RPM Intl. Inc. (RPM)

Updated October 23rd, 2022 by Nathan Parsh

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$11.5 B
Fair Value Price:	$83	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	10/14/22
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	10/31/22
Dividend Yield:	1.9%	**5 Year Price Target**	$106	**Years Of Dividend Growth:**	49
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

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.

On October 6th, 2022, RPM announced that it was increasing its quarterly dividend 5% to $0.42, extending the company's dividend growth streak to 49 consecutive years.

On October 5th, 2022, RPM announced earnings results for the first quarter of fiscal year 2023 for the period ending August 31st, 2022. Revenue increased 17% to a first quarter record $1.93 billion, which was $50 million more than anticipated by analysts. Adjusted earnings-per-share of $1.47 compared favorably to $1.08 in the prior year and was $0.14 better than expected.

All four segments produced record revenue for the first quarter. Revenue for the Consumer Group increased 22.5% to $659 million. This segment had organic growth of 24.1% due to improvements in material supplies and price increases. The Construction Products Group grew 13.2% to $730 million. Organic sales were up 15.8% due to strength in public sector spending and higher prices. Performance Coatings Group increased 19.2% to $340 million. Organic sales were higher by 23.6% due to demand in flooring systems, protective coatings, and fiberglass reinforced plastic grating. Energy markets and emerging markets were also strong. Revenue of $202.7 million for Specialty Products Group was an 11.3% increase from the prior period. Organic sales increased 12.8%, led by gains in food coatings and additives.

We have raised our 2023 earnings-per-share estimate to $4.60 from $4.26 previously, which would be a 25.7% increase from the prior year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.83	$2.18	$2.38	$2.63	$2.47	$2.73	$2.66	$3.07	$4.16	$3.66	***$4.60***	***$5.87***
DPS	$0.89	$0.95	$1.02	$1.09	$1.18	$1.31	$1.40	$1.44	$1.52	$1.58	***$1.68***	***$2.14***
Shares[1]	133	133	133	133	134	134	130	128	128	128	***128***	***125***

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 fiscal year 2013 to fiscal year 2022, earnings per share grew at a rate of 7.2% per year. 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 revenue growth is expected to be the primary contributor.

Growth slowed during the last recession, but RPM was able to maintain and increase its dividend payments to shareholders even in an adverse economic climate. RPM is now one year away from achieving Dividend King status.

[1] Share count in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	15.9	17.7	19.8	17.3	21.2	15.9	20.1	24.4	22.5	24.1	***19.3***	***18.0***
Avg. Yld.	3.1%	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	1.9%	1.6%	1.8%	***1.9%***	***2.0%***

Shares of RPM have increased $4, or 4.7%, since our July 25th, 2022 update. Using expected earnings-per-share for fiscal year 2023, the price-to-earnings ratio is 19.3. 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 2028, then valuation would be a 1.4% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49%	44%	43%	41%	48%	47%	53%	47%	37%	43%	***37%***	***37%***

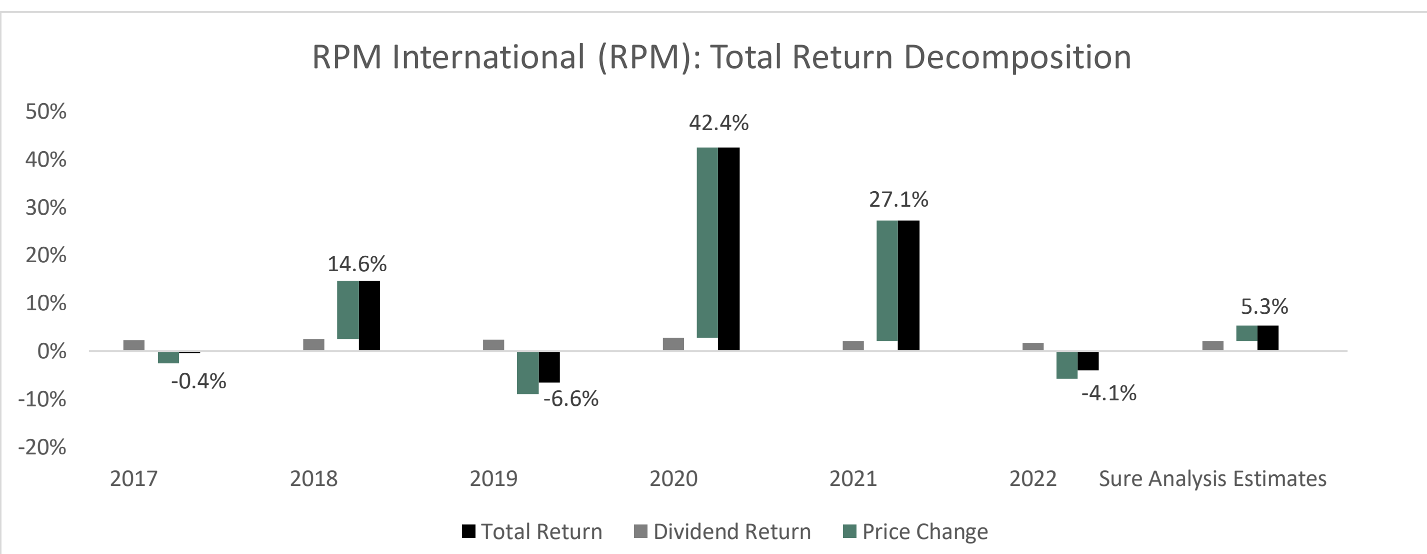
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company following the last recession. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were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

Following first quarter results, RPM International is now expected to return 5.3% per year through fiscal year 2028, up from our previous estimate of 4.7%. Our forecast stems from a 5% earnings growth rate and a starting yield of 1.9% that are offset by low single-digit headwind from multiple compression. All four segments once again produced a record quarter as price increases haven't impacted demand very much. We have raised our five-year price target $8 to $106 due to updated earnings estimates for the fiscal year, but we continue to rate shares of RPM International as a hold 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	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.