

RPM International Inc. (RPM)

\$85.15 (As of 08/18/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/28/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

RPM's shares have outperformed the industry in the past three months. It has been benefiting from the 2020 MAP to Growth initiative and improved pricing. Notably, its fiscal fourth-quarter year-over-year MAP savings were near the mid-\$20 million range. However, coronavirus-induced global shutdowns largely impacted the overall results. Fourth-quarter fiscal 2020 earnings and sales declined 8.9% each from the prior year. Interruptions in manufacturing and distribution operations, as well as maintenance, repair and construction activities led to the downside. Also, currency headwinds added to the woes. For fiscal 2021, RPM expects net sales growth in low-single digits and adjusted EBIT improvement to be 20% year over year on the back of the Consumer Group's rally.

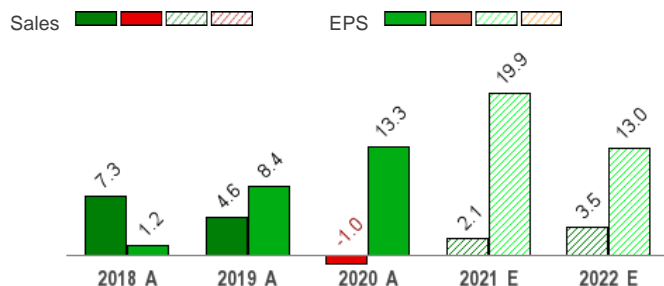
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$86.48 - \$42.85
20 Day Average Volume (sh)	600,340
Market Cap	\$11.1 B
YTD Price Change	10.9%
Beta	1.15
Dividend / Div Yld	\$1.44 / 1.7%
Industry	Paints and Related Products
Zacks Industry Rank	Top 22% (55 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.9%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	11.7%
Expected Report Date	10/07/2020
Earnings ESP	0.0%
P/E TTM	27.7
P/E F1	23.1
PEG F1	2.5
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,543 E	1,455 E	1,232 E	1,732 E	5,822 E
2021	1,489 E	1,394 E	1,188 E	1,610 E	5,625 E
2020	1,473 A	1,401 A	1,174 A	1,459 A	5,507 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.29 E	\$1.00 E	\$0.41 E	\$1.64 E	\$4.16 E
2021	\$1.21 E	\$0.88 E	\$0.33 E	\$1.34 E	\$3.68 E
2020	\$0.95 A	\$0.76 A	\$0.23 A	\$1.13 A	\$3.07 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 08/18/2020. The reports text is as of 08/19/2020.

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 124 manufacturing facilities in 26 countries. Its products were sold in nearly 165 countries and territories at the end of fiscal 2020.

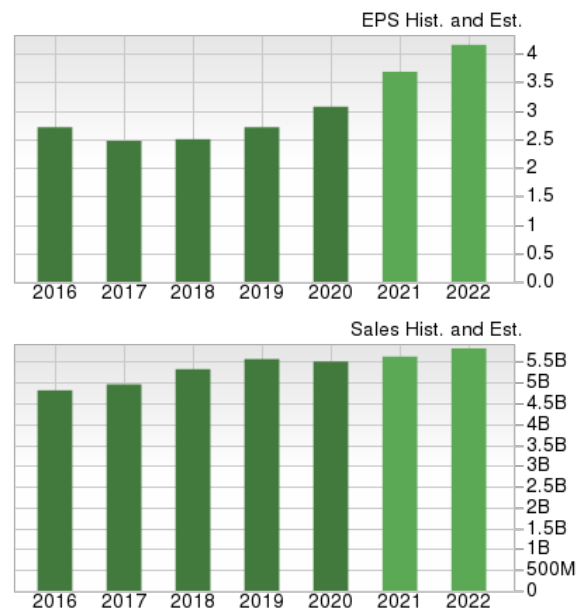
RPM realigned the existing reporting structure into four reportable segments — Construction Products Group, Performance Coatings Group, Consumer Group and Specialty Products Group — to provide greater visibility into the business.

Construction Products Group ("CPG") (contributing 34.2% to fiscal 2020 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") (19.6%) 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 (35.3%) 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 (10.9%) 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. On Dec 18, 2019, RPM announced that its Mantrose-Haueuser 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.

The company made three buyouts in fiscal 2020, five in fiscal 2019 and seven in fiscal 2018. Acquisitions added 1.1% to net sales in fiscal 2020 and 1.4% in fiscal 2019.

▲ **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 fiscal 2020. Its fiscal 2020 earnings increased 13.3% and adjusted EBIT margin improved 110 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 fourth quarter, RPM announced the closure of three additional plants, which brings the total to 22, 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. Fiscal fourth-quarter savings were near the mid-\$20 million range.

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 more than 34% 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.

The segment has been witnessing strength in its U.S. roofing business. Notably, the U.S. roofing business' sales and earnings grew strongly in fiscal 2020 despite restrictions to contain coronavirus spread. The segment's fiscal 2020 adjusted EBIT increased 15.3% year over year, backed by the operating improvement plan, which included the consolidation of two manufacturing facilities, and other cost-saving initiatives.

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

▲ **Enough Liquidity to Meet the Crisis:** RPM has a strong balance sheet position and enough liquidity to manage the ongoing crisis. The company ended the fiscal 2020 with cash and cash equivalents of \$233.4 million, slightly higher than \$223.2 million in fiscal 2019. Its current cash level is sufficient to meet the short-term obligation of \$80.9 million, which is way below \$552.4 million reported at fiscal 2019-end. Also, it has \$877 million available liquidity under the revolving credit facility on May 31, 2020.

As of May 31, 2020, RPM had a long-term debt — less current maturities (including operating lease liabilities) — of \$2.7 billion, higher than \$1.97 billion in fiscal 2019. Although the company's long-term debt is higher than the year-ago period, it has no significant debt maturity until November 2022.

Notably, the company generated a record cash flow of \$549.9 million during fiscal 2020, driven by good working capital management and margin improvement initiatives.

Reasons To Sell:

- ▼ **Coronavirus to Weigh on RPM's Business:** Coronavirus-induced global shutdowns are likely to impact RPM's business. The fiscal fourth-quarter results were mostly impacted by economic slowdown due to the pandemic, which interrupted manufacturing and distribution operations, as well as maintenance, repair and construction activities across the world.

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.

Meanwhile, it anticipates Construction Products Group and Performance Coatings Group sales to decline in the first three quarters of fiscal 2021. The Specialty Products Group is expected to face negative sales comparisons in the first two quarters of fiscal 2021. Also, the company is not providing any earnings guidance for fiscal 2021 due to uncertainty regarding the duration and severity of the pandemic.

- ▼ **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, foreign currency headwinds negatively impacted fiscal 2020 sales growth by 1.3% from the 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 \$121.3 million and \$126 million of restructuring and other charges related to the company's 2020 MAP to Growth, and acquisition-related expenses during fiscal 2020 and 2019, respectively.
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Coronavirus-induced business slowdown, foreign exchange rate fluctuation and weather-related woes mar prospects.

Last Earnings Report

RPM International Q4 Earnings Beat Estimates, Fall Y/Y

RPM International Inc. reported mixed fourth-quarter fiscal 2020 results, wherein earnings beat the Zacks Consensus Estimate, while revenues missed the same. However, both the metrics declined on a year-over-year basis.

Earnings & Revenue Discussion

The company reported adjusted earnings of \$1.13 per share, beating the consensus mark of \$1.01 by 11.9%. However, the reported figure declined 8.9% from the year-ago \$1.24 per share.

Quarterly net revenues of \$1,458.9 million missed the consensus mark of \$1,493 million by 2.3%. The top line also declined 8.9% year over year primarily because of temporary store closures owing to strict COVID-19 protocols. Also, interruptions in manufacturing and distribution operations as well as maintenance, repair and construction activities led to the downside. Adjusted EBIT fell 11.5% from the prior year to \$213.6 million.

Segment Details

Construction Products Group (contributing 32.4% to fiscal fourth-quarter net sales): During the fiscal fourth quarter, sales at the segment declined 15.6% year over year to \$472.4 million from \$559.6 million reported in the year-ago quarter. The decline was primarily due to a 13.9% fall in organic sales and 2.4% impact of unfavorable foreign currency. However, a contribution of 0.7% from acquisitions partially offset the negatives. Although the segment fared comparatively well in the United States, International business was hampered significantly due to currency headwinds. Adjusted EBIT came in at \$77.3 million, indicating a decline of 12.1% from \$87.9 million reported in the year-ago quarter.

Performance Coatings Group (16.1%): Segment sales fell 20.2% from a year ago to \$235.1 million, owing to a 18.3% drop in organic sales and 2% impact of unfavorable foreign currency. However, a contribution of 0.2% from acquisitions partially made up for the negatives. The downside can be primarily attributed to limited access to contractor facilities to contain the spread of coronavirus. Adjusted EBIT came in at \$23.7 million, indicating a decline of 31.9% from \$34.7 million reported in the year-ago quarter.

Consumer Group (42.2%): Sales of \$616.2 million at the segment increased 6.7% from the prior-year period, backed by 7.7% organic growth. However, foreign currency translation impacted sales unfavorably by 1%. Adjusted EBIT came in at \$104.5 million, indicating a decline of 4% from \$108.8 million reported in the year-ago quarter. Notably, temporary shutdown of stores due to stricter lockdown orders negatively impacted the segment in the international markets.

Specialty Products Group (9.3%): The segment's sales totaled \$135.2 million, which declined 20.3% on a year-over-year basis, owing to a 23.1% fall in organic sales and 0.8% foreign currency impact. However, contribution of 3.6% from acquisitions partially offset the negatives. The dismal performance is primarily attributed to the sluggish environment in the OEM markets owing to the pandemic. Notably, Adjusted EBIT came in at \$7.3 million, indicating a decline of 72% from \$26.2 million reported in the year-ago quarter.

Balance Sheet

As of May 31, 2020, RPM's cash and cash equivalents amounted to \$233.4 million compared with \$223.2 million as on May 31, 2019. Long-term debt (excluding current maturities) at the end of the fiscal fourth quarter totaled \$2.46 billion compared with \$1.97 billion recorded in the year-ago period. At the end of the fiscal fourth quarter, cash provided by operations totaled \$549.9 million compared with \$292.9 million in the year-ago period.

Fiscal 2020 Highlights

Net sales totaled \$5.51 billion, down 1% from fiscal 2019 due to a 0.8% decline in organic sales and 1.3% impact of foreign currency translation. Fiscal 2020 adjusted EPS increased 13.3% to \$3.07 from \$2.71 a year ago. EBIT for fiscal 2020 was reported at \$499 million, up 13% from \$441.5 million reported last year. Fiscal 2020 adjusted EBIT was up 9.3% year over year.

2021 Outlook

After easing of lockdown restrictions, for the first quarter of fiscal 2021, RPM anticipates net sales growth in low single digits, while adjusted EBIT growth is expected at approximately 20%.

For fiscal 2021, the company anticipates Construction Products Group and Performance Coatings Group sales decline for the first three quarters and then growth in the fourth quarter. The Specialty Products Group is expected to face negative sales comparisons in the first two quarters, while Consumer Group is likely to continue its sales momentum.

RPM chairman and CEO Frank C. Sullivan, stated, "We remain laser-focused on advancing our MAP to Growth program and managing our businesses to drive efficiency. We continue to identify numerous opportunities for self-improvement and remain on track to reach our targeted \$290 million in annualized savings over the course of the program."

However, due to the uncertainty regarding the duration and severity of the pandemic, the company is not providing any earnings guidance for fiscal 2021.

Quarter Ending	05/2020
Report Date	Jul 27, 2020
Sales Surprise	0.88%
EPS Surprise	11.88%
Quarterly EPS	1.13
Annual EPS (TTM)	3.07

Valuation

RPM shares are up 10.9% in the year-to-date period and 27.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 13.5% and 8.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 27.6% and 23.1%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and 17.1% in the past year.

The stock is currently trading at 22.49X forward 12-month earnings, which compares to 26.61X for the Zacks sub-industry, 18.71X for the Zacks sector and 22.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.14X and as low as 12.04X, with a 5-year median of 18.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$89 price target reflects 23.5X 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	22.49	26.61	18.71	22.91
	5-Year High	26.14	27.01	19.08	22.91
	5-Year Low	12.04	17.51	10.74	15.25
	5-Year Median	18.17	20.73	15.86	17.58
P/S F12M	Current	1.95	3.39	2.15	3.72
	5-Year High	1.95	3.39	2.15	3.72
	5-Year Low	1.01	1.7	1.18	2.53
	5-Year Median	1.36	2.23	1.63	3.05
EV/EBITDA TTM	Current	17.11	22.24	19.41	12.83
	5-Year High	17.11	25.43	21.26	12.85
	5-Year Low	8.48	13.14	12.43	8.25
	5-Year Median	12.55	19.02	17.93	10.91

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc. (ASH)	Outperform	1
The SherwinWilliams Company (SHW)	Outperform	2
Celanese Corporation (CE)	Neutral	3
Ferro Corporation (FOE)	Neutral	3
H. B. Fuller Company (FUL)	Neutral	3
Kraton Corporation (KRA)	Neutral	3
Ingevity Corporation (NGVT)	Neutral	3
PPG Industries, Inc. (PPG)	Neutral	2

Industry Comparison Industry: Paints And Related Products				Industry Peers		
	RPM	X Industry	S&P 500	ASH	FUL	NGVT
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	A	-	-	D	A	B
Market Cap	11.06 B	11.06 B	23.71 B	4.62 B	2.53 B	2.43 B
# of Analysts	7	7	14	3	6	4
Dividend Yield	1.69%	0.79%	1.63%	1.44%	1.33%	0.00%
Value Score	C	-	-	F	B	B
Cash/Price	0.02	0.02	0.07	0.09	0.03	0.07
EV/EBITDA	20.32	20.32	13.45	12.47	10.46	9.77
PEG Ratio	2.54	2.35	3.01	2.88	2.42	NA
Price/Book (P/B)	8.74	8.74	3.18	1.53	2.07	4.64
Price/Cash Flow (P/CF)	19.87	19.87	12.70	10.07	8.48	8.39
P/E (F1)	23.14	29.21	21.98	30.82	18.90	16.39
Price/Sales (P/S)	2.01	3.44	2.46	1.98	0.91	1.99
Earnings Yield	4.32%	3.42%	4.33%	3.25%	5.30%	6.10%
Debt/Equity	2.14	2.14	0.76	0.56	1.57	2.57
Cash Flow (\$/share)	4.29	5.86	6.94	7.58	5.78	7.01
Growth Score	A	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	3.39%	5.51%	10.44%	-23.34%	6.66%	34.18%
Proj. EPS Growth (F1/F0)	19.96%	8.12%	-5.97%	-0.93%	-12.33%	-27.23%
Curr. Cash Flow Growth	9.79%	9.79%	5.22%	-10.53%	-2.06%	25.74%
Hist. Cash Flow Growth (3-5 yrs)	5.67%	8.21%	8.52%	-11.65%	9.17%	12.19%
Current Ratio	2.22	2.22	1.33	1.78	2.05	3.09
Debt/Capital	68.13%	68.13%	44.50%	35.70%	61.02%	71.96%
Net Margin	5.53%	9.83%	10.13%	-4.39%	4.43%	13.89%
Return on Equity	29.73%	29.73%	14.59%	4.79%	11.86%	36.42%
Sales/Assets	0.98	0.86	0.51	0.33	0.70	0.55
Proj. Sales Growth (F1/F0)	2.14%	-0.04%	-1.54%	-7.62%	-6.31%	-11.36%
Momentum Score	A	-	-	D	A	C
Daily Price Chg	0.19%	0.00%	-0.41%	-0.87%	-1.55%	-2.08%
1 Week Price Chg	-0.08%	0.00%	1.09%	-2.99%	2.96%	3.79%
4 Week Price Chg	10.06%	0.84%	3.41%	-0.25%	7.99%	-2.06%
12 Week Price Chg	18.92%	4.13%	9.80%	13.94%	28.88%	7.85%
52 Week Price Chg	27.18%	27.18%	3.43%	5.66%	16.18%	-22.32%
20 Day Average Volume	600,340	20,092	1,894,669	431,564	515,818	273,067
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.71%	0.00%
(F1) EPS Est 4 week change	11.72%	11.95%	1.86%	0.95%	0.71%	1.06%
(F1) EPS Est 12 week change	9.19%	15.42%	2.86%	15.06%	9.80%	0.63%
(Q1) EPS Est Mthly Chg	37.12%	26.18%	0.80%	-4.53%	1.11%	3.05%

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	A
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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