RPM Intl. Inc. (RPM)

Updated November 1st, 2023 by Nathan Parsh

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	10.4%	**Market Cap:**	$11.9 B
Fair Value Price:	$100	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	01/19/24[1]
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	01/31/24[2]
Dividend Yield:	2.0%	**5 Year Price Target**	$140	**Years Of Dividend Growth:**	50
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Buy

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 5th, 2023, RPM announced that it was increasing its quarterly dividend 9.5% to $0.46, extending the company's dividend growth streak to 50 consecutive years.

On October 4th, 2023, RPM reported earnings results for the first quarter of fiscal year 2024 for the period ending August 31st, 2023. For the quarter, revenue grew 4.1% to a first quarter record $2.01 billion, which was $40 million above estimates. Adjusted earnings-per-share of $1.64 compared to $1.47 in the prior year, which was $0.10 better than expected.

Three out of four segments of the company produced record revenue for the first quarter. Companywide, organic sales improved 3.9% for the period. Revenue for the Consumer Group increased 1.5% to $670 million. This segment had organic growth of 1.7% due to pricing action. The Construction Products Group grew 10.8% to $783 million. This segment had organic growth of 9.5% due to strength in restoration systems for roofing and parking structures. Performance Coatings Group revenue was up 4.1% to $379 million. Organic sales were up 4.0% as infrastructure-related businesses saw higher demand. Revenue of $181 million for Specialty Products Group was a 10.7% decrease year-over-year due once again to lower volumes in those businesses that serve OEM markets. Organic sales declined 9%.

RPM now expects sales to be up a low single-digit for fiscal year 2024, which is down from a projection of mid-single-digit growth. We forecast earnings-per-share of $4.98 for the fiscal year, up from $4.92 previously. This would be a 15.8% increase from the prior year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.18	$2.38	$2.63	$2.47	$2.73	$2.66	$3.07	$4.16	$3.66	$4.30	***$4.98***	***$6.98***
DPS	$0.95	$1.02	$1.09	$1.18	$1.31	$1.40	$1.44	$1.52	$1.58	$1.66	***$1.84***	***$2.58***
Shares[3]	133	133	133	134	134	130	128	128	128	129	***129***	***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 2014 to fiscal year 2023, earnings per share grew at a rate of 7.0% per year. That growth rate has accelerated to 10.1% over just the last five years. Factoring in the strength of recent results with the likely declines in earnings during the next recession, we now forecast annual earnings growth of 7%, up from 5%, through fiscal year 2029. Organic revenue growth is expected to be the primary contributor.

[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.

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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 a Dividend King due to its five decades of dividend growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	17.7	19.8	17.3	21.2	15.9	20.1	24.4	22.5	24.1	18.5	***18.5***	***20.0***
Avg. Yld.	2.5%	2.2%	2.4%	2.2%	2.6%	2.6%	1.9%	1.6%	1.8%	2.1%	***2.0%***	***1.8%***

Shares of RPM have decreased $13, or 12.4%, since our July 30th, 2023 update. Using expected earnings-per-share for fiscal year 2024, the price-to-earnings ratio is 18.5. We reaffirm our target P/E of 20 from 18 as this is more in-line with the long-term average valuation and reflects the quality of earnings results over the past few years. If the stock were trade with this multiple by fiscal 2029, then valuation would be a 1.6% tailwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	44%	43%	41%	48%	47%	53%	47%	37%	43%	39%	***37%***	***37%***

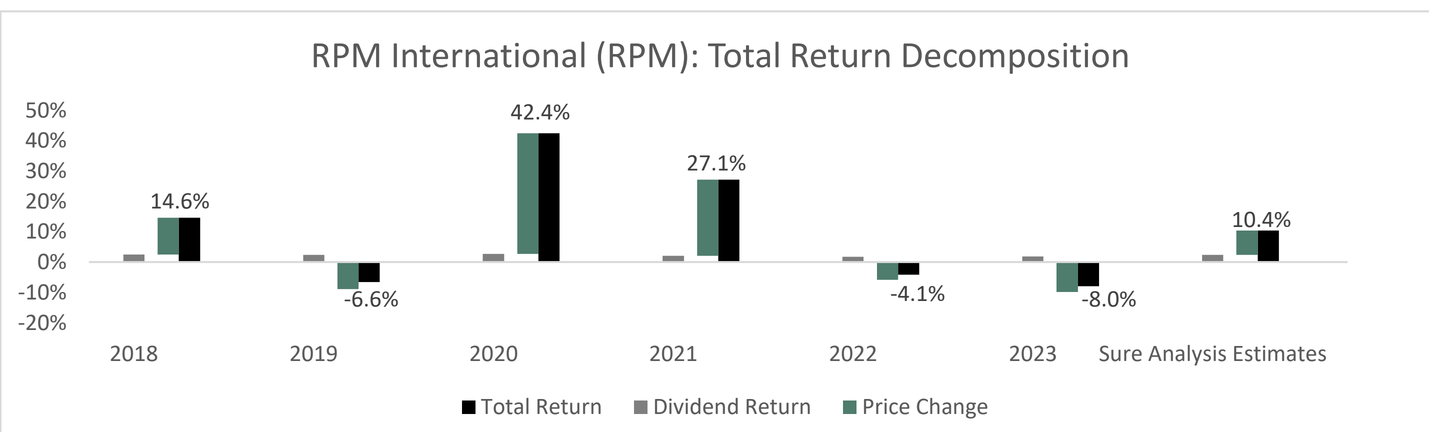
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company following the last recession. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were 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 10.4% per year through fiscal year 2029, up from our previous estimate of 7.2%. Our forecast stems from a 7% earnings growth rate, a starting yield of 2.0%, and a low single-digit contribution from multiple expansion. RPM International continues to deliver record setting results, an impressive feat considering the growth rates that the company experienced last fiscal year. The company has an impressive dividend growth streak as well. We have raised our five-year price target $2 to $140 to reflect estimates for the fiscal year. We now rate shares of RPM International as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,376	4,595	4,814	4,958	5,322	5,565	5,507	6,106	6,708	7,256
Gross Profit	1,876	1,941	2,087	2,166	2,017	2,088	2,093	2,405	2,433	2,748
Gross Margin	42.9%	42.3%	43.4%	43.7%	37.9%	37.5%	38.0%	39.4%	36.3%	37.9%
SG&A Exp.	1,390	1,423	1,521	1,644	1,498	1,596	1,549	1,664	1,788	1,956
D&A Exp.	90	99	111	117	128	142	157	147	153	155
Operating Profit	486	518	566	522	518	492	544	741	645	792
Operating Margin	11.1%	11.3%	11.8%	10.5%	9.7%	8.8%	9.9%	12.1%	9.6%	10.9%
Net Profit	292	239	355	182	338	267	304	503	491	479
Net Margin	6.7%	5.2%	7.4%	3.7%	6.3%	4.8%	5.5%	8.2%	7.3%	6.6%
Free Cash Flow	184	245	358	260	276	156	402	609	(44)	323
Income Tax	119	225	126	60	78	72	103	165	114	170

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,378	4,694	4,765	5,090	5,272	5,441	5,631	6,253	6,708	6,782
Cash & Equivalents	333	175	265	350	244	223	233	247	202	216
Accounts Receivable	874	956	963	995	1,114	1,232	1,138	1,281	1,433	1,503
Inventories	614	674	686	788	834	842	810	938	1,213	1,135
Goodwill & Int. Ass.	1,607	1,820	1,795	1,717	1,776	1,847	1,834	1,974	1,930	1,849
Total Liabilities	2,800	3,401	3,390	3,652	3,638	4,033	4,366	4,510	4,724	4,639
Accounts Payable	526	512	501	535	592	557	535	717	800	681
Long-Term Debt	1,352	1,656	1,640	2,090	2,174	2,526	2,539	2,380	2,687	2,684
Shareholder's Equity	1,383	1,291	1,372	1,436	1,631	1,406	1,262	1,741	1,982	2,141
LTD/E Ratio	0.98	1.28	1.20	1.46	1.33	1.80	2.01	1.37	1.36	1.25

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.9%	5.3%	7.5%	3.7%	6.5%	5.0%	5.5%	8.5%	7.6%	7.1%
Return on Equity	22.6%	17.9%	26.6%	12.9%	22.0%	17.6%	22.8%	33.5%	26.4%	23.2%
ROIC	10.3%	8.1%	11.9%	5.6%	9.2%	6.9%	7.9%	12.7%	11.2%	10.1%
Shares Out.	133	133	133	134	134	130	128	128	128	128
Revenue/Share	33.08	34.06	35.21	36.68	38.80	41.42	42.37	47.36	51.77	56.33
FCF/Share	1.39	1.82	2.62	1.92	2.01	1.16	3.09	4.72	(0.34)	2.50

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