RPM Intl. Inc. (RPM)

Updated April 7th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$90	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$12.3 billion
Fair Value Price:	$76	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	4/14/2021
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date:**	4/30/2021
Dividend Yield:	1.7%	**5 Year Price Target**	$97	**Years Of Dividend Growth:**	47
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 reported earnings results for the third quarter of fiscal year 2021 on 4/7/2021. Revenue grew 8.1% to $1.27 billion, which was $60 million above estimates. Adjusted earnings-per-share of $0.38 was a 65% improvement from the prior year.

For the quarter, organic growth was 4.9%, acquisitions added 2.1% to results and currency exchange was a 1.1% tailwind due to the weaker U.S. dollar. The Consumer Group continues to outperform the other segments as sales increased nearly 20% year-over-year. Acquisitions and currency exchange combined for 7.1% of this growth, but this segment had strength in caulks, sealants, cleaners, abrasives and small-project paints. The Construction Products Group was up 6.4% as renovation and restoration projects were in high demand, which offset weakness in commercial and institutional construction. Performance Coatings Group fell 11.4% due to declines in industrial coatings from energy customers. As with prior quarters, the COVID-19 pandemic continues to limit access to construction sites. Specialty Products Group grew 14.7% and produced record revenue. Harsh weather in North America led to increased demand for products. Cash from operations grew 71% to a record $651.9 million for the first nine months of the fiscal year.

Analysts expect RPM to earn $4.23 per share in fiscal 2021, up from $4.15 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	***$4.23***	***$5.40***
DPS	$0.84	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	$1.40	$1.44	***$1.52***	***$1.94***
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 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 10/15/2020 payment, giving the company 47 consecutive years of dividend growth. The company has compounded its dividend by 5.2% annually over the last five years.

[1] Share count in millions

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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	***21.3***	***18.0***
Avg. Yld.	4.0%	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	1.9%	***1.7%***	***2.0%***

Shares of RPM are up $3, or 3.4%, since our 1/6/2021 update. Using expected earnings-per-share for fiscal year 2021, the price-to-earnings ratio is 21.3. We have raised our five-year target P/E to 18 from 16.1 due to reflect the higher multiple that shares have traded with over the past few years. If the stock were trade with this multiple by fiscal 2026, then valuation would be a 3.3% 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%	***36%***	***36%***

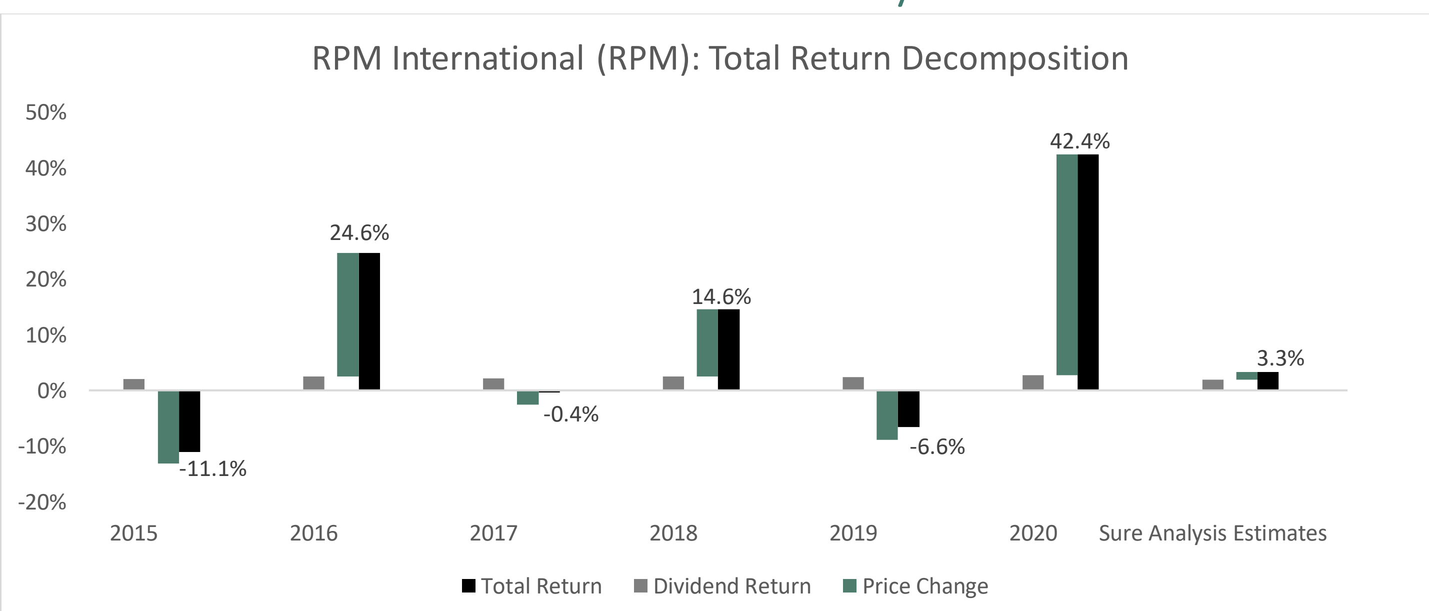
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

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 return 3.3% per year through fiscal year 2026, down from our previous estimate of 3.7%. The Performance Coating Group once again saw a double-digit decline, due in large part to COVID-19. The company's other businesses, in particular Consumer and Specialty Products, were very strong during the most recent quarter. We have raised our five-year price target $2 to $97 due to company guidance, but maintain our sell rating on RPM due to projected returns.

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	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.