RPM Intl. Inc. (RPM)

Updated January 5th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$100	**5 Year CAGR Estimate:**	-0.7%	**Market Cap:**	$12.9 billion
Fair Value Price:	$68	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	1/13/2022
% Fair Value:	147%	**5 Year Valuation Multiple Estimate:**	-7.4%	**Dividend Payment Date:**	1/31/2022
Dividend Yield:	1.6%	**5 Year Price Target**	$87	**Years Of Dividend Growth:**	48
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	5.3%

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 more than 15,000 people today.

RPM reported earnings results for the second quarter of fiscal year 2022 on 1/5/2022. Revenue increased 10.1% to $1.64 billion, which was $80 million better than expected. Adjusted earnings-per-share of $0.79 compared unfavorably to adjusted earnings-per-share of $1.06 in the prior year and was $0.04 lower than anticipated.

The Consumer Group fell 3.3% to $547.5 million. Organic sales were lower by 3.5% due to shortages of raw materials. Sales compared to the pre-pandemic period were up more than 17%. The Construction Products Group was higher by 22% to a record $614.2 million. Organic growth was nearly 20% due to strength in high-performance building solutions. This segment also saw improvements in construction and maintenance products. Performance Coatings Group grew 16.9% to $302.5 million, which included organic growth of 12.2%. The improvement in results stemmed primarily from catch-up orders that had been deferred by industrial customers. Specialty Products Group was up 10% to $193.6 million. Organic sales improved 9% due to gains in outdoor recreation, furniture and OEMs. Raw material, freight and wage costs were higher companywide as expected and supply chain constraints were impacted by Hurricane Ida. Leadership expects third quarter revenue to grow double-digits on top of last year's record setting performance.

Analysts expect RPM to earn $3.79 in fiscal year 2022, down from $4.00 and $4.48 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.65	$1.83	$2.18	$2.38	$2.63	$2.47	$2.73	$2.66	$3.07	$4.16	***$3.79***	***$4.84***
DPS	$0.86	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	$1.40	$1.44	$1.52	***$1.60***	***$2.04***
Shares[1]	132	133	133	133	133	134	134	130	128	128	***128***	***120***

The last recession had a severe impact on 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 5.3% for the 10/29/2021 payment, giving the company 48 consecutive years of dividend growth.

[1] 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.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	14.0	15.9	17.7	19.8	17.3	21.2	15.9	20.1	24.4	22.5	***26.4***	***18.0***
Avg. Yld.	3.7%	3.1%	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	1.9%	1.6%	***1.6%***	***2.3%***

Shares of RPM have increased $20, or 25%, since our 10/6/2021 update. Using expected earnings-per-share for fiscal year 2022, the price-to-earnings ratio is 26.4. We reaffirm our five-year target P/E of 18 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 2027, then valuation would be a 7.4% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	52%	49%	44%	43%	41%	48%	47%	53%	47%	37%	***42%***	***42%***

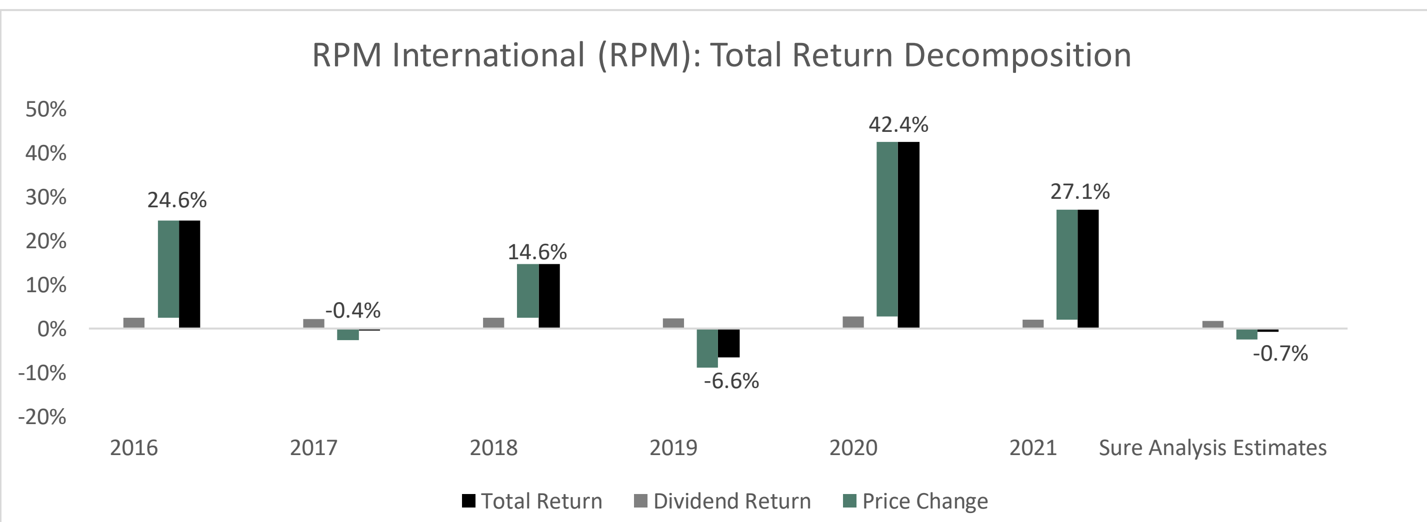
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were to weaken.

RPM is a leading manufacturer and distributor of paints, coatings, construction chemicals, colorants and adhesives to consumers, contractors, and 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 produce a negative return of -0.7% per year through fiscal year 2027, down from our previous estimate of 4.7%. Three out of the four segments saw double-digit growth during the quarter. The Consumer Group was lower due to lack of raw materials and supply chain issues as demand for products remains strong. The company is expecting to see strong growth in the current quarter after last year's record result. RPM International is also just two years away from Dividend King status. That said, the stock is trading at a very high valuation. We have lowered out five-year price target $5 to $87 to reflect earnings-per-share estimates for the fiscal year and now rate shares as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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
LTD/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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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.	132	133	133	133	133	134	134	130	128	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.