

RPM International Inc

Some Positives and Some Negatives in the Outlook

Reiterate Rating: UNDERPERFORM | PO: 99.00 USD | Price: 103.91 USD

Mixed outlook for CY24 keeps us cautious

RPM's platform is quite diverse with respect to product types and end markets, which includes both strengths and challenges in the outlook for calendar 2024. Among the former, we would highlight that roughly a third of company sales are associated with repair and maintenance of commercial/industrial customers, which we view as having resilient demand, driven by a service-intensive model. The company continues to make strides toward cross selling and commercial integration, which we view as a compelling opportunity post supply chain productivity improvements. The newly opened Innovation Center should drive technology transfers across RPM's 50 businesses. On the negative side, another third of RPM's sales are associated with residential repair, which we expect to remain slow due to home sales at 20-year lows (see Exhibit 2) as well as low affordability (see recent Securitized Products Strategy report on Fed pivot and its implications). We estimate 15% of RPM's sales are for new commercial/industrial construction, which we expect to remain slow in 2024 due to higher interest rates. Lastly, Specialty Products (~10% of sales) has some underperforming businesses. We remain cautious on the shares due to end market demand challenges.

MAP 2025 and deflation drive margin improvement in F2Q

RPM posted F2Q results (\$1.22 Adj. EPS) in-line with our expectations and consensus (also \$1.22), driven by raw material deflation (~5%) and MAP 2025 benefits (expected \$100mn EBIT benefit for FY24) offsetting weakness in Specialty (-15% org) and Consumer (-5% org), from weak residential activity. Cost deflation, 2% pricing, and MAP 2025 initiatives drove notable gross margin improvement (+320bps). Construction Products and Performance Coatings had record F2Q sales and EBIT driven by higher volume in businesses positioned to serve infrastructure, reshoring, and high-performance buildings – although we note that much of the growth in both segments was driven internationally.

Trimming near-term estimates, PO unchanged at \$99

We trimmed our F2024 EPS estimate to \$4.98 from \$5.00, reflecting weaker organic growth in Specialty and Consumer in F3Q, partially offset by deflation peaking in 2H as well as additional MAP benefits. Our PO remains at \$99, based on the average of a 3 stage DCF analysis (WACC 7.9% (prev 7.8%)) and an unchanged 17.5x P/E as applied to our CY24E EPS. Note, the WACC has increased due to a higher current share price.

Estimates (May) (US\$)	2022	2023	2024	2025	2026
EPS	NA	NA	NA	NA	NA
EPS Change (YoY)	NA	NA	NA	NA	NA
Consensus EPS (Bloomberg)			4.96	5.62	6.27
DPS	NA	NA	NA	NA	NA
Valuation (May)					
Free Cash Flow Yield*	-0.3%	2.4%	5.3%	4.0%	4.6%

* For full definitions of *iQmethod*SM measures, see page 7.

05 January 2024

Equity

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Stock Data

Price	103.91 USD
Price Objective	99.00 USD
Date Established	4-Oct-2023
Investment Opinion	B-3-7
52-Week Range	78.52 USD - 113.37 USD
Mkt Val (mn) / Shares Out (mn)	13,391 USD / 128.9
Free Float	98.7%
Average Daily Value (mn)	54.33 USD
BofA Ticker / Exchange	RPM / NYS
Bloomberg / Reuters	RPM US / RPM.N
ROE (2024E)	27.6%
Net Dbt to Eqty (May-2023A)	115.2%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

Jargon Buster:

MAP = Margin Achievement Plan
OEM = Original Equipment Manufacturer
HVAC = Heating, Ventilation, and Air Conditioning

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Timestamp: 05 January 2024 06:43AM EST

iQprofileSM RPM International Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022	2023	2024	2025	2026
Return on Capital Employed	NA	NA	NA	NA	NA
Return on Equity	NA	NA	NA	NA	NA
Operating Margin	10.6%	11.6%	13.1%	13.8%	14.5%
Free Cash Flow	NA	NA	NA	NA	NA

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022	2023	2024	2025	2026
Cash Realization Ratio	0.4x	1.0x	1.4x	1.0x	1.0x
Asset Replacement Ratio	1.5x	1.6x	1.2x	1.1x	1.1x
Tax Rate	NA	NA	NA	NA	NA
Net Debt-to-Equity Ratio	NA	NA	NA	NA	NA
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (May)

(US\$ Millions)	2022	2023	2024	2025	2026
Sales	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Net Interest & Other Income	NA	NA	NA	NA	NA
Net Income (Adjusted)	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA

Free Cash Flow Data (May)

(US\$ Millions)	2022	2023	2024	2025	2026
Net Income from Cont Operations (GAAP)	NA	NA	NA	NA	NA
Depreciation & Amortization	NA	NA	NA	NA	NA
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(1)	(27)	(8)	13	13
Capital Expenditure	NA	NA	NA	NA	NA
Free Cash Flow	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	NA	NA	NA	NA	NA

Balance Sheet Data (May)

(US\$ Millions)	2022	2023	2024	2025	2026
Cash & Equivalents	NA	NA	NA	NA	NA
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	1,518	1,465	1,556	1,562	1,608
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	2,452	2,358	2,334	2,270	2,204
Total Assets	NA	NA	NA	NA	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,413	1,312	1,352	1,269	1,274
Long-Term Debt	NA	NA	NA	NA	NA
Other Non-Current Liabilities	624	643	674	674	674
Total Liabilities	NA	NA	NA	NA	NA
Total Equity	NA	NA	NA	NA	NA
Total Equity & Liabilities	NA	NA	NA	NA	NA

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Chemicals-Major

Company Description

RPM manufactures and markets paints, coatings, roofing systems, sealants and adhesives, for the industrial and consumer markets with \$7.3 billion F2023 sales (approx. 30% outside N.A.). Brand names include RUST-OLEUM, DAP, DAY-GLO, DRYVIT, ILLBRUCK, CARBOLINE, STONHARD, and TREMCO. RPM subsidiaries market products in 164 countries and operate 120 manufacturing facilities worldwide.

Investment Rationale

We view RPM's valuation as full following a substantial rally in shares off of the late September lows. We believe investor expectations have picked up following the passage of the US infrastructure bill. Further, we sense that investors are increasingly looking past the current wave of commodity inflation. However, we see shares as pricing in a substantial recovery at the moment, such that the risk reward is relatively unattractive. We rate shares Underperform accordingly.

Stock Data

Average Daily Volume 574,212

Quarterly Earnings Estimates

	2023	2024
Q1	NA	NA
Q2	NA	NA
Q3	NA	NA
Q4	NA	NA

Exhibit 1: RPM Income Statement Summary

Our adjusted EPS for F2024 is settling at \$4.98/share vs \$5.00/share prior

	F2023E					F2024E							
Net Sales	F2022	F1Q23 (Aug)	F2Q23 (Nov)	F3Q23 (Feb)	F4Q23 (May)	F2023	F1Q24 (Aug)	F2Q24 (Nov)	F3Q24 (Feb)	F4Q24E (May)	F2024E	F2025E	F2026E
Construction Products	\$2,486	\$730	\$634	\$497	\$748	\$2,609	\$783	\$662	\$527	\$803	\$2,775	\$2,916	\$3,032
Performance Coatings	1,188	340	335	300	358	1,334	379	375	314	368	1,436	1,508	1,569
Specialty Segment	791	203	212	191	193	799	181	177	165	200	723	752	790
Consumer Segment	2,242	659	610	529	716	2,515	670	579	520	733	2,501	2,579	2,656
Total	6,708	1,932	1,792	1,516	2,016	7,256	2,012	1,792	1,526	2,104	7,434	7,755	8,047
Annual Change	9.8%	17.1%	9.3%	5.7%	1.6%	8.2%	4.1%	0.0%	0.7%	4.3%	2.4%	4.3%	3.8%
EBITDA													
Construction Products	414	123	92	25	137	377	158	112	51	170	491	539	580
Performance Coatings	169	54	52	37	58	201	65	67	51	69	253	276	296
Specialty Segment	143	36	37	24	23	120	25	24	22	29	101	111	124
Consumer Segment	229	130	107	61	118	415	136	110	58	124	427	453	479
Corporate/Other	(94)	(29)	(35)	(24)	(28)	(116)	(32)	(36)	(34)	(35)	(136)	(139)	(144)
Total	862	314	253	122	308	997	353	277	148	358	1,136	1,240	1,335
EBITDA Margin	12.8%	16.2%	14.1%	8.1%	15.3%	13.7%	17.5%	15.5%	9.7%	17.0%	15.3%	16.0%	16.6%
EBIT													
Construction Products	366	111	80	13	124	329	145	100	38	158	440	487	528
Performance Coatings	147	48	46	31	52	177	59	61	45	63	228	251	270
Specialty Segment	117	30	30	17	16	93	18	17	15	23	72	82	94
Consumer Segment	178	117	94	48	105	364	121	96	45	111	373	398	423
Corporate/Other	(99)	(30)	(36)	(26)	(29)	(122)	(34)	(37)	(36)	(36)	(142)	(145)	(150)
Total	708	275	215	84	268	842	309	237	107	319	972	1,073	1,165
EBIT Margin	10.6%	14.2%	12.0%	5.5%	13.3%	11.6%	15.4%	13.2%	7.0%	15.2%	13.1%	13.8%	14.5%
Interest Expense, Net	88	27	28	31	34	119	32	30	30	30	123	123	123
Pretax Income	665	245	194	53	234	726	290	212	77	288	867	950	1,042
Income Taxes	189	55	52	5	59	172	78	54	20	74	226	237	260
Tax Rate	28.4%	22.5%	26.7%	10.2%	25.3%	23.6%	26.9%	25.7%	25.7%	25.7%	26.1%	25.0%	25.0%
Net Income From Operations	475	190	142	47	175	553	211	157	57	214	640	712	781
Diluted EPS from Operations	\$3.68	\$1.48	\$1.10	\$0.37	\$1.36	\$4.31	\$1.64	\$1.22	\$0.45	\$1.67	\$4.98	\$5.55	\$6.09
Other items	0.12	(0.16)	(0.08)	(0.16)	(0.18)	(0.58)	(0.08)	(0.09)	0.00	0.00	(0.17)	0.00	0.00
Reported Earnings Per Share	3.79	1.32	1.02	0.21	1.18	3.73	1.56	1.13	0.45	1.67	4.81	5.55	6.09
Change	-12%	36%	39%	-4%	-4%	17%	11%	11%	20%	23%	16%	11%	10%



Exhibit 1: RPM Income Statement Summary

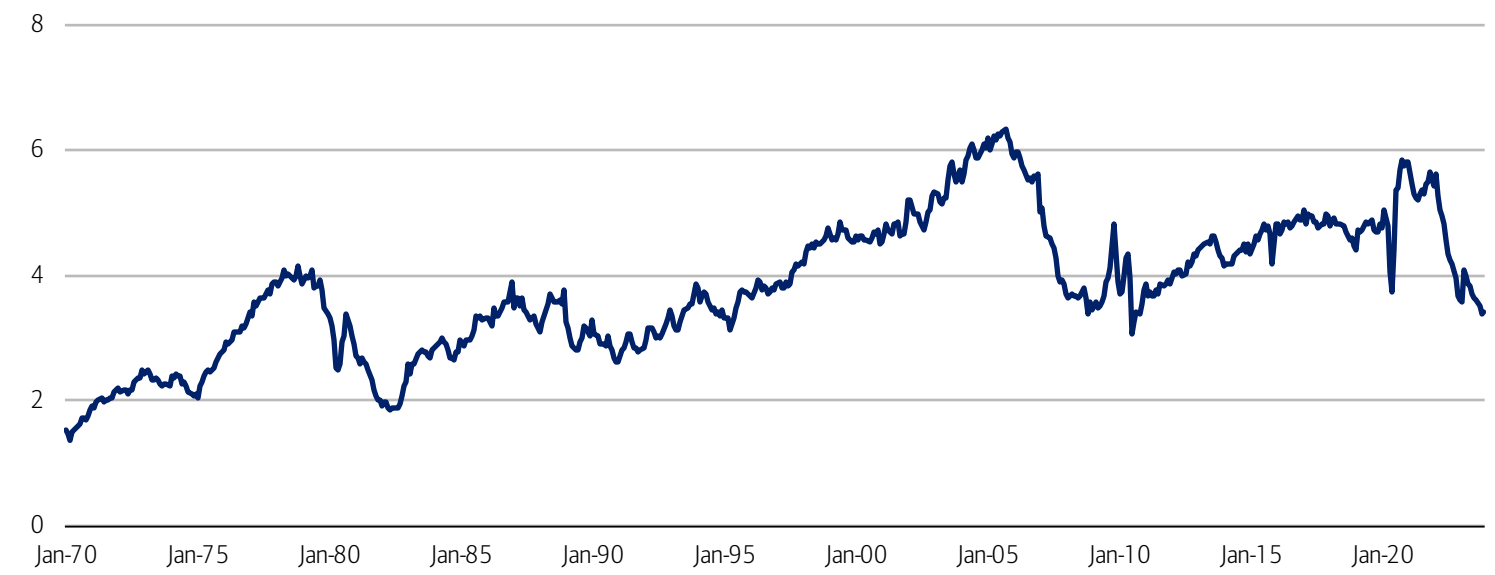
Our adjusted EPS for F2024 is settling at \$4.98/share vs \$5.00/share prior

Diluted Shares Outstanding (Mil.)	129.1	128.2	128.9	128.0	128.7	128.5	128.8	128.2	128.2	128.2	128.4	128.4	128.4
Sales Growth													
Construction Products	19.7%	13.2%	3.2%	3.1%	0.3%	4.9%	7.3%	4.4%	6.1%	7.4%	6.4%	5.1%	4.0%
Performance Coatings	15.5%	19.2%	10.8%	10.6%	8.8%	12.2%	11.2%	11.8%	4.9%	2.7%	7.6%	5.1%	4.0%
Specialty Segment	12.0%	11.3%	9.5%	0.9%	-14.3%	1.1%	-10.7%	-16.6%	-13.5%	3.2%	-9.6%	4.1%	5.0%
Consumer Segment	-2.3%	22.5%	15.3%	7.5%	4.9%	12.2%	1.5%	-5.2%	-1.7%	2.3%	-0.6%	3.1%	3.0%
Total	9.8%	17.1%	9.3%	5.7%	1.6%	8.2%	4.1%	0.0%	0.7%	4.3%	2.4%	4.3%	3.8%
EBIT Growth													
Construction Products	18%	-5%	-12%	-62%	2%	-10%	30%	24%	185%	27%	34%	11%	8%
Performance Coatings	41%	28%	17%	16%	22%	21%	23%	32%	44%	21%	29%	10%	8%
Specialty Segment	1%	19%	43%	-37%	-63%	-21%	-40%	-44%	-10%	38%	-22%	13%	15%
Consumer Segment	-52%	150%	180%	180%	30%	105%	3%	2%	-7%	6%	3%	7%	6%
Total	-10%	33%	36%	4%	2%	19%	12%	10%	28%	19%	15%	10%	9%
EBIT Margins													
Construction Products	14.7%	15.2%	12.7%	2.7%	16.6%	12.6%	18.5%	15.1%	7.2%	19.7%	15.9%	16.7%	17.4%
Performance Coatings	12.3%	14.1%	13.8%	10.4%	14.4%	13.3%	15.6%	16.2%	14.3%	17.1%	15.9%	16.6%	17.2%
Specialty Segment	14.8%	14.6%	14.1%	8.8%	8.4%	11.6%	9.9%	9.6%	9.1%	11.3%	10.0%	10.9%	11.9%
Consumer Segment	7.9%	17.8%	15.4%	9.1%	14.6%	14.5%	18.1%	16.7%	8.6%	15.2%	14.9%	15.4%	15.9%
Total	10.6%	14.2%	12.0%	5.5%	13.3%	11.6%	15.4%	13.2%	7.0%	15.2%	13.1%	13.8%	14.5%

Source: Company data, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 2: US Existing Single Family Home Sales Total Sales (Millions)
Existing home sales are at 20-year lows



Source: Bloomberg, EHSLSL Index

BofA GLOBAL RESEARCH



Price objective basis & risk

RPM International Inc (RPM)

Our \$99 PO is based on the average of a 3 stage DCF analysis and a 17.5x multiple as applied to a CY2024 EPS estimate. The 3-stage DCF is predicated on a 7.9% WACC and a 3.0% terminal growth rate.

Downside (upside) risks to our price objective are prolonged (brief) impacts from COVID19, weakness (strength) in construction and remodeling activity, a stronger (weaker) USD, and rising (falling) raw material costs.

Analyst Certification

I, Steve Byrne, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LINGY	Steve Byrne, CFA
	Livent	LTHM	LTHM US	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
NEUTRAL				
	Air Products	APD	APD US	Steve Byrne, CFA
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
UNDERPERFORM				
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

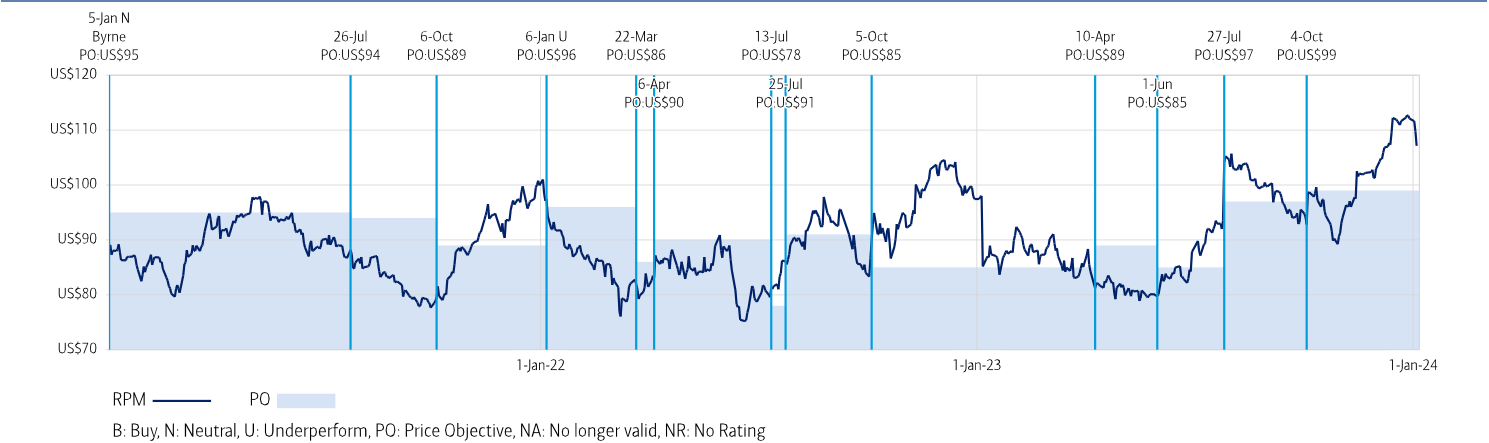
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Disclosures

Important Disclosures

RPM Intl Inc (RPM) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Chemicals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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