

RPM International Inc. (RPM)

\$69.30 (As of 05/11/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: C

Summary

Shares of RPM have outperformed the industry in the past six months. The solid price performance is likely to persist, given better-than-expected third-quarter fiscal 2020 results. Earnings grew by a whopping 76.9% on 2.9% revenue growth, driven by the 2020 MAP to Growth initiative, strong pricing, and moderating raw material inflation. Adjusted EBIT margin also grew more than 100 basis points year over year. However, coronavirus-induced global shutdowns are likely to impact RPM's business. It estimates fiscal fourth-quarter revenues to be down 10-15% year over year due to COVID-19 outbreak. Also, foreign currency headwinds added to the woes. Estimates for fiscal 2020 have moved south in the past 30 days, reflecting analysts' concern over the company's earnings prospects.

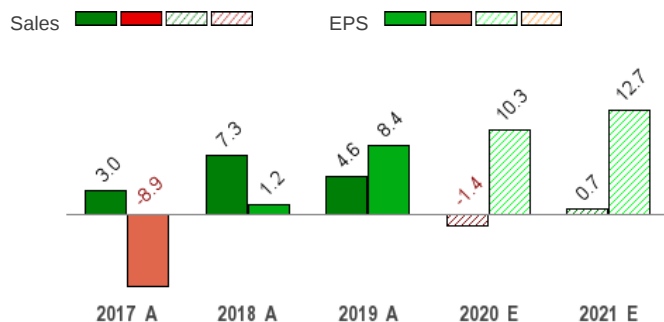
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.47 - \$42.85
20 Day Average Volume (sh)	689,996
Market Cap	\$9.0 B
YTD Price Change	-9.7%
Beta	1.11
Dividend / Div Yld	\$1.44 / 2.1%
Industry	Paints and Related Products
Zacks Industry Rank	Top 32% (82 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.0%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-6.1%
Expected Report Date	07/27/2020
Earnings ESP	-8.7%
P/E TTM	21.8
P/E F1	23.2
PEG F1	2.6
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,359 E	1,371 E	1,227 E	1,690 E	5,522 E
2020	1,473 A	1,401 A	1,174 A		5,486 E
2019	1,460 A	1,363 A	1,141 A	1,601 A	5,565 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.85 E	\$0.72 E	\$0.32 E	\$1.58 E	\$3.37 E
2020	\$0.95 A	\$0.76 A	\$0.23 A	\$1.07 E	\$2.99 E
2019	\$0.52 A	\$0.52 A	\$0.14 A	\$1.24 A	\$2.71 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/11/2020. The reports text is as of 05/12/2020.

Overview

RPM International Inc., through its subsidiaries, manufacture and market high-performance coatings, sealants and specialty chemicals, primarily for maintenance and improvement applications.

It operates 156 manufacturing facilities in 26 countries. Its products are sold in nearly 170 countries and territories at the end of third-quarter fiscal 2020.

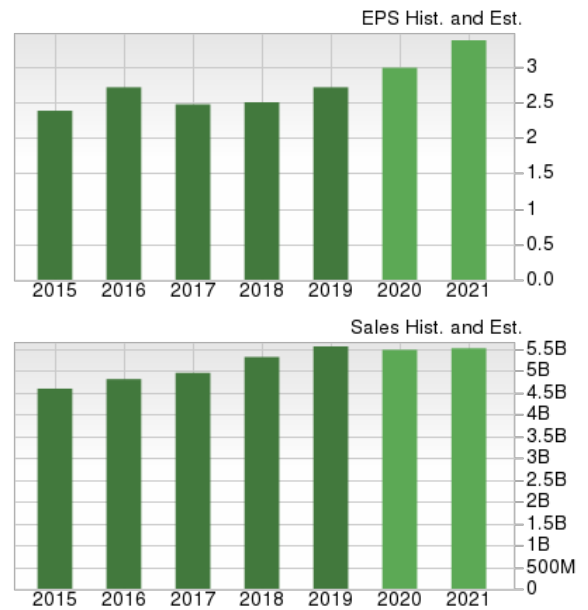
RPM realigned the existing reporting structure into four reportable segments — Construction Products Group, Performance Coatings Group, Consumer Group and Specialty Products Group — to provide greater visibility into the business.

Construction Products Group ("CPG") (contributing 31.7% to net sales in third-quarter fiscal 2020) comprises Tremco, Tremco illbruck, Euclid Chemical, Viapol, Vandex and Flowcrete businesses. Products in the segment are sold throughout North America and account for the majority of international sales. Products and services within this segment include construction sealants and adhesives; coatings and chemicals; roofing systems; concrete admixture and repair products; building envelope solutions; insulated cladding; flooring systems; as well as weatherproofing solutions.

Performance Coatings Group ("PCG") (21.7%) include Stonhard, Carboline, USL and Fibergrate businesses. Consumer brands comprise Rust-Oleum and DAP. PCG offers high-performance flooring solutions, corrosion control and fireproofing coatings, infrastructure repair systems, fiberglass reinforced plastic gratings, as well as drainage systems.

Consumer Group's (34%) products include specialty, hobby, professional paints, nail enamels, caulks, adhesives, silicone sealants and wood stains. The segment manufactures professional use and do-it-yourself ("DIY") products. This segment comprises three operating units — Rust-Oleum Group, DAP Group and SPG-Consumer Group.

Specialty Products Group (12.6%) offers industrial cleaners, restoration services equipment, colorants, nail enamels, exterior finishes, edible coatings and specialty glazes for pharmaceutical and food industries, and other specialty original equipment manufacturer ("OEM") coatings throughout North America and a few international locations, primarily in Europe.



Reasons To Buy:

▲ **Acquisitions Driving Growth:** Acquisitions have been an important part of RPM's growth strategy. The company made five acquisitions during fiscal 2019 and seven in fiscal 2018. Acquisitions added 1.3% to net sales in the first nine months of fiscal 2020 and 1.4% in fiscal 2019. On Dec 18, 2019, RPM announced that its Mantrose-Hauser business unit has acquired Elgin, IL-based manufacturer of dry stabilizer and emulsifier blends for the food industry — Profile Food Ingredients, LLC. The buyout creates significant opportunities to leverage the combined sales forces of the entities, expand sales of specialty ingredients to the food industry and broaden RPM's reach in international markets.

Acquisitions and 2020
MAP to Growth initiatives
bode well for the company

Again on Jun 12, 2019, its Tremco Commercial Sealants & Waterproofing unit acquired two Hudson, NH-based businesses, namely Schul International Co., LLC and Willseal LLC. Also, on Sep 10, 2018, the company acquired Nudura, a leading manufacturer and distributor of insulated concrete forms ("ICF") in North America. The company's CPG unit benefits from the acquisition, as Nudura complements and expands its product offerings, as well as leverages manufacturing efficiencies for its NewBrick product. Notably, the recent acquisitions added 2.4% to the segment's net sales in the first nine months of fiscal 2020.

▲ **Cost-Saving Initiatives Strong:** The company is well on track to reduce costs by closing plants, merging IT system, centralizing more of its back-office functions and rationalizing its manufacturing footprint. Notably, in fiscal 2018, the company took multi-year restructuring plan, the 2020 Margin Acceleration Plan ("2020 MAP to Growth") to maintain a balance between its segments' performance as well as to drive growth. The initiative has started paying off, as is evident from earnings and margin growth in the first nine months of fiscal 2020. In the first nine months of fiscal 2020, its earnings increased 30.2% and adjusted EBIT margin improved more than 180 basis points (bps) year over year.

RPM's 2020 MAP to Growth optimizes its manufacturing facilities, and is expected to provide more efficient plant and distribution facilities. In fact, during the fiscal third quarter and early in the fourth quarter, RPM announced the closure of two additional plants, which brings the total to 20 out of the 31 plants that were originally targeted for closure at the beginning of the MAP to Growth program. The company realized 2020 MAP to Growth savings of \$21 million in the fiscal third quarter, of which \$5 million was contributed from manufacturing, \$12 million from procurement and \$4 million from G&A.

With the COVID-19 pandemic slowing down economic and business activities, RPM has been extending out the timeline from its original MAP to Growth goals in terms of their ultimate achievement.

▲ **Construction Products Group, Major Growth Driver:** With nearly 32% of total sales coming from the CPG (earlier known as the Industrial segment), the unit acts as a key catalyst behind the company's overall growth. The segment has been reporting impressive numbers over the last few quarters.

In the first nine months of fiscal 2020, the segment's sales grew 5% from the comparable year-ago period on the back of strong performance across businesses. Organic sales increased 4.2% year over year, driven by increase in selling prices. Acquisitions added 2.4% to its sales, partially offset by 1.6% foreign currency impact. Organic sales growth was driven by volume gains in the roofing and market improvement in Brazilian businesses, partially offset by weakness in Europe. Notably, the segment's adjusted EBIT increased 36.5% year over year.

Going forward, acquisitions, cost-saving initiatives and 2020 MAP to Growth plans are expected to drive growth.

Reasons To Sell:

- ▼ **Coronavirus to Weigh on RPM's Business:** Coronavirus-induced global shutdowns are likely to impact RPM's business. COVID-19 is disrupting the company's ability to implement new initiatives under the current restructuring program. Due to this pandemic, RPM extended the timeline for achieving MAP to Growth goals. As markets stabilize and RPM gains more clarity into business conditions, it will communicate its new MAP to Growth timeline.

The company estimates fiscal fourth-quarter revenues to be down 10-15% year over year due to COVID-19 outbreak. Meanwhile, it suspended its fourth-quarter and fiscal 2020 guidance.

Coronavirus-induced business slowdown, foreign exchange rate fluctuation and weather-related woes mar prospects.

- ▼ **Foreign Currency Headwinds:** RPM's business is exposed to foreign exchange rate fluctuation risks due to its operations in Europe and other parts of the world. In fiscal 2019, the company's overall net sales were affected due to the negative impact of foreign currency translation.

Again, in the first nine months of fiscal 2020, foreign currency headwinds negatively impacted sales growth by 1.2% from the corresponding year-ago period. Notably, unfavorable currency fluctuations impacted the top line across its segments.

- ▼ **Inclement Weather:** Adverse weather conditions have affected sales of paint, coatings, roofing, construction products and related products. Extreme cold and rainy weather, especially during the general construction and exterior painting season, could have an adverse effect on sales of such products. Historically, the company's fiscal third quarter (December through February) faces weaker sales and net income compared with other quarters.

Higher Costs & Expenses: RPM's business has been witnessing higher costs and expenses related to restructuring, acquisitions, labor, distribution and freight. Also, acquisitions-related expenses are raising a concern. RPM incurred \$77.5 million of restructuring and other charges related to the company's 2020 MAP to Growth, and acquisition-related expenses during the first nine months of fiscal 2020.

Last Earnings Report

RPM's Q3 Earnings Beat, 2020 Guidance Scrapped

RPM International Inc. reported impressive earnings in third-quarter fiscal 2020 (ended Feb 29, 2020). Its bottom line surpassed the Zacks Consensus Estimate and improved significantly from the year-ago period, driven by the 2020 MAP to Growth initiative, strong pricing and moderate raw material inflation.

Earnings & Revenues Discussion

The company reported adjusted earnings of 23 cents per share, beating the consensus mark of 20 cents by 15%. The reported figure also increased a whopping 76.9% from the year-ago figure of 13 cents per share.

Net sales in the quarter totaled \$1.17 billion, which marginally missed the consensus mark of \$1.18 billion but increased 2.9% from the prior-year level of \$1.14 billion. The improvement is attributed to 3% organic sales growth and 0.7% contribution from acquisitions. However, foreign currency headwinds resulted in sales decline of 0.8% from the year-ago quarter.

During the quarter, adjusted EBIT rose 30.4% year over year to \$60.5 million.

Segment Details

Construction Products Group (contributing 31.7% to net sales): Sales in the segment increased 4.7% from a year ago to \$372.1 million, backed by 5.1% organic growth and 1% contribution from acquisitions, partially offset by a 1.4% foreign currency impact. Strong sales growth from market share gains and the introduction of innovative new products aided the segment to generate improved results. Notably, it witnessed strong growth in roofing, belowgrade waterproofing and concrete admixtures businesses. Adjusted EBIT came in at \$6 million versus the year-ago loss of \$0.3 million.

Performance Coatings Group (21.8%): Segment sales inched up 1% from a year ago to \$255.7 million, owing to 1.6% organic sales growth and 0.2% contribution from acquisitions. However, the metric was negatively impacted by 0.8% due to unfavorable foreign currency translation. Strong continental European operations — driven by a new global management structure, and protective and marine coatings business unit — positively impacted the results. However, government budget constraints slowed down highway and bridge maintenance businesses, particularly in the U.K. Adjusted EBIT increased 33.2% on a year-over-year basis to \$24.2 million. Its focus on higher-margin product and service offerings and the MAP to Growth business initiative drove adjusted EBIT margin by 230 basis points from the prior year.

Consumer Group (34%): Sales of \$378.3 million in the segment increased 5.4% from the prior-year period, backed by 6% organic growth. However, foreign currency translation impacted sales by 0.6%. Market share gains and unseasonably warm winter weather in North America supported the growth. Notably, the fastest growth was achieved in caulks, sealants, and patch and repair product lines. The segment's adjusted EBIT totaled \$32.1 million, up 19.2% from the prior year.

Specialty Products Group (12.5%): The segment's sales totaled \$147.5 million, which declined 4.1% on a year-over-year basis, owing to 7.1% fall in organic sales and 0.3% foreign currency impact. Contribution of 3.3% from acquisitions partially offset the negatives. Comparatively lower demand for water damage restoration products overshadowed the positives from the wood coatings business. Sales were down year over year in OEM fluorescent pigments, nail polish and edible coatings businesses. Adjusted EBIT was also down 13.4% year over year.

Balance Sheet

As of Feb 29, 2020, RPM had cash and cash equivalents of \$212.2 million compared with \$195.2 million a year ago and \$223.2 million at fiscal 2019-end. Long-term debt (excluding current maturities) at the end of the fiscal third quarter was \$2.49 billion compared with \$2.07 billion in the comparable prior-year period and \$1.97 billion at fiscal 2019-end. At the end of fiscal third quarter, cash provided by operations was \$381.2 million compared with \$145.5 million in the comparable year-ago period.

Guidance

Coronavirus-induced global shutdowns are likely to impact RPM's business. Notably, the duration or scope of the pandemic is unpredictable. "COVID-19 is also disrupting our ability to implement new initiatives under our restructuring program. While there are some activities that can be carried out virtually, many require a physical presence that is being hindered by limits on travel and access to facilities. Because of this, we will be extending the timeline for achieving our MAP to Growth goals. As markets stabilize and we gain more clarity into business conditions, we will communicate our new MAP to Growth timeline," said RPM chairman and CEO Frank C. Sullivan. The company estimates fourth-quarter revenues to be down 10-15% year over year due to COVID-19 impact. Meanwhile, it suspended its fourth-quarter and fiscal 2020 guidance. Nonetheless, the company remains confident about the diversified business, as many of its products are deemed essential for construction, maintenance and repair projects. Also, a large number of its North American facilities — especially those in construction, and DIY home and hardware retail — are considered essential and are still operational. Notably, the company is also experiencing strong demand for professional and consumer cleaning and disinfectant brands.

Quarter Ending **02/2020**

Report Date	Apr 08, 2020
Sales Surprise	-0.47%
EPS Surprise	15.00%
Quarterly EPS	0.23
Annual EPS (TTM)	3.18

Valuation

RPM shares are down 9.7% in the year-to-date period but up 22.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 5.8% and 21% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 28.4% but the sector is down 6.5%.

The S&P 500 index is down 9.1% in the year-to-date period but up 3.9% in the past year.

The stock is currently trading at 20.67X forward 12-month earnings, which compares to 25.54X for the Zacks sub-industry, 16.69X for the Zacks sector and 21.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.83X and as low as 12.04X, with a 5-year median of 18.08X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 21.79X forward 12-month earnings.

The table below shows summary valuation data for RPM.

Valuation Multiples - RPM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.67	25.54	16.69	21.15
	5-Year High	22.83	25.54	17.94	21.15
	5-Year Low	12.04	17.51	10.76	15.19
	5-Year Median	18.08	20.73	15.88	17.45
EV/EBITDA TTM	Current	14.48	19.08	15.44	10.63
	5-Year High	16.71	25.43	21.48	12.86
	5-Year Low	8.48	13.14	12.5	8.28
	5-Year Median	12.35	18.63	17.88	10.77
P/S F12M	Current	1.63	2.96	1.62	3.3
	5-Year High	1.72	2.96	2.12	3.44
	5-Year Low	1.01	1.7	1.17	2.54
	5-Year Median	1.35	2.21	1.6	3.02

As of 05/11/2020

Industry Analysis Zacks Industry Rank: Top 32% (82 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc (ASH)	Neutral	3
Ferro Corporation (FOE)	Neutral	3
H B Fuller Company (FUL)	Neutral	4
Kraton Corporation (KRA)	Neutral	2
Ingevity Corporation (NGVT)	Neutral	4
PPG Industries Inc (PPG)	Neutral	4
The SherwinWilliams Company (SHW)	Neutral	3
Celanese Corporation (CE)	Underperform	4

Industry Comparison Industry: Paints And Related Products				Industry Peers		
	RPM	X Industry	S&P 500	ASH	FUL	NGVT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	A	-	-	B	B	C
Market Cap	8.99 B	8.99 B	19.55 B	3.71 B	1.84 B	2.10 B
# of Analysts	7	6.5	14	4	6	4
Dividend Yield	2.08%	0.45%	2.13%	1.78%	1.81%	0.00%
Value Score	C	-	-	B	C	D
Cash/Price	0.02	0.02	0.06	0.09	0.04	0.15
EV/EBITDA	19.58	19.58	11.85	10.67	8.79	8.97
PEG Ratio	2.58	2.36	2.60	2.65	2.08	NA
Price/Book (P/B)	6.64	6.64	2.71	1.25	1.51	4.18
Price/Cash Flow (P/CF)	17.93	17.93	10.71	8.13	6.19	7.26
P/E (F1)	23.51	28.12	19.55	28.35	15.16	13.63
Price/Sales (P/S)	1.59	2.82	2.01	1.55	0.64	1.61
Earnings Yield	4.31%	3.56%	4.85%	3.52%	6.59%	7.33%
Debt/Equity	2.02	2.02	0.76	0.56	1.56	2.99
Cash Flow (\$/share)	3.86	5.86	7.01	7.58	5.78	7.01
Growth Score	A	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	3.28%	7.54%	10.82%	-23.20%	7.97%	38.96%
Proj. EPS Growth (F1/F0)	10.17%	-6.33%	-9.99%	-13.00%	-20.16%	-24.24%
Curr. Cash Flow Growth	-3.31%	-3.31%	5.83%	-10.53%	-2.06%	25.74%
Hist. Cash Flow Growth (3-5 yrs)	5.82%	8.21%	8.52%	-11.65%	9.17%	12.19%
Current Ratio	2.41	2.41	1.27	1.69	1.89	3.49
Debt/Capital	66.91%	66.91%	44.41%	35.84%	60.92%	74.96%
Net Margin	5.81%	8.98%	10.59%	-3.05%	4.48%	15.82%
Return on Equity	30.07%	30.07%	16.36%	4.63%	12.87%	45.48%
Sales/Assets	1.02	0.87	0.55	0.32	0.71	0.60
Proj. Sales Growth (F1/F0)	-1.41%	-2.89%	-2.41%	-8.29%	-7.15%	-12.23%
Momentum Score	C	-	-	B	B	D
Daily Price Chg	0.68%	0.00%	-0.95%	-0.98%	-1.51%	5.06%
1 Week Price Chg	7.41%	0.00%	3.23%	5.83%	2.25%	1.17%
4 Week Price Chg	7.04%	0.00%	4.49%	9.54%	14.84%	23.64%
12 Week Price Chg	-8.14%	-7.12%	-20.09%	-23.65%	-25.82%	-23.86%
52 Week Price Chg	22.59%	21.55%	-7.00%	-16.75%	-18.79%	-45.06%
20 Day Average Volume	689,996	23,925	2,530,553	556,140	606,824	612,303
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.92%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.07%	-12.70%	-6.07%	-16.54%	-8.99%	-24.51%
(F1) EPS Est 12 week change	-11.18%	-12.82%	-15.69%	-23.31%	-27.47%	-29.69%
(Q1) EPS Est Mthly Chg	-18.42%	-20.98%	-12.45%	-26.83%	-13.98%	-50.44%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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