MATTHEWS INTERNATIONAL CORP
Form 10-Q
February 01, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10 Q
Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended December 31, 2018
or
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from _____ to _____

Commission File No. 0 09115

MATTHEWS INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25 0644320
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
TWO NORTHSHORE CENTER, PITTSBURGH, PA	15212 5851
(Address of principal executive offices)	(Zip Code)

(412) 442-8200
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of December 31, 2018, shares of common stock outstanding were: Class A Common Stock 31,871,243 shares.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollar amounts in thousands)

	December 31, 2018		September 30, 2018	
ASSETS				
Current assets:				
Cash and cash equivalents		$39,836		$41,572
Accounts receivable, net		313,246		331,463
Inventories, net		188,319		180,451
Other current assets		73,145		62,937
Total current assets		614,546		616,423
Investments		55,684		45,430
Property, plant and equipment, net		246,021		252,775
Deferred income taxes		1,960		1,837
Other assets		63,310		66,216
Goodwill		931,457		948,894
Other intangible assets, net		439,799		443,910
Total assets		$2,352,777		$2,375,485
LIABILITIES				
Current liabilities:				
Long-term debt, current maturities		$46,110		$31,260
Trade accounts payable		67,444		70,044
Accrued compensation		33,386		51,490
Accrued income taxes		10,349		11,413
Other current liabilities		143,419		139,936
Total current liabilities		300,708		304,143
Long-term debt		936,897		929,342
Accrued pension		83,331		82,035
Postretirement benefits		17,470		17,753
Deferred income taxes		121,433		121,519
Other liabilities		48,923		51,979
Total liabilities		1,508,762		1,506,771
SHAREHOLDERS' EQUITY				
Shareholders' equity-Matthews:				
Common stock	$36,334		$36,334	
Additional paid-in capital	133,675		129,252	
Retained earnings	1,032,885		1,040,378	
Accumulated other comprehensive loss	(179,034)		(164,298)	
Treasury stock, at cost	(181,842)		(173,315)	
Total shareholders' equity-Matthews		842,018		868,351

Noncontrolling interests	1,997	363
Total shareholders' equity	844,015	868,714
Total liabilities and shareholders' equity	$2,352,777	$2,375,485

The accompanying notes are an integral part of these consolidated financial statements.

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollar amounts in thousands, except per share data)

	Three Months Ended December 31,	
	2018	2017
Sales	$374,177	$369,454
Cost of sales	(247,766)	(238,041)
Gross profit	126,411	131,413
Selling expense	(35,029)	(36,917)
Administrative expense	(67,103)	(68,466)
Intangible amortization	(8,113)	(6,681)
Operating profit	16,166	19,349
Investment (loss) income	(1,352)	467
Interest expense	(10,301)	(7,801)
Other income (deductions), net	(924)	(2,084)
Income before income taxes	3,589	9,931
Income tax (provision) benefit	(605)	25,227
Net income	2,984	35,158
Net loss attributable to noncontrolling interests	113	22
Net income attributable to Matthews shareholders	$3,097	$35,180
Earnings per share attributable to Matthews shareholders:		
Basic	$0.10	$1.11
Diluted	$0.10	$1.10

The accompanying notes are an integral part of these consolidated financial statements.

MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(Dollar amounts in thousands)

	Three Months Ended December 31,					
	Matthews		Noncontrolling Interest		Total	
	2018	2017	2018	2017	2018	2017
Net income (loss):	$3,097	$35,180	$(113)	$(22)	$2,984	$35,158
Other comprehensive income (loss) ("OCI"), net of tax:						
Foreign currency translation adjustment	(12,564)	7,598	(13)	13	(12,577)	7,611
Pension plans and other postretirement benefits	729	1,018	—	—	729	1,018
Unrecognized (loss) gain on derivatives:						
Net change from periodic revaluation	(2,346)	1,633	—	—	(2,346)	1,633
Net amount reclassified to earnings	(555)	(38)	—	—	(555)	(38)
Net change in unrecognized (loss) gain on derivatives	(2,901)	1,595	—	—	(2,901)	1,595
OCI, net of tax	(14,736)	10,211	(13)	13	(14,749)	10,224
Comprehensive (loss) income	$(11,639)	$45,391	$(126)	$(9)	$(11,765)	$45,382

The accompanying notes are an integral part of these consolidated financial statements.

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the three months ended December 31, 2018 and 2017 (Unaudited)
(Dollar amounts in thousands, except per share data)

	Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2018	$36,334	$129,252	$1,040,378	$ (164,298)	$(173,315)	$ 363	$868,714
Net income (loss)	—	—	3,097	—	—	(113)	2,984
Minimum pension liability	—	—	—	729	—	—	729
Translation adjustment	—	—	—	(12,564)	—	(13)	(12,577)
Fair value of derivatives	—	—	—	(2,901)	—	—	(2,901)
Total comprehensive loss							(11,765)
Stock-based compensation	—	3,647	—	—	—	—	3,647
Purchase of 186,417 shares of treasury stock	—	—	—	—	(7,751)	—	(7,751)
Issuance of 2,822 shares of treasury stock	—	(115)	—	—	115	—	—
Cancellations of 19,433 shares of treasury stock	—	891	—	—	(891)	—	—
Dividends, $0.20 per share	—	—	(6,414)	—	—	—	(6,414)
Acquisition	—	—	—	—	—	1,760	1,760
Cumulative tax adjustment for intra-entity transfers	—	—	(4,176)	—	—	—	(4,176)
Balance, December 31, 2018	$36,334	$133,675	$1,032,885	$ (179,034)	$(181,842)	$ 1,997	$844,015

	Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling interests	Total
Balance, September 30, 2017	$36,334	$123,432	$948,830	$ (154,115)	$(164,774)	$ 552	$790,259
Net income (loss)	—	—	35,180	—	—	(22)	35,158
Minimum pension liability	—	—	—	1,018	—	—	1,018
Translation adjustment	—	—	—	7,598	—	13	7,611
Fair value of derivatives	—	—	—	1,595	—	—	1,595
Total comprehensive income							45,382
Stock-based compensation	—	5,474	—	—	—	—	5,474
Purchase of 75,765 shares of treasury stock	—	—	—	—	(4,415)	—	(4,415)
Issuance of 223,971 shares of treasury stock	—	(8,922)	—	—	8,922	—	—
Cancellations of 5,214 shares of treasury stock	—	310	—	—	(310)	—	—
Dividends, $0.19 per share	—	—	(6,071)	—	—	—	(6,071)
	$36,334	$120,294	$977,939	$ (143,904)	$(160,577)	$ 543	$830,629

Balance,
December 31, 2017
The accompanying notes are an integral part of these consolidated financial statements.

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollar amounts in thousands)

	Three Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$2,984	$35,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,226	17,238
Stock-based compensation expense	3,647	5,474
Deferred tax provision (benefit)	1,050	(38,052)
Gain on sale of assets	(58)	(576)
Loss on divestiture	4,465	—
Unrealized loss (gain) on investments	1,990	(489)
Changes in working capital items	(21,060)	(9,999)
Decrease (increase) in other assets	1,426	(5,336)
(Decrease) increase in other liabilities	(159)	902
Other operating activities, net	(5,125)	3,317
Net cash provided by operating activities	8,386	7,637
Cash flows from investing activities:		
Capital expenditures	(8,458)	(11,647)
Acquisitions, net of cash acquired	(8,404)	(85,964)
Proceeds from sale of assets	361	1,163
Proceeds from divestiture	8,254	—
Investments and advances	(7,371)	(11,730)
Net cash used in investing activities	(15,618)	(108,178)
Cash flows from financing activities:		
Proceeds from long-term debt	149,366	509,622
Payments on long-term debt	(128,659)	(396,321)
Purchases of treasury stock	(7,751)	(4,415)
Dividends	(6,414)	(6,071)
Other financing activities	(724)	—
Net cash provided by financing activities	5,818	102,815
Effect of exchange rate changes on cash	(322)	353
Net change in cash and cash equivalents	$(1,736)	$2,627
Non-cash investing and financing activities:		
Acquisition of long-term asset under financing arrangement	$—	$14,544

The accompanying notes are an integral part of these consolidated financial statements.

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MATTHEWS INTERNATIONAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
December 31, 2018
(Dollar amounts in thousands, except per share data)

Note 1. Nature of Operations

Matthews International Corporation ("Matthews" or the "Company"), founded in 1850 and incorporated in Pennsylvania in 1902, is a global provider of brand solutions, memorialization products and industrial technologies. Brand solutions include 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). Memorialization products consist primarily of bronze and granite memorials and other memorialization products, caskets and cremation equipment primarily for the cemetery and funeral home industries. Industrial technologies include marking and coding equipment and consumables, industrial automation products and order fulfillment systems for identifying, tracking, picking and conveying consumer and industrial products.

The Company has facilities in North America, Europe, Asia, Australia, and Central and South America.

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information for commercial and industrial companies and the instructions to Form 10 Q and Rule 10 01 of Regulation S X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2019. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10 K for the year ended September 30, 2018. The consolidated financial statements include all domestic and foreign subsidiaries in which the Company maintains an ownership interest and has operating control. Investments in certain companies over which the Company exerts significant influence, but does not control the financial and operating decisions, are accounted for as equity method investments. Investments in certain companies over which the Company does not exert significant influence are accounted for as cost method investments. All intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements:

Issued

In August 2018, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20), which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This ASU is effective for the Company beginning in interim periods starting in fiscal year 2021. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements including the consideration of costs and benefits. This ASU is effective for the Company beginning in interim periods starting in fiscal year 2020. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815), which provides new guidance intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. This ASU is effective for the Company beginning in fiscal year 2020. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 2. Basis of Presentation (continued)

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides new guidance on how an entity should account for leases and recognize associated lease assets and liabilities. This ASU requires lessees to recognize assets and liabilities that arise from financing and operating leases on the Consolidated Balance Sheet. During 2017 and 2018, the FASB issued four ASUs that address implementation issues and correct or improve certain aspects of the new lease guidance, including ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842), ASU 2018-01, Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842, ASU 2018-10, Codification Improvements to Topic 842, Leases, ASU 2018-11, Leases (Topic 842): Targeted Improvements, and ASU 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors. These ASUs do not change the core principles in the lease guidance outlined above. ASU No. 2018-11 provides an additional transition method to adopt ASU No. 2016-02. Under the new transition method, an entity initially applies the new leases standard at the adoption date versus at the beginning of the earliest period presented and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company has elected to use this transition method at the adoption date of October 1, 2019. ASU No. 2016-02 and the related ASUs referenced above are effective for the Company beginning in interim periods starting in fiscal year 2020. The Company is in the process of assessing the impact these ASUs will have on its consolidated financial statements.

Adopted

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718), which provides new guidance intended to clarify and reduce complexities in applying stock compensation guidance to a change to the terms or conditions of share-based payment awards. The adoption of this ASU in the first quarter ended December 31, 2018 had no impact on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which provides new guidance intended to improve the disclosure requirements related to the service cost component of net benefit cost. ASU 2017-07 requires a company to present the service cost components of net periodic benefit cost in the same income statement line as other employee compensation costs, with the remaining components of net periodic benefit cost presented separately from the service cost components and outside of any subtotal of operating income, if one is presented. The Company adopted this standard on October 1, 2018 applying the presentation requirements retrospectively. For the three months ended December 31, 2017, the Company reclassified net benefit costs of $714, $226 and $485 from cost of sales, selling expense and administrative expense, respectively, to other income (deductions), net.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business, which provides new guidance intended to make the definition of a business more operable and allow for more consistency in application. The adoption of this ASU in the first quarter ended December 31, 2018 had no impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory (Topic 740), which will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company adopted ASU 2016-16 on October 1, 2018 using the modified retrospective method which resulted in a decrease to retained earnings and other assets of $4,176.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which provides new guidance intended to clarify the presentation of certain cash flow items including debt prepayments, debt extinguishment costs, contingent considerations payments, and insurance proceeds, among other things. The adoption of this ASU in the first quarter ended December 31, 2018 did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which provides new guidance intended to improve the recognition, measurement, presentation and disclosure of financial instruments. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10), that provides guidance related to implementation issues and corrects or improves certain aspects of the financial instruments guidance. The adoption of these ASUs in the first quarter ended December 31, 2018 had no impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 2. Basis of Presentation (continued)

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. The FASB issued ASU 2015-14 in August 2015 which resulted in a deferral of the original effective date of ASU 2014-09. During 2016 and 2017, the FASB issued six ASUs that address implementation issues and correct or improve certain aspects of the new revenue recognition guidance, including ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Identifying Performance Obligations and Licensing, ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842) and ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606). These ASUs do not change the core principles in the revenue recognition guidance outlined above. The Company adopted the provisions of these ASUs in the first fiscal quarter of 2019, using the modified retrospective method. The adoption of these ASUs did not impact the Company's consolidated financial statements and therefore, there was no cumulative effect adjustment recognized to retained earnings on October 1, 2018. Refer to Note 3, “Revenue Recognition,” for a further discussion.

Note 3. Revenue Recognition

The Company recognizes revenue when control of the promised goods or services is transferred to the customer and in amounts that the Company expects to collect. The timing of revenue recognition takes into consideration the various delivery terms applicable to the Company’s sales. For substantially all transactions, control passes in accordance with agreed upon delivery terms, including in certain circumstances, customer acceptance. This approach is consistent with the Company’s historical revenue recognition methodology. In limited instances revenue is recognized over time as critical milestones are met and as services are provided. Transaction price, for revenue recognition, is allocated to each performance obligation consisting of the stand alone selling price, estimates of rebates and other sales or contract renewal incentives, and cash discounts and sales returns ("Variable Consideration"). Estimates are made for Variable Consideration based on contract terms and historical experience of actual results and are applied to the performance obligations as they are satisfied.

The Company delivers a variety of products and services through its business segments. The SGK Brand Solutions segment delivers 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 primarily to the consumer packaged goods and retail industries. The Memorialization segment produces and delivers bronze and granite memorials and other memorialization products, caskets and cremation equipment primarily for the cemetery and funeral home industries. The Industrial Technologies segment delivers marking and coding equipment and consumables, industrial automation products and order fulfillment systems for identifying, tracking, picking and conveying consumer and industrial products for the warehousing and industrial industries. Each product or service delivered to a third-party customer is considered to satisfy a performance obligation. Performance obligations generally occur at a point in time and are satisfied when control of the goods passes to the customer. Certain revenue related to mausoleum construction and significant engineering projects, including cremation and incineration projects, and marking and industrial automation projects, are recognized over time using the input method measuring progress toward completion of such projects. Amounts recognized using the over time method were less than 5% of the Company's consolidated revenue for the three months ended December 31, 2018 and 2017. The Company is entitled to collection of the sales price under normal credit terms in the regions in which it operates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 3. Revenue Recognition (continued)

The Company disaggregates revenue from contracts with customers by geography, as it believes geographic regions best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Disaggregated sales by segment and region for the three months ended December 31, 2018 and 2017 were as follows:

	SGK Brand Solutions		Memorialization		Industrial Technologies		Consolidated	
	Three Months Ended December 31,		Three Months Ended December 31,		Three Months Ended December 31,		Three Months Ended December 31,	
	2018	2017	2018	2017	2018	2017	2018	2017
North America	$79,582	$86,953	$143,293	$132,749	$27,714	$23,859	$250,589	$243,561
Central and South America	1,217	1,565	—	—	—	—	1,217	1,565
Europe	90,518	88,870	8,158	9,245	6,337	7,631	105,013	105,746
Australia	2,959	3,003	2,435	2,895	—	—	5,394	5,898
Asia	11,024	11,375	—	—	940	1,309	11,964	12,684
Total Sales	$185,300	$191,766	$153,886	$144,889	$34,991	$32,799	$374,177	$369,454

Note 4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level fair value hierarchy is used to prioritize the inputs used in valuations, as defined below:

Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The fair values of the Company's assets and liabilities measured on a recurring basis are categorized as follows:

	December 31, 2018				September 30, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Derivatives [(1)]	$ —	$7,467	$ —	$7,467	$ —	$11,309	$ —	$11,309
Equity and fixed income mutual funds	—	20,771	—	20,771	—	22,758	—	22,758
Life insurance policies	—	5,864	—	5,864	—	5,894	—	5,894
Total assets at fair value	$ —	$34,102	$ —	$34,102	$ —	$39,961	$ —	$39,961
Liabilities:								
Derivatives [(1)]	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total liabilities at fair value	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

[(1)] Interest rate swaps are valued based on observable market swap rates and are classified within Level 2 of the fair value hierarchy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 5. Inventories

Inventories consisted of the following:

	December 31, 2018	September 30, 2018
Raw materials	$ 37,502	$ 34,880
Work in process	73,290	67,827
Finished goods	77,527	77,744
	$ 188,319	$ 180,451

Note 6. Debt

The Company has a domestic credit facility with a syndicate of financial institutions that includes a $900,000 senior secured revolving credit facility and a $250,000 senior secured amortizing term loan. The term loan requires scheduled principal payments of 5.0% of the outstanding principal in year one, 7.5% in year two, and 10.0% in years three through five, payable in quarterly installments. The balance of the revolving credit facility and the term loan are due on the maturity date of April 26, 2021. Borrowings under both the revolving credit facility and the term loan bear interest at LIBOR plus a factor ranging from 0.75% to 2.00% (1.25% at December 31, 2018) based on the Company's secured leverage ratio. The secured leverage ratio is defined as net secured indebtedness divided by EBITDA (earnings before interest, taxes, depreciation and amortization) as defined within the domestic credit facility agreement. The Company is required to pay an annual commitment fee ranging from 0.15% to 0.25% (based on the Company's leverage ratio) of the unused portion of the revolving credit facility.

The domestic credit facility requires the Company to maintain certain leverage and interest coverage ratios. A portion of the facility (not to exceed $35,000) is available for the issuance of trade and standby letters of credit. Outstanding borrowings on the revolving credit facility at December 31, 2018 and September 30, 2018 were $322,500 and $319,500, respectively. Outstanding borrowings on the term loan at December 31, 2018 and September 30, 2018 were $205,876 and $212,086, respectively. The weighted-average interest rate on outstanding borrowings for the domestic credit facility (including the effects of interest rate swaps) at December 31, 2018 and December 31, 2017 was 3.06% and 2.93%, respectively.

The Company has $300,000 of 5.25% senior unsecured notes due December 1, 2025 (the "2025 Senior Notes"). The 2025 Senior Notes bear interest at a rate of 5.25% per annum with interest payable semi-annually in arrears on June 1 and December 1 of each year. The Company's obligations under the 2025 Senior Notes are guaranteed by certain of the Company's direct and indirect wholly-owned domestic subsidiaries. The Company is subject to certain covenants and other restrictions in connection with the 2025 Senior Notes.

The Company has a $115,000 accounts receivable securitization facility (the "Securitization Facility") with certain financial institutions which matures on April 11, 2020. Under the Securitization Facility, the Company and certain of its domestic subsidiaries sell, on a continuous basis without recourse, their trade receivables to Matthews Receivables Funding Corporation, LLC (“Matthews RFC”), a wholly-owned bankruptcy-remote subsidiary of the Company. Matthews RFC in turn assigns a collateral interest in these receivables to certain financial institutions, and then may borrow funds under the Securitization Facility. The Securitization Facility does not qualify for sale treatment. Accordingly, the trade receivables and related debt obligations remain on the Company's Consolidated Balance Sheet. Borrowings under the Securitization Facility bear interest at LIBOR plus 0.75%. The Company is required to pay an annual commitment fee ranging from 0.25% to 0.35% of the unused portion of the Securitization Facility. Outstanding borrowings under the Securitization Facility at December 31, 2018 and September 30, 2018 were $109,200 and $102,250, respectively. At December 31, 2018 and 2017, the interest rate on borrowings under this facility was 3.25% and 2.31%%, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 6. Debt (continued)

The following table presents information related to interest rate contracts entered into by the Company and designated as cash flow hedges:

	December 31, 2018	September 30, 2018
Pay fixed swaps - notional amount	$337,500	$343,750
Net unrealized gain	$7,467	$11,309
Weighted-average maturity period (years)	2.5	2.7
Weighted-average received rate	2.50 %	2.26 %
Weighted-average pay rate	1.38 %	1.37 %

The Company enters into interest rate swaps in order to achieve a mix of fixed and variable rate debt that it deems appropriate. The interest rate swaps have been designated as cash flow hedges of future variable interest payments, which are considered probable of occurring. Based on the Company's assessment, all of the critical terms of each of the hedges matched the underlying terms of the hedged debt and related forecasted interest payments, and as such, these hedges were considered highly effective.

The fair value of the interest rate swaps reflected an unrealized gain of $7,467 ($5,638 after tax) at December 31, 2018 and an unrealized gain of $11,309 ($8,538 after tax) at September 30, 2018. The unrealized gain is included in shareholders' equity as part of accumulated other comprehensive income (loss) ("AOCI"). Assuming market rates remain constant with the rates at December 31, 2018, a gain (net of tax) of approximately $2,154 included in AOCI is expected to be recognized in earnings over the next twelve months.

At December 31, 2018 and September 30, 2018, the interest rate swap contracts were reflected in the Consolidated Balance Sheets as follows:

Derivatives	December 31, 2018	September 30, 2018
Current assets:		
Other current assets	$ 2,853	$ 3,867
Long-term assets:		
Other assets	4,614	7,442
Current liabilities:		
Other current liabilities	—	—
Long-term liabilities:		
Other liabilities	—	—
Total derivatives	$ 7,467	$ 11,309

The gains recognized on derivatives were as follows:

Derivatives in Cash Flow Hedging Relationships	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivatives Three Months Ended December

		31, 2018	2017
Interest rate swaps	Interest expense	$ 735	$ 63

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), Continued
(Dollar amounts in thousands, except per share data)

Note 6. Debt (continued)

The Company recognized the following (losses) gains in AOCI:

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Gain Recognized in AOCI on Derivatives		Location of Gain Reclassified From AOCI into Income (Effective Portion*)	Amount of Gain Reclassified from AOCI into Income (Effective Portion*)	
	December 31, 2018	December 31, 2017		December 31, 2018	December 31, 2017
Interest rate swaps	$(2,346)	$ 1,633	Interest expense	$ 555	$ 38

*There is no ineffective portion or amount excluded from effectiveness testing.

The Company, through certain of its European subsidiaries, has a credit facility with a European bank, which is guaranteed by Matthews. The maximum amount of borrowing available under this facility is €35.0 million ($40,061). In December 2018, the credit facility was extended and matures in December 2019. The Company intends to continue to extend this facility. Outstanding borrowings under the credit facility totaled €21.4 million ($24,466) and €2.8 million ($3,211) at December 31, 2018