



RPM International Inc.

Fourth Quarter Results Fiscal Year 2020

Consolidated Statements of Income



	Fiscal Year Ended May 31,				
	2020	%	2019	%	% Change
Net Sales	\$ 5,506,994		\$ 5,564,551		(1.0)
Cost of Sales	3,414,139	62.0	3,476,231	62.5	
Gross Profit	2,092,855	38.0	2,088,320	37.5	
SG&A	1,548,653	28.1	1,596,043	28.7	
Restructuring Expense	33,108	0.6	42,310	0.8	
Other Intangible Asset Impairments	-		4,190	0.1	
Other Expense, Net	12,066	0.2	4,270	0.1	
EBIT*	499,028	9.1	441,507	7.9	13.0
Interest Expense	101,003	1.8	102,392	1.8	
Investment (Income), Net	(9,739)	(0.2)	(730)	(0.0)	
Income Before Taxes	407,764	7.4	339,845	6.1	
Provision for Income Taxes	102,682	1.9	72,158	1.3	
Net Income	305,082	5.5	267,687	4.8	14.0
Less: Net Income Attributable to Noncontrolling Interests	697	0.0	1,129	0.0	
Net Income Attributable to RPM Stockholders	\$ 304,385	5.5	\$ 266,558	4.8	14.2
Diluted EPS	\$ 2.34		\$ 2.01		16.4

*EBIT is defined as earnings (loss) before interest and taxes. Management uses EBIT, as defined, as a measure of operating performance, since interest expense, net, essentially relates to corporate functions, as opposed to segment operations.

Consolidated Statements of Income



	Three Months Ended May 31,				
	2020	%	2019	%	% Change
Net Sales	\$ 1,458,962		\$ 1,601,401		(8.9)
Cost of Sales	905,006	62.0	965,587	60.3	
Gross Profit	553,956	38.0	635,814	39.7	
SG&A	362,861	24.9	422,984	26.4	
Restructuring Expense	14,344	1.0	5,831	0.4	
Other Intangible Asset Impairments	-		2,201	0.1	
Other Expense, Net	6,909	0.5	218	0.0	
EBIT*	169,842	11.6	204,580	12.8	(17.0)
Interest Expense	22,372	1.6	28,334	1.8	
Investment (Income) Expense, Net	615	0.0	(604)	(0.0)	
Income Before Taxes	146,855	10.1	176,850	11.0	
Provision for Income Taxes	37,680	2.6	43,018	2.7	
Net Income	109,175	7.5	133,832	8.4	(18.4)
Less: Net Income (Loss) Attributable to Noncontrolling Interests	(139)	(0.0)	452	0.0	
Net Income Attributable to RPM Stockholders	\$ 109,314	7.5	\$ 133,380	8.3	(18.0)
Diluted EPS	\$ 0.84		\$ 1.02		(17.6)

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RPM International Inc.

Reconciliations of Non-GAAP Measures To GAAP Measures

Free Cash Flow Generation (Non-GAAP Measure)



(\$ in thousands)

	Fiscal Year Ended May 31,				
	2020	2019	2018	2017	2016
<u>Cash Flows from Operating Activities:</u>					
Net income	\$ 305,082	\$ 267,687	\$ 339,257	\$ 184,671	\$ 357,458
Depreciation and amortization	156,842	141,742	128,499	116,773	111,039
Working capital and all other operating activities	87,995	(116,488)	(77,373)	84,683	6,209
Cash Flow from Operations (GAAP)	549,919	292,941	390,383	386,127	474,706
<u>Cash Flows from Investing Activities:</u>					
Capital expenditures	(147,756)	(136,757)	(114,619)	(126,109)	(117,183)
<u>Cash Flows from Financing Activities:</u>					
Dividends	(185,101)	(181,409)	(167,476)	(156,752)	(144,350)
Free Cash Flow (non-GAAP measure)	217,062	(25,225)	108,288	103,266	213,173
All other investing activities	(61,857)	(111,489)	(146,574)	(213,556)	(48,683)
All other financing activities	(131,769)	127,567	(71,900)	192,723	(61,755)
Effect of exchange rate changes on cash and short-term investments	(13,188)	(12,107)	4,111	2,912	(12,294)
Net increase (decrease) in cash and short-term investments (GAAP)	\$ 10,248	\$ (21,254)	\$ (106,075)	\$ 85,345	\$ 90,441

Management views Free Cash Flow, a non-GAAP measure, as an excellent reflection of RPM's remaining cash flow to be used to acquire complementary businesses, reduce debt levels, or a combination thereof, after supporting the organic growth needs of its businesses, including their working capital and capital expenditure needs, and after supporting RPM's dividend program.

Adjustments Detail



- a. Inventory-related charges reflect the following in fiscal 2020: charges recorded in cost of goods sold that reflect product line and SKU rationalization at our Consumer segment, as well as inventory write-offs in connection with restructuring activities at our Construction Products, Performance Coatings, and Specialty Products segments. Following are the inventory-related charges in fiscal 2019: charges reflecting a true-up of fiscal 2018 inventory write-offs, SKU rationalization, and more proactive management of inventory at our Consumer Segment and inventory write-offs and disposals at our Construction Products and Performance Coatings segments.
- b. Reflects restructuring charges, including headcount reductions, closures of facilities and related costs (including asset impairment), and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan (“2020 MAP to Growth”).
- c. Includes accelerated depreciation and amortization expense related to the shortened useful lives of facilities and equipment, ERP systems, and intangible that are currently in use, but are in the process of being retired associated with various 2020 MAP to Growth initiatives including facility closures, exiting a business, and ERP consolidation.
- d. Reflects the increase in our allowance for doubtful accounts deemed uncollectible as a result of a change in market and leadership strategy, offset by subsequent collections.
- e. Includes implementation costs associated with our ERP consolidation plan.
- f. Comprises professional fees incurred in connection with our restructuring plan as well as the negotiation of a cooperation agreement and related fees incurred in connection with hosting an investor conference, all of which have been incurred in relation to our 2020 MAP to Growth.
- g. Acquisition costs reflect amounts included in gross profit for inventory step-ups as well as an inventory write-off recorded during the second quarter of fiscal 2019.
- h. Reflects the loss on redemption of our convertible notes incurred during the second quarter of fiscal 2019.
- i. Includes adjustments to the fair value of contingent earnout obligations recorded during the second quarter of fiscal 2019.
- j. Reflects other expense associated with a change in ownership of a business in South Africa, as required by local legislation in order to qualify for doing business in South Africa.
- k. Reflects unusual compensation costs that resulted from executive departures related to our 2020 MAP to Growth, including stock and deferred compensation plan arrangements.
- l. Reflects unusual compensation costs, net of insurance proceeds, that resulted from executive departures unrelated to our 2020 MAP to Growth.
- m. Reflects the gain or loss incurred upon divestiture of businesses and/or assets.
- n. Reflects charges related to the discontinuation of a product line targeting OEM markets and related prepaid asset and inventory write-off. This resulted from ongoing product line rationalization efforts in connection with our 2020 MAP to Growth.
- o. Reflects costs associated with exiting licensing agreements.
- p. Reflects the favorable adjustment as a result of the resolution of a contingent liability related to a FY18 charge to exit our Flowcrete business in China.
- q. Investment returns include realized net gains and losses on sales of investments and unrealized net gains and losses on equity securities, which are adjusted due to their inherent volatility. Management does not consider these gains and losses, which cannot be predicted with any level of certainty, to be reflective of the company's core business operations.

EBIT* (Non-GAAP Measure): RPM Consolidated



(As Reported)
(\$ in thousands, except per share and percent data)
(Unaudited)

	Three Months Ended May 31,	
	2020	2019
Net Income	\$ 109,175	\$ 133,832
Provision for Income Taxes	37,680	43,018
Income Before Income Taxes	146,855	176,850
Interest Expense	22,372	28,334
Investment (Income) Loss, Net	615	(604)
EBIT* (non-GAAP measure)	169,842	204,580
Inventory-related charges (a)	9,180	10,233
Restructuring Expense (b)	14,711	5,831
Accelerated expense - other (c)	11,422	654
Receivable write-offs (d)	(146)	(341)
ERP consolidation plan (e)	1,684	2,967
Professional fees (f)	4,107	8,650
Acquisition-related costs (g)	66	-
Unusual costs triggered by executive departures (k)	284	-
Unusual executive costs, net of insurance proceeds (l)	(1,696)	8,840
Divestitures (m)	(60)	-
Termination of license agreement (o)	5,254	-
Adjustment to exit Flowcrete China (p)	(1,039)	-
Adjusted EBIT**	\$ 213,609	\$ 241,414
Net Sales	\$ 1,458,962	\$ 1,601,401
EBIT* as a % of Net Sales (non-GAAP measure)	11.6%	12.8%
Adj EBIT** as a % of Net Sales (non-GAAP measure)	14.6%	15.1%

*EBIT is defined as earnings (loss) before interest and taxes. Management uses EBIT, as defined, as a measure of operating performance, since interest expense, net, essentially relates to corporate functions, as opposed to segment operations.

**Adjusted EBIT is provided for the purpose of adjusting for one-off items impacting revenue and/or expenses that are not considered by management to be indicative of ongoing operations.

NOTE: Refer to slide 6 for all adjustment detail.

EBIT* (Non-GAAP Measure): RPM Consolidated



(As Reported)
(\$ in thousands, except per share and percent data)
(Unaudited)

	Fiscal Year Ended May 31,	
	2020	2019
Net Income	\$ 305,082	\$ 267,687
Provision for Income Taxes	102,682	72,158
Income Before Income Taxes	407,764	339,845
Interest Expense	101,003	102,392
Investment (Income), Net	(9,739)	(730)
EBIT* (non-GAAP measure)	499,028	441,507
Inventory-related charges (a)	18,469	20,022
Restructuring Expense (b)	34,302	42,310
Accelerated expense - other (c)	21,593	5,880
Receivable write-offs (d)	2,641	6,442
ERP consolidation plan (e)	10,373	6,375
Professional fees (f)	20,228	25,943
Acquisition-related costs (g)	919	2,991
Convertible debt extinguishment (h)	-	3,052
Fair value adjustments to acquisition earnout (i)	-	2,394
Loss on South Africa Business EE (j)	-	540
Unusual costs triggered by executive departures (k)	1,010	1,680
Unusual executive costs, net of insurance proceeds (l)	(1,696)	8,840
Divestitures (m)	601	(497)
Discontinued product line (n)	8,618	-
Termination of license agreement (o)	5,254	-
Adjustment to exit Flowcrete China (p)	(1,039)	-
Adjusted EBIT**	\$ 620,301	\$ 567,479
Net Sales	\$ 5,506,994	\$ 5,564,551
EBIT* as a % of Net Sales (non-GAAP measure)	9.1%	7.9%
Adj EBIT** as a % of Net Sales (non-GAAP measure)	11.3%	10.2%

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**Adjusted EBIT is provided for the purpose of adjusting for one-off items impacting revenue and/or expenses that are not considered by management to be indicative of ongoing operations.

NOTE: Refer to slide 6 for all adjustment detail.

Reconciliation of "Reported" to "Adjusted" EPS



(Unaudited)

	Three Months Ended May 31,	
	2020	2019
<u>Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):</u>		
Reported Earnings per Diluted Share	\$ 0.84	\$ 1.02
Inventory-related charges (a)	0.06	0.06
Restructuring expense (b)	0.10	0.03
Accelerated expense - other (c)	0.07	-
ERP consolidation plan (e)	0.01	0.02
Professional fees (f)	0.03	0.05
Unusual executive costs, net of insurance proceeds (l)	(0.01)	0.05
Termination of license agreement (o)	0.03	-
Adjustment to exit Flowcrete China (p)	(0.01)	-
Investment returns (q)	0.01	0.01
Adjusted Earnings per Diluted Share (s)	<u>\$ 1.13</u>	<u>\$ 1.24</u>

(s) Adjusted EPS is provided for the purpose of adjusting diluted earnings per share for items impacting earnings that are not considered by management to be indicative of ongoing operations.

NOTE: Refer to slide 6 for all adjustment detail

Reconciliation of "Reported" to "Adjusted" EPS



(Unaudited)

	Fiscal Year Ended May 31,	
	2020	2019
<u>Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):</u>		
Reported Earnings per Diluted Share	\$ 2.34	\$ 2.01
Inventory-related charges (a)	0.12	0.12
Restructuring expense (b)	0.21	0.24
Accelerated expense - other (c)	0.13	0.03
Receivable write-offs (d)	0.02	0.05
ERP consolidation plan (e)	0.06	0.04
Professional fees (f)	0.12	0.15
Acquisition-related costs (g)	0.01	0.02
Fair value adjustments to acquisition earnout (i)	-	0.01
Unusual costs triggered by executive departures (k)	0.01	0.01
Unusual executive costs, net of insurance proceeds (l)	(0.01)	0.05
Discontinued product line (n)	0.05	-
Termination of license agreement (o)	0.03	-
Adjustment to exit Flowcrete China (p)	(0.01)	-
Investment returns (q)	(0.01)	0.06
Discrete tax adjustment (r)	-	(0.08)
Adjusted Earnings per Diluted Share (s)	\$ 3.07	\$ 2.71

(r) Represents discrete tax adjustments due to U.S. income tax reform.

(s) Adjusted EPS is provided for the purpose of adjusting diluted earnings per share for items impacting earnings that are not considered by management to be indicative of ongoing operations.

NOTE: Refer to slide 6 for all adjustment detail

EBIT** (Non-GAAP Measure): Construction Products Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

	Three Months Ended May 31,	
	2020	2019
Income Before Income Taxes	\$ 70,339	\$ 82,448
Add: Interest Expense, Net*	2,033	1,366
EBIT** (non-GAAP measure)	72,372	83,814
Inventory-related charges (a)	328	257
Restructuring Expense (b)	3,914	2,785
Accelerated expense - other (c)	1,433	172
Receivable write-offs (d)	248	94
ERP consolidation plan (e)	129	503
Professional fees (f)	-	324
Divestitures (m)	(60)	-
Adjustment to exit Flowcrete China (p)	(1,039)	-
Adjusted EBIT***	\$ 77,325	\$ 87,949
Net Sales	\$ 472,408	\$ 559,622
EBIT** as a % of Net Sales (non-GAAP measure)	15.3%	15.0%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	16.4%	15.7%

*Interest expense, net includes the combination of interest (income) expense and investment (income) expense, net.

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EBIT** (Non-GAAP Measure): Construction Products Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

Income Before Income Taxes
Add: Interest Expense, Net*
EBIT (non-GAAP measure)**
Inventory-related charges (a)
Restructuring Expense (b)
Accelerated expense - other (c)
Receivable write-offs (d)
ERP consolidation plan (e)
Professional fees (f)
Acquisition-related costs (g)
Divestitures (m)
Adjustment to exit Flowcrete China (p)
Adjusted EBIT***
Net Sales
EBIT as a % of Net Sales (non-GAAP measure)**
Adj EBIT* as a % of Net Sales (non-GAAP measure)**

		Fiscal Year Ended May 31,	
		2020	2019
\$	209,663	\$	178,823
	8,265		8,334
	217,928		187,157
	674		964
	9,918		11,599
	3,015		(1,651)
	-		95
	869		1,597
	286		442
	548		1,167
	(60)		-
	(1,039)		-
\$	232,139	\$	201,370
\$	1,880,105	\$	1,899,744
	11.6%		9.9%
	12.3%		10.6%

*Interest expense, net includes the combination of interest (income) expense and investment (income) expense, net.

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NOTE: Refer to slide 6 for all adjustment detail

EBIT** (Non-GAAP Measure): Performance Coatings Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

	Three Months Ended May 31,	
	2020	2019
Income Before Income Taxes	\$ 18,728	\$ 32,398
Add: Interest Expense, Net*	2	79
EBIT** (non-GAAP measure)	18,730	32,477
Inventory-related charges (a)	-	1,524
Restructuring Expense (b)	3,885	999
Accelerated expense - other (c)	617	12
Receivable write-offs (d)	(146)	(436)
ERP consolidation plan (e)	140	1
Professional fees (f)	358	-
Acquisition-related costs (g)	66	-
Unusual executive costs, net of insurance proceeds (l)	-	127
Adjusted EBIT***	\$ 23,650	\$ 34,704
Net Sales	\$ 235,063	\$ 294,514
EBIT** as a % of Net Sales (non-GAAP measure)	8.0%	11.0%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	10.1%	11.8%

*Interest expense (income), net includes the combination of interest (income) expense and investment (income) expense, net.

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NOTE: Refer to slide 6 for all adjustment detail

EBIT** (Non-GAAP Measure): Performance Coatings Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

	Fiscal Year Ended May 31,	
	2020	2019
Income Before Income Taxes	\$ 102,345	\$ 77,388
Add: Interest Expense (Income), Net*	(18)	481
EBIT** (non-GAAP measure)	102,327	77,869
Inventory-related charges (a)	3,190	8,996
Restructuring Expense (b)	9,094	9,839
Accelerated expense - other (c)	2,912	5,696
Receivable write-offs (d)	2,586	6,285
ERP consolidation plan (e)	788	348
Professional fees (f)	941	-
Acquisition-related costs (g)	184	1,824
Fair value adjustments to acquisition earnout (i)	-	2,394
Loss on South Africa Business EE (j)	-	540
Unusual executive costs, net of insurance proceeds (l)	-	127
Divestitures (m)	(264)	-
Adjusted EBIT***	\$ 121,758	\$ 113,918
Net Sales	\$ 1,080,701	\$ 1,136,119
EBIT** as a % of Net Sales (non-GAAP measure)	9.5%	6.9%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	11.3%	10.0%

*Interest expense (income), net includes the combination of interest (income) expense and investment (income) expense, net.

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EBIT** (Non-GAAP Measure): Consumer Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

	Three Months Ended May 31,	
	2020	2019
Income Before Income Taxes	\$ 74,612	\$ 99,371
Add: Interest Expense, Net*	54	122
EBIT** (non-GAAP measure)	74,666	99,493
Inventory-related charges (a)	8,852	8,452
Restructuring Expense (b)	6,006	875
Accelerated expense - other (c)	9,346	-
ERP consolidation plan (e)	76	-
Professional fees (f)	265	-
Discontinued product line (n)	5,254	-
Adjusted EBIT***	\$ 104,465	\$ 108,820
Net Sales	\$ 616,246	\$ 577,522
EBIT** as a % of Net Sales (non-GAAP measure)	12.1%	17.2%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	17.0%	18.8%

*Interest expense, net includes the combination of interest (income) expense and investment (income) expense, net.

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EBIT** (Non-GAAP Measure): Consumer Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

	Fiscal Year Ended May 31,	
	2020	2019
Income Before Income Taxes	\$ 198,024	\$ 217,448
Add: Interest Expense, Net*	272	538
EBIT** (non-GAAP measure)	198,296	217,986
Inventory-related charges (a)	14,520	10,062
Restructuring Expense (b)	9,428	3,303
Accelerated expense - other (c)	14,972	-
Receivable write-offs (d)	55	63
ERP consolidation plan (e)	273	-
Professional fees (f)	650	-
Divestitures (m)	925	(497)
Discontinued product line (n)	8,618	-
Termination of license agreement (o)	5,254	-
Adjusted EBIT***	\$ 252,991	\$ 230,917
Net Sales	\$ 1,945,220	\$ 1,858,453
EBIT** as a % of Net Sales (non-GAAP measure)	10.2%	11.7%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	13.0%	12.4%

*Interest expense, net includes the combination of interest (income) expense and investment (income) expense, net.

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EBIT** (Non-GAAP Measure): Specialty Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

Income Before Income Taxes
Add: Interest Expense (Income), Net*
EBIT (non-GAAP measure)**
Restructuring Expense (b)
Accelerated expense - other (c)
ERP consolidation plan (e)
Professional fees (f)
Unusual costs triggered by executive departures (k)
Unusual executive costs, net of insurance proceeds (l)
Adjusted EBIT***
Net Sales
EBIT as a % of Net Sales (non-GAAP measure)**
Adj EBIT* as a % of Net Sales (non-GAAP measure)**

	Three Months Ended May 31,	
	2020	2019
\$	2,901	\$ 19,968
	57	(93)
	2,958	19,875
	926	1,271
	27	471
	1,219	2,465
	1,915	-
	284	-
	-	2,079
\$	7,329	\$ 26,161
\$	135,245	\$ 169,743
	2.2%	11.7%
	5.4%	15.4%

*Interest expense, net includes the combination of interest (income) expense and investment (income) expense, net.

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NOTE: Refer to slide 6 for all adjustment detail

EBIT** (Non-GAAP Measure): Specialty Segment



(As Reported)
(\$ in thousands and percent data)
(Unaudited)

	Fiscal Year Ended May 31,	
	2020	2019
Income Before Income Taxes	\$ 57,933	\$ 86,018
Add: Interest Expense (Income), Net*	62	(425)
EBIT** (non-GAAP measure)	57,995	85,593
Inventory-related charges (a)	86	-
Restructuring Expense (b)	4,633	7,584
Accelerated expense - other (c)	502	1,836
ERP consolidation plan (e)	8,443	4,429
Professional fees (f)	4,064	-
Acquisition-related costs (g)	187	-
Unusual costs triggered by executive departures (k)	757	-
Unusual executive costs, net of insurance proceeds (l)	-	2,079
Adjusted EBIT***	\$ 76,667	\$ 101,521
Net Sales	\$ 600,968	\$ 670,235
EBIT** as a % of Net Sales (non-GAAP measure)	9.7%	12.8%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	12.8%	15.1%

*Interest expense (income), net includes the combination of interest (income) expense and investment (income) expense, net.

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EBIT* & EBITDA (Non-GAAP Measures)



(in thousands)

	2016	2017	2018	2019	2020
Net Income	\$ 357,458	\$ 184,671	339,257	267,687	305,082
Add: Provision for income taxes	126,008	59,662	77,791	72,158	102,682
Add: Interest expense	91,683	96,954	104,547	102,392	101,003
Add: Investment (income), net	(10,365)	(13,984)	(20,442)	(730)	(9,739)
Add: 2020 MAP to Growth related initiatives			58,080	110,549	123,089
Add: Acquisition-related charges				2,991	919
Add: Convertible debt extinguishment				3,052	
Add: Loss on South Africa Business				540	
Add: Unusual costs triggered by executive departures				8,840	(1,696)
Add: Charge (adjustment) to exit Flowcrete China			4,164		(1,039)
Add: Charge to exit Flowcrete Middle East		12,275			
Add: Goodwill and other intangible asset impairments		188,298			
Add: Severance Expense		15,001			
Adjusted EBIT* (non-GAAP measure)	564,784	542,877	563,397	567,479	620,301
Add: Amortization	44,307	44,903	46,523	47,699	48,299
Adjusted EBITA* (non-GAAP measure)	609,091	587,780	609,920	615,178	668,600
Add: Depreciation	66,732	71,870	81,976	94,043	108,543
Adjusted EBITDA* (non-GAAP measure)	675,823	659,650	691,896	709,221	777,143
Deduct: Interest expense	(91,683)	(96,954)	(104,547)	(102,392)	(101,003)
Deduct: Investment expense (income), net	10,365	13,984	20,442	730	9,739
Deduct: Provision (benefit) for income taxes	126,008	(59,662)	(77,791)	(72,158)	102,682
Add: Changes in operating assets, liabilities, and other	6,209	(130,891)	(139,617)	(242,460)	(238,642)
Cash from operating activities	\$ 474,706	\$ 386,127	390,383	292,941	549,919
Net Sales	\$ 4,813,649	\$ 4,958,175	5,321,643	5,564,551	5,506,994
Adjusted EBITA* as a % of net sales (non-GAAP measure)	12.7%	11.9%	11.5%	11.1%	12.1%
Adjusted EBITDA* as a % of net sales (non-GAAP measure)	14.0%	13.3%	13.0%	12.7%	14.1%

*EBIT is defined as earnings before interest and taxes, while EBITDA is defined as earnings before interest, taxes, depreciation and amortization. We evaluate the profit performance of our segments based on income before income taxes, but also look to EBIT as a performance evaluation measure because interest expense is essentially related to acquisitions, as opposed to segment operations. We believe EBIT is useful to investors for this purpose as well, using EBIT as a metric in their investment decisions. EBIT should not be considered an alternative to, or more meaningful than, income before income taxes as determined in accordance with GAAP, since it omits the impact of interest and taxes in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness and ongoing tax obligations. We evaluate our liquidity based on cash flows from operating, investing and financing activities, as defined by GAAP, but also look to EBITDA as a supplemental liquidity measure, because we find it useful to understand and evaluate our capacity, excluding the impact of interest, taxes, and non-cash depreciation and amortization charges, for servicing our debt and otherwise meeting our cash needs, prior to our consideration of the impacts of other potential sources and uses of cash such as working capital items. We believe that EBITDA is useful to investors for these purposes as well. EBITDA should not be considered an alternative to, or more meaningful than, cash flows from operating activities, as determined in accordance with GAAP, since it omits the impact of interest, taxes and changes in working capital that use/provide cash (such as receivables, payables, and inventories) as well as the sources/uses of cash associated with changes in other balance sheet items (such as long-term loss accruals and deferred items). Since EBITDA excludes depreciation and amortization, EBITDA does not reflect any cash requirements for the replacement of the assets being depreciated and amortized, which assets will often have to be replaced in the future. Further, EBITDA, since it also does not reflect the impact of debt service, cash dividends or capital expenditures, does not represent how much discretionary cash we have available for other purposes. Nonetheless, EBIT and EBITDA are key measures expected by and useful to our fixed income investors, rating agencies and the banking community of all of whom believe, and we concur that these measures are critical to the capital markets' analysis of (i) our segments core operating performance, and (ii) our ability to service debt, fund capital expenditures and otherwise meet cash needs, respectively. We also evaluate EBIT and EBITDA because it is clear that movements in these non-GAAP measures impact our ability to attract financing. Our underwriters and bankers consistently require inclusion of these two measures in offering memoranda in conjunction with any debt underwriting or bank financing.