

Kathy Emmons

**How the company makes money:**

RPM International, Inc. engages in the manufacturing, marketing and sale of coatings and sealants. It operates through two segments: Industrial and Consumer. The Industrial segment products and services include construction chemicals, roofing systems, weatherproofing and other sealants, polymer flooring, edible coatings and glazes for pharmaceutical, cosmetic and food industries. The Consumer segment manufactures and markets do-it-yourself products for a variety of mainly consumer applications, including home improvement and personal leisure activities. The company was founded by Frank C. Sullivan in 1947 and is headquartered in Medina, OH. [www.rpminc.com](http://www.rpminc.com)

Some familiar consumer brands include: Rust-Oleum, DAP, Tor Coatings

Employs about 12,874

Institutional owners: T. Rowe Price, 7.0%; The Vanguard Group, 6.8%; State Street, 5.3%.  
Incorporated in Delaware.

**Projected growth rate for sales: 5%**; used VL #. **Future growth:** continued improvement in US economy, acquisitions, international currency improvements. Headwinds: currency exchange, weakness in the energy and heavy equipment industries, and sluggish global economy.

**RPM Annual Report:** increasing its internal growth investments and capitalizing on its strong position in maintenance and repair •Continuing its acquisition program focused on synergistic product lines and entrepreneurial freestanding businesses •Accelerating international expansion •Leveraging sales growth to the bottom line + continuing acquisitions of free-standing entrepreneurial companies and product lines that complement its portfolio of specialty coatings and sealants businesses. Over the last 30 years, RPM has completed more than 150 acquisitions, with nearly 70 of these transactions being completed during the last decade. Strategy is very entrepreneurial in nature, seeking good companies, creating an atmosphere where the founders and managers stay with their companies, and provide them the resources to grow their businesses. This entrepreneurial culture has been a key attraction to business owners in the industry, as demonstrated by the fact that today about one-third of RPM's operating companies are managed by their founders, second- or third-generation family members or the managers they trusted to lead their companies. "

Projected growth rate for EPS: 6.5%, straight line to VL EPS of \$3.60

Projected High P/E: 26. Approximate double in 5 years

Projected Low P/E 17; reversion to 2011 high P/E

Projected Low Price: \$36.80; approximately 80% of current price

Upside-downside ratio is 4.1 to 1 at current price

Compound Annual Return – using forecast High P/E: 16.8%

Peer Comparison: RPM trading at a premium to PPG Industries. RPM has shown better revenue growth 4.8% vs 0.2T. RPM more aggressive in growing revenue through acquisition strategy. RPM's margins are lower. Sherwin-Williams is trading at a premium to RPM.

S&P analysis of 10/5/16: Sell based on trading price of \$50.61. \$10k invested 5 years ago would be worth \$25,708.

Recommendation: Watch, buy on further dip

News:

Sep 9, 2016: SEC accused RPM of failing to disclose material loss contingency or record an accrual of a government investigation. Shares dropped in value. According to notice in EDGAR, irregularity occurred in 2013; might result in restatement of results. RPM is responding.

Oct 5, 2016: announced 1Q17 EPS: (adjusted) \$0.83, beats analysts estimate of \$0.80

Oct 6, 2016: announced regular quarterly cash dividend of \$0.30 per share, payable on Oct 31, 2016, to shareholders of record as of October 17. Represents a 9.1 percent increase over 1<sup>st</sup> Q 2010. 43<sup>rd</sup> consecutive year of increased cash dividends paid to stockholders.

T.C. Sullivan officially retired as a director—his father founded \$PM

Oct 7, 2016: Analysts' recommendations: 10 brokerage firms tracking RPM—7 firms revisited their recommendations after earnings report. 30% recommended the stock as a buy, while remaining 70% recommended a hold. None recommended "sell." Consensus 12-month target price of \$54.75, implying a return potential of 9.5% from closing price of \$49.98.