higher sales of warehouse automation systems and the benefit of the acquisition of Compass Engineering in November 2017.

Adjusted EBITDA for the Industrial Technologies segment for the fiscal 2019 first quarter was \$3.6 million compared to \$3.7 million a year ago. The benefit of higher sales was offset by an increase in costs related to the company's product development project. Total project related costs were approximately \$2.2 million in the current quarter compared to \$1.8 million a year ago. The segment's fiscal 2019 first quarter adjusted EBITDA margin was 10.3% compared with 11.2% a year ago.

Please turn to **Slide 9** for a review of our capitalization and operating cash flows. For the quarter ended December 31, 2018, we reported cash flow from operations of \$8.4 million compared to \$7.6 million a year ago, representing an increase of approximately 10%. Total debt at December 31, 2018 was \$983 million compared to \$961 million at September 30, 2018. The increase primarily reflected acquisitions and other investments during the quarter, including Frost Converting Systems. Approximately 31.9 million shares were outstanding at December 31, 2018. During the fiscal 2019 first quarter, we purchased approximately 186,400 shares at a cost of \$7.8 million under our share repurchase program. At December 31, 2018, we have approximately 1.2 million shares remaining under the current share repurchase authorization.

Finally, the Board last week declared a dividend of \$0.20 per share on the company's common stock. The dividend is payable February 18, 2019, to stockholders of record February 4, 2019.

This concludes the financial review, and Joe will now comment on our company's operations.

Joseph Bartolacci: Thank you, Steve. Good morning. Our first quarter of 2019 was slow as expected. Despite the slow ramp of new account wins, a seasonally low market in many of our businesses given the Christmas holiday, and the loss of an account in our SGK Brand business, I'm pleased with our operational performance of delivering steady EBITDA on a year-over-year basis.

During the quarter, we continued to make good progress in several of our strategies. This includes the continued execution of synergies from past acquisitions as well as the addition of a small business called Frost Converting Systems, which we announced last quarter.

Frost gives us a foothold in the North American market for our gravure packaging service and our services in engineering businesses. We also continued several significant successful warehouse automation projects and added more to the pipeline as this group continues to position itself as one of the leading providers of warehouse control software to a hot e-commerce market. In addition, we entered the final stage of our ERP implementation in the EU, which should allow us to now initiate a shared service model further reducing our G&A cost around the world. All these strategies were the results of years of planning and efforts that position our business to deliver our products and services more effectively and to deliver shareholder value over time.

As we look at our businesses, we recognize that some of the markets that we serve are changing and accordingly we have changed as well. Some of those changes include creatively and effectively managing our SGK Brand Solutions and our Memorialization businesses, where we expect modest growth and active cost management, while continuing to generate very strong cash flow, which we're investing in more automation and technology to further accelerate our service and reduce our cost to serve.

One of our key strategies is continuing to invest in our innovative new products for our Industrial Technologies segment where we have seen significant growth for almost 10 years. Those investments made over many years are paying off well. As you are aware, we've had another innovative solution in the pipeline which I will talk about later.

Similarly, the growth in global automotive warehouse activity is benefiting us and with customers having many options to choose from, it is no accident that our warehouse control systems and pick-to-light technology continues to be chosen by some of the world's leading brand owners and retailers. We've established ourselves as a leading global warehouse fulfillment systems provider and that is a high honor solely attributable to the men and women who work in this division.

Please turn to **Slide 11** where I'll give you more insight into our businesses and the markets they serve. Over the past 3 to 5 years or so, our SGK Brand Solutions segment has been impacted by softness in the CPG market, particularly in North America as many major global brands reduced their SKU count and cut back on their marketing budgets. It is still early, but we are seeing signs that the tide may be turning. We see some pickup, particularly in Europe where we had a good quarter, and in North America where we had a slow quarter as expected, but we're being briefed on increased work to come. My only caution is that we have been here before and in the past the volume pick up has occurred more slowly than we would like. Nevertheless, our private-label business, Equator, is expecting significant volume increases in the quarters to come, coupled with some of the largest consumer packaging companies suggesting the same thing.

In addition, as I reported last quarter, we unfortunately lost some work from a significant client in our Chicago photo studio, which is impacting our fiscal 2019 revenues. That client has made a strategic decision to move the work internally. This is not a trend as most of our clients are looking to externalize and not internalize noncore functions. This, unfortunately, is a normal part of the business cycle as clients are won and lost and the business adjusts. Nevertheless, SGK client relationships are often measured in decades, not years.

Geographically, while our North American business lost on that account, our international business saw a positive trend from many of its clients. Further, we're expecting strong performance this year by our merchandising business, which is responding very well to the changing needs of our clients. As clients look to best utilize in-store experience and social media, we often find ourselves having to respond to their quick turnaround demands. Clients are often looking to capitalize on emerging trends with less physical store rollout, but much more elaborate and higher cost implementations in those stores that are chosen to be focal points of the brand message. Our team combines tremendous creative capabilities together with quick localized service for which the client is willing to pay. Margins in the merchandising business this year are expected to reach record highs.

Our engineering business is benefiting from organic growth largely in our specialized equipment businesses where we make equipment utilizing our cylinder technology to participate in the lithium ion battery market. We've seen strong interest in our solutions given the ever increasing demand for high-efficiency lithium ion batteries for the auto industry, where we count some of the world's largest car companies as our customers.

In addition, as mentioned above, during the quarter, we acquired Frost Converting Systems, which together with our small gravure cylinder business, Milwaukee, we expect to offer a full range of rotary tooling solutions for gravure printing lines, including printing, embossing, creasing and cutting in North America. We know that our technology and know-how in our European businesses will be a strong advantage for us as we expect to prudently expand in the U.S. in the years to come.

Finally, given the softness in some of our businesses in this segment, we will continue to reduce our cost base to more appropriately align with our revenue levels while beginning to use the benefits of our newly released proprietary production software which will drive this business for years to come.

Now turning to the Memorialization segment. We had a strong quarter with organic growth in our significant product lines. Our Star Granite business, that we acquired a year ago, also contributed to that growth. It's performing well and our integration of their bronze production into our facilities is now complete. Our bronze cemetery products business continues to perform well and gained modest market share during the quarter.

Regarding our casket business, we're in the process of completing our facilities consolidation later this year, which will mark completion of the integration of the Aurora acquisition. I remind you that we believe Aurora to have been a tremendous success, ultimately adding more than \$40 million of EBITDA to the segment. Moreover, together with the addition of Aurora and the final plant closure, we expect that our adjusted EBITDA margins in the casket business will be above 20% despite the rise in commodities.

Within our cremation equipment business, revenue was solid and we would have had an even stronger quarter, except that it was impacted by a large U.K. cremation installation that was delayed until later this year. To put the magnitude of this project into perspective, a typical North American cremator sells for about \$120,000. This project, which had multiple cremators and air filtration systems, is expected to add \$4.5 million to our revenues. Service continues to be a critical growth opportunity for this business as aging cremators require upkeep. To further strengthen our U.S.-based service presence, we recently added a small service operation in the Northwest part of the United States, which will give us better coverage and efficiency.

As we mentioned in the past, after a strategic review of our pet cremation services business, this quarter we divested a majority position in our business to a private equity partner. We believe that our capital is better deployed in other parts of the business, but have remained modest investors as we expect pet memorialization opportunities derived by controlling pet cremation can be a growth opportunity from everything from urns, markers and memorabilia.

Finally, on the cost side, the entire Memorialization business, we have been successful realizing acquisition synergies and managing controllable costs which has mitigated the impact of rising commodity and freight cost increases, which we expect to continue throughout this year.

Next I'm excited to update you on our fast-growing Industrial Technologies segment. We made significant progress in our turnkey warehouse automation project, which I mentioned to you last quarter, which by all accounts has been a success. As you are aware, we were asked to leave during the Christmas season for obvious reasons. We expect better performance from this group in the quarters to come. We have a solid backlog of orders in this business, and we're excited about ongoing discussions with large global customers regarding potential further opportunities.

With respect to our R&D initiative, as mentioned before, we've successfully placed several units of our newly developed product with customers in the field for beta test. Feedback has been positive and has confirmed the attributes of the product which we believe are the key selling points and which we expect to be disruptive to the current market dynamics. We continue to be on track for commercial launch in the next couple of months, but we are not expecting significant revenues as product acceptance will take time. We are excited that this will eventually revolutionize the industry, but recognize that the ramp up will be at a measured pace. So there's a lot to be excited about in all of our businesses.

Now turn to **Slide 12**, where we update you on our expectations for the remainder of fiscal 2019, which are unchanged from what we announced last quarter.

First of all, I want to summarize a few key underlying assumptions based on recent business activity. One is that, as I described, some orders in each of our segments were pushed out in the first quarter and we expect to realize them during the remainder of the year. Order rates for warehouse automation and engineered solutions remain solid, and we expect them to be important drivers as we progress through 2019. Another is our expectation that recent brand account wins and our Frost acquisition will contribute favorably to our performance. From a cost standpoint, unfortunately, it appears that commodity and freight cost increases will continue to be a challenge, but we will seek opportunities to mitigate them to the extent possible. One area of particular concern for us is our traditional product identification and consumables business, historically known as our marking products. Traditionally, order rates in this segment have been the proverbial canary in a coalmine for upcoming slowing economic activity as a whole. Our orders have slowed for both our traditional printer products and the inks that they consume, so we are cautious about the cadence of that business as we progress through the year. Nevertheless, some recent new ink customer wins should mitigate reduced orders by others, but the impact of a slowing economy could impact all of our businesses and not just Industrial Technologies. Finally, our effective tax rate for the fiscal 2019 period will be higher than in fiscal 2018. During 2018, we were successful in uncovering certain tax benefits discrete to fiscal 2018, which will not repeat this year.

So with all that being said, we continue to expect our fiscal 2019 adjusted EBITDA to grow at a solid pace, realizing a mid-to-high single digit growth rate. We also expect to deliver very strong cash flow, which we will deploy to our shareholders' benefit. If you look to the cash flow generated in this quarter, you will realize that we have better than \$100 million of cash flow to be generated during the balance of the year. Additionally, we expect our 2019 adjusted EPS to grow at a mid-single digit rate.

Finally, turning to **Slide 13**, where I want to alert you to block your calendar for Wednesday, June 19, in New York City. Together with other key members of our management team, we'll be hosting an Investor and Analyst Day to provide a deeper understanding of our strategy and our goals, our businesses and their drivers. We look forward to your attendance. Details will be forthcoming.

And with that, I'll open it up to questions. Cheri?

Operator: [Operator Instructions] Our first question is from Daniel Moore with CJS Securities.

Daniel Moore: To start with the Memorials business, which was, I'd say a modest positive surprise, generated positive organic growth in a kind of a tough period. Wondering if you saw share gains in that business. And just a bit more color in terms of volumes versus ASPs in both caskets and the Memorial side?

Joseph Bartolacci: Sure. When we discuss our businesses, we look at it with the reality of the lens we have. The fact of the matter is, on the Memorialization side, particularly the bronze business, we have gained some modest share. We recognize, however, that we're sitting at somewhere over 60% of the market, so modest could be a couple of percentage points at most. There is not a lot of gain, but we did see more volume coming through there from new accounts. Second, on the funeral home side, a lot of the growth that we've seen is really dependent on demographics of the markets that we serve. Our market share strength happens to be in the northeastern part of the United States and the central part. When you look at how the cremation trends impact that part of the market relative to a place say like Florida or California or Seattle or Portland, if death rates remain consistent just by their nature, you're going to have more burials in that part of the country than you would elsewhere as a percent. We also have another part of that business which we sell some product to distributors. Those distributors also order some things from us that might have been a little higher than last year. I wouldn't say it is market share as much as the demographics of our particular portfolio.

Daniel Moore: Got it. Shifting gears to Brand Solutions side. When would you expect to get some of those orders back that were shifted out? Do you expect that in Q2? Or is visibility not quite that clear and when do you think we get back to at least flat, if not positive organic growth?

Joseph Bartolacci: Well, I'll give you an example. One of our largest accounts did very little work because of internal issues they had on their side of the business this past quarter. We have been briefed on some fairly significant new work coming from them that would have been part of Q1 that was not there. When they release that to production is really not in our control. They brief us early to let us know as we prepare for work to come. We would see it through the balance of the next 3 quarters, I would say. I would expect that to fall through to our bottom line as well. The other thing I would tell you that you need to be sensitive to this particular segment has the largest percentage of foreign currency impact, somewhere around \$4 to \$5 million of revenue being impacted. Most of that, if not all, is sitting on the SGK side so you have to consider that when you look at the top line.

Daniel Moore: Understood. Lastly, you mentioned one client brought some business in-house in the Brand Solutions. If you don't want to mention who, maybe could you give us a little bit more color to give us comfort that it's not a trend and what kind of impact do we expect for revenue for fiscal '19 versus '18?

Joseph Bartolacci: Yes. We are not going to talk about our clients, but I can tell you what we do and what this particular client chose to do. In this world of e-commerce, one of the things that we do is we run a photo studio in multiple parts of the world. Photo studios are used to shoot everything from a package to footwear to whatever your product, which ultimately gets turned into digital retouching in our Asian operations. It then comes back and ends up on a website and ends up in print, in some kind of form of advertising, whatever it may be. This particular client chose to, due to their own creative needs or desires, brought a new guy in as a strategic decision. That is not a trend. I wouldn't tell you that this is a huge part of our business. I mean, it was expected to be \$25 million to \$30 million after this account has left, but at the end of the day this is not we do for our day-to-day business in terms of packaging. It's an extension of our value that we offer to brands when it comes to commercializing their package, or products, or whatever it may be.

Operator: Our next question is from Jason Rodgers with Great Lakes Review.

Jason Rodgers: The slowdown in the marking products area, is that in your mind purely economic related? Or were there any competitive changes?

Joseph Bartolacci: It is 100% economic related. The products and the consumables that we sell that are the most sensitive largely have to do with industrial type marking equipment. This is not the consumable products that you would see on the bottom of a can of beer or on a food product coming down the line. It has always been the canary in a coalmine for us. Every recession has been led by us seeing this 6 or 7 months in advance and we're seeing it, there's just no question. Those order rates there have been materially below our expectations from a budget standpoint and materially below prior year. Now we've made that up elsewhere. So it's not as if I'm calling you down, I'm just giving you a warning. Some of you on the line have been around and asked those questions in the past and have seen that. So this is our traditional marking products. No new competitor coming into space, no production flaws on our side, nothing of that nature, purely economic.

Jason Rodgers: All right. And for the Industrial growth for the quarter, do you have what the organic component of that was?

Steven Nicola: Yes. The pieces to the Industrial Technologies segment would have included a portion of Compass, and again, these are estimates because I'd said before, as we integrate it gets a little bit challenging to pull the pieces back apart. But Compass, we purchased a year ago, they do about \$20 million to \$25 million annually. We had them for a couple of months, this being the slowest

quarter, so that wasn't added to the quarter on the acquisition side. We did have a little bit of currency headwind. That would leave you with a rough estimate on the organic side of around 2%.

Jason Andrew Rodgers: All right. And then shifting to commodity costs. How do you think that plays out for the remainder of fiscal '19, when might you see those potentially level off?

Joseph Bartolacci: We have baked that kind of an assumption into our guidance given what we believe that cost to be today. Could it materially change over the next 2, 3, 4 months? Unfortunately, when it comes to steel, even if it were to change dramatically tomorrow, we wouldn't see it flowing through our P&L for about 4 or 5 months. If it were bronze, we're typically bought out over a longer period of time, therefore you're also not going to see that real quickly. The one that changes more dramatically than others, and probably one that where we are not spending as significantly today is freight. Freight has been a significant headwind that is more than we have historically seen in any of our businesses. Our guidance today incorporates what we believe it to be. Could that change? Your bet is as good as ours.

Jason Rodgers: Finally, do you have the current net debt to EBITDA, and when do you think you may reach that 3x target?

Steven Nicola: Well, right now, we were at 3.6 at the end of September. Again, just the slowness of the quarter is typically seasonal for us. We actually had a net increase in debt instead of a net decline in debt. At the end of December that net debt number was 3.7, so not much different than the end of the year. Over the year we will continue to target, especially as we get into the strong cash flow months, to again emphasize delevering and see that number decline, not only the net debt number, but the growth in EBITDA. Depending on our projections, you'd start to see us approaching that 3 next fiscal year.

Operator: [Operator Instructions] Our next question is from Liam Burke with B. Riley FBR.

Liam Burke: Joe, you talked about the North American CPGs slowly coming back to discuss possibly working more on the packaging front. With SKUs still being down, what's bringing them back to the table? And what's driving their interest in renewing the ad spend in that area?

Joseph Bartolacci: We've mentioned this in the past. There was a conference about a year ago called the CAGNY conference where if you listened to the CPG CEOs and CMOs, they had talked about the need to reinvest in their brands in general. That malaise they were feeling on their top line really was driven by a failure to differentiate their products in the marketplace. What we're really starting to hear about and see is that segmentation of the market with different products, maybe different sizes, different shapes whatever it may be, different flavors, but ultimately the SKU proliferation, which is what drives a lot of our business. That shift doesn't turn overnight. We heard about this last March from the CAGNY presentation. We're starting to hear about it more fully in our workforce as our customer service reps feed that information up. Now turning that into revenue on our side is always a longer period of time. I think the way forward that we're going to see is more segmentation in markets rather than less.

Liam Burke: Okay. On the Industrial business, if I presume there's R&D spending in that EBITDA margin, you mentioned the consumables, lower contribution would affect product mix, but if I look at the current EBITDA margin, how would you see the trends adjusting for quarter-to-quarter variability on product mix and R&D? How are you looking at the trends over time? You'd seen a nice step up in profitability, and now call it adjusted flat year-over-year?

Steven Nicola: Yes. With respect to the margins in Industrial Technologies a couple of things to think about. One, the first fiscal quarter just because of the nature of the business, particularly on the e-commerce side does tend to be the slowest. But as Joe mentioned in his remarks, the backlog, the

order rates in that part of the business continues to remain solid. We do have good margins on the product that we are calling the product identification side, those traditional marking products and inks, particularly with the inks. We are paying attention as we should to the slowdown in those sales rates. But having said all that, the one factor that will contribute to growing margins, particularly as we get later in this year and the next year is, as we start to commercialize that new product. That product development spend now starts to transition a lot of that to cost of the sales with revenue associated with it, that's when you'll start to see the margins improve from the rates they are today, the 10-plus percent this quarter, especially.

Liam Burke: Great. And just real quickly, how are pre-need sales this quarter in memorialization?

Joseph Bartolacci: Not high. It's not a significant contributor. I would say consistent with where we've seen, but it is not the reason why we grew.

Operator: Our next question is from Daniel Moore with CJS Securities.

Daniel Moore: Joe, given the slowdown that you're seeing in marking products you just alluded to that they have traditionally been higher margin, you see you're making it up in other places. Just trying to get a little better handle on what those other places might be. Obviously, Memorial is a little bit better. It's still early in the year, obviously, but where might you make it up and what levers do you have to pull up, the cost side or otherwise to just give you that confidence?

Joseph Bartolacci: I'll give you a simple one here and give you some confidence on it. As you all know, the consumables part of our business is a very good business for us. We have, as I previously mentioned, landed a new account we expect to start here, if it hasn't already started today, within the next 30 days, which is a large consumer of our inks. That will help us mitigate the decline on the product identification side. The other thing is as we look at our backlog on the warehouse automation side, they are not as good as the consumable margins, but clearly good margins on that side as well. So that's just within the Industrial Technologies side of the business. That cremator market I mentioned to you in the project that we talked about, we expected a large part of that to fall into this first quarter, \$4.5 million. No fault of our own, some challenges on the customer side in terms of their facilities, which is not unusual. Permitting in facilities is always a big challenge on those sites. We expect that to hit the balance of the year. We are comfortable at this point in time. Now there's things we don't control. And those are the things that like being deferred or pushed up, projects canceled, whatever it may be, but this is the backlog we're sitting on today. These are the things we know of today and that's our guidance.

Daniel Moore: Perfect. Appreciate it. Lastly for me is, one of the common complaints on the part of some investors is the gap between nonrecurring and the size and frequency of adjustments that ERP, obviously, the loss on the sale sort of out of your control, but ERP integration, when should we expect those to start to wind down and that gap to close?

Joseph Bartolacci: Yes. My comment, Dan, was that we entered our final phase in the EU. This was our historical businesses over there. They go live here in the next couple of months. We expect that to be substantially completed by the beginning of our fourth quarter, and that is the implementation. To clarify, I've had some conversations with several investors in the past, why ERP should not be called implementation costs. These are not the running costs associated with ERP. So if you have any knowledge of this area, the cost of putting in a system runs into millions. This is the last piece of it. It is the piece that we expect to go probably the smoothest since they already had their own modest ERP in place over there. And our team is pretty confident this will be done by the third quarter or beginning of the fourth.

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

Karen Howard: Thank you, Cheri. We appreciate everyone's participation this morning. As always, thank you for your interest in Matthews. We look forward to updating you on our second quarter fiscal 2019 results in May. Thanks again, and have a great day.

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