RPM Intl. Inc. (RPM)

Updated October 2nd, 2019 by Nathan Parsh

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	2.9%	**Volatility Percentile:**	49.8%
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	72.3%
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Growth Percentile:**	38.9%
Dividend Yield:	2.1%	**5 Year Price Target**	$69	**Valuation Percentile:**	21.3%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	12.0%

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 $8.7 billon, with annual sales of $5.8 billion.

RPM has undergone structural changes over the last year. The company has closed underperforming plants and eliminated 500 employee positions in order to reduce costs. RPM is also reorganizing its business and will report results in four segments instead of three starting in fiscal 2020. The segments include: Consumer, Specialty, Construction and Performance Coatings.

RPM released earnings results for the first quarter of fiscal 2020 on 10/2/2019. The company's adjusted earnings-per-share was $0.95 for the quarter, which was $0.04 above estimates and a 25% increase from the previous year. Revenue grew 0.7% to $1.5 billion, but missed estimates by $20 million. EBIT improved 45.5% to $165.8 million.

Sales for the Construction Products Group were up 3.6%, with organic growth of 0.7%. Acquisitions added 4.4% while currency reduced results by 1.5%. This division saw growth in its basement waterproofing solutions business, which was offset by labor shortages and June weather conditions that impacted construction activity in North America. The Performance Coatings Group sales were flat. This division has exited several low margin businesses in hopes of becoming more profitable. The Consumer Group sales were up slightly. Sales for the Specialty Products Group were down 5% due to lower demand from OEMs, manufacturing and international markets.

We expect RPM's earnings-per-share for fiscal 2020 in a range of $3.30 to $3.42. Reaching the midpoint of the guidance would represent 26% growth from fiscal 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.45	$1.45	$1.65	$1.83	$2.18	$2.38	$2.63	$2.47	$2.73	$2.66	***$3.36***	***$4.29***
DPS	$0.82	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	$1.40	***$1.40***	***$1.79***
Shares[1]	130	131	132	133	133	133	133	134	134	130	***128***	***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% earnings-per-share growth rate going forward. Organic growth is expected to be the primary contributor.

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 normally increases its dividend in early October. Last year, the company increased its dividend by 9.4%.

[1] Share count in millions

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.9	14.5	14	15.9	17.7	19.8	17.3	21.2	15.9	20.1	***19.9***	***16.1***
Avg. Yld.	4.4%	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	***2.1%***	***2.6%***

Shares of RPM have increased $2, or 3.1%, since our 7/22/2019 update. Using expected earnings-per-share for the current year, the price-to-earnings ratio is 19.9. Shares have traded with an average price-to-earnings ratio of 16.1 over the last decade. If the stock were trade with this multiple by fiscal 2025, then valuation would be a 4.2% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	57%	58%	52%	49%	44%	43%	41%	48%	47%	53%	***42%***	***42%***

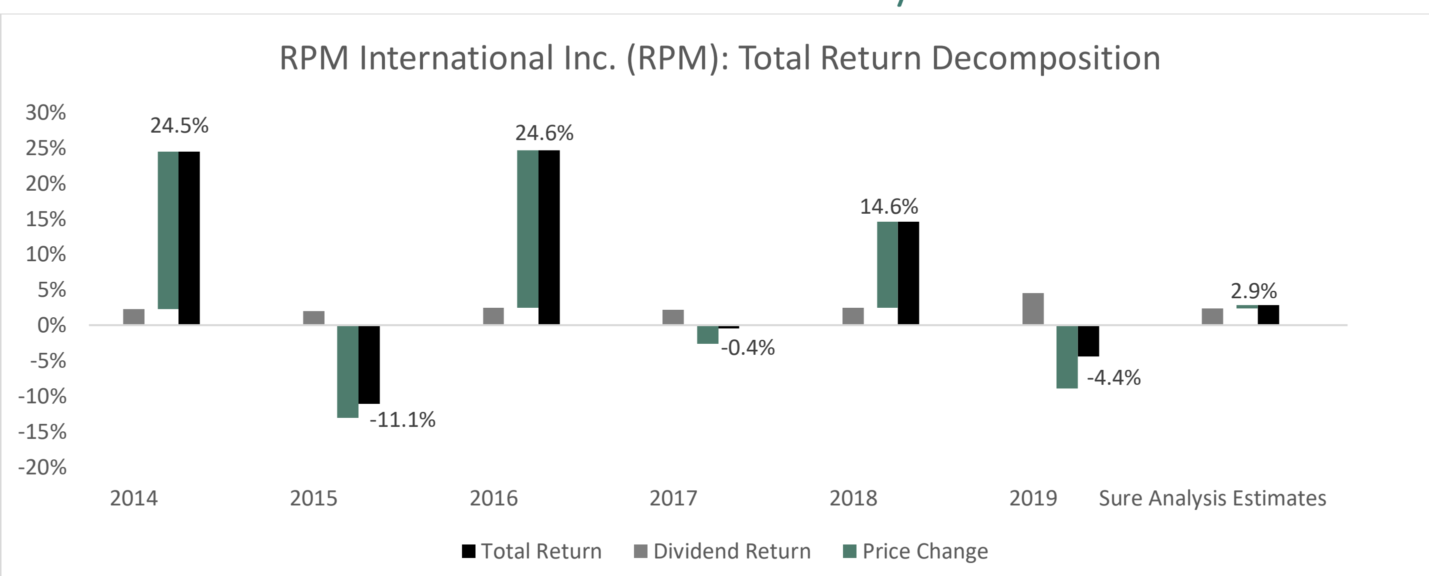
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

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

RPM International is expected to offer a total annual return of 2.9% through fiscal 2025, down from 3.6% previously. RPM saw a massive improvement in earnings-per-share, but just a slight increase in revenues. Results for the company's four segments were mixed, with growth in the Construction Products Group, essentially flat sales in the Performance Coatings Group and Consumer Group and a decline in the Specialty Products Group. Shares of RPM trade at a premium to their historical valuation. This greatly reduces our total return estimates. We reiterate our 2025 price target of $69 and our sell rating on shares of RPM International.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3413	3382	3777	4079	4376	4595	4814	4958	5322	5565
Gross Profit	1435	1401	1542	1703	1876	1941	2087	2166	2181	2262
Gross Margin	42.1%	41.4%	40.8%	41.7%	42.9%	42.3%	43.4%	43.7%	41.0%	40.6%
SG&A Exp.	1110	1058	1156	1309	1390	1423	1521	1644	1663	1770
D&A Exp.	84	73	76	86	90	99	111	117	128	142
Operating Profit	325	342	387	393	487	518	566	522	518	492
Operating Margin	9.5%	10.1%	10.2%	9.6%	11.1%	11.3%	11.8%	10.5%	9.7%	8.8%
Net Profit	180	189	216	99	292	239	355	182	338	267
Net Margin	5.3%	5.6%	5.7%	2.4%	6.7%	5.2%	7.4%	3.7%	6.3%	4.8%
Free Cash Flow	181	198	223	277	184	245	358	260	276	156
Income Tax	87	92	95	67	119	225	126	60	78	72

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3004	3515	3562	4121	4378	4694	4765	5090	5272	5441
Cash & Equivalents	215	435	316	344	333	175	265	350	244	223
Accounts Receivable	632	713	746	788	874	956	963	995	1114	1232
Inventories	387	463	490	549	614	674	686	788	834	842
Goodwill & Int. Ass.	1071	1144	1195	1573	1607	1820	1795	1717	1776	1847
Total Liabilities	1843	2128	2248	2766	2800	3401	3390	3652	3638	4033
Accounts Payable	300	359	391	478	526	512	501	535	592	557
Long-Term Debt	929	1109	1116	1374	1352	1656	1640	2090	2174	2526
Shareholder's Equity	1079	1263	1184	1201	1383	1291	1372	1436	1631	1406
D/E Ratio	0.86	0.88	0.94	1.14	0.98	1.28	1.20	1.46	1.33	1.80

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.6%	5.8%	6.1%	2.6%	6.9%	5.3%	7.5%	3.7%	6.5%	5.0%
Return on Equity	16.2%	16.1%	17.7%	8.3%	22.6%	17.9%	26.6%	12.9%	22.0%	17.6%
ROIC	8.6%	8.2%	8.8%	3.8%	10.3%	8.1%	11.9%	5.6%	9.2%	6.9%
Shares Out.	127.7	128.1	128.7	129.8	132.3	134.9	136.7	135.2	137.2	134.3
Revenue/Share	26.72	26.41	29.35	31.42	33.08	34.06	35.21	36.68	38.80	41.42
FCF/Share	1.41	1.55	1.73	2.13	1.39	1.82	2.62	1.92	2.01	1.16

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