RPM International Inc (RPM)

Updated April 13th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	-0.2%	**Volatility Percentile:**	50.5%
Fair Value Price:	$41	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	81.1%
% Fair Value:	149%	**5 Year Valuation Multiple Estimate:**	-7.5%	**Growth Percentile:**	35.3%
Dividend Yield:	2.3%	**5 Year Price Target**	$53	**Valuation Percentile:**	6.6%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	5.1%

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 $8 billon, with annual sales of $5.6 billion.

RPM released financial results for the second quarter of fiscal 2019 on 1/4/2019. The company earned $0.52 per share, $0.15 above estimates, but a 25% decline from the previous year. Revenue grew 3.6% to a second quarter record $1.36 billion, though this was $13 million below what analysts expected. Organic growth was 3.3% during the quarter.

RPM's industrial segment grew 2.1%, with organic growth of 3.3%, primarily due to gains in corrosion control coatings, concrete admixture and repair products. Sales for the company's consumer division grew 4.1%, with 2.8% organic growth, due to price increases initiated in the first quarter. The specialty division had quarterly sales growth of 7.6%, with 2.3% organic growth, as wood coatings, powered coatings and fluorescent colorants all had strong demand. RPM's financial results were negatively impacted by currency translation and higher costs for raw materials, freight, labor and energy. SG&A expenses improved 30 bps.

RPM released financial results for the third quarter of fiscal 2019 on 4/4/2019. Earnings-per-share totaled $0.14, $0.03 higher than anticipated, but a 52% decline from the prior year. Revenue grew 3.4% to $1.14 billion, with 4.3% organic growth. Foreign exchange reduced sales by 3% during the quarter.

Revenues for the company's industrial segment were higher by 2.1%, with 4.8% organic growth, as the North America region businesses were strong. Sales for the consumer segment increased 6%, with organic growth of 5.3%, because of gains in the small project paints category. Specialty revenues were up 2.7%, with organic growth of 0.6%, as demand improved for fluorescent colorants and marine coatings. Financial results were once again negatively impacted by currency translation and increases in raw and labor costs.

Through the first nine months of fiscal 2019, RPM's free cash flow has improved 3.3% and the company spent $400 million on share repurchases. We expect RPM to earn $2.56 per share in fiscal 2019, down from our previous estimate of $3.33 due to currency translation and increased input costs.

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	***$2.56***	***$3.27***
DPS	$0.79	$0.82	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	***$1.40***	***$1.79***
Shares	129	130	131	132	133	133	133	133	134	134	***130***	***120***

The last recession had a severe impact on the RPM's earnings, which saw a decline of 42% from 2008 to 2009. It was not 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 comfortable forecasting a 5% EPS growth rate going forward. Organic growth is expected to be the primary contributor.

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

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Growth slowed during the last recession, but RPM was able to maintain and increase its payments to shareholders even in an adverse economic climate. The company has increased its dividend for the past 44 years. RPM increased its dividend by 9.4% for the October payment, well above the company's 10-year CAGR of 5.2%.

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*	***23.8***	***16.1***
Avg. Yld.	4.9%	4.4%	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	*2.6%*	***2.3%***	***3.4%***

Shares of RPM have increased $1, or 1.7%, since our October 7th update. Due to our reduction in expected EPS for the current year, the price-to-earnings ratio is 23.8. Mean reversion to our target price-to-earnings ratio of 16.1 implies a 7.5% 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
Payout	75%	57%	58%	52%	49%	44%	43%	41%	48%	47%	***55%***	***55%***

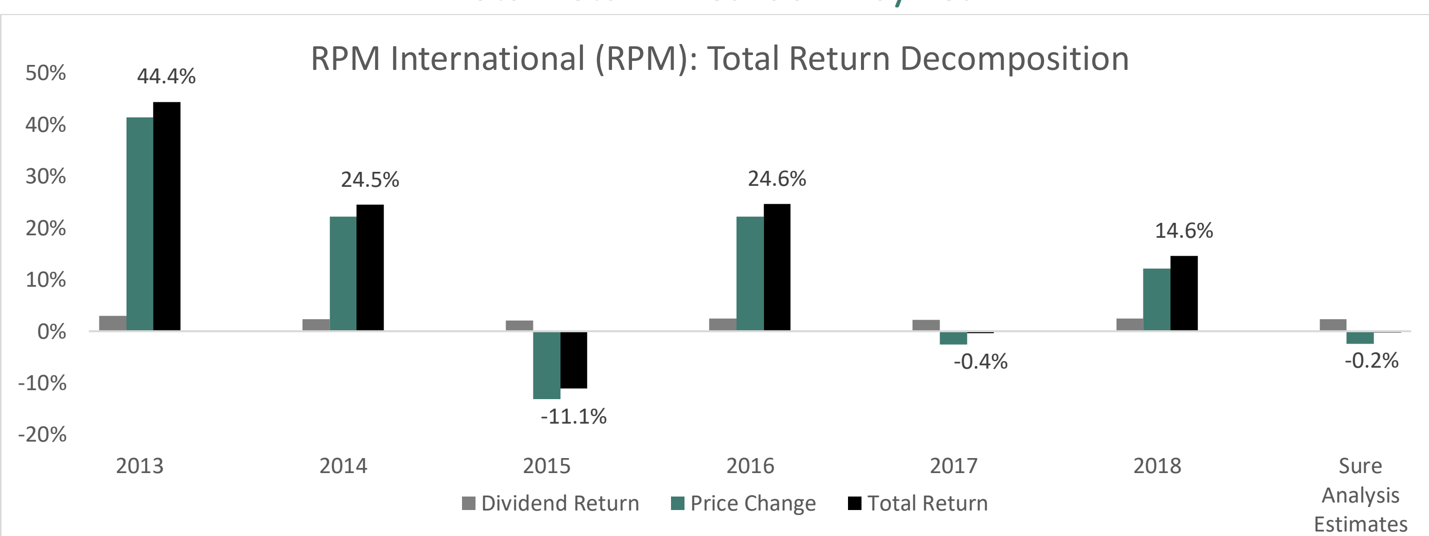
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for EPS growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

RPM is a leading manufacturer and distributor of paints, coatings, construction chemicals, colorants and adhesives to consumers, contractors or construction businesses. These businesses perform well when the economy is growing due to the increases in construction and home improvement spending. However, RPM is very susceptible to recessions.

Final Thoughts & Recommendation

While RPM International's share price has increased slightly since our last report, we have lowered our expected earnings-per-share for the fiscal year. Currency translation and higher raw costs had impacted the company's bottom line. We now expect that RPM can offer a total return loss of 0.2% annually through 2024. This estimate is based off of earnings growth (5%), dividends (2.3%) and multiple contraction (7.5%). Due to lower expected EPS, we have decreased our 2024 price target $15 to $53. RPM earns a sell recommendation for Sure Dividend at this time.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3368	3413	3382	3777	4079	4376	4595	4814	4958	5322
Gross Profit	1353	1435	1401	1542	1703	1876	1941	2087	2166	2181
Gross Margin	40.2%	42.1%	41.4%	40.8%	41.7%	42.9%	42.3%	43.4%	43.7%	41.0%
SG&A Exp.	1093	1110	1058	1156	1309	1390	1423	1521	1644	1663
D&A Exp.	85	84	73	76	86	90	99	111	117	128
Operating Profit	260	325	342	387	393	487	518	566	522	518
Operating Margin	7.7%	9.5%	10.1%	10.2%	9.6%	11.1%	11.3%	11.8%	10.5%	9.7%
Net Profit	120	180	189	216	99	292	239	355	182	338
Net Margin	3.6%	5.3%	5.6%	5.7%	2.4%	6.7%	5.2%	7.4%	3.7%	6.3%
Free Cash Flow	212	181	198	223	277	184	245	358	260	276
Income Tax	61	87	92	95	67	119	225	126	60	78

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3410	3004	3515	3562	4121	4378	4694	4765	5090	5272
Cash & Equivalents	253	215	435	316	344	333	175	265	350	244
Accounts Receivable	639	632	713	746	788	874	956	963	995	1114
Inventories	406	387	463	490	549	614	674	686	788	834
Goodwill & Int. Ass.	1214	1071	1144	1195	1573	1607	1820	1795	1717	1776
Total Liabilities	2266	1843	2128	2248	2766	2800	3401	3390	3652	3638
Accounts Payable	295	300	359	391	478	526	512	501	535	592
Long-Term Debt	931	929	1109	1116	1374	1352	1656	1640	2090	2174
Shareholder's Equity	1144	1079	1263	1184	1201	1383	1291	1372	1436	1631
D/E Ratio	0.81	0.86	0.88	0.94	1.14	0.98	1.28	1.20	1.46	1.33

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.3%	5.6%	5.8%	6.1%	2.6%	6.9%	5.3%	7.5%	3.7%	6.5%
Return on Equity	10.5%	16.2%	16.1%	17.7%	8.3%	22.6%	17.9%	26.6%	12.9%	22.0%
ROIC	5.6%	8.6%	8.2%	8.8%	3.8%	10.3%	8.1%	11.9%	5.6%	9.2%
Shares Out.	129	130	131	132	133	133	133	133	134	134
Revenue/Share	26.38	26.72	26.41	29.35	31.42	33.08	34.06	35.21	36.68	38.80
FCF/Share	1.66	1.41	1.55	1.73	2.13	1.39	1.82	2.62	1.92	2.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.