

## RPM International Inc. (RPM)

**\$75.35** (As of 02/13/20)

Price Target (6-12 Months): **\$79.00**

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: B

### Summary

Shares of RPM have outperformed its industry in the past three months. The solid price performance is likely to persist, given better-than-expected second-quarter fiscal 2020 results. Both the top and bottom lines improved on a year-over-year basis, driven by the 2020 MAP to Growth initiative, strong pricing, and moderating raw material inflation. Adjusted EBIT margin also grew 180 basis points year over year. However, foreign currency headwinds and extremely wet weather conditions are likely to impact fiscal third-quarter results. In fact, RPM expects fiscal 2020 revenue growth to be relatively modest, mainly due to the above-mentioned headwinds. Estimates for fiscal 2020 have moved south in the past 60 days, reflecting analysts' concern over the company's earnings prospects.

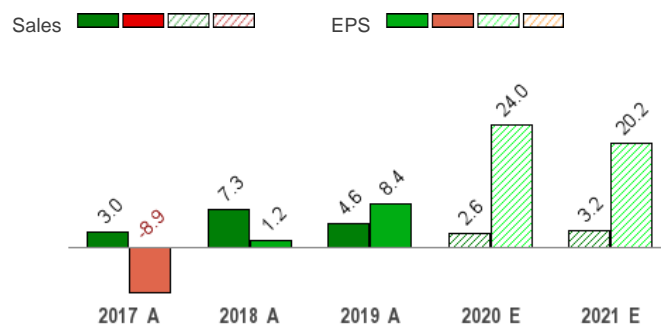
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$77.47 - \$53.40
20 Day Average Volume (sh)	509,835
Market Cap	\$9.8 B
YTD Price Change	-1.8%
Beta	1.27
Dividend / Div Yld	\$1.44 / 1.9%
Industry	<a href="#">Paints and Related Products</a>
Zacks Industry Rank	Bottom 14% (220 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.1%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	04/02/2020
Earnings ESP	-0.8%
P/E TTM	24.4
P/E F1	22.4
PEG F1	2.5
P/S TTM	1.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,555 E	1,447 E	1,215 E	1,733 E	5,891 E
2020	1,473 A	1,401 A	1,173 E	1,662 E	5,708 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	\$1.15 E	\$0.87 E	\$0.31 E	\$1.62 E	\$4.04 E
2020	\$0.95 A	\$0.76 A	\$0.20 E	\$1.46 E	\$3.36 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 02/13/2020. The reports text is as of 02/14/2020.

## 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 27 countries. Its products are sold in nearly 171 countries and territories at the end of fiscal 2019.

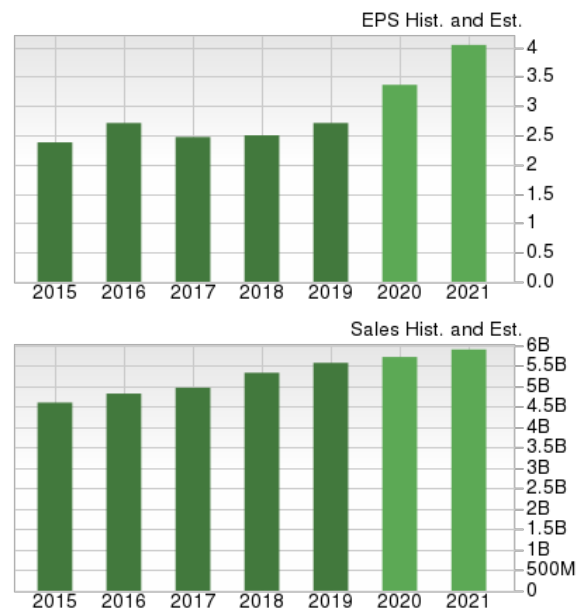
RPM realigned the existing reporting structure into four reportable segments — Construction Products Group, Performance Coatings Group, Consumer Group and Specialty Products Group — to provide greater visibility into the business.

**Construction Products Group** (“CPG”) (contributing 35.6% to net sales) 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”) (20.9%) include Stonhard, Carboline, USL and Fibergate 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** (32.2%) 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** (11.3%) 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.



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## 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 1.5% to net sales in the first half 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, both the acquisitions added 2.9% to the segment's net sales in first half 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 first half of fiscal 2020 earnings and margin growth. In the first six months of fiscal 2020, its earnings increased 27.6% and adjusted EBIT margin improved 210 basis points (bps) year over year.

Moreover, the company remains focused on its previously set target of 540-basis-point improvement in the operating margin. All activities under the company's 2020 MAP to Growth plan are anticipated to be completed by the end of calendar year 2020.

In fact, during the last earnings discussion, RPM announced that it has closed three plants in the fiscal second quarter and an additional plant in the fiscal third quarter. Out of 31 plant consolidations, 19 have been completed so far. The company realized 2020 MAP to Growth savings of \$31 million, of which \$9 million was contributed from manufacturing, \$10 million from procurement and \$12 million from G&A.

For fiscal 2020, the company expects double-digit adjusted EBIT growth of 20-24%. Also, its earnings are expected in the range of \$3.30-\$3.42 per share, significantly higher than the fiscal 2019 level of \$2.71.

▲ **Construction Products Group, Major Growth Driver:** With nearly 36% 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 six months of fiscal 2020, the segment's sales grew 5.2% from the comparable year-ago period on the back of strong performance across businesses. Organic sales increased 3.9% year over year, driven by increases in selling prices. Acquisitions added 2.9% to its sales, partially offset by 1.6% foreign currency impact. Sales growth was the highest in the roofing and Brazilian businesses, partially offset by weakness in Europe. Notably, the segment's adjusted EBIT increased 30.8% year over year.

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

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## Reasons To Sell:

▼ **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.

Foreign exchange rate fluctuation and weather-related woes mar growth prospects.

Again, in the first six months of fiscal 2020, foreign currency headwinds negatively impacted sales growth by 1.3% 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 labor, distribution and freight. Also, acquisitions related expenses are raising concern. During the fiscal second quarter, SG&A expense increased to 28.8% of net sales from 28.3% reported a year ago.

In the PCG segment, SG&A expenses grew due to transactional foreign exchange, and increases in bonus and commission expense compared to the prior year. Also, its Consumer segment witnessed commissions, distribution and interplant freight expenses as a result of higher volume.

In the Specialty segment, expense associated with the ERP consolidation plan associated with its 2020 MAP to Growth, weighed on the margins. Although its businesses have been pursuing price increases aggressively, and carrying out 2020 MAP growth initiatives, we believe these headwinds may pose risks to RPM's business.

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## Last Earnings Report

### RPM Q2 Earnings and Revenues Beat Estimates, Margins High

RPM International Inc. reported better-than-expected results in second-quarter fiscal 2020. Both the top and bottom lines surpassed the Zacks Consensus Estimate, and improved on a year-over-year basis, driven by the 2020 MAP to Growth initiative, strong pricing and moderating raw material inflation.

#### Delving Deeper

The company reported adjusted earnings of 76 cents per share, beating the consensus mark of 73 cents by 4.1%. The reported figure also increased a whopping 31% from a year-ago figure of 58 cents, backed by its 2020 MAP to Growth operating improvement plan and strong top-line growth.

Net sales in the quarter totaled \$1.401 billion, beating the consensus mark of \$1.398 billion by 0.3%. Also, the said figure increased 2.8% from the prior-year period. The improvement is attributed to 3.5% organic sales growth and 0.6% contribution from acquisitions. However, foreign currency headwinds resulted in sales decline of 1.3% from the year-ago quarter.

During the quarter, adjusted EBIT rose 22% year over year to \$153.7 million. Adjusted EBIT margin also increased 180 bps year over year.

#### Segment Details

**Construction Products Group:** Sales in the segment increased 6.9% from a year ago to \$499.5 million, backed by 7.4% organic growth and 1.2% contribution from acquisitions, partially offset by a 1.7% foreign currency impact. Despite being hurt by tepid North American commercial construction market, the company's roofing and concrete admixture and repair products businesses improved. Notably, its recent buyouts of Nudura and Schul are impressive. Adjusted EBIT rose 43.3% from the year-ago period to \$61.9 million.

**Performance Coatings Group:** Segment sales improved 0.3% from a year ago to \$292.7 million, owing to 1.7% organic sales growth and 0.1% contribution from acquisitions. However, the metric was negatively impacted by 1.5% due to unfavorable foreign currency translation. Strong corrosion control and fireproofing coatings businesses were partially offset by soft international markets and strategic actions to exit low-margin product lines. Notably, the segment's adjusted EBIT increased 12.9% on a year-over-year basis to \$37 million.

**Consumer Group:** Sales of \$450.9 million in the segment increased 6% from the prior-year period, backed by 0.6% contribution from acquisitions and 6.4% organic growth. However, foreign currency translation impacted sales by 1%. New sealant and adhesive products continued to drive growth, while European sales — a large portion of which are generated in the U.K. — remained soft due to Brexit uncertainty. The segment's adjusted EBIT totaled \$54.7 million, up 26.8% from the prior year.

**Specialty Products Group:** The segment's sales totaled \$158.2 million, which declined 11.1% on a year-over-year basis, owing to a 10.5% fall in organic sales and 0.6% foreign currency impact. The downside was mainly due to lower demand. Adjusted EBIT was also down 19.4% year over year. Meanwhile, the company is consolidating ERP systems to one platform and implementing other 2020 MAP to Growth operational improvements to reduce costs.

#### Balance Sheet

As of Nov 30, 2019, RPM had cash and cash equivalents of \$208.2 million compared with \$226.9 million a year ago and \$223.2 million at fiscal 2019-end.

Long-term debt (excluding current maturities) at the end of the fiscal second quarter was \$2.42 billion compared with \$1.92 billion in the comparable prior-year period and \$1.97 billion at fiscal 2019-end.

In the first six months of fiscal 2019, cash used in operations was \$300.2 million compared with \$148.3 million in the comparable year-ago period.

#### Guidance

For fiscal third-quarter 2020, the company expects to generate revenue growth of 2.5-4%. It also expects 25-30% adjusted EBIT growth and adjusted earnings in the high-teens to low-20-cent range.

Notably, the fiscal third quarter is seasonally weak, thanks to slowing down of painting and construction activity due to cold and snowy weather. The fiscal fourth quarter is comparatively stronger as work begins to accelerate on painting and construction projects.

Given results in the first half and expectations for the rest of fiscal 2020, the company has reaffirmed its full-year fiscal 2020 guidance. For fiscal 2020, it still anticipates revenues to be at the lower end of the previous guided range of 2.5-4%. Adjusted EBIT growth is expected in the 20-24% range. Notably, it projects adjusted earnings between \$3.30 and \$3.42 per share.

Quarter Ending **11/2019**

Report Date	<b>Jan 08, 2020</b>
Sales Surprise	<b>0.26%</b>
EPS Surprise	<b>4.11%</b>
Quarterly EPS	<b>0.76</b>
Annual EPS (TTM)	<b>3.09</b>

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## Valuation

RPM shares are up 1% in the year-to-date period and 32.6% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 1.7% but the Zacks Construction sector is up 5.8% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 33.6% and 28.4%, respectively.

The S&P 500 index is up 8.8% in the year-to-date period and 23.3% in the past year.

The stock is currently trading at 19.61X forward 12-month price to earnings, which compares to 23.71X for the Zacks sub-industry, 16.47X for the Zacks sector and 19.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.83X and as low as 13.98X, with a 5-year median of 18.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$79 price target reflects 20.57X 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	19.61	23.71	16.47	19.37
	5-Year High	22.83	23.71	18.86	19.37
	5-Year Low	13.98	17.51	10.71	15.18
	5-Year Median	18.12	20.81	16	17.47
P/S F12M	Current	1.68	2.95	1.98	3.57
	5-Year High	1.72	2.95	2.23	3.57
	5-Year Low	1.01	1.7	1.25	2.54
	5-Year Median	1.34	2.2	1.65	3
EV/EBITDA TTM	Current	16.07	20.05	19.21	11.36
	5-Year High	16.71	25.43	22.55	12.85
	5-Year Low	8.67	13.27	14.41	8.47
	5-Year Median	12.22	18.63	19.37	10.7

As of 02/13/2020

## Industry Analysis Zacks Industry Rank: Bottom 14% (220 out of 255)



## Top Peers

Ashland Global Holdings Inc. (ASH)	Neutral
Celanese Corporation (CE)	Neutral
PPG Industries, Inc. (PPG)	Neutral
The Sherwin-Williams Company (SHW)	Neutral
Ferro Corporation (FOE)	Underperform
H. B. Fuller Company (FUL)	Underperform
Kraton Corporation (KRA)	Underperform
Ingevity Corporation (NGVT)	Underperform

Industry Comparison Industry: Paints And Related Products				Industry Peers		
	RPM Neutral	X Industry	S&P 500	ASH Neutral	FUL Underperform	NGVT Underperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>F</b>	<b>A</b>	<b>B</b>
Market Cap	9.78 B	9.78 B	24.56 B	4.90 B	2.50 B	2.77 B
# of Analysts	7	6	13	5	6	4
Dividend Yield	1.91%	0.39%	1.78%	1.35%	1.31%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>B</b>	<b>B</b>
Cash/Price	0.02	0.02	0.04	0.03	0.05	0.03
EV/EBITDA	20.80	20.80	14.00	13.56	10.26	12.92
PEG Ratio	2.48	1.82	2.10	3.48	1.59	1.25
Price/Book (P/B)	6.96	6.96	3.31	1.35	2.03	6.26
Price/Cash Flow (P/CF)	19.50	19.50	13.68	10.72	8.42	11.94
P/E (F1)	22.57	23.69	19.23	28.67	14.95	12.48
Price/Sales (P/S)	1.74	2.99	2.69	2.00	0.86	2.14
Earnings Yield	4.46%	4.23%	5.20%	3.49%	6.69%	8.01%
Debt/Equity	1.90	1.90	0.71	0.45	1.55	3.01
Cash Flow (\$/share)	3.86	5.86	6.92	7.58	5.78	5.55
<b>Growth Score</b>	<b>A</b>	-	-	<b>F</b>	<b>A</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	3.15%	9.73%	10.85%	-22.28%	8.15%	41.35%
Proj. EPS Growth (F1/F0)	24.04%	20.52%	7.17%	13.44%	10.08%	7.76%
Curr. Cash Flow Growth	-3.31%	-3.46%	8.56%	-10.53%	-2.06%	55.09%
Hist. Cash Flow Growth (3-5 yrs)	5.82%	8.21%	8.36%	-11.65%	9.17%	9.07%
Current Ratio	2.40	2.40	1.23	1.95	1.91	2.39
Debt/Capital	65.51%	65.51%	42.91%	31.21%	60.82%	75.04%
Net Margin	5.89%	8.61%	11.81%	23.88%	4.52%	14.21%
Return on Equity	28.74%	28.74%	16.86%	4.50%	12.98%	51.91%
Sales/Assets	1.03	0.89	0.54	0.32	0.71	0.61
Proj. Sales Growth (F1/F0)	2.58%	2.80%	3.85%	-3.34%	0.51%	3.21%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>F</b>	<b>B</b>	<b>F</b>
Daily Price Chg	0.08%	0.00%	0.00%	0.40%	-0.12%	0.11%
1 Week Price Chg	5.51%	2.79%	2.47%	7.73%	2.53%	2.48%
4 Week Price Chg	0.88%	0.00%	0.56%	6.83%	-1.48%	-20.35%
12 Week Price Chg	4.77%	1.97%	6.96%	12.81%	-1.20%	-24.95%
52 Week Price Chg	30.84%	29.22%	16.68%	3.07%	0.52%	-38.54%
20 Day Average Volume	509,835	16,467	2,020,569	654,048	359,384	518,301
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.13%	-1.90%	-0.05%	-4.51%	-6.95%	-6.84%
(F1) EPS Est 12 week change	-0.17%	-2.01%	-0.17%	-20.41%	-7.99%	-8.13%
(Q1) EPS Est Mthly Chg	-2.42%	-0.11%	-0.24%	-9.86%	-25.83%	-15.00%

## 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	B
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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