RPM Intl. Inc. (RPM)

Updated January 6th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$11.2 B
Fair Value Price:	$82	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	01/19/23
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	01/31/23
Dividend Yield:	2.0%	**5 Year Price Target**	$104	**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 January 5th, 2023, RPM announced earnings results for the second quarter of fiscal year 2023 for the period ending August 30th, 2022. Revenue increased 9.1% to second quarter record $1.79 billion, but was $20 million less than expected. Adjusted earnings-per-share of $1.10 compared favorably to $0.79 in the prior year and was in-line with estimates.

All four segments again produced record revenue for the second quarter. Revenue for the Consumer Group increased 15.3% to $610 million. This segment had organic growth of 17.5% due to higher selling prices and greater demand in North America. The Construction Products Group grew 3.2% to $634 million. Organic sales were up 6.9% due to a combination of price increases and market share gains in a number of businesses, including admixtures and repair products for concrete. Performance Coatings Group increased 10.8% to $335 million. Organic sales were higher by 15.4% due to volume gains in most businesses. Price increases also aided results. Revenue of $212 million for Specialty Products Group was a 9.5% increase from the prior period. Organic sales increased 11.5% due to strength in food coatings and additives.

We now expect adjusted earnings-per-share of $4.54 for fiscal year 2023, down slight from our prior guidance of $4.60. This would be a 24% 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	***$4.54***	***$5.79***
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	***18.9***	***18.0***
Avg. Yld.	3.1%	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	1.9%	1.6%	1.8%	***2.0%***	***2.1%***

Shares of RPM have decreased $3, or 3.4%, since our October 23rd, 2022 update. Using expected earnings-per-share for fiscal year 2023, the price-to-earnings ratio is 18.9. 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 1.0% 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%***

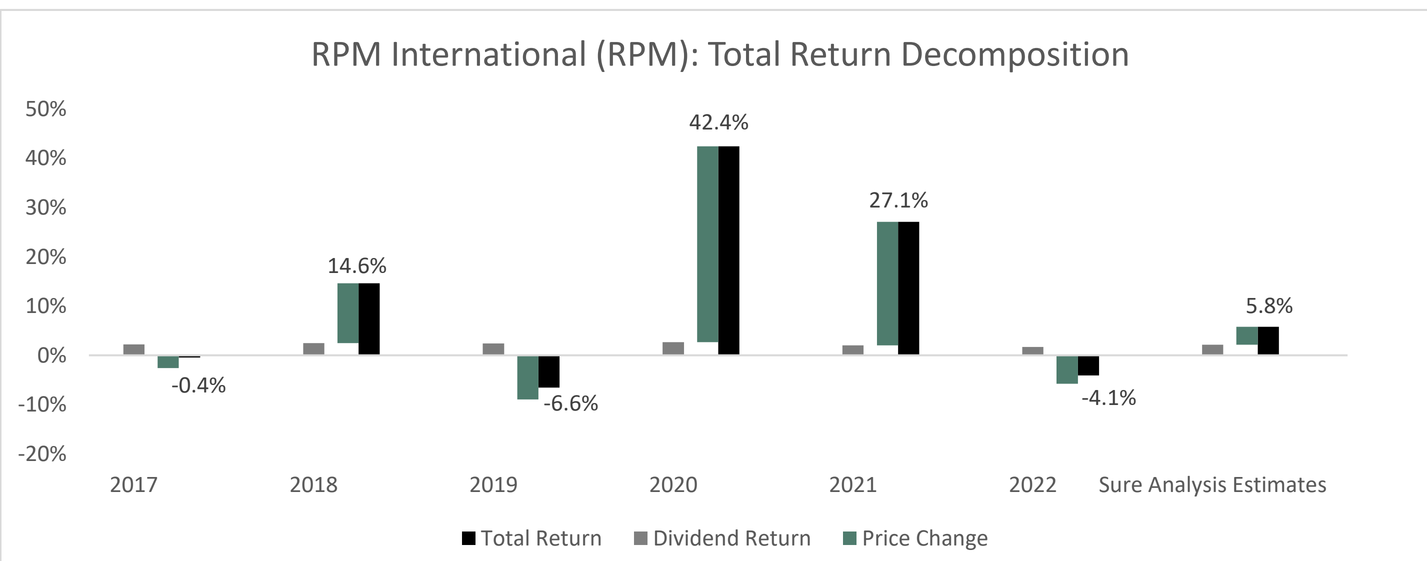
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company following the last recession. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were 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 second quarter results, RPM International is now expected to return 5.8% per year through fiscal year 2028, up from our previous estimate of 5.3%. Our forecast stems from a 5% earnings growth rate and a starting yield of 2.0% 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 lowered our five-year price target $2 to $104 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,079	4,376	4,595	4,814	4,958	5,322	5,565	5,507	6,106	6,708
Gross Profit	1,703	1,876	1,941	2,087	2,166	2,017	2,088	2,093	2,405	2,433
Gross Margin	41.7%	42.9%	42.3%	43.4%	43.7%	37.9%	37.5%	38.0%	39.4%	36.3%
SG&A Exp.	1,309	1,390	1,423	1,521	1,644	1,498	1,596	1,549	1,664	1,788
D&A Exp.	86	90	99	111	117	128	142	157	147	153
Operating Profit	393	486	518	566	522	518	492	544	741	645
Operating Margin	9.6%	11.1%	11.3%	11.8%	10.5%	9.7%	8.8%	9.9%	12.1%	9.6%
Net Profit	99	292	239	355	182	338	267	304	503	491
Net Margin	2.4%	6.7%	5.2%	7.4%	3.7%	6.3%	4.8%	5.5%	8.2%	7.3%
Free Cash Flow	277	184	245	358	260	276	156	402	609	(44)
Income Tax	67	119	225	126	60	78	72	103	165	114

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,121	4,378	4,694	4,765	5,090	5,272	5,441	5,631	6,253	6,708
Cash & Equivalents	344	333	175	265	350	244	223	233	247	202
Accounts Receivable	788	874	956	963	995	1,114	1,232	1,138	1,281	1,433
Inventories	549	614	674	686	788	834	842	810	938	1,213
Goodwill & Int. Ass.	1,573	1,607	1,820	1,795	1,717	1,776	1,847	1,834	1,974	1,930
Total Liabilities	2,766	2,800	3,401	3,390	3,652	3,638	4,033	4,366	4,510	4,724
Accounts Payable	478	526	512	501	535	592	557	535	717	800
Long-Term Debt	1,374	1,352	1,656	1,640	2,090	2,174	2,526	2,539	2,380	2,687
Shareholder's Equity	1,201	1,383	1,291	1,372	1,436	1,631	1,406	1,262	1,741	1,982
LTD/E Ratio	1.14	0.98	1.28	1.20	1.46	1.33	1.80	2.01	1.37	1.36

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.6%	6.9%	5.3%	7.5%	3.7%	6.5%	5.0%	5.5%	8.5%	7.6%
Return on Equity	8.3%	22.6%	17.9%	26.6%	12.9%	22.0%	17.6%	22.8%	33.5%	26.4%
ROIC	3.8%	10.3%	8.1%	11.9%	5.6%	9.2%	6.9%	7.9%	12.7%	11.2%
Shares Out.	133	133	133	133	134	134	130	128	128	128
Revenue/Share	31.42	33.08	34.06	35.21	36.68	38.80	41.42	42.37	47.36	51.77
FCF/Share	2.13	1.39	1.82	2.62	1.92	2.01	1.16	3.09	4.72	(0.34)

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