RPM Intl. Inc. (RPM)

Updated April 8th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	3.0%	**Market Cap:**	$8.4 billion
Fair Value Price:	$52	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	4/15/2020
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Dividend Payment Date:**	4/30/2020
Dividend Yield:	2.2%	**5 Year Price Target**	$67	**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.

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 reported earnings results for the third quarter of fiscal 2020 on 4/8/2020. Adjusted earnings-per-share increased 77% to $0.23 for the quarter, which was $0.02 higher than expected. Revenue grew 2.9% to $1.2 billion, in-line with estimates. Results were achieved prior to COVID-19 becoming more widespread in the U.S.

The Construction Product Group had net sales growth of 4.7% with 5.1% organic growth and a 1% contribution from acquisitions. Currency exchange reduced results by 1.4%. The company had market share gains in a variety of areas including roofing, waterproofing and concrete admixtures. Higher pricing and moderating raw material costs also aided results. Sales for the Performance Coatings Group improved 1% as organic growth of 1.6% and a 0.2% contribution from acquisitions were offset by currency translation. Protective and marine coatings sales were partially offset by a slowing in the highway and bridge maintenance business, mostly due to lower government spending in the U.K. Consumer sales improved 5.4% with 6% organic growth partially offset by a slight headwind from currency exchange. Growth was due to in large part to unseasonably warm winter weather in North America. This allowed for DIY consumers to complete projects. Areas of strength included caulks, sealants and patch and repair product lines. Specialty Products Group sales were down 4.1% as organic sales declined 7.1% and currency translation was a 0.3% headwind to results. Acquisitions did add 3.3% to revenues. Wood coatings performed better than the industry average, but water damage restoration products were down significantly due to several severe weather events in North America in Q3 FY 2019.

RPM did pull its financial guidance for the year, citing uncertainty regarding the impact from COVID-19 on results. We drop our expected EPS to $3.26 from $3.36 to help account for this uncertainty.

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	***$3.26***	***$4.16***
DPS	$0.82	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	$1.40	***$1.44***	***$1.84***
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

[1] Share count in millions

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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. 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	***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%	***2.2%***	***2.7%***

Shares of RPM have decreased $9, or 12.2%, since our 1/8/2020 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%	***44%***	***44%***

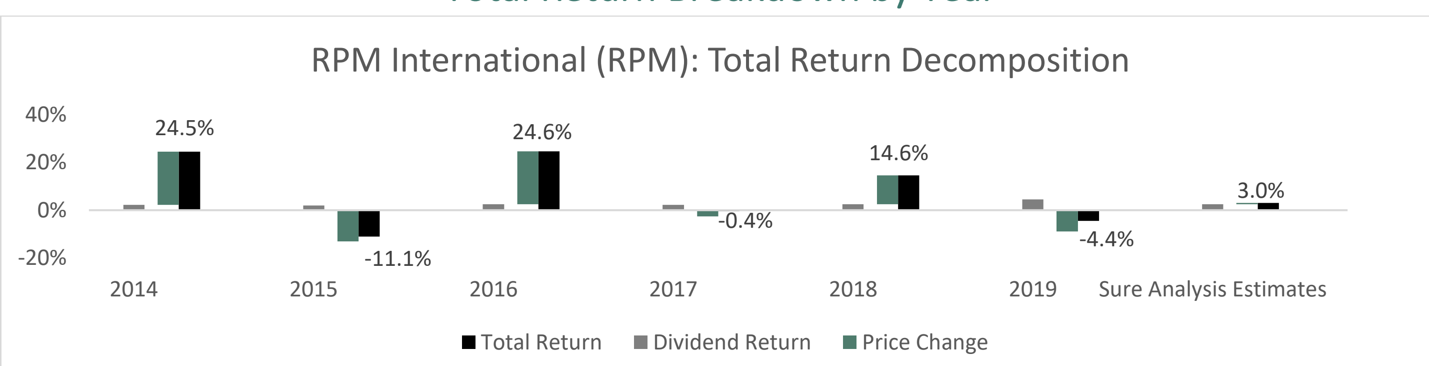
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

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 third quarter earnings results, RPM International is projected to return 3% annually through 2025, up from our previous estimate of 0.8%. The company had growth in three out of four segments, with the fourth declining primarily due to a difficult comparison from the same time period a year ago. Shares of RPM have held up well so far this year. Including a nearly 4% gain following the release of earnings, the stock has outperformed the S&P 500 in 2020. That said, shares don't offer a compelling total return at this point. The company's lack of visibility is also a concern. We maintain our sell recommendation on the stock and have lowered our 2025 price target $2 to $67 to due to expected EPS.

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	486	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.