RPM Intl. Inc. (RPM)

Updated January 9th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	0.8%	**Market Cap:**	$9.5B
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	1/15/2020
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Dividend Payment Date:**	1/31/2020
Dividend Yield:	1.9%	**5 Year Price Target**	$69	**Years Of Dividend Growth:**	46
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	2.9%

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 $9.5 billon, with annual sales of $5.8 billion.

RPM has undergone significant 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 reported earnings results for the second quarter of fiscal 2020 on 1/8/2020. Adjusted earnings-per-share totaled $0.76, which topped analysts' estimates by $0.03 and improved 46% from the same period a year ago. Excluding restructuring charges and investment gains, earnings-per-share increased 31%. Revenue increased 3% to $1.4 billion and was $10 million higher than expected.

The Construction Product Group had sales growth of 6.9%, with 7.4% organic growth. Sales for this segment had strength in roofing and concrete products as well as increased demand for joint sealants for commercial construction. This segment benefited from a higher backlog during the quarter that resulted from poor weather conditions in the first quarter. Performance Coatings Group grew 0.3% as organic growth of 1.7% was partially offset by currency exchange. Corrosion control and fire proofing coatings were sources of strength during the quarter. Consumer sales improved 6%, with organic higher by 6.4%. New sealant and adhesive products allowed RPM to take market share from competitors. Specialty Products Group sales were down 10.5%. Much of this decline was due to tough comparisons to the prior year when hurricanes and wildfires resulted in much higher demand for water restoration equipment and fluorescent pigments. RPM continues to expect a midpoint for adjusted earnings-per-share of $3.36, but sees revenue growth near the low end of its previous estimate of 2.5% to 4%.

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	***$1.44***	***$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.

[1] Share count in millions

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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. RPM raised its dividend 2.9% for the 10/31/2019 payment, giving the company 46 consecutive years of dividend growth. The company has compounded its dividend by 6.5% over the last five years.

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	***22.0***	***16.1***
Avg. Yld.	4.4%	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	***1.9%***	***2.6%***

Shares of RPM have increased $7, or 10.4%, since our 10/2/2019 update. Using expected earnings-per-share for the current year, the price-to-earnings ratio is 22. 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 6.1% 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%***

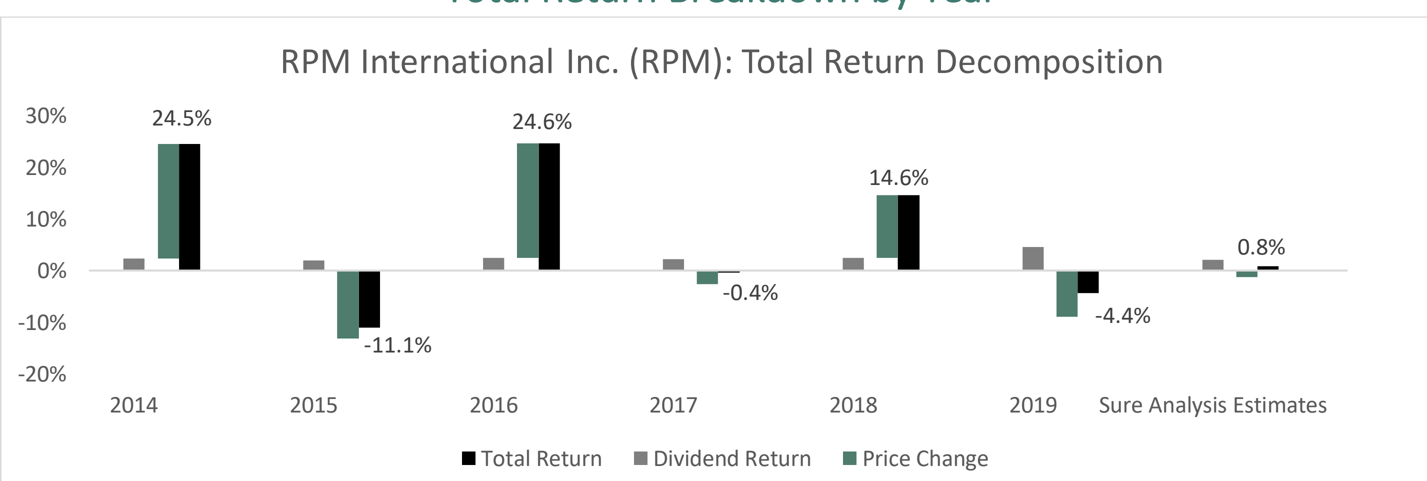
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

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

Following quarterly results, we expect RPM International to offer a total annual return of just 0.8% through fiscal 2025, down from 2.9% at the time of our last report. RPM saw improvements in three out of four segments. The one segment that failed to showed an improvement compared to the previous year did so due to a tough comparison. Despite the performance in the second quarter, RPM continues to receive a sell recommendation from Sure Dividend due to projected returns over the next five years.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,413	3,382	3,777	4,079	4,376	4,595	4,814	4,958	5,322	5,565
Gross Profit	1,435	1,401	1,542	1,703	1,876	1,941	2,087	2,166	2,181	2,262
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.	1,110	1,058	1,156	1,309	1,390	1,423	1,521	1,644	1,663	1,770
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	3,004	3,515	3,562	4,121	4,378	4,694	4,765	5,090	5,272	5,441
Cash & Equivalents	215	435	316	344	333	175	265	350	244	223
Accounts Receivable	632	713	746	788	874	956	963	995	1,114	1,232
Inventories	387	463	490	549	614	674	686	788	834	842
Goodwill & Int. Ass.	1,071	1,144	1,195	1,573	1,607	1,820	1,795	1,717	1,776	1,847
Total Liabilities	1,843	2,128	2,248	2,766	2,800	3,401	3,390	3,652	3,638	4,033
Accounts Payable	300	359	391	478	526	512	501	535	592	557
Long-Term Debt	929	1,109	1,116	1,374	1,352	1,656	1,640	2,090	2,174	2,526
Shareholder's Equity	1,079	1,263	1,184	1,201	1,383	1,291	1,372	1,436	1,631	1,406
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.	130	131	132	133	133	133	133	134	134	130
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.