# RPM Intl. Inc. (RPM)

*Updated October 8th, 2020 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $87 | **5 Year CAGR Estimate:** | -0.4% | **Market Cap:** | $11.4 billion |
| **Fair Value Price:** | $60 | **5 Year Growth Estimate:** | 5.0% | **Ex-Dividend Date:** | 10/14/2020[1] |
| **% Fair Value:** | 144% | **5 Year Valuation Multiple Estimate:** | -7.0% | **Dividend Payment Date:** | 10/30/2020[2] |
| **Dividend Yield:** | 1.7% | **5 Year Price Target** | $77 | **Years Of Dividend Growth:** | 46 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | C | **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 released results for the first quarter of fiscal year 2021 on 10/7/2020. Revenue increased 9.1% to a record $1.6 billion, which was $115 million ahead of estimates. Adjusted earnings-per-share increased $0.49 to $1.44, $0.26 higher than expected. Net income improved more than 70% to $180.6 million.

Business improved during the quarter as stay-at-home directives were eased in many markets. Pent-up demand resulted in the largest year-over-year improvement in revenues since the second quarter of fiscal year 2018. The Consumer Group was the best performing segment during the quarter as revenues surged 33.8% to $641.2 million. Organic growth was 34%. The do-it-yourself channel was the primary driver of growth as consumers spent more time at home completing projects. Popular products include small project paints, sealants and caulks. The Construction Products Group had sales growth of 2.2% to $547.7 million. Organic growth was 3.6%. Commercial sealants and roofing had a strong demand in North America. Sales for the Performance Coatings Group fell 12.6% to $297.2 million, with organic growth declining 12.2%. COVID-19 continues to limit outside contractors' access to facilities and construction sites, leading to a drop in demand for products. Specialty Products declined 1.3% as organic growth decreased 5.7%. Acquisitions added 4.1% to results. Marine coatings, nail enamels and wood coatings and protectants were the standout product categories. RPM incurred a restructuring charge of $18.9 million during the quarter. Cash and revolving credit facilities totaled $1.5 billion. Due to the ongoing uncertainty regarding the impact of COVID-19 on the company's business, RPM is not issuing guidance at this point for the fiscal year. Consensus estimates call for adjusted earnings-per-share of $3.75 for fiscal 2021, up from $2.95 previously.

## 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 | ***$3.75*** | ***$4.79*** |
| 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[3] | 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

---

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] 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.*

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. 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 | 14.0 | 15.9 | 17.7 | 19.8 | 17.3 | 21.2 | 15.9 | 20.1 | 24.4 | ***23.2*** | ***16.1*** |
| **Avg. Yld.** | 4.0% | 3.7% | 3.1% | 2.5% | 2.2% | 2.4% | 2.2% | 2.6% | 2.6% | 1.9% | ***1.7%*** | ***2.4%*** |

Shares of RPM have increased $6, or 7.4%, since our 7/27/2020 update. Using expected earnings-per-share for fiscal year 2021, the price-to-earnings ratio is 23.2. 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 2026, then valuation would be a 7% 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% | ***38%*** | ***38%*** |

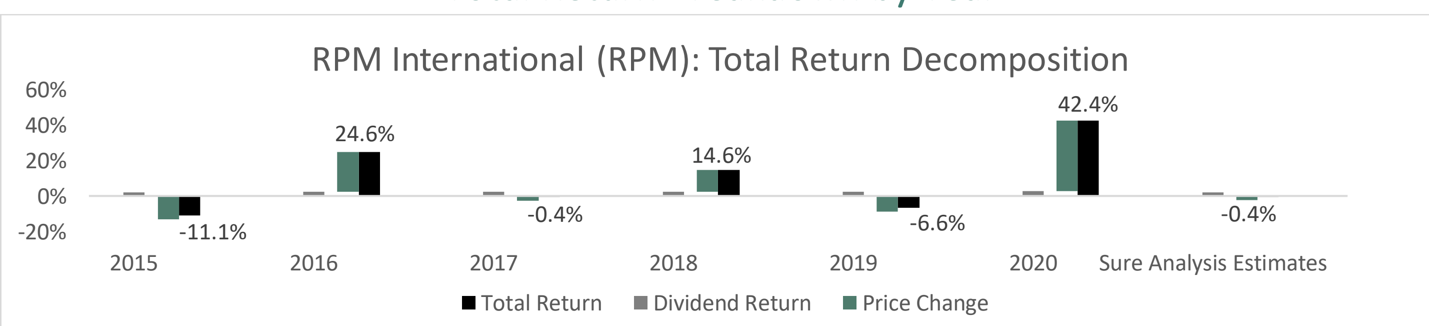
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

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 now expected to lose 0.4% per year through fiscal year 2026, an improvement from our previous estimate of a loss of 3.2% annually. The company rebounded from a difficult fourth quarter to post one of its strongest quarters in recent memory. Certain segments are still being impacted by the COVID-19 virus, but DIY was especially strong as consumers spent heavily on projects around the house. That said, shares continue to receive a sell rating from Sure Dividend due to projected returns. We have increased our five-year price target $16 to $77 due to expected EPS for the current fiscal year.

## Total Return Breakdown by Year




Click here to rate and review this research report. Your feedback is important to us.

*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.*

# RPM Intl. Inc. (RPM)

*Updated October 8th, 2020 by Nathan Parsh*

## Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 3,382 | 3,777 | 4,079 | 4,376 | 4,595 | 4,814 | 4,958 | 5,322 | 5,565 | 5,507 |
| Gross Profit | 1,401 | 1,542 | 1,703 | 1,876 | 1,941 | 2,087 | 2,166 | 2,017 | 2,088 | 2,093 |
| Gross Margin | 41.4% | 40.8% | 41.7% | 42.9% | 42.3% | 43.4% | 43.7% | 37.9% | 37.5% | 38.0% |
| SG&A Exp. | 1,058 | 1,156 | 1,309 | 1,390 | 1,423 | 1,521 | 1,644 | 1,498 | 1,596 | 1,549 |
| D&A Exp. | 73 | 76 | 86 | 90 | 99 | 111 | 117 | 128 | 142 | 157 |
| Operating Profit | 342 | 387 | 393 | 486 | 518 | 566 | 522 | 518 | 492 | 544 |
| Operating Margin | 10.1% | 10.2% | 9.6% | 11.1% | 11.3% | 11.8% | 10.5% | 9.7% | 8.8% | 9.9% |
| Net Profit | 189 | 216 | 99 | 292 | 239 | 355 | 182 | 338 | 267 | 304 |
| Net Margin | 5.6% | 5.7% | 2.4% | 6.7% | 5.2% | 7.4% | 3.7% | 6.3% | 4.8% | 5.5% |
| Free Cash Flow | 198 | 223 | 277 | 184 | 245 | 358 | 260 | 276 | 156 | 402 |
| Income Tax | 92 | 95 | 67 | 119 | 225 | 126 | 60 | 78 | 72 | 103 |

## Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 3,515 | 3,562 | 4,121 | 4,378 | 4,694 | 4,765 | 5,090 | 5,272 | 5,441 | 5,631 |
| Cash & Equivalents | 435 | 316 | 344 | 333 | 175 | 265 | 350 | 244 | 223 | 233 |
| Accounts Receivable | 713 | 746 | 788 | 874 | 956 | 963 | 995 | 1,114 | 1,232 | 1,138 |
| Inventories | 463 | 490 | 549 | 614 | 674 | 686 | 788 | 834 | 842 | 810 |
| Goodwill & Int. Ass. | 1,144 | 1,195 | 1,573 | 1,607 | 1,820 | 1,795 | 1,717 | 1,776 | 1,847 | 1,834 |
| Total Liabilities | 2,128 | 2,248 | 2,766 | 2,800 | 3,401 | 3,390 | 3,652 | 3,638 | 4,033 | 4,366 |
| Accounts Payable | 359 | 391 | 478 | 526 | 512 | 501 | 535 | 592 | 557 | 535 |
| Long-Term Debt | 1,109 | 1,116 | 1,374 | 1,352 | 1,656 | 1,640 | 2,090 | 2,174 | 2,526 | 2,539 |
| Shareholder’s Equity | 1,263 | 1,184 | 1,201 | 1,383 | 1,291 | 1,372 | 1,436 | 1,631 | 1,406 | 1,262 |
| D/E Ratio | 0.88 | 0.94 | 1.14 | 0.98 | 1.28 | 1.20 | 1.46 | 1.33 | 1.80 | 2.01 |

## Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 5.8% | 6.1% | 2.6% | 6.9% | 5.3% | 7.5% | 3.7% | 6.5% | 5.0% | 5.5% |
| Return on Equity | 16.1% | 17.7% | 8.3% | 22.6% | 17.9% | 26.6% | 12.9% | 22.0% | 17.6% | 22.8% |
| ROIC | 8.2% | 8.8% | 3.8% | 10.3% | 8.1% | 11.9% | 5.6% | 9.2% | 6.9% | 7.9% |
| Shares Out. | 131 | 132 | 133 | 133 | 133 | 133 | 134 | 134 | 130 | 128 |
| Revenue/Share | 26.41 | 29.35 | 31.42 | 33.08 | 34.06 | 35.21 | 36.68 | 38.80 | 41.42 | 42.37 |
| FCF/Share | 1.55 | 1.73 | 2.13 | 1.39 | 1.82 | 2.62 | 1.92 | 2.01 | 1.16 | 3.09 |

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