

# RPM International (NYSE: RPM)

Sector: Materials



| Target Price | Current Price | 52 Week High | 52 Week Low | P/E   | Market Cap. | Dividend Yield | Beta |
|--------------|---------------|--------------|-------------|-------|-------------|----------------|------|
| \$55.21      | \$53.00       | \$55.92      | \$36.78     | 17.37 | \$6.3 B     | 2.57%          | 1    |

## Business Description

RPM International Inc. (RPM) is a holding company with a variety of subsidiaries that manufacture coatings, sealants, building materials, and other related chemicals. These chemicals are supplied to both industrial and consumer clients for maintenance, repair, and redecoration uses. RPM operates worldwide with over 120 manufacturing facilities in 24 countries and sells products in over 170 countries and territories. The company operates under three sectors – industrial, specialty, and consumer. The industrial segment makes up 51% of net sales and includes products such as flooring, passive fire protection, and corrosion control. Products are sold directly to contractors, distributors, and end-users throughout North America and make up a majority of international sales. The industrial segment operates under a large number of brand names including Tremco, Stonhard, and Illbruck. The specialty segment makes up 15% of net sales with products such as industrial cleaners, restoration services equipment, colorants, exterior finishes, and edible coatings which are sold directly to contractors, distributors, and end-users. The leading brands such as Legend, Tru-Core, Dryvit, and DayGlo are primarily sold in North America. The consumer segment manufactures and sells professional and do-it-yourself products to mass merchandisers and home improvement stores. Products include rust-preventative, special purpose decorative paints, caulks, nail enamels, cement and woodcare coatings which are distributed primarily in North America. Brands include Rust-Oleum, DAP, Zinsser, and NeverWet. The company began in 1947 and has been run by the Sullivan family since inception.

## Industry Trends

The specialty chemicals industry has seen weak organic growth, which has been offset by strong M&A growth. The sector largely tracks the performance of the housing, heavy construction, and industrial sectors. The general growing concern for the global environment has seen a number of eco-friendly restrictions, which companies are adapting to by aiming towards reducing pollutants and greenhouse gases. Natural gas and petroleum products are used in production in the industry. Surcharges are used to stabilize revenues when energy or commodity costs are high. The industry requires high capital spending for upkeep and expansion. Companies often have heavy debt burdens in periods of expansion with debt-to-capital ratios ranging from 0 to 60%.

## Investment Thesis

RPM International is a diversified specialty materials holding company that has grown from a family owned business. It will deliver long term value with its strong acquisition and organic growth strategy, its superior dividend history, and its strategic diversified business model. It is a company that is positioned for growth and further international as well as products expansion. The company has delivered 40 years of consecutive dividend growth, and is operated by expert management.

## Valuation Assumptions

WACC: 8.01%  
Growth Rate: 3.0%  
Dividends Paid based on  
Average since 1986  
Shares Outstanding Change: 0%-1%  
Based on consistent share buyback

## Key Financials

DDM Stock Price: \$57.68  
DCF Stock Price: \$53.35  
Weighted 50/50  
Intrinsic Value: \$55.51

## Corporate Social Responsibility

ESG disclosure score: 18.18 (Industry 33.9)  
% Of Women on Board: 7.69 % (Industry average: 14.50%)  
Business Ethics Policy present  
Sustainable Packaging Policy: Present 1 (Industry 0)  
% Female Executives: 12.5% (Industry 11.98%)  
Conflict Minerals Report: up to date and in compliance  
Sustainability Plan: Rigorous 5 Ps plan executed by operating companies

## 5-Year Stock Performance



## Competitive Analysis

RPM International competes with a variety of specialty chemical companies across the sectors. The company's main competitors in its peer group are PPG Industries, The Sherwin-Williams Company, Ferro Corporation, and GCP Applied Technologies. RPM is the most diversified company in terms of products, customer segments, and geographical reach.

## Competitive Advantages

RPM International has three main competitive advantages. First, RPM has a successful proven growth strategy. The company has completed over 150 acquisitions. Target growth is set at 3% organic and overall 8%-10% growth for the next five years. The company has extensive experience with synergist acquisitions that grow market share and revenue. Furthermore, RPM has a strong dividend history. The company has increased its cash dividend for 43 consecutive years, and has an expected cash and cash equivalents availability of \$195M. Lastly, RPM operates a diversified yet centralized model. While subsidiaries and targets in acquisitions maintain control, an integrated system with subsidiaries contributes to significant synergies. In addition, RPM continues to diversify its geographic and product base.

## Risks

There are several major risks that RPM faces. Global market and economic conditions will continue to be a major risk. The company is also subject to external fluctuations in supply and prices of raw materials. Further risks include significant amounts of indebtedness and conflict mineral risk (mitigated through reporting). The two major risks that have recently been resolved but pose future issues are health and safety risks as exemplified by the SPHC Asbestos claims, and the recent SEC investigation in accounting reporting.

## Report Prepared By:

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Sources: Bloomberg, Yahoo! Finance, 2015- 2016 RPM Annual Reports, Value Line

