



RPM International Inc.

First Quarter Results Fiscal Year 2020

Consolidated Statements of Income



(As Reported)

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

	Fiscal Year Ended May 31,				
	2019	%	2018	%	% Change
Net Sales	\$ 5,564,551		\$ 5,321,643		4.6
Cost of Sales	3,476,231	62.5	3,305,095	62.1	
Gross Profit	2,088,320	37.5	2,016,548	37.9	
SG&A	1,596,043	28.7	1,498,479	28.2	
Restructuring Expense	42,310	0.7	17,514	0.3	
Other Intangible Asset Impairments	4,190	0.1	-	0.0	
Other Expense (Income), Net	4,270	0.1	(598)	0.0	
EBIT*	441,507	7.9	501,153	9.4	(11.9)
Interest Expense	102,392	1.8	104,547	2.0	
Investment (Income), Net	(730)	0.0	(20,442)	(0.4)	
Income Before Income Taxes	339,845	6.1	417,048	7.8	
Provision for Income Taxes	72,158	1.3	77,791	1.5	
Net Income	267,687	4.8	339,257	6.3	(21.1)
Less: Net Income Attributable to Noncontrolling Interests	1,129	0.0	1,487	0.0	
Net Income Attributable to RPM Stockholders	\$ 266,558	4.8	\$ 337,770	6.3	(21.1)
Diluted Earnings Per Share	\$ 2.01		\$ 2.50		(19.6)

*Non-GAAP measure

Consolidated Statements of Income



(As Reported)

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

Unaudited

Three Months Ended August 31,

	2019	%	2018	%	% Change
Net Sales	\$ 1,472,764		\$ 1,459,989		0.9
Cost of Sales	898,010	61.0	910,636	62.4	
Gross Profit	574,754	39.0	549,353	37.6	
SG&A	400,566	27.2	415,053	28.4	
Restructuring Expense	6,622	0.4	20,076	1.4	
Other Income, Net	1,785	0.1	313	0.0	
EBIT*	165,781	11.3	113,911	7.8	45.5
Interest Expense	28,317	2.0	24,406	1.7	
Investment (Income), Net	(5,385)	(0.4)	(2,433)	(0.2)	
Income Before Taxes	142,849	9.7	91,938	6.3	
Provision for Income Taxes	36,353	2.5	21,752	1.5	
Net Income	106,496	7.2	70,186	4.8	51.7
Less: Net Income Attributable to Noncontrolling Interests	308	0.0	422	0.0	
Net Income Attributable to RPM Stockholders	\$ 106,188	7.2	\$ 69,764	4.8	52.2
Diluted EPS	\$ 0.82		\$ 0.52		57.7

*Non-GAAP measure



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,				
	2019	2018	2017	2016	2015
<u>Cash Flows from Operating Activities:</u>					
Net income	\$ 267,687	\$ 339,257	\$ 184,671	\$ 357,458	\$ 228,328
Depreciation and amortization	141,742	128,499	116,773	111,039	99,176
Working capital and all other operating activities	(116,488)	(77,373)	84,683	6,209	2,944
Cash Flow from Operations (GAAP)	292,941	390,383	386,127	474,706	330,448
<u>Cash Flows from Investing Activities:</u>					
Capital expenditures	(136,757)	(114,619)	(126,109)	(117,183)	(85,363)
<u>Cash Flows from Financing Activities:</u>					
Dividends	(181,409)	(167,476)	(156,752)	(144,350)	(136,179)
Free Cash Flow (non-GAAP measure)	(25,225)	108,288	103,266	213,173	108,906
All other investing activities	(111,489)	(146,574)	(213,556)	(48,683)	(474,090)
All other financing activities	127,567	(71,900)	192,723	(61,755)	246,372
Effect of exchange rate changes on cash and short-term investments	(12,107)	4,111	2,912	(12,294)	(39,345)
Net increase (decrease) in cash and short-term investments (GAAP)	\$ (21,254)	\$ (106,075)	\$ 85,345	\$ 90,441	\$ (158,157)

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 there of, after supporting the organic growth needs of its businesses, including their working capital and capital expenditure needs, and after supporting RPM's dividend program.

- (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 charges in connection with restructuring activities at our Construction Products and Performance Coatings Segments; and the following in fiscal 2019; charges reflecting a true-up of fiscal 2018 inventory write-offs at our Consumer Segment during the first quarter of fiscal 2019, inventory write-offs and disposals at our Construction Products and Performance Coatings Segments.
- (b) Reflects restructuring charges, including headcount reductions, closures of facilities and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan initiatives.
- (c) Includes accelerated depreciation expense related to the shortened useful lives of facilities currently operating, but are in the process of being prepared for closure.
- (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 reversals.
- (e) Includes implementation costs associated with the current phase of 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 Margin Acceleration Plan initiatives.
- (g) Acquisition costs reflect amounts included in gross profit for inventory disposals and step-ups related to fiscal 2020 acquisitions, and amounts included in SG&A for acquisition-related professional fees.
- (h) Reflects unusual compensation costs recorded during fiscal 2020 that resulted from executive departures unrelated to our 2020 MAP to Growth initiative, including stock and deferred compensation plan arrangements.
- (i) 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 August 31,	
	2019	2018
Income Before Income Taxes	\$ 142,849	\$ 91,938
Add: Interest Expense, Net*	22,932	21,973
EBIT** (non-GAAP measure)	165,781	113,911
Inventory-related charges (a)	3,225	4,324
Restructuring Expense (b)	6,829	20,076
Facility closure expense - other (c)	1,052	2,455
Receivable write-offs (d)	3,133	8,020
ERP consolidation plan (e)	3,524	659
Professional fees (f)	8,146	4,297
Acquisition-related costs (g)	548	-
Unusual costs triggered by executive departures (h)	347	-
Adjusted EBIT	\$ 192,585	\$ 153,742
Net Sales	\$ 1,472,764	\$ 1,459,989
EBIT** as a % of Net Sales (non-GAAP measure)	11.3%	7.8%
Adj EBIT as a % of Net Sales (non-GAAP measure)	13.1%	10.5%

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

**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.

NOTE: Refer to slide 6 for all adjustment detail.

Reconciliation of "Reported" to "Adjusted" EPS



(Unaudited)

Three Months Ended August 31,

2019

2018

Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):

Reported Earning per Diluted Share	\$	0.82	\$	0.52
Inventory-related charges (a)		0.02		0.03
Restructuring Expense (b)		0.04		0.11
Facility closure expense - other (c)		-		0.01
Receivable write-offs (d)		0.02		0.06
ERP consolidation plan (e)		0.02		0.01
Professional fees (f)		0.05		0.02
Investment returns (i)		(0.02)		-
Adjusted Earnings per Diluted Share (j)	\$	0.95	\$	0.76

(j) 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, except per share and percent data)
 (Unaudited)

	Three Months Ended August 31,	
	2019	2018
Income Before Income Taxes	\$ 82,680	\$ 65,044
Add: Interest Expense, Net*	2,027	2,290
EBIT** (non-GAAP measure)	84,707	67,334
Inventory-related charges (a)	271	229
Restructuring Expense (b)	1,055	2,797
Facility closure expense - other (c)	202	-
Receivable write-offs (d)	53	-
ERP consolidation plan (e)	60	231
Professional fees (f)	11	-
Acquisition-related costs (g)	548	-
Adjusted EBIT	\$ 86,907	\$ 70,591
Net Sales	\$ 536,105	\$ 517,492
EBIT** as a % of Net Sales (non-GAAP measure)	15.8%	13.0%
Adj EBIT as a % of Net Sales (non-GAAP measure)	16.2%	13.6%

*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, except per share and percent data)
 (Unaudited)

	Three Months Ended August 31,	
	2019	2018
Income Before Income Taxes	\$ 28,057	\$ 8,325
Add: Interest Expense, Net*	129	118
EBIT** (non-GAAP measure)	28,186	8,443
Inventory-related charges (a)	2,038	4,248
Restructuring Expense (b)	2,608	5,043
Facility closure expense - other (c)	701	-
Receivable write-offs (d)	3,023	8,020
ERP consolidation plan (e)	367	2,440
Adjusted EBIT	\$ 36,923	\$ 28,194
Net Sales	\$ 297,241	\$ 296,419
EBIT** as a % of Net Sales (non-GAAP measure)	9.5%	2.8%
Adj EBIT as a % of Net Sales (non-GAAP measure)	12.4%	9.5%

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

**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.

NOTE: Refer to slide 6 for all adjustment detail

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



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

	Three Months Ended August 31,	
	2019	2018
Income Before Income Taxes	\$ 59,158	\$ 50,969
Add: Interest Expense, Net*	105	174
EBIT** (non-GAAP measure)	59,263	51,143
Inventory-related charges (a)	916	(154)
Restructuring Expense (b)	1,282	1,018
Receivable write-offs (d)	58	-
Professional fees (f)	177	-
Adjusted EBIT	\$ 61,696	\$ 52,007
Net Sales	\$ 479,330	\$ 477,363
EBIT** as a % of Net Sales (non-GAAP measure)	12.4%	10.7%
Adj EBIT as a % of Net Sales (non-GAAP measure)	12.9%	10.9%

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

**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.

NOTE: Refer to slide 6 for all adjustment detail

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



(As Reported)
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(Unaudited)

	Three Months Ended August 31,	
	2019	2018
Income Before Income Taxes	\$ 23,327	\$ 23,816
Add: Interest (Income), Net*	(26)	(93)
EBIT** (non-GAAP measure)	23,301	23,723
Restructuring Expense (b)	1,889	2,220
Facility closure expense - other (c)	149	16
ERP consolidation plan (e)	3,097	427
Unusual costs triggered by executive departures (h)	193	-
Adjusted EBIT	\$ 28,629	\$ 26,386
Net Sales	\$ 160,088	\$ 168,715
EBIT** as a % of Net Sales (non-GAAP measure)	14.6%	14.1%
Adj EBIT as a % of Net Sales (non-GAAP measure)	17.9%	15.6%

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

**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.

NOTE: Refer to slide 6 for all adjustment detail

EBIT* & EBITDA (Non-GAAP Measures)



In thousands)

	2015 ⁽²⁾	2016	2017	2018	2019
Net income	\$ 228,328	\$ 357,458	\$ 184,671	\$ 339,257	\$ 267,687
Add: Provision (benefit) for income taxes	224,925	126,008	59,662	77,791	72,158
Add: Interest expense	87,615	91,683	96,954	104,547	102,392
Add: Investment expense (income), net	(18,577)	(10,365)	(13,984)	(20,442)	(730)
Add: 2020 MAP to Growth related initiatives				58,080	106,475
Add: Acquisition-related charges					5,385
Add: Convertible debt extinguishment					3,052
Add: Loss on South Africa Business					540
Add: Unusual costs triggered by executive departures					10,520
Add: Charge to exit Flowcrete China				4,164	
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)	522,291	564,784	542,877	563,397	567,479
Add: Amortization	36,988	44,307	44,903	46,523	47,699
Adjusted EBITA* (non-GAAP measure)	559,279	609,091	587,780	609,920	615,178
Add: Depreciation	62,188	66,732	71,870	81,976	94,043
Adjusted EBITDA* (non-GAAP measure)	621,467	675,823	659,650	691,896	709,221
Deduct: Interest expense	(87,615)	(91,683)	(96,954)	(104,547)	(102,392)
Deduct: Investment expense (income), net	18,577	10,365	13,984	20,442	730
Deduct: Provision (benefit) for income taxes	(224,925)	126,008	(59,662)	(77,791)	(72,158)
Add: Changes in operating assets, liabilities and other	2,944	6,209	(130,891)	(139,617)	(242,460)
Cash from operating activities	\$ 330,448	\$ 474,706	\$ 386,127	\$ 390,383	\$ 292,941
Net sales	\$4,594,550	\$4,813,649	\$4,958,175	\$5,321,643	\$5,564,551
Adjusted EBITA* as % of net sales (non-GAAP measure)	12.2%	12.7%	11.9%	11.5%	11.1%
Adjusted EBITDA* as % of net sales (non-GAAP measure)	13.5%	14.0%	13.3%	13.0%	12.7%

*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.

- Proforma, excluding one time charges detailed in noted additions above.
- Reflects adjustments related to the recognition of ASC 740-30 tax liability for the potential repatriation of foreign earnings and related impact on NCI Net Income.