RPM Intl. Inc. (RPM)

Updated July 30th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$15.4 B
Fair Value Price:	$121	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	07/17/24
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	07/31/24
Dividend Yield:	1.5%	**5 Year Price Target**	$169	**Years Of Dividend Growth:**	50
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 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 July 25th, 2024, RPM announced earnings results for the fourth quarter and fiscal year 2024 for the period ending May 31st, 2024. For the quarter, revenue fell 1% to $2 billion and missed estimates by $10 million. Adjusted earnings-per-share of $1.56 compared to $1.36 in the prior year and was in-line with expectations. For the fiscal year, revenue grew 1.1% to a record $7.34 billion. Adjusted earnings-per-share improved 15% to a record $4.94, which had been our forecast.

In addition, RPM produced record cash flow, net income, and adjusted EBIT for the fiscal year. Companywide, organic sales increased 0.4% for the quarter. Revenue for the Consumer Group was lower by 1.9% to $702.5 million. Organic sales were down 1.2% due to weaker DIY volume and product mix. The Construction Products Group grew 6.6% to a fourth quarter record $762 million. This segment had organic growth of 6.6% due to strength in turnkey roofing systems, wall systems, and products serving infrastructure-related projects. Performance Coatings Group revenue declined 6.7% to $365.6 million. Organic sales declined by 4.0% due to difficult comparable periods and the timing of project completions. Revenue for the Specialty Products Group decreased 8% to $178 million due to challenging comparable periods. OEM end markets were soft during the period. Organic sales were lower by 8.1%.

RPM expect sales to be up a low single-digit percentage for fiscal year 2025. We forecast earnings-per-share of $5.49 for the fiscal year, which would be an 11.1% increase from fiscal year 2024. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.38	$2.63	$2.47	$2.73	$2.66	$3.07	$4.16	$3.66	$4.30	$4.94	***$5.49***	***$7.70***
DPS	$1.02	$1.09	$1.18	$1.31	$1.40	$1.44	$1.52	$1.58	$1.66	$1.84	***$1.84***	***$2.58***
Shares[1]	133	133	134	134	130	128	128	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 2015 to fiscal year 2024, earnings per share grew at a rate of 7.6% per year. That growth rate has accelerated to 10% over just the last five years. Factoring in the strength of recent results with the likely declines in earnings during the next recession, we reaffirm our prior forecast of annual earnings growth of 7% through fiscal year 2030. Organic revenue growth is expected to be the primary contributor.

[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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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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.8	17.3	21.2	15.9	20.1	24.4	22.5	24.1	18.5	22.7	***21.9***	***22.0***
Avg. Yld.	2.2%	2.4%	2.2%	2.6%	2.6%	1.9%	1.6%	1.8%	2.1%	1.6%	***1.5%***	***1.5%***

Shares of RPM have increased $11, or 10.1%, since our April 30th, 2024 update. Using expected earnings-per-share for fiscal year 2025, the price-to-earnings ratio is 21.9. We have raised our target P/E to 22 form 20 as this is more in-line with the medium-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 2030, then valuation would be a 0.1% headwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	43%	41%	48%	47%	53%	47%	37%	43%	39%	36%	***34%***	***34%***

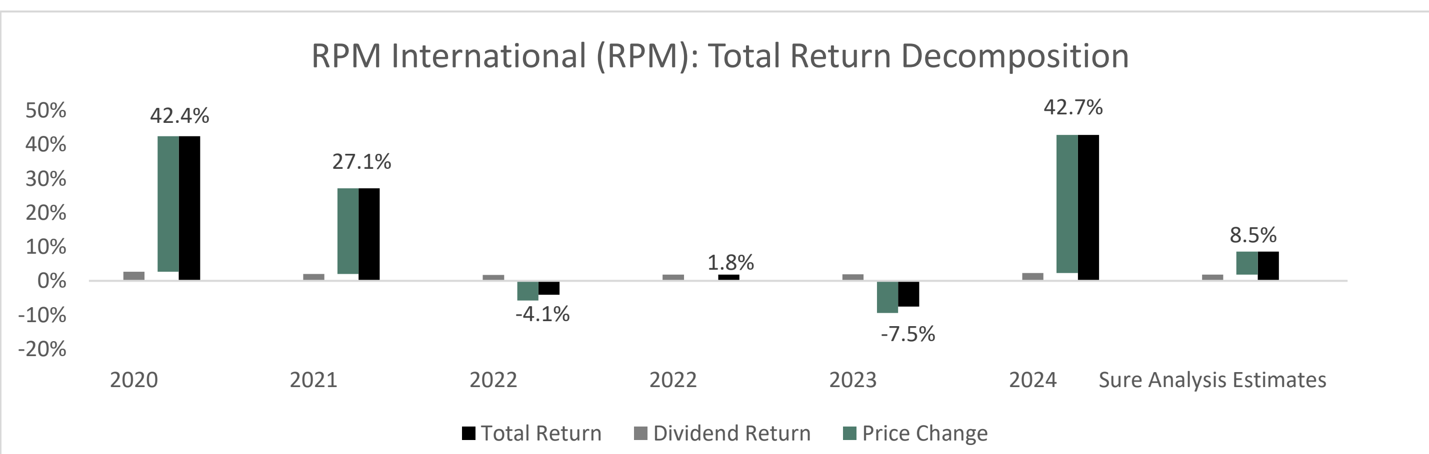
RPM is not recession proof, as shown by the company's decline in earnings, and in the time that it took for earnings growth to return to the company following the last recession. The company also has a high level of debt that could make acquisitions or high dividend growth difficult if earnings were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

After fourth quarter results, RPM International is now expected to return 8.5% per year through fiscal year 2029, up slightly from our previous estimate of 6.6%. Our forecast stems from a 7% earnings growth rate, a starting yield of 1.5%, and a small contribution from multiple expansion. RPM International is lapping some very difficult comparable periods and is still producing solid results. The company operates in a very cyclical sector, making its dividend growth history even more impressive. We have raised our five-year price target $30 to $169 to reflect estimates for the fiscal year and a higher valuation target, 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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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	4,595	4,814	4,958	5,322	5,565	5,507	6,106	6,708	7,256	7,335
Gross Profit	1,941	2,087	2,166	2,017	2,088	2,093	2,405	2,433	2,748	3,015
Gross Margin	42.3%	43.4%	43.7%	37.9%	37.5%	38.0%	39.4%	36.3%	37.9%	41.1%
SG&A Exp.	1,423	1,521	1,644	1,498	1,596	1,549	1,664	1,788	1,956	2,125
D&A Exp.	99	111	117	128	142	157	147	153	155	171
Operating Profit	518	566	522	518	492	544	741	645	792	891
Operating Margin	11.3%	11.8%	10.5%	9.7%	8.8%	9.9%	12.1%	9.6%	10.9%	12.1%
Net Profit	239	355	182	338	267	304	503	491	479	588
Net Margin	5.2%	7.4%	3.7%	6.3%	4.8%	5.5%	8.2%	7.3%	6.6%	8.0%
Free Cash Flow	245	358	260	276	156	402	609	(44)	323	908
Income Tax	225	126	60	78	72	103	165	114	170	198

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	4,694	4,765	5,090	5,272	5,441	5,631	6,253	6,708	6,782	6,587
Cash & Equivalents	175	265	350	244	223	233	247	202	216	237
Accounts Receivable	956	963	995	1,114	1,232	1,138	1,281	1,433	1,503	1,419
Inventories	674	686	788	834	842	810	938	1,213	1,135	956
Goodwill & Int. Ass.	1,820	1,795	1,717	1,776	1,847	1,834	1,974	1,930	1,849	1,822
Total Liabilities	3,401	3,390	3,652	3,638	4,033	4,366	4,510	4,724	4,639	4,074
Accounts Payable	512	501	535	592	557	535	717	800	681	650
Long-Term Debt	1,656	1,640	2,090	2,174	2,526	2,539	2,380	2,687	2,684	2,127
Shareholder's Equity	1,291	1,372	1,436	1,631	1,406	1,262	1,741	1,982	2,141	2,511
LTD/E Ratio	1.28	1.20	1.46	1.33	1.80	2.01	1.37	1.36	1.25	0.85

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.3%	7.5%	3.7%	6.5%	5.0%	5.5%	8.5%	7.6%	7.1%	8.8%
Return on Equity	17.9%	26.6%	12.9%	22.0%	17.6%	22.8%	33.5%	26.4%	23.2%	25.3%
ROIC	8.1%	11.9%	5.6%	9.2%	6.9%	7.9%	12.7%	11.2%	10.1%	12.4%
Shares Out.	133	133	134	134	130	128	128	128	128	128
Revenue/Share	34.06	35.21	36.68	38.80	41.42	42.37	47.36	51.77	56.33	57.16
FCF/Share	1.82	2.62	1.92	2.01	1.16	3.09	4.72	(0.34)	2.50	7.08

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