RPM Intl. Inc. (RPM)

Updated July 27th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	-3.2%	**Market Cap:**	$10.5 billion
Fair Value Price:	$47	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	7/15/2020
% Fair Value:	171%	**5 Year Valuation Multiple Estimate:**	-10.1%	**Dividend Payment Date:**	7/31/2020
Dividend Yield:	1.8%	**5 Year Price Target**	$61	**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 fourth quarter and full year results for fiscal year 2020 on 7/27/2020. For the quarter, revenue declined 8.8% to $1.5 billion, but topped estimates by $60 million. Adjusted earnings-per-share of $1.13 was $0.14 above estimates, but represented a decline of $0.11, or 8.9%, from the previous year. For the fiscal year, sales were lower by 1% to $5.5 billion. Adjusted earnings-per-share improved 15.4% to $3.07. Organic growth was down 13.9% in Q4 and 0.8% for the fiscal year.

Construction Products Group suffered a 15.6% decline to $472.4 million as a slight contribution from acquisitions was more than offset by a significant decrease in organic growth. U.S. roofing was strong. Construction was deemed an essential business in the U.S., allowing this segment to perform much better than internationally. Sales for the Performance Coatings Group decreased 20.2% to $235.1 million. This segment was lower year-over-year due to limited contractor access in several businesses, such as flooring where contractors weren't granted access to food, beverage, healthcare and pharmaceutical customers in an effort to slow the spread of COVID-19. Consumer Group sales increased 6.7% to $616.2 million, with 7.7% organic growth. U.S. sales improved 12%, with strength in home improvement, maintenance and repair projects. Specialty Products Group sales declined 20.3% to $135.2 million due to weak OEM markets in wood coatings, powder coatings and fluorescent pigments. RPM ended the fiscal year with record cash from operations of $549.9 million. The company believes that Consumer Group sales will continue fourth quarter momentum while the other segments will have significant headwinds for at least parts of the new fiscal year. Consensus estimates call for $2.95 of earnings-per-share for fiscal year 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.45	$1.65	$1.83	$2.18	$2.38	$2.63	$2.47	$2.73	$2.66	$3.07	***$2.95***	***$3.77***
DPS	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	$1.40	$1.44	***$1.44***	***$1.84***
Shares[1]	131	132	133	133	133	133	134	134	130	128	***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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	14.5	14	15.9	17.7	19.8	17.3	21.2	15.9	20.1	24.4	***27.5***	***16.1***
Avg. Yld.	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	1.9%	***1.8%***	***3.0%***

Shares of RPM have increased $16, or 24.6%, since our 4/8/2020 update. Using expected earnings-per-share for fiscal year 2021, the price-to-earnings ratio is 27.5. 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 10.1% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	58%	52%	49%	44%	43%	41%	48%	47%	53%	47%	***49%***	***49%***

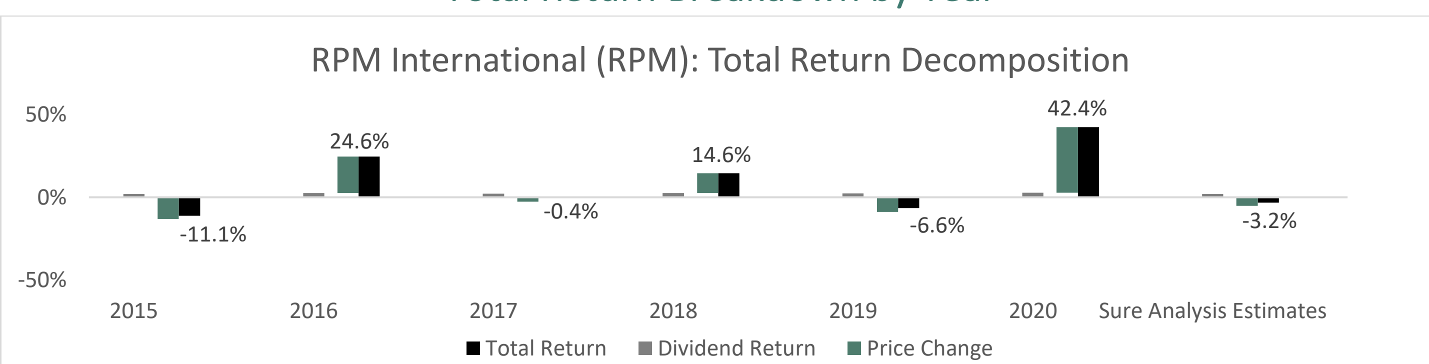
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

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

After reviewing fourth quarter and fiscal year results, RPM International is now expected to lose 3.2% per year through fiscal year 2026, down from our previous estimate of 3% annual returns. The company saw declines in three out of four business segments, with the consumer the lone bright spot in the quarter. The company likely needs a recovery from the pandemic or at least a lifting of social distancing directives in order to return to growth. The stock has also appreciated significantly since our last update. We have lowered our five-year price target $6 to $61 due to earnings estimates for the year. RPM continues to receive a sell recommendation from Sure Dividend due to projected returns.

Total Return Breakdown by Year



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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.	131	132	133	133	133	133	134	134	130	128
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.