RPM International Inc. (RPM)

Updated July 20th, 2018 by Nate Parsh

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	3.5%	**Volatility Percentile:**	44.0%
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	66.7%
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Valuation Percentile:**	34.0%
Dividend Yield:	2.0%	**5 Year Price Target**	$68	**Total Return Percentile:**	19.0%

Overview & Current Events

RPM International manufactures, markets and distributes chemical products to industrial, retail and specialty customers. The majority of sales are made to industrial customers. RPM was founded in 1947 and employs almost 13,000 people today. The company has a current market capitalization of $6.6 billion and generated almost $5 billion in sales for the 2017 fiscal year.

RPM released 4th quarter fiscal 2018 earnings on July 19th. The company earned $1.05 per share, missing estimates by $0.13 but still posting 3% year over year growth. Full-year earnings per share grew 11% from FY 2017 to $2.73. Revenue grew 4.7% to $1.56 billion, but missed estimates by $20 million. For the year, revenue improved 7.7% to $5.33 billion.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.05	$1.45	$1.45	$1.65	$1.83	$2.18	$2.38	$2.63	$2.47	$2.73	***$3.33***	***$4.25***
DPS	$0.79	$0.82	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.28	***$1.28***	***$1.67***

The last recession had a severe impact on the RPM's earnings, which saw a decline of 42% from 2008 to 2009. It wasn't until 2013 that RPM's earnings numbers recovered above 2008's total. In recent years, growth has been much steadier. From 2008-2017, earnings per share grew at a rate of 3% per year. Coming off the lows of the last recession, earnings have grown at a rate of 10%. In order to account for the likely declines in earnings during the next recession, we feel more comfortable forecasting a 5% EPS growth rate going forward. RPM is expected to earn $3.33 per share in FY2019.

RPM reported solid sales in the quarter, led by 10.8% growth in its Industrial segment. Organic growth constituted 6.2% of this growth, with currency exchange and acquisitions contributing the remainder. On the negative side, RPM said that raw costs were higher, especially for silicones and epoxies. Competition in the project spray paint market prevented RPM from putting in place its planned price increases, leading to a 3% decline in sales for the Consumer division. Only favorable currency exchange and acquisitions prevented a much larger decline. Again, higher raw materials costs impacted the company's results. The 4th quarter is often RPM's best as the spring months are when many customers start or complete outdoor products. With a longer cold season, these projects weren't started in many places throughout the country, forcing retailers to reduce their inventory. This impacted RPM's results.

Growth slowed during the last recession, but RPM was able to maintain and increase its payments to shareholders even in an adverse economic climate. RPM has increased its dividend for the past 44 years and has an average growth rate of 5.5% per year over the past decade. RPM normally increases its dividend in October, so the listed DPS is an estimate.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.2	12.9	14.5	14	15.9	17.7	19.8	17.3	21.2	*15.9*	***19.2***	***16.1***
Avg. Yld.	4.9%	4.4%	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	*2.6%*	***2.0%***	***2.5%***

Shares of RPM have gained $15, or 30.6%, since our April 16th update. As such, the stock's multiple has increased dramatically. Based off of the current share price and guidance for FY2019, RPM trades with a multiple of 19.2. Mean reversion to the company's 10-year average price-to-earnings ratio implies 3.5% annual valuation contraction if it occurred over a 5-year time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	39.7%	47.8%	39.9%	43.3%	41.3%	42.8%	41.4%	43.8%	42.5%	42.4%	***42.4%***	***42.5%***
Debt/A	66.5%	64.1%	64.1%	66.8%	70.9%	68.4%	72.5%	71.2%	71.8%	71.6%	***71%***	***68.8%***
Int. Cov.	4.8	5.5	5.5	5.6	3.2	6.8	6.2	6.3	3.5	3.8	***4.1***	***5.1***
Payout	75.2%	56.6%	57.9%	52.1%	48.6%	43.6%	42.9%	41.4%	47.8%	46.9%	***38.4%***	***39.3%***
Std. Dev.	38.6%	26.5%	34.8%	20.9%	18.1%	18.5%	19%	21.4%	16.9%	18.8%	***18.8%***	***26.5%***

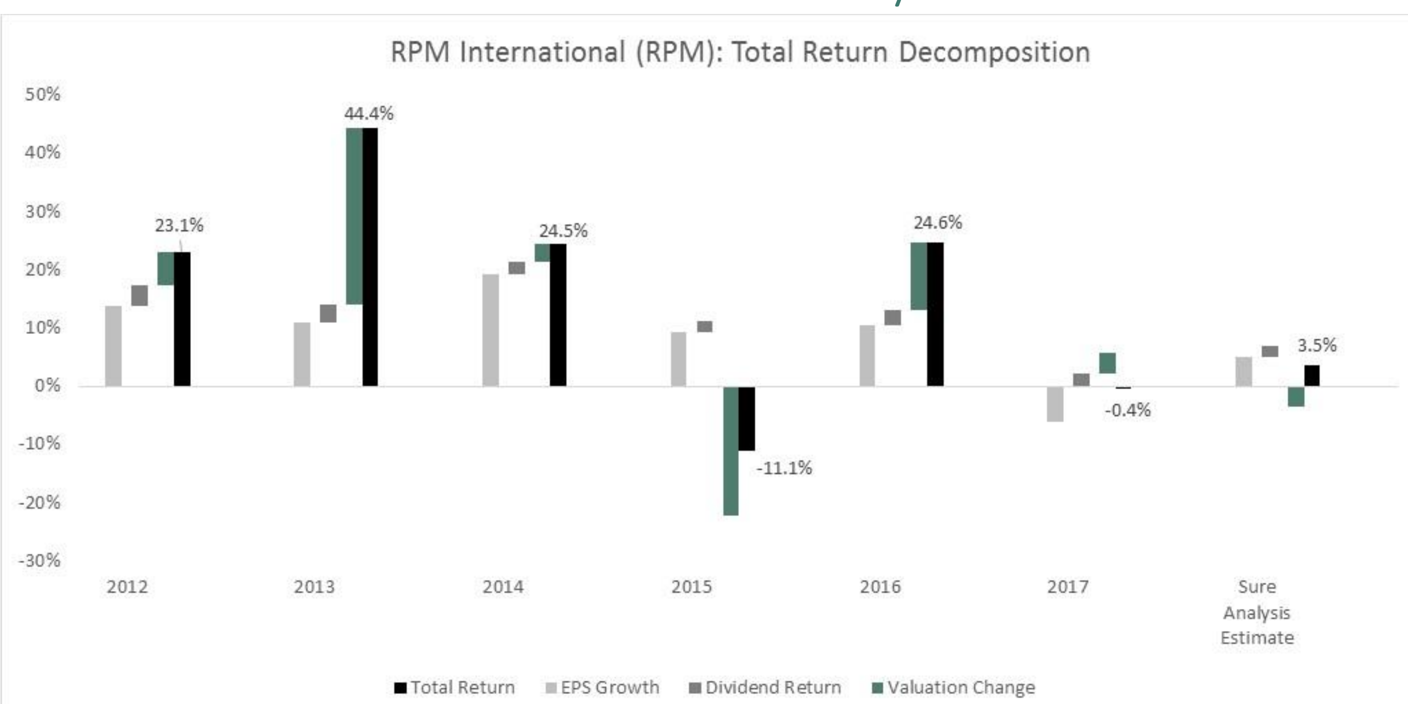
RPM is not recession proof, as shown by the company's decline in earnings and in the time that it took for EPS growth to return to the company. On the plus side, RPM has managed to remain profitable through recessions, though earnings do decline. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

The ability to increase the dividend during one of the most difficult economic climates in recent memory bodes well for the company's ability to continue to pay shareholders going forward. Surviving this period of time with its dividend not only intact but growing should reassure shareholders that the company will raise the dividend in future years. RPM's dividend payout ratio is currently near its lowest level in 10 years. Investors should be aware that DPS growth has outpaced EPS by almost a 2:1 margin. Dividend growth will eventually slow to match EPS growth.

Final Thoughts & Recommendation

Due to the 30% gain in share price since our last update, we have lowered our expected annual returns to 3.5%, down from 5.8%. While we've increased our expected earnings growth (5%) slightly, we've moved from slight multiple expansion prediction to substantial multiple contraction (3.5%). The dividend yield has also declined due to the share price increase (2%). While RPM produced solid earnings and revenues numbers for FY 2018, raw costs have had a significant impact on each division of the company and this is only expected to worsen in the quarters ahead. Though we've increased our 2024 price target to $68 from $57 due to EPS estimates, we feel that RPM is a hold at best at current levels.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.