

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2021,

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

**P.O. BOX 777;
2628 PEARL ROAD;
MEDINA, OHIO**

(Address of principal executive offices)

02-0642224

(IRS Employer
Identification No.)

44258
(Zip Code)

(330) 273-5090

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------|----------------------|---|
| Common Stock, par value \$0.01 | RPM | New York Stock Exchange |

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No .

As of October 1, 2021, the registrant had 129,715,706 shares of common stock, \$0.01 par value per share, outstanding.

RPM INTERNATIONAL INC. AND SUBSIDIARIES*

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* As used herein, the terms "RPM" and the "Company" refer to RPM International Inc. and its subsidiaries, unless the context indicates otherwise.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
RPM INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

| | August 31, 2021 | May 31, 2021 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 213,212 | \$ 246,704 |
| Trade accounts receivable (less allowances of \$52,181 and \$55,922, respectively) | 1,171,914 | 1,280,806 |
| Inventories | 997,255 | 938,095 |
| Prepaid expenses and other current assets | 330,315 | 316,399 |
| Total current assets | 2,712,696 | 2,782,004 |
| Property, Plant and Equipment, at Cost | 1,949,817 | 1,967,482 |
| Allowance for depreciation | (998,993) | (1,002,300) |
| Property, plant and equipment, net | 950,824 | 965,182 |
| Other Assets | | |
| Goodwill | 1,349,137 | 1,345,754 |
| Other intangible assets, net of amortization | 626,244 | 628,693 |
| Operating lease right-of-use assets | 298,878 | 300,827 |
| Deferred income taxes | 26,671 | 26,804 |
| Other | 201,754 | 203,705 |
| Total other assets | 2,502,684 | 2,505,783 |
| Total Assets | <u>\$ 6,166,204</u> | <u>\$ 6,252,969</u> |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 647,568 | \$ 717,176 |
| Current portion of long-term debt | 1,649 | 1,282 |
| Accrued compensation and benefits | 156,031 | 258,380 |
| Accrued losses | 25,309 | 29,054 |
| Other accrued liabilities | 333,065 | 325,522 |
| Total current liabilities | 1,163,622 | 1,331,414 |
| Long-Term Liabilities | | |
| Long-term debt, less current maturities | 2,429,623 | 2,378,544 |
| Operating lease liabilities | 256,661 | 257,415 |
| Other long-term liabilities | 417,072 | 436,176 |
| Deferred income taxes | 108,506 | 106,395 |
| Total long-term liabilities | 3,211,862 | 3,178,530 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' Equity | | |
| Preferred stock, par value \$0.01; authorized 50,000 shares; none issued | — | — |
| Common stock, par value \$0.01; authorized 300,000 shares; | | |
| issued 144,648 and outstanding 129,743 as of August 31, 2021; | | |
| issued 144,199 and outstanding 129,573 as of May 31, 2021 | 1,297 | 1,295 |
| Paid-in capital | 1,061,161 | 1,055,400 |
| Treasury stock, at cost | (671,314) | (653,006) |
| Accumulated other comprehensive (loss) | (540,508) | (514,884) |
| Retained earnings | 1,937,940 | 1,852,259 |
| Total RPM International Inc. stockholders' equity | 1,788,576 | 1,741,064 |
| Noncontrolling Interest | 2,144 | 1,961 |
| Total equity | 1,790,720 | 1,743,025 |
| Total Liabilities and Stockholders' Equity | <u>\$ 6,166,204</u> | <u>\$ 6,252,969</u> |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

| | Three Months Ended | |
|--|--------------------|--------------------|
| | August 31, 2021 | August 31, 2020 |
| Net Sales | \$ 1,650,420 | \$ 1,606,670 |
| Cost of Sales | 1,037,069 | 953,015 |
| Gross Profit | 613,351 | 653,655 |
| Selling, General and Administrative Expenses | 418,850 | 395,953 |
| Restructuring Expense | 1,010 | 4,233 |
| Interest Expense | 21,109 | 21,745 |
| Investment (Income), Net | (5,750) | (12,763) |
| Other (Income) Expense, Net | (3,339) | 3,118 |
| Income Before Income Taxes | 181,471 | 241,369 |
| Provision for Income Taxes | 46,676 | 60,584 |
| Net Income | 134,795 | 180,785 |
| Less: Net Income Attributable to Noncontrolling Interests | 213 | 190 |
| Net Income Attributable to RPM International Inc. Stockholders | \$ 134,582 | \$ 180,595 |
| Average Number of Shares of Common Stock Outstanding: | | |
| Basic | 128,083 | 128,418 |
| Diluted | 128,570 | 128,783 |
| Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders: | | |
| Basic | \$ 1.04 | \$ 1.39 |
| Diluted | \$ 1.04 | \$ 1.39 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

| | Three Months Ended | |
|--|--------------------------|--------------------------|
| | August 31, 2021 | August 31, 2020 |
| Net Income | \$ 134,795 | \$ 180,785 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustments (net of tax of \$2,337 and \$2,862, respectively) | (38,980) | 64,667 |
| Pension and other postretirement benefit liability adjustments | | |
| (net of tax of \$1,466 and \$786, respectively) | 4,442 | 3,260 |
| Unrealized gain on securities and other (net of tax of \$145 and \$82, respectively) | 274 | 89 |
| Unrealized gain (loss) on derivatives (net of tax of \$2,571 and \$5,542, respectively) | 8,610 | (18,112) |
| Total other comprehensive income (loss) | (25,654) | 49,904 |
| Total Comprehensive Income | 109,141 | 230,689 |
| Less: Comprehensive Income Attributable to Noncontrolling Interests | 183 | 259 |
| Comprehensive Income Attributable to RPM International Inc. Stockholders | <u>\$ 108,958</u> | <u>\$ 230,430</u> |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

| | Three Months Ended | |
|--|--------------------|--------------------|
| | August 31, 2021 | August 31, 2020 |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 134,795 | \$ 180,785 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 37,944 | 35,317 |
| Restructuring charges, net of payments | (2,004) | (1,972) |
| Fair value adjustments to contingent earnout obligations | 1,027 | 2,712 |
| Deferred income taxes | (3,452) | 1,938 |
| Stock-based compensation expense | 5,763 | 10,457 |
| Net (gain) on marketable securities | (3,476) | (11,784) |
| Other | (76) | (10) |
| Changes in assets and liabilities, net of effect from purchases and sales of businesses: | | |
| Decrease in receivables | 98,166 | 692 |
| (Increase) decrease in inventory | (68,155) | 43,395 |
| (Increase) in prepaid expenses and other current and long-term assets | (15,648) | (5,526) |
| (Decrease) increase in accounts payable | (42,912) | 4,945 |
| (Decrease) in accrued compensation and benefits | (100,201) | (55,368) |
| (Decrease) increase in accrued losses | (3,530) | 1,936 |
| Increase in other accrued liabilities | 37,866 | 109,399 |
| Other | - | 1,173 |
| Cash Provided by Operating Activities | 76,107 | 318,089 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (51,888) | (41,488) |
| Acquisition of businesses, net of cash acquired | (35,802) | - |
| Purchase of marketable securities | (5,843) | (17,104) |
| Proceeds from sales of marketable securities | 2,766 | 16,070 |
| Other | 250 | 244 |
| Cash (Used For) Investing Activities | (90,517) | (42,278) |
| Cash Flows from Financing Activities: | | |
| Additions to long-term and short-term debt | 60,547 | 136 |
| Reductions of long-term and short-term debt | (471) | (213,090) |
| Cash dividends | (48,901) | (46,622) |
| Repurchases of common stock | (12,500) | - |
| Shares of common stock returned for taxes | (5,802) | (7,115) |
| Payments of acquisition-related contingent consideration | (60) | (2,217) |
| Cash (Used For) Financing Activities | (7,187) | (268,908) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (11,895) | 11,446 |
| Net Change in Cash and Cash Equivalents | (33,492) | 18,349 |
| Cash and Cash Equivalents at Beginning of Period | 246,704 | 233,416 |
| Cash and Cash Equivalents at End of Period | <u>\$ 213,212</u> | <u>\$ 251,765</u> |
| Supplemental Disclosures of Cash Flows Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 17,301 | \$ 17,566 |
| Income Taxes, net of refunds | \$ 28,016 | \$ 16,845 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

| | Common Stock | | | | Accumulated | | Total RPM International Inc. Equity | Noncontrolling Interests | Total Equity |
|--|------------------------|---------------------|---------------------|---------------------|---|----------------------|---|-----------------------------|---------------------|
| | Number of Shares | Par/Stated Value | Paid-In Capital | Treasury Stock | Other Comprehensive Income (Loss) | Retained Earnings | | | |
| Balance at June 1, 2021 | 129,573 | \$ 1,295 | \$ 1,055,400 | \$ (653,006) | \$ (514,884) | \$ 1,852,259 | \$ 1,741,064 | \$ 1,961 | \$ 1,743,025 |
| Net income | - | - | - | - | - | 134,582 | 134,582 | 213 | 134,795 |
| Other comprehensive loss | - | - | - | - | (25,624) | - | (25,624) | (30) | (25,654) |
| Dividends declared and paid (\$0.38 per share) | - | - | - | - | - | (48,901) | (48,901) | - | (48,901) |
| Share repurchases under repurchase program | (133) | (1) | 1 | (12,500) | - | - | (12,500) | - | (12,500) |
| Stock compensation expense and other deferred compensation, shares granted less shares returned for taxes | 303 | 3 | 5,760 | (5,808) | - | - | (45) | - | (45) |
| Balance at August 31, 2021 | <u>129,743</u> | <u>\$ 1,297</u> | <u>\$ 1,061,161</u> | <u>\$ (671,314)</u> | <u>\$ (540,508)</u> | <u>\$ 1,937,940</u> | <u>\$ 1,788,576</u> | <u>\$ 2,144</u> | <u>\$ 1,790,720</u> |

| | Common Stock | | | | Accumulated | | Total RPM International Inc. Equity | Noncontrolling Interests | Total Equity |
|--|------------------------|---------------------|---------------------|---------------------|---|----------------------|---|-----------------------------|---------------------|
| | Number of Shares | Par/Stated Value | Paid-In Capital | Treasury Stock | Other Comprehensive Income (Loss) | Retained Earnings | | | |
| Balance at June 1, 2020 | 129,511 | \$ 1,295 | \$ 1,014,428 | \$ (580,117) | \$ (717,497) | \$ 1,544,336 | \$ 1,262,445 | \$ 2,218 | \$ 1,264,663 |
| Net income | - | - | - | - | - | 180,595 | 180,595 | 190 | 180,785 |
| Other comprehensive income | - | - | - | - | 49,835 | - | 49,835 | 69 | 49,904 |
| Dividends declared and paid (\$0.36 per share) | - | - | - | - | - | (46,622) | (46,622) | - | (46,622) |
| Stock compensation expense and other deferred compensation, shares granted less shares returned for taxes | 464 | 5 | 10,451 | (7,115) | - | - | 3,341 | - | 3,341 |
| Balance at August 31, 2020 | <u>129,975</u> | <u>\$ 1,300</u> | <u>\$ 1,024,879</u> | <u>\$ (587,232)</u> | <u>\$ (667,662)</u> | <u>\$ 1,678,309</u> | <u>\$ 1,449,594</u> | <u>\$ 2,477</u> | <u>\$ 1,452,071</u> |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles in the U.S. (“GAAP”) for interim financial information and the instructions to Form 10-Q. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three-month periods ended August 31, 2021 and August 31, 2020. For further information, refer to the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended May 31, 2021.

Our financial statements include all of our majority-owned subsidiaries. We account for our investments in less-than-majority-owned joint ventures, for which we have the ability to exercise significant influence, under the equity method. Effects of transactions between related companies are eliminated in consolidation.

Noncontrolling interests are presented in our Consolidated Financial Statements as if parent company investors (controlling interests) and other minority investors (noncontrolling interests) in partially-owned subsidiaries have similar economic interests in a single entity. As a result, investments in noncontrolling interests are reported as equity in our Consolidated Financial Statements. Additionally, our Consolidated Financial Statements include 100% of a controlled subsidiary’s earnings, rather than only our share. Transactions between the parent company and noncontrolling interests are reported in equity as transactions between stockholders, provided that these transactions do not create a change in control.

Our business is dependent on external weather factors. Historically, we have experienced strong sales and net income in our first, second and fourth fiscal quarters comprising the three-month periods ending August 31, November 30 and May 31, respectively, with weaker performance in our third fiscal quarter (December through February).

NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

New Pronouncements Adopted

In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20), Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans,” which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with employers that sponsor defined benefit or other postretirement plans. This guidance is effective for fiscal years ending after December 15, 2020. Early adoption was permitted for all entities and the amendments in this update are required to be applied on a retrospective basis to all periods presented. The adoption of this new guidance, effective for the fiscal year ending May 31, 2021, did not have a material impact on our Consolidated Financial Statements or disclosures.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740),” which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the amendments is permitted, including adoption in any interim period for which financial statements have not yet been issued. Depending on the amendment, adoption may be applied on the retrospective, modified retrospective or prospective basis. The adoption of this new guidance, effective June 1, 2021 using the prospective method, did not have a material impact on our Consolidated Financial Statements.

New Pronouncements Issued

We are not aware of any recently issued accounting pronouncements that have not yet been adopted by us and which would have a material impact on our consolidated financial statements.

NOTE 3 — RESTRUCTURING

We record restructuring charges associated with management-approved restructuring plans to either reorganize one or more of our business segments, or to remove duplicative headcount and infrastructure associated with our businesses. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, contract cancellation costs and other costs. Restructuring charges are recorded based upon planned employee termination dates and site closure and consolidation plans. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. We record the short-term portion of our restructuring liability in Other Accrued Liabilities and the long-term portion, if any, in Other Long-Term Liabilities in our Consolidated Balance Sheets.

MAP to Growth

Between May and August 2018, we approved and implemented the initial phases of a multi-year restructuring plan, which was originally referred to as the 2020 Margin Acceleration Plan (“2020 MAP to Growth”). The initial phases of our 2020 MAP to Growth affected all of our reportable segments, as well as our corporate/nonoperating segment, and focused on margin improvement by simplifying business processes; reducing inventory categories and rationalizing SKUs; eliminating underperforming businesses; reducing headcount and working capital; and improving operating efficiency.

The disruption caused by the outbreak of the Covid pandemic delayed the finalization of our 2020 MAP to Growth past the original target completion date of December 31, 2020. In recognition of the fact our restructuring plan extends past calendar year 2020, we began referring to it simply as our “MAP to Growth.”

On May 31, 2021, we formally concluded our MAP to Growth. However, certain projects identified prior to May 31, 2021 are not yet completed. Accordingly, we expect to incur restructuring expense throughout fiscal year 2022. The total expected costs are subject to change as we complete these projects.

Our execution of the MAP to Growth drove the de-layering and simplification of management and businesses associated with group realignment. We have implemented four center-led functional areas including manufacturing and operations; procurement and supply chain; information technology; and accounting and finance.

Our MAP to Growth optimized our manufacturing facilities and provided more efficient plant and distribution facilities. Through the balance sheet date, in association with our MAP to Growth, we have completed, or are in the process of completing, the planned closure of 29 plants and 28 warehouses. We also expect to incur additional severance and benefit costs as part of our planned closure of these facilities.

The current total expected costs associated with this plan are outlined in the table below and decreased by approximately \$1.6 million compared to our previous estimate, primarily attributable to decreases in expected severance and benefit charges of \$0.8 million and expected facility closure and other related costs of \$0.8 million.

Following is a summary of the charges recorded in connection with restructuring by reportable segment:

| <i>(In thousands)</i> | Three Months | | Three Months | | Cumulative | Total |
|---|-----------------|--------------|-----------------|--------------|------------|----------------|
| | Ended | | Ended | | Costs | Expected |
| | August 31, 2021 | | August 31, 2020 | | to Date | Costs |
| Construction Products Group ("CPG") Segment: | | | | | | |
| Severance and benefit costs (credits) (a) | \$ | (493) | \$ | 180 | \$ | 20,795 |
| Facility closure and other related costs | | 540 | | 368 | | 7,120 |
| Other restructuring costs | | 4 | | 36 | | 1,982 |
| Total Charges | \$ | 51 | \$ | 584 | \$ | 29,897 |
| Performance Coatings Group ("PCG") Segment: | | | | | | |
| Severance and benefit costs (b) | \$ | 128 | \$ | 1,039 | \$ | 16,487 |
| Facility closure and other related costs | | 408 | | 288 | | 7,037 |
| Other restructuring costs | | - | | 29 | | 917 |
| Total Charges | \$ | 536 | \$ | 1,356 | \$ | 24,441 |
| Consumer Segment: | | | | | | |
| Severance and benefit costs (c) | \$ | - | \$ | 790 | \$ | 12,307 |
| Facility closure and other related costs | | 240 | | 597 | | 12,321 |
| Other restructuring costs | | - | | 98 | | 4,420 |
| Total Charges | \$ | 240 | \$ | 1,485 | \$ | 29,048 |
| Specialty Products Group ("SPG") Segment: | | | | | | |
| Severance and benefit costs (d) | \$ | 87 | \$ | 469 | \$ | 8,214 |
| Facility closure and other related costs | | 98 | | 268 | | 5,688 |
| Other restructuring costs (credits) | | (2) | | 71 | | 1,219 |
| Total Charges | \$ | 183 | \$ | 808 | \$ | 15,121 |
| Corporate/Other Segment: | | | | | | |
| Severance and benefit costs | \$ | - | \$ | - | \$ | 13,538 |
| Total Charges | \$ | - | \$ | - | \$ | 13,538 |
| Consolidated: | | | | | | |
| Severance and benefit costs (credits) | \$ | (278) | \$ | 2,478 | \$ | 71,341 |
| Facility closure and other related costs | | 1,286 | | 1,521 | | 32,166 |
| Other restructuring costs | | 2 | | 234 | | 8,538 |
| Total Charges | \$ | 1,010 | \$ | 4,233 | \$ | 112,045 |

(a) Severance and benefit recoveries are associated with the adjustment of previously estimated severance accruals partially offset by the elimination of five positions during the three months ended August 31, 2021. Severance and benefit costs for the three months ended August 31, 2020 are associated with the elimination of nine positions.

(b) Severance and benefit costs are associated with the elimination of two positions and 39 positions during the three months ended August 31, 2021 and 2020, respectively.

(c) Severance and benefit costs are associated with the elimination of three positions during the three months ended August 31, 2020.

(d) Severance and benefit costs are associated with the elimination of 16 positions and 28 positions during the three months ended August 31, 2021 and 2020, respectively.

A summary of the activity in the restructuring reserves related to our MAP to Growth is as follows:

| <i>(In thousands)</i> | Facility | | | Total |
|--|---------------------------------|---------------------------------------|---------------------------------|-----------------|
| | Severance and Benefits Costs | Closure and Other Related Costs | Other Restructuring Costs | |
| | | | | |
| Balance at June 1, 2021 | \$ 4,430 | \$ 1,290 | \$ - | 5,720 |
| Charges (credits) to expense | (278) | 1,286 | 2 | 1,010 |
| Cash payments charged against reserve | (1,766) | (1,248) | - | (3,014) |
| Non-cash charges and other adjustments | - | (377) | (2) | (379) |
| Balance at August 31, 2021 | \$ 2,386 | \$ 951 | \$ - | \$ 3,337 |

| <i>(In thousands)</i> | Facility | | | Total |
|--|---------------------------------|---------------------------------------|---------------------------------|------------------|
| | Severance and Benefits Costs | Closure and Other Related Costs | Other Restructuring Costs | |
| | | | | |
| Balance at June 1, 2020 | \$ 7,357 | \$ 5,880 | \$ - | \$ 13,237 |
| Charges to expense | 2,478 | 1,521 | 234 | 4,233 |
| Cash payments charged against reserve | (4,942) | (1,263) | - | (6,205) |
| Non-cash charges and other adjustments | - | - | (234) | (234) |
| Balance at August 31, 2020 | \$ 4,893 | \$ 6,138 | \$ - | \$ 11,031 |

NOTE 4 — FAIR VALUE MEASUREMENTS

Financial instruments recorded in the balance sheet include cash and cash equivalents, trade accounts receivable, derivative assets and liabilities, marketable securities, notes and accounts payable, and debt.

An allowance for credit losses is established for trade accounts receivable using assessments of current creditworthiness of customers, historical collection experience, the aging of receivables and other currently available evidence. Trade accounts receivable balances are written-off against the allowance if a final determination of uncollectibility is made. All provisions for allowance for doubtful collection of accounts are included in selling, general, and administrative expense.

All derivative instruments are recognized in our Consolidated Balance Sheets and measured at fair value. Changes in the fair values of derivative instruments that do not qualify as hedges and/or any ineffective portion of hedges are recognized as a gain or (loss) in our Consolidated Statements of Income in the current period. Changes in the fair value of derivative instruments used effectively as cash flow hedges are recognized in other comprehensive income (loss), along with the change in the value of the hedged item. We do not hold or issue derivative instruments for speculative purposes.

The valuation techniques utilized for establishing the fair values of assets and liabilities are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect management's market assumptions. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value, as follows:

Level 1 Inputs — Quoted prices for identical instruments in active markets.

Level 2 Inputs — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs — Instruments with primarily unobservable value drivers.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. In addition, with respect to our derivative assets and liabilities measured at fair value, refer to Note 5, "Derivatives and Hedging" for discussion of their classification within the fair value hierarchy.

| | Quoted Prices | | | Fair Value at August 31, 2021 |
|--|------------------|-------------------|--------------------|-------------------------------------|
| | in Active | Significant | | |
| | Markets for | Other | Significant | |
| | Identical Assets | Observable | Unobservable | |
| (In thousands) | (Level 1) | Inputs (Level 2) | Inputs (Level 3) | |
| Available-for-sale debt securities: | | | | |
| U.S. Treasury and other government | \$ - | \$ 26,758 | \$ - | \$ 26,758 |
| Corporate bonds | - | 188 | - | 188 |
| Total available-for-sale debt securities | - | 26,946 | - | 26,946 |
| Marketable equity securities: | | | | |
| Stocks - foreign | 949 | - | - | 949 |
| Stocks - domestic | 7,295 | - | - | 7,295 |
| Mutual funds - foreign | - | 48,770 | - | 48,770 |
| Mutual funds - domestic | - | 91,642 | - | 91,642 |
| Total marketable equity securities | 8,244 | 140,412 | - | 148,656 |
| Contingent consideration | - | - | (14,042) | (14,042) |
| Total | \$ 8,244 | \$ 167,358 | \$ (14,042) | \$ 161,560 |

| | Quoted Prices | | | Fair Value at May 31, 2021 |
|--|------------------|-------------------|--------------------|----------------------------------|
| | in Active | Significant | | |
| | Markets for | Other | Significant | |
| | Identical Assets | Observable | Unobservable | |
| (In thousands) | (Level 1) | Inputs (Level 2) | Inputs (Level 3) | |
| Available-for-sale debt securities: | | | | |
| U.S. Treasury and other government | \$ - | \$ 26,563 | \$ - | \$ 26,563 |
| Corporate bonds | - | 182 | - | 182 |
| Total available-for-sale debt securities | - | 26,745 | - | 26,745 |
| Marketable equity securities: | | | | |
| Stocks - foreign | 768 | - | - | 768 |
| Stocks - domestic | 6,975 | - | - | 6,975 |
| Mutual funds - foreign | - | 47,916 | - | 47,916 |
| Mutual funds - domestic | - | 86,428 | - | 86,428 |
| Total marketable equity securities | 7,743 | 134,344 | - | 142,087 |
| Contingent consideration | - | - | (13,335) | (13,335) |
| Total | \$ 7,743 | \$ 161,089 | \$ (13,335) | \$ 155,497 |

Our investments in available-for-sale debt securities and marketable equity securities are valued using a market approach. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors, including the type of instrument, whether the instrument is actively traded and other characteristics particular to the transaction. For most of our financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

The contingent consideration represents the estimated fair value of the additional variable cash consideration payable in connection with recent acquisitions that is contingent upon the achievement of certain performance milestones. We estimated the fair value using expected future cash flows over the period in which the obligation is expected to be settled, and applied a discount rate that appropriately captures a market participant's view of the risk associated with the obligation, which are considered to be Level 3 inputs. During the first three months of fiscal 2022, we recorded an increase in the accrual for approximately \$1.0 million related to fair value adjustments. During the first three months of fiscal 2021, we paid approximately \$2.8 million to satisfy contingent consideration obligations relating to certain performance milestones that were established in prior periods and achieved during last year's first three months. In the Consolidated Statements of Cash Flows, payments of acquisition-related contingent consideration for the amount recognized at fair value as of the acquisition date are reported in cash flows from financing activities, while payments of contingent consideration in excess of fair value as of the acquisition date, are reported in cash flows from operating activities.

The carrying value of our current financial instruments, which include cash and cash equivalents, marketable securities, trade accounts receivable, accounts payable and short-term debt approximates fair value because of the short-term maturity of these financial instruments. At August 31, 2021 and May 31, 2021, the fair value of our long-term debt was estimated using active market quotes, based on our current incremental borrowing rates for similar types of borrowing arrangements, which are Level 2 inputs. Based on the analysis performed, the fair value and the carrying value of our financial instruments and long-term debt as of August 31, 2021 and May 31, 2021 are as follows:

| <i>(In thousands)</i> | At August 31, 2021 | |
|---|---------------------------|-------------------|
| | Carrying Value | Fair Value |
| Cash and cash equivalents | \$ 213,212 | \$ 213,212 |
| Marketable equity securities | 148,656 | 148,656 |
| Available-for-sale debt securities | 26,946 | 26,946 |
| Long-term debt, including current portion | 2,431,272 | 2,680,324 |

| <i>(In thousands)</i> | At May 31, 2021 | |
|---|------------------------|-------------------|
| | Carrying Value | Fair Value |
| Cash and cash equivalents | \$ 246,704 | \$ 246,704 |
| Marketable equity securities | 142,087 | 142,087 |
| Available-for-sale debt securities | 26,745 | 26,745 |
| Long-term debt, including current portion | 2,379,826 | 2,570,206 |

NOTE 5 — DERIVATIVES AND HEDGING

Derivative Instruments and Hedging Activities

We are exposed to market risks, such as changes in foreign currency exchange rates and interest rates. To manage the volatility related to these exposures, from time to time, we enter into various derivative transactions. We use various types of derivative instruments including forward contracts and swaps. We formally assess, designate and document, as a hedge of an underlying exposure, each qualifying derivative instrument that will be accounted for as an accounting hedge at inception. Additionally, we assess, both at inception and at least quarterly thereafter, whether the financial instruments used in the hedging transaction are effective at offsetting changes in either the fair values or cash flows of the underlying exposures.

Derivatives Designated as Hedges

In October 2017, as a means of mitigating the impact of currency fluctuations on our Euro investments in foreign entities, we executed a fair value hedge and two cross currency swaps, in which we paid variable rate interest in Euros and received fixed rate interest in U.S. Dollars with a combined notional amount of approximately €85.25 million (\$100 million U.S. Dollar equivalent), and which had a maturity date of November 2022. This effectively converted a portion of our U.S. Dollar denominated fixed-rate debt to Euro denominated variable rate debt. The fair value hedge was recognized at fair value in our Consolidated Balance Sheets, while changes in the fair value of the hedge were recognized in interest expense in our Consolidated Statements of Income. We designated the swaps as net investment hedges of our net investment in our European operations under ASU 2017-12 and applied the spot method to these hedges. In February 2020, the fair value hedge and two cross-currency swaps agreements were terminated, and we received cash in the amount of \$9.3 million, representing the fair value of the swap and interest accrued through the date of termination. Accordingly, hedge accounting was discontinued and a hedge accounting adjustment to our Senior Notes of \$1.5 million was recorded and is being amortized to interest expense in the Consolidated Statements of Income through the termination of the 3.450% Notes in November 2022. Changes in the fair value of the cross-currency swaps due to spot foreign exchange rates are recorded as cumulative translation adjustment within accumulated other comprehensive income ("AOCI") and will remain in AOCI until either the sale or substantially complete liquidation of the hedged subsidiaries.

Separately, in February 2020, as a means of mitigating the impact of currency fluctuations on our Euro investments in foreign entities, we executed a cash flow hedge and two cross currency swaps, in which we will pay fixed rate interest in Euros and receive variable rate interest in U.S. Dollars with a combined notional amount of approximately €277.73 million (\$300 million U.S. Dollar equivalent), and which have a maturity date of February 2023. This effectively converts our U.S. Dollar denominated variable rate debt to Euro denominated fixed rate debt. The cash flow hedge is recognized at fair value in our Consolidated Balance Sheets, while changes in the fair value of the hedge will be recognized in AOCI when the hedged items affect earnings. Amounts recognized in AOCI will be recognized in earnings in interest expense when the hedged interest payment is accrued. We designated the swaps as net investment hedges of our net investment in our European operations under ASU 2017-12 and applied the spot method to these hedges. The changes in fair value of the derivative instruments that are designated and qualify as hedges of net investments in foreign operations are recognized in AOCI to offset the changes in the values of the net investments being hedged. In addition, in February 2020, as a means

of mitigating the variability of the functional-currency-equivalent cash flows associated with the U.S. Dollar denominated term loan facility (referred to as Foreign Borrower's Term Loan), we executed a cash flow hedge, in which we will pay fixed rate interest in Euros and receive variable rate interest in U.S. Dollars with a notional amount of approximately €92.52 million (\$100 million U.S. Dollar equivalent), and which have a maturity date of February 2023. This effectively converts our U.S. Dollar denominated variable rate debt to Euro denominated fixed rate debt. The cash flow hedge is recognized at fair value in our Consolidated Balance Sheets, while changes in the fair value of the hedge will be recognized in AOCI when the hedged items affect earnings. Amounts recorded in AOCI will be recognized in earnings in interest expense when the hedged interest payment is accrued. In addition, since this currency swap is a hedge of variability of the functional currency equivalent cash flows of a recognized liability to be remeasured at spot exchange rates under ASC 830, an amount that will offset the gain or loss arising from the remeasurement of the hedged liability will be reclassified each period from AOCI to earnings as foreign exchange gain/(loss), which is a component of SG&A expenses.

The following table summarizes the location and effects of our derivatives instruments on the Consolidated Statements of Comprehensive Income and Consolidated Statements of Income for gains or losses initially recognized in AOCI in the Consolidated Balance Sheet:

| | Pretax gain/(loss) recognized | | | Pretax gain/(loss) reclassified | |
|--------------------------------------|-------------------------------|--------------------|--------------------------------------|---------------------------------|-------------------|
| | in AOCI | | | from AOCI into income | |
| | Three Months Ended | | | Three Months Ended | |
| <i>(In thousands)</i> | | | | | |
| Derivatives in hedging relationships | August 31, 2021 | August 31, 2020 | Income statement location | August 31, 2021 | August 31, 2020 |
| Interest rate swap (cash flow) | \$ (36) | \$ (598) | Interest (expense) | \$ (929) | \$ (766) |
| Cross currency swap (cash flow) | 3,447 | (7,356) | Interest income | 138 | 191 |
| Cross currency swap (cash flow) | - | - | Foreign exchange gain (loss) | 3,407 | (7,455) |
| Cross currency swap (net investment) | 10,303 | (23,133) | Gain or (loss) on sale of subsidiary | - | - |
| Total | \$ 13,714 | \$ (31,087) | | \$ 2,616 | \$ (8,030) |

Derivatives Not Designated as Hedges

At August 31, 2021, and May 31, 2021, we held one foreign currency forward contract at each period end designed to reduce our exposure to changes in the cash flows of intercompany foreign-currency-denominated loans related to changes in foreign currency exchange rates by fixing the functional currency cash flows. These contracts have not been designated as a hedges; therefore, the changes in fair value of the contracts are recognized in earnings as a component of SG&A expenses. Amounts recognized in earnings did not have a material impact on our Consolidated Financial Statements for any period presented. As of August 31, 2021, and May 31, 2021, the notional amounts of the forward contract held to purchase foreign currencies was \$174.3 million and \$191.7 million, respectively.

Disclosure about Derivative Instruments

All of our derivative assets and liabilities measured at fair value are classified as Level 2 within the fair value hierarchy. We determine the fair value of our derivatives based on valuation methods, which project future cash flows and discount the future amounts to present value using market based observable inputs, including interest rate curves, foreign currency rates, as well as future and basis point spreads, as applicable.

The fair values of qualifying and non-qualifying instruments used in hedging transactions as of August 31, 2021 and May 31, 2021 are as follows:

(In thousands)

| Derivatives Designated as Hedging Instruments | Balance Sheet Location | Fair Value | |
|---|-----------------------------|-----------------|--------------|
| | | August 31, 2021 | May 31, 2021 |
| Assets: | | | |
| Cross Currency Swap (Net Investment) | Other Current Assets | \$ 5,924 | \$ 6,233 |
| Cross Currency Swap (Cash Flow) | Other Current Assets | 539 | 516 |
| Liabilities: | | | |
| Interest Rate Swap (Cash Flow) | Other Accrued Liabilities | \$ 3,530 | \$ 3,547 |
| Cross Currency Swap (Net Investment) | Other Accrued Liabilities | 955 | 1,321 |
| Cross Currency Swap (Net Investment) | Other Long-Term Liabilities | 28,787 | 39,228 |
| Cross Currency Swap (Cash Flow) | Other Long-Term Liabilities | 10,035 | 13,786 |
| Interest Rate Swap (Cash Flow) | Other Long-Term Liabilities | 1,591 | 2,467 |

(In thousands)

| Derivatives Not Designated as Hedging Instruments | Balance Sheet Location | Fair Value | |
|---|------------------------|-----------------|--------------|
| | | August 31, 2021 | May 31, 2021 |
| Assets: | | | |
| Foreign Currency Exchange | Other Current Assets | \$ 61 | \$ 212 |

NOTE 6 — INVESTMENT (INCOME), NET

Investment (income), net, consists of the following components:

| | Three Months Ended | |
|-------------------------------------|--------------------|--------------------|
| | August 31, 2021 | August 31, 2020 |
| (In thousands) | | |
| Interest (income) | \$ (1,153) | \$ (667) |
| Net (gain) on marketable securities | (3,476) | (11,784) |
| Dividend (income) | (1,121) | (312) |
| Investment (income), net | <u>\$ (5,750)</u> | <u>\$ (12,763)</u> |

Net (Gain) on Marketable Securities

| | Three Months Ended | |
|---|--------------------|--------------------|
| | August 31, 2021 | August 31, 2020 |
| (In thousands) | | |
| Unrealized (gains) on marketable equity securities | \$ (3,218) | \$ (13,956) |
| Realized (gains) losses on marketable equity securities | (269) | 2,169 |
| Realized losses on available-for-sale debt securities | 11 | 3 |
| Net (gain) on marketable securities | <u>\$ (3,476)</u> | <u>\$ (11,784)</u> |

NOTE 7 — OTHER (INCOME) EXPENSE, NET

Other (income) expense, net, consists of the following components:

| | Three Months Ended | |
|-------------------------------------|--------------------|-----------------|
| | August 31, 2021 | August 31, 2020 |
| (In thousands) | | |
| Pension non-service (credits)/costs | \$ (2,723) | \$ 3,336 |
| Other | (616) | (218) |
| Other (income) expense, net | <u>\$ (3,339)</u> | <u>\$ 3,118</u> |

NOTE 8 — INCOME TAXES

The effective income tax rate of 25.7% for the three months ended August 31, 2021, compares to the effective income tax rate of 25.1% for the three months ended August 31, 2020. The effective income tax rates for the three months ended August 31, 2021, and 2020 reflect variances from the 21% statutory rate due primarily to the unfavorable impact of state and local income taxes, non-deductible business expenses and the net tax on foreign subsidiary income resulting from the global intangible low-taxed income provisions, partially offset by tax benefits related to equity compensation.

Our deferred tax liability for unremitted foreign earnings was \$15.2 million as of August 31, 2021, which represents our estimate of the foreign tax cost associated with the remittance of \$448.0 million of foreign earnings that are not considered to be permanently reinvested. We have not provided for foreign withholding or income taxes on the remaining foreign subsidiaries' undistributed earnings because such earnings have been retained and reinvested by the subsidiaries as of August 31, 2021. Accordingly, no provision has been made for foreign withholding or income taxes, which may become payable if the remaining undistributed earnings of foreign subsidiaries were remitted to us as dividends.

NOTE 9 — INVENTORIES

Inventories, net of reserves, were composed of the following major classes:

| <i>(In thousands)</i> | August 31, 2021 | May 31, 2021 |
|---|-------------------|-------------------|
| Raw material and supplies | \$ 474,781 | \$ 447,220 |
| Finished goods | 522,474 | 490,875 |
| Total Inventory, Net of Reserves | \$ 997,255 | \$ 938,095 |

NOTE 10 — STOCK REPURCHASE PROGRAM

On January 8, 2008, we announced our authorization of a stock repurchase program under which we may repurchase shares of RPM International Inc. common stock at management's discretion. As announced on November 28, 2018, our goal was to return \$1.0 billion in capital to stockholders by May 31, 2021 through share repurchases and the retirement of our convertible note during fiscal 2019. On April 16, 2019, after taking into account share repurchases under our existing stock repurchase program to date, our Board of Directors authorized the repurchase of the remaining \$600.0 million in value of RPM International Inc. common stock by May 31, 2021.

As previously announced, given macroeconomic uncertainty resulting from the Covid pandemic, we had suspended stock repurchases under the program, but in January 2021, our Board of Directors authorized the resumption of the stock repurchases. At the time of resuming the program, \$469.7 million of shares of common stock remained available for repurchase. The Board of Directors also extended the stock repurchase program beyond its original May 31, 2021 expiration date until such time that the remaining \$469.7 million of shares of capital has been returned to our stockholders.

As a result, we may repurchase shares from time to time in the open market or in private transactions at various times and in amounts and for prices that our management deems appropriate, subject to insider trading rules and other securities law restrictions. The timing of our purchases will depend upon prevailing market conditions, alternative uses of capital and other factors. We may limit or terminate the repurchase program at any time.

During the three months ended August 31, 2021, we repurchased 133,388 shares of our common stock at a cost of approximately \$12.5 million, or an average of \$93.71 per share. During the three months ended August 31, 2020, we did not repurchase any shares of our common stock under this program. The maximum dollar amount that may yet be repurchased under our stock repurchase program was approximately \$407.3 million at August 31, 2021.

NOTE 11 — EARNINGS PER SHARE

The following table sets forth the reconciliation of the numerator and denominator of basic and diluted earnings per share for the three-month periods ended August 31, 2021 and 2020.

| | Three Months Ended | |
|--|--------------------|--------------------|
| | August 31, 2021 | August 31, 2020 |
| <i>(In thousands, except per share amounts)</i> | | |
| Numerator for earnings per share: | | |
| Net income attributable to RPM International Inc. stockholders | \$ 134,582 | \$ 180,595 |
| Less: Allocation of earnings and dividends to participating securities | (1,142) | (1,552) |
| Net income available to common shareholders - basic | 133,440 | 179,043 |
| Add: Undistributed earnings reallocated to unvested shareholders | 4 | 4 |
| Net income available to common shareholders - diluted | <u>\$ 133,444</u> | <u>\$ 179,047</u> |
| Denominator for basic and diluted earnings per share: | | |
| Basic weighted average common shares | 128,083 | 128,418 |
| Average diluted options and awards | 487 | 365 |
| Total shares for diluted earnings per share (1) | <u>128,570</u> | <u>128,783</u> |
| Earnings Per Share of Common Stock Attributable to RPM International Inc. Stockholders: | | |
| Basic Earnings Per Share of Common Stock | <u>\$ 1.04</u> | <u>\$ 1.39</u> |
| Method used to calculate basic earnings per share | Two-class | Two-class |
| Diluted Earnings Per Share of Common Stock | <u>\$ 1.04</u> | <u>\$ 1.39</u> |
| Method used to calculate diluted earnings per share | Two-class | Two-class |

(1) Restricted shares totaling 157,700 and 225,500 for the three months ended August 31, 2021 and 2020, respectively, were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive. In addition, stock appreciation rights (“SARs”) totaling 680,000 and 360,000 for the three months ended August 31, 2021 and 2020, respectively, were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive.

NOTE 12 — PENSION PLANS

We offer defined benefit pension plans, defined contribution pension plans, and various postretirement benefit plans. The following tables provide the retirement-related benefit plans’ impact on income before income taxes for the three months ended August 31, 2021 and 2020:

| | U.S. Plans | | Non-U.S. Plans | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Three Months Ended | | Three Months Ended | |
| | August 31, 2021 | August 31, 2020 | August 31, 2021 | August 31, 2020 |
| <i>(In thousands)</i> | | | | |
| Pension Benefits | | | | |
| Service cost | \$ 11,914 | \$ 11,130 | \$ 1,348 | \$ 1,406 |
| Interest cost | 3,842 | 3,806 | 1,282 | 1,122 |
| Expected return on plan assets | (10,386) | (8,279) | (2,073) | (1,607) |
| Amortization of: | | | | |
| Prior service cost (credit) | 1 | 2 | (38) | (35) |
| Net actuarial losses recognized | 4,225 | 7,501 | 114 | 526 |
| Net Periodic Benefit Cost | <u>\$ 9,596</u> | <u>\$ 14,160</u> | <u>\$ 633</u> | <u>\$ 1,412</u> |

| | U.S. Plans | | Non-U.S. Plans | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Three Months Ended | | Three Months Ended | |
| | August 31, 2021 | August 31, 2020 | August 31, 2021 | August 31, 2020 |
| <i>(In thousands)</i> | | | | |
| Postretirement Benefits | | | | |
| Service cost | \$ - | \$ - | \$ 432 | \$ 431 |
| Interest cost | 10 | 19 | 299 | 283 |
| Amortization of: | | | | |
| Prior service (credit) | (40) | (42) | - | - |
| Net actuarial losses recognized | 15 | 10 | 32 | 130 |
| Net Periodic Benefit (Credit) Cost | <u>\$ (15)</u> | <u>\$ (13)</u> | <u>\$ 763</u> | <u>\$ 844</u> |

Due to strong asset returns for the year ending May 31, 2021, as well as contributions made during the year, net periodic pension and U.S. postretirement cost for fiscal 2022 is lower than our fiscal 2021 expense. We expect that pension expense will fluctuate on a year-to-year basis, depending upon the investment performance of plan assets and potential changes in interest rates, and these fluctuations may have a material impact on our consolidated financial results in the future. We previously disclosed in our financial statements for the fiscal year ended May 31, 2021 that we expected to contribute approximately \$1.0 million to our retirement plans in the U.S. and approximately \$5.0 million to plans outside the U.S. during the current fiscal year. Throughout fiscal 2022, we will evaluate whether to make additional contributions.

NOTE 13 — CONTINGENCIES AND ACCRUED LOSSES

Product Liability Matters

We provide, through our wholly owned insurance subsidiaries, certain insurance coverage, primarily product liability coverage, to our other subsidiaries. Excess coverage is provided by third-party insurers. Our product liability accruals provide for these potential losses as well as other uninsured claims. Product liability accruals are established based upon actuarial calculations of potential liability using industry experience, actual historical experience and actuarial assumptions developed for similar types of product liability claims, including development factors and lag times. To the extent there is a reasonable possibility that potential losses could exceed the amounts already accrued, we believe that the amount of any such additional loss would be immaterial to our results of operations, liquidity and consolidated financial position.

Warranty Matters

We also offer warranties on many of our products, as well as long-term warranty programs at certain of our businesses, and have established product warranty liabilities. We review these liabilities for adequacy on a quarterly basis and adjust them as necessary. The primary factors that could affect these liabilities may include changes in performance rates as well as costs of replacement. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted, as required, to reflect actual experience. It is probable that we will incur future losses related to warranty claims we have received but that have not been fully investigated and related to claims not yet received. While our warranty liabilities represent our best estimates at August 31, 2021, we can provide no assurances that we will not experience material claims in the future or that we will not incur significant costs to resolve such claims beyond the amounts accrued or beyond what we may recover from our suppliers. Based upon the nature of the expense, product warranty expense is recorded as a component of cost of sales or within SG&A.

Also, due to the nature of our businesses, the amount of claims paid can fluctuate from one period to the next. While our warranty liabilities represent our best estimates of our expected losses at any given time, from time-to-time we may revise our estimates based on our experience relating to factors such as weather conditions, specific circumstances surrounding product installations and other factors.

The following table includes the changes in our accrued warranty balances:

| | Three Months Ended | |
|------------------------------|--------------------|--------------------|
| | August 31, 2021 | August 31, 2020 |
| <i>(In thousands)</i> | | |
| Beginning Balance | \$ 13,175 | \$ 11,106 |
| Deductions (1) | (6,258) | (5,930) |
| Provision charged to expense | 6,115 | 7,660 |
| Ending Balance | <u>\$ 13,032</u> | <u>\$ 12,836</u> |

(1) Primarily claims paid during the year.

Environmental Matters

Like other companies participating in similar lines of business, some of our subsidiaries are involved in environmental remediation matters. It is our policy to accrue remediation costs when the liability is probable and the costs are reasonably estimable, which generally is not later than at completion of a feasibility study or when we have committed to an appropriate plan of action. We also take into consideration the estimated period of time over which payments may be required. The liabilities are reviewed periodically and, as investigation and remediation activities continue, adjustments are made as necessary. Liabilities for losses from environmental remediation obligations do not consider the effects of inflation and anticipated expenditures are not discounted to their present value. The liabilities are not offset by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal superfund sites or similar state-managed sites, third party indemnity obligations, and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

NOTE 14 – REVENUE

We operate a portfolio of businesses and product lines that manufacture and sell a variety of specialty paints, protective coatings, roofing systems, sealants and adhesives. We disaggregate revenues from the sales of our products and services based upon geographical location by each of our reportable segments, which are aligned by similar economic factors, trends and customers, which best depict the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See Note 15, “Segment Information,” to the Consolidated Financial Statements for further details regarding our disaggregated revenues, as well as a description of each of the unique revenue streams related to each of our four reportable segments.

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. The majority of our revenue is recognized at a point in time. However, we also record revenues generated under construction contracts, mainly in connection with the installation of specialized roofing and flooring systems and related services. For certain polymer flooring installation projects, we account for our revenue using the output method, as we consider square footage of completed flooring to be the best measure of progress toward the complete satisfaction of the performance obligation. In contrast, for certain of our roofing installation projects, we account for our revenue using the input method, as that method was the best measure of performance as it considers costs incurred in relation to total expected project costs, which essentially represents the transfer of control for roofing systems to the customer. In general, for our construction contracts, we record contract revenues and related costs as our contracts progress on an over-time model.

We have elected to apply the practical expedient to recognize revenue net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities. Payment terms and conditions vary by contract type, although our customers’ payment terms generally include a requirement to pay within 30 to 60 days of fulfilling our performance obligations. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include a significant financing component. We have elected to apply the practical expedient to treat all shipping and handling costs as fulfillment costs, as a significant portion of these costs are incurred prior to control transfer.

Significant Judgments

Our contracts with customers may include promises to transfer multiple products and/or services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. For example, judgment is required to determine whether products sold in connection with the sale of installation services are considered distinct and accounted for separately, or not distinct and accounted for together with installation services and recognized over time.

We provide customer rebate programs and incentive offerings, including special pricing and co-operative advertising arrangements, promotions and other volume-based incentives. These customer programs and incentives are considered variable consideration and recognized as a reduction of net sales. Up-front consideration provided to customers is capitalized as a component of other assets and amortized over the estimated life of the contractual arrangement. We include in revenue variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the variable consideration is resolved. In general, this determination is made based upon known customer program and incentive offerings at the time of sale, and expected sales volume forecasts as it relates to our volume-based incentives. This determination is updated each reporting period. Certain of our contracts include contingent consideration that is receivable only upon the final inspection and acceptance of a project. We include estimates of such variable consideration in our transaction price. Based on historical experience, we consider the probability-based expected value method appropriate to estimate the amount of such variable consideration.

Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available. We record a right of return liability to accrue for expected customer returns. Historical actual returns are used to estimate future returns as a percentage of current sales. Obligations for returns and refunds were not material individually or in the aggregate.

We offer assurance type warranties on our products as well as separately sold warranty contracts. Revenue related to warranty contracts that are sold separately is recognized over the life of the warranty term. Warranty liabilities for our assurance type warranties are discussed further in Note 13, “Contingencies and Accrued Losses,” to the Consolidated Financial Statements.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing customers. Our contract assets are recorded for products and services that have been provided to our customer but have not yet been billed, and are included in prepaid expenses and other current assets in our consolidated balance sheets. Our short-term contract liabilities consist of advance payments, or deferred revenue, and are included in other accrued liabilities in our consolidated balance sheets.

Trade accounts receivable, net of allowances, and net contract assets consisted of the following:

| <i>(In thousands, except percentages)</i> | August 31, 2021 | May 31, 2021 | \$ Change | % Change |
|--|------------------------|---------------------|------------------|-----------------|
| Trade accounts receivable, less allowances | \$ 1,171,914 | \$ 1,280,806 | \$ (108,892) | -8.5% |
| Contract assets | \$ 45,310 | \$ 33,217 | \$ 12,093 | 36.4% |
| Contract liabilities - short-term | (35,155) | (33,112) | (2,043) | 6.2% |
| Net Contract Assets | \$ 10,155 | \$ 105 | \$ 10,050 | |

The \$10.1 million increase in our net contract assets from May 31, 2021 to August 31, 2021 resulted primarily due to the timing and volume of construction jobs in progress at August 31, 2021 versus May 31, 2021. During the first quarter of fiscal 2022, net sales at our U.S. based general contracting and roofing services business increased by \$43.5 million as compared to the fourth quarter of fiscal 2021. During the fourth quarter of fiscal 2021, we began to mobilize on the jobs that were scheduled to be executed during the peak summer months. In the first quarter of fiscal 2022, we performed a substantial amount of work on these jobs, and as such, our unbilled revenue is higher as of August 31, 2021 than it was at May 31, 2021.

We also record long-term deferred revenue, which amounted to \$67.4 million and \$67.8 million as of August 31, 2021 and May 31, 2021, respectively. The long-term portion of deferred revenue is related to warranty contracts and is included in other long-term liabilities in our consolidated balance sheets.

We have elected to adopt the practical expedient to not disclose the aggregate amount of transaction price allocated to performance obligations that are unsatisfied as of the end of the reporting period for performance obligations that are part of a contract with an original expected duration of one year or less.

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. As our contract terms are primarily one year or less in duration, we have elected to apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. These costs include our internal sales force compensation program and certain incentive programs as we have determined annual compensation is commensurate with annual sales activities.

Allowance for Credit Losses

Our primary allowance for credit losses is the allowance for doubtful accounts. The allowance for doubtful accounts reduces the trade accounts receivable balance to the estimated net realizable value equal to the amount that is expected to be collected. The allowance was based on assessments of current creditworthiness of customers, historical collection experience, the aging of receivables and other currently available evidence. Trade accounts receivable balances are written-off against the allowance if a final determination of uncollectibility is made. All provisions for allowances for doubtful collection of accounts are included in selling, general and administrative expenses.

The following tables summarize the activity for the allowance for credit losses for the three months ended August 31, 2021 and 2020:

(In thousands)

| | | |
|---|-----------|---------------|
| Balance at June 1, 2021 | \$ | 55,922 |
| Bad debt provision | | 1,205 |
| Uncollectible accounts written off, net of recoveries | | (4,087) |
| Translation adjustments | | (859) |
| Balance at August 31, 2021 | \$ | 52,181 |

(In thousands)

| | | |
|---|-----------|---------------|
| Balance at June 1, 2020 | \$ | 55,847 |
| Bad debt provision | | 1,274 |
| Uncollectible accounts written off, net of recoveries | | (2,854) |
| Translation adjustments | | 1,660 |
| Balance at August 31, 2020 | \$ | 55,927 |

NOTE 15 — SEGMENT INFORMATION

We operate a portfolio of businesses and product lines that manufacture and sell a variety of specialty paints, protective coatings and roofing systems, flooring solutions, sealants, cleaners and adhesives. We manage our portfolio by organizing our businesses and product lines into four reportable segments as outlined below, which also represent our operating segments. Within each operating segment, we manage product lines and businesses which generally address common markets, share similar economic characteristics, utilize similar technologies and can share manufacturing or distribution capabilities. Our four operating segments represent components of our business for which separate financial information is available that is utilized on a regular basis by our chief operating decision maker in determining how to allocate the assets of the company and evaluate performance. These four operating segments are each managed by an operating segment manager, who is responsible for the day-to-day operating decisions and performance evaluation of the operating segment's underlying businesses. We evaluate the profit performance of our segments primarily based on income before income taxes, but also look to earnings (loss) before interest and taxes ("EBIT"), as a performance evaluation measure because interest (income) expense, net (the combination of interest expense and investment income, net) is essentially related to corporate functions, as opposed to segment operations.

Our CPG reportable segment products are sold throughout North America and also account for the majority of our international sales. Our construction product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. Products and services within this reportable segment include construction sealants and adhesives, coatings and chemicals, roofing systems, concrete admixture and repair products, building envelope solutions, insulated cladding, flooring systems, and weatherproofing solutions.

Our PCG reportable segment products are sold throughout North America, as well as internationally, and are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. Products and services within this reportable segment include high-performance flooring solutions, corrosion control and fireproofing coatings, infrastructure repair systems, fiberglass reinforced plastic gratings and drainage systems.

Our Consumer reportable segment manufactures and markets professional use and do-it-yourself ("DIY") products for a variety of mainly consumer applications, including home improvement and personal leisure activities. Our Consumer reportable segment's major manufacturing and distribution operations are located primarily in North America, along with a few locations in Europe and other parts of the world. Our Consumer reportable segment products are primarily sold directly to mass merchandisers, home improvement centers, hardware stores, paint stores, craft shops and through distributors. The Consumer reportable segment offers products that include specialty, hobby and professional paints; caulks; adhesives; cleaners; sandpaper and other abrasives; silicone sealants and wood stains.

Our SPG reportable segment products are sold throughout North America and a few international locations, primarily in Europe. Our specialty product lines are sold directly to contractors, distributors and end-users, such as industrial manufacturing facilities, public institutions and other commercial customers. The SPG reportable segment offers products that include industrial cleaners, restoration services equipment, colorants, nail enamels, exterior finishes, edible coatings and specialty glazes for pharmaceutical and food industries, and other specialty original equipment manufacturer ("OEM") coatings.

In addition to our four reportable segments, there is a category of certain business activities and expenses, referred to as corporate/other, that does not constitute an operating segment. This category includes our corporate headquarters and related administrative expenses, results of our captive insurance companies, gains or losses on the sales of certain assets and other expenses not directly associated with any reportable segment. Assets related to the corporate/other category consist primarily of investments, prepaid expenses and headquarters' property and equipment. These corporate and other assets and expenses reconcile reportable segment data to total consolidated income before income taxes and identifiable assets.

We reflect income from our joint ventures on the equity method, and receive royalties from our licensees.

The following tables present a disaggregation of revenues by geography, and reflect the results of our reportable segments consistent with our management philosophy, by representing the information we utilize, in conjunction with various strategic, operational and other financial performance criteria, in evaluating the performance of our portfolio of businesses.

| | CPG | PCG | Consumer | SPG | |
|---|-------------------|-------------------|-------------------|-------------------|---------------------|
| Three Months Ended August 31, 2021 | Segment | Segment | Segment | Segment | Consolidated |
| <i>(In thousands)</i> | | | | | |
| Net Sales (based on shipping location) | | | | | |
| United States | \$ 372,313 | \$ 176,194 | \$ 432,399 | \$ 149,411 | \$ 1,130,317 |
| Foreign | | | | | |
| Canada | 76,559 | 18,452 | 33,942 | 2,140 | 131,093 |
| Europe | 130,418 | 57,835 | 60,267 | 24,335 | 272,855 |
| Latin America | 47,422 | 6,390 | 7,318 | 494 | 61,624 |
| Asia Pacific | 17,605 | 6,661 | 4,482 | 5,675 | 34,423 |
| Other Foreign | 45 | 20,063 | - | - | 20,108 |
| Total Foreign | 272,049 | 109,401 | 106,009 | 32,644 | 520,103 |
| Total | \$ 644,362 | \$ 285,595 | \$ 538,408 | \$ 182,055 | \$ 1,650,420 |

| | CPG | PCG | Consumer | SPG | |
|---|-------------------|-------------------|-------------------|-------------------|---------------------|
| Three Months Ended August 31, 2020 | Segment | Segment | Segment | Segment | Consolidated |
| <i>(In thousands)</i> | | | | | |
| Net Sales (based on shipping location) | | | | | |
| United States | \$ 327,961 | \$ 156,062 | \$ 509,584 | \$ 133,497 | \$ 1,127,104 |
| Foreign | | | | | |
| Canada | 55,642 | 17,112 | 48,908 | 1,920 | 123,582 |
| Europe | 108,720 | 63,634 | 67,610 | 16,996 | 256,960 |
| Latin America | 34,853 | 5,594 | 7,392 | 465 | 48,304 |
| Asia Pacific | 17,639 | 4,886 | 7,674 | 5,146 | 35,345 |
| Other Foreign | 2,875 | 12,500 | - | - | 15,375 |
| Total Foreign | 219,729 | 103,726 | 131,584 | 24,527 | 479,566 |
| Total | \$ 547,690 | \$ 259,788 | \$ 641,168 | \$ 158,024 | \$ 1,606,670 |

| <i>(In thousands)</i> | Three Months Ended | |
|--|--------------------|-------------------|
| | August 31, 2021 | August 31, 2020 |
| Income (Loss) Before Income Taxes | | |
| CPG Segment | \$ 114,357 | \$ 98,349 |
| PCG Segment | 35,077 | 28,514 |
| Consumer Segment | 45,915 | 132,722 |
| SPG Segment | 24,556 | 20,449 |
| Corporate/Other | (38,434) | (38,665) |
| Consolidated | \$ 181,471 | \$ 241,369 |

| <i>(In thousands)</i> | August 31, 2021 | | May 31, 2021 | |
|----------------------------|---------------------|---------------------|--------------|--------------|
| | August 31, 2021 | August 31, 2021 | May 31, 2021 | May 31, 2021 |
| Identifiable Assets | | | | |
| CPG Segment | \$ 1,959,388 | \$ 1,815,303 | | |
| PCG Segment | 1,059,611 | 1,051,334 | | |
| Consumer Segment | 2,156,400 | 2,386,703 | | |
| SPG Segment | 770,902 | 772,540 | | |
| Corporate/Other | 219,903 | 227,089 | | |
| Consolidated | \$ 6,166,204 | \$ 6,252,969 | | |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements include all of our majority-owned and controlled subsidiaries. Investments in less-than-majority-owned joint ventures over which we have the ability to exercise significant influence are accounted for under the equity method. Preparation of our financial statements requires the use of estimates and assumptions that affect the reported amounts of our assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We continually evaluate these estimates, including those related to our allowances for doubtful accounts; reserves for excess and obsolete inventories; allowances for recoverable sales and/or value-added taxes; uncertain tax positions; useful lives of property, plant and equipment; goodwill and other intangible assets; environmental, warranties and other contingent liabilities; income tax valuation allowances; pension plans; and the fair value of financial instruments. We base our estimates on historical experience, our most recent facts, and other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of our assets and liabilities. Actual results, which are shaped by actual market conditions, may differ materially from our estimates.

A comprehensive discussion of the accounting policies and estimates that are the most critical to our financial statements are set forth in our Annual Report on Form 10-K for the year ended May 31, 2021.

BUSINESS SEGMENT INFORMATION

The following tables reflect the results of our reportable segments consistent with our management philosophy, and represent the information we utilize, in conjunction with various strategic, operational and other financial performance criteria, in evaluating the performance of our portfolio of businesses.

| <i>(In thousands)</i> | Three Months Ended | |
|---------------------------------------|----------------------------|----------------------------|
| | August 31, 2021 | August 31, 2020 |
| Net Sales | | |
| CPG Segment | \$ 644,362 | \$ 547,690 |
| PCG Segment | 285,595 | 259,788 |
| Consumer Segment | 538,408 | 641,168 |
| SPG Segment | 182,055 | 158,024 |
| Consolidated | <u>\$ 1,650,420</u> | <u>\$ 1,606,670</u> |
| Income Before Income Taxes (a) | | |
| CPG Segment | | |
| Income Before Income Taxes (a) | \$ 114,357 | \$ 98,349 |
| Interest (Expense), Net (b) | (1,870) | (2,110) |
| EBIT (c) | \$ 116,227 | \$ 100,459 |
| PCG Segment | | |
| Income Before Income Taxes (a) | \$ 35,077 | \$ 28,514 |
| Interest Income (Expense), Net (b) | 82 | (31) |
| EBIT (c) | \$ 34,995 | \$ 28,545 |
| Consumer Segment | | |
| Income Before Income Taxes (a) | \$ 45,915 | \$ 132,722 |
| Interest Income (Expense), Net (b) | 75 | (62) |
| EBIT (c) | \$ 45,840 | \$ 132,784 |
| SPG Segment | | |
| Income Before Income Taxes (a) | \$ 24,556 | \$ 20,449 |
| Interest (Expense), Net (b) | (35) | (82) |
| EBIT (c) | \$ 24,591 | \$ 20,531 |
| Corporate/Other | | |
| (Loss) Before Income Taxes (a) | \$ (38,434) | \$ (38,665) |
| Interest (Expense), Net (b) | (13,611) | (6,697) |
| EBIT (c) | \$ (24,823) | \$ (31,968) |
| Consolidated | | |
| Net Income | \$ 134,795 | \$ 180,785 |
| Add: Provision for Income Taxes | 46,676 | 60,584 |
| Income Before Income Taxes (a) | 181,471 | 241,369 |
| Interest (Expense) | (21,109) | (21,745) |
| Investment Income, Net | 5,750 | 12,763 |
| EBIT (c) | <u>\$ 196,830</u> | <u>\$ 250,351</u> |

(a) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by generally accepted accounting principles ("GAAP") in the U.S., to EBIT.

(b) Interest Income (Expense), Net includes the combination of Interest (Expense) and Investment Income, Net.

(c) EBIT is a non-GAAP measure, and is defined as Earnings (Loss) Before Interest and Taxes. 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 (Income) Expense, Net is essentially related to corporate functions, 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 EBIT omits the impact of interest in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness. Nonetheless, EBIT is a key measure expected by and useful to our fixed income investors, rating agencies and the banking community all of whom believe, and we concur, that this measure is critical to the capital markets' analysis of our segments' core operating performance. We also evaluate EBIT because it is clear that movements in EBIT impact our ability to attract financing. Our underwriters and bankers consistently require inclusion of this measure in offering memoranda in conjunction with any debt underwriting or bank financing. EBIT may not be indicative of our historical operating results, nor is it meant to be predictive of potential future results.

RESULTS OF OPERATIONS

Three Months Ended August 31, 2021

Net Sales

| | Three months ended | | Total Growth | Organic Growth ⁽¹⁾ | Acquisition Growth | Foreign Currency Exchange Impact |
|-----------------------------------|--------------------|-------------------|-----------------|----------------------------------|-----------------------|-------------------------------------|
| | August 31, 2021 | August 31, 2020 | | | | |
| (in millions, except percentages) | | | | | | |
| CPG Segment | \$ 644.4 | \$ 547.7 | 17.7% | 15.0% | 0.5% | 2.2% |
| PCG Segment | 285.6 | 259.8 | 9.9% | 3.8% | 3.7% | 2.4% |
| Consumer Segment | 538.4 | 641.2 | -16.0% | -20.1% | 3.3% | 0.8% |
| SPG Segment | 182.0 | 158.0 | 15.2% | 13.5% | 0.3% | 1.4% |
| Consolidated | \$ 1,650.4 | \$ 1,606.7 | 2.7% | -1.0% | 2.1% | 1.6% |

(1) Organic growth includes the impact of price and volume.

Our CPG segment experienced significant organic growth during the first quarter of fiscal 2022 in nearly all business units in the segment when compared to the same quarter in the prior year. Business units performing particularly well during the quarter were providers of commercial roofing systems, concrete admixtures and repair products, and our insulated concrete forms business. Additionally, European operations generated strong sales growth, due in part to an easier comparison to the prior year first quarter, when shelter-in-place requirements were most severe.

Our PCG segment experienced sales growth during the first quarter of fiscal 2022 in nearly all the major business units in the segment when compared to the same quarter in the prior year. This growth was partially aided by the prior year comparison, where there was a significant amount of deferrals of flooring and coating projects as a result of restrictions associated with Covid, which impacted the ability of contractors to gain access to the facilities of our end customers.

Our Consumer segment experienced significant organic declines in comparison to the prior year, which benefitted from unprecedented demand worldwide for its “do-it-yourself” home improvement and cleaning products, as a result of the Covid pandemic. Current quarter sales were also impacted by the lack of availability of raw materials, due to supply chain disruptions. Despite these disruptions, underlying demand for these products remains strong, which resulted in fiscal 2022 first quarter sales that were still above the pre-pandemic levels of the first quarter in fiscal 2020.

Our SPG segment experienced strong demand for our businesses serving the marine, powder coatings, wood stains and sealers and disaster restoration equipment markets. Additionally, our new business development efforts have accelerated as a result of a number of recent management changes.

Gross Profit Margin Our consolidated gross profit margin of 37.2% of net sales for the first quarter of fiscal 2022 compares to a consolidated gross profit margin of 40.7% for the comparable period a year ago. The current quarter gross profit margin decrease of approximately 3.5%, or 350 basis points (“bps”), resulted primarily from lower sales volume, inflationary pressures on raw materials versus the same period a year ago, higher freight costs, and production inefficiencies as a result of supply chain disruption and availability of raw materials. Partially offsetting these decreases were the impact of selling price increases and MAP to Growth savings.

Overall, raw material costs were inflationary during the first quarter of fiscal 2022. As indicated previously, several macroeconomic factors resulted in inflation, beginning in the fourth quarter of fiscal 2021. We expect that these increased costs will continue to be reflected in our results throughout fiscal 2022. We plan to continue working to offset these increased costs with commensurate increases in selling prices. Furthermore, we have received “force majeure” notifications from many of our major material suppliers, which may impact our ability to timely meet customer demand in certain of our businesses and across certain product categories.

The macroeconomic factors identified above include, but are not limited to, the following: (i) strained supply chains as inventories have not fully recovered from Winter Storm Uri in February 2021; (ii) additional significant weather events causing further supply chain disruption, such as Hurricane Ida in August 2021; (iii) intermittent supplier plant shutdowns due to catastrophic failures or as a result of the Covid pandemic; (iv) significant worldwide demand during the Covid pandemic for key items such as packaging, solvents, and chemicals used in cleaning products; (v) availability of transportation and fluctuating costs to transport products; (vi) reduction of global supply of materials as a result of power curtailments in China; and (vii) high global demand as markets reopen and economic stimulus drives growth.

SG&A Our consolidated SG&A expense during the period was \$22.9 million higher versus the same period last year and increased to 25.4% of net sales from 24.6% of net sales for the prior year quarter. Additional SG&A expense recognized by companies we recently

acquired approximated \$7.4 million during the first quarter of fiscal 2022. During the first quarter of fiscal 2022, our MAP to Growth generated incremental savings of approximately \$3.0 million.

Our CPG segment SG&A was approximately \$21.7 million higher for the first quarter of fiscal 2022 versus the comparable prior year period but decreased slightly as a percentage of net sales. The increase was mainly due to higher variable expense as a result of higher sales volumes, higher IT costs associated with ongoing ERP implementations, as well as increases in discretionary spending (i.e. meetings, travel, etc.) and restoring salaries which were reduced in the prior year in response to the impact of the Covid pandemic. Additionally, companies recently acquired generated approximately \$0.5 million of additional SG&A expense.

Our PCG segment SG&A was approximately \$6.5 million higher for the first quarter of fiscal 2022 versus the comparable prior year period but decreased as a percentage of net sales. The quarter over quarter increase is mainly due to increased variable expenses as a result of higher sales volumes, higher distribution costs, as well as increases in IT costs associated with ongoing ERP implementations. Additionally, companies recently acquired generated approximately \$2.4 million of additional SG&A expense.

Our Consumer segment SG&A decreased by approximately \$6.8 million during the first quarter of fiscal 2022 versus the same period last year, but increased as a percentage of net sales. The quarter-over-quarter decrease in SG&A was attributable to lower advertising and promotional costs and distribution expenses, as a result of lower sales volumes. Partially offsetting these decreases was approximately \$4.3 million of additional SG&A expense generated from the company recently acquired.

Our SPG segment SG&A was approximately \$3.4 million higher during the first quarter of fiscal 2022 versus the comparable prior year period but decreased as a percentage of net sales. The increase in SG&A expense is attributable to investments in growth initiatives, merit increases, increases in discretionary spending (i.e. meetings, travel, etc.), as well as increased distribution costs quarter over quarter. Additionally, the company recently acquired generated approximately \$0.2 million of additional SG&A expense.

SG&A expenses in our corporate/other category decreased by \$1.9 million during the first quarter of fiscal 2022 as compared to last year's first quarter mainly due to lower incentive compensation.

The following table summarizes the retirement-related benefit plans' impact on income before income taxes for the three months ended August 31, 2021 and 2020, as this activity has a significant impact on our SG&A expense:

| <i>(in millions)</i> | Three months ended | | |
|--|--------------------|-----------------|-----------------|
| | August 31, 2021 | August 31, 2020 | Change |
| Service cost | \$ 13.7 | \$ 13.0 | \$ 0.7 |
| Interest cost | 5.4 | 5.2 | 0.2 |
| Expected return on plan assets | (12.5) | (9.9) | (2.6) |
| Amortization of: | | | |
| Prior service (credit) | (0.1) | (0.1) | - |
| Net actuarial losses recognized | 4.4 | 8.2 | (3.8) |
| Total Net Periodic Pension & Postretirement Benefit Costs | \$ 10.9 | \$ 16.4 | \$ (5.5) |

We expect that pension expense will fluctuate on a year-to-year basis, depending upon the investment performance of plan assets and potential changes in interest rates, both of which are difficult to predict, but which may have a material impact on our consolidated financial results in the future.

Restructuring Charges

| <i>(in millions)</i> | Three months ended | |
|--|--------------------|-----------------|
| | August 31, 2021 | August 31, 2020 |
| Severance and benefit costs (credits) | \$ (0.3) | \$ 2.5 |
| Facility closure and other related costs | 1.3 | 1.5 |
| Other restructuring costs | - | 0.2 |
| Total Restructuring Costs | \$ 1.0 | \$ 4.2 |

These charges are associated with closures of certain facilities as well as the elimination of duplicative headcount and infrastructure associated with certain of our businesses and are the result of our MAP to Growth, which focuses upon strategic shifts in operations across our entire business.

Our current expectation of future additional restructuring costs is summarized in the table below.

As of August 31,

| <i>(in millions)</i> | 2021 | |
|--|-------------|------------|
| Severance and benefit costs | \$ | 1.7 |
| Facility closure and other related costs | | 3.1 |
| Other restructuring costs | | - |
| Future Expected Restructuring Costs | \$ | 4.8 |

We previously expected these charges to be incurred by the end of calendar year 2020, upon which we expected to achieve an annualized pretax savings of approximately \$290 million per year. However, the disruption caused by the outbreak of the Covid pandemic delayed the finalization of our MAP to Growth past the original target completion date of December 31, 2020. We utilized the remainder of fiscal 2021 to drive toward achieving the goals originally set forth in our MAP to Growth. On May 31, 2021, we formally concluded our MAP to Growth. However, certain projects identified prior to May 31, 2021 are not yet completed. Accordingly, we expect to incur restructuring expense throughout fiscal 2022, as projects related to our MAP to Growth are executed and completed.

See Note 3, “Restructuring,” to the Consolidated Financial Statements, for further details surrounding our MAP to Growth.

Interest Expense

| <i>(in millions, except percentages)</i> | Three months ended | |
|--|---------------------------|------------------------|
| | August 31, 2021 | August 31, 2020 |
| Interest expense | \$ 21.1 | \$ 21.7 |
| Average interest rate (a) | 3.15 % | 3.38 % |

(a) The interest rate decrease was a result of lower market rates on the variable cost borrowings.

| <i>(in millions)</i> | Change in interest expense | |
|--|-----------------------------------|--------------|
| Acquisition-related borrowings | \$ | 0.7 |
| Non-acquisition-related average borrowings | | (0.8) |
| Change in average interest rate | | (0.5) |
| Total Change in Interest Expense | \$ | (0.6) |

Investment (Income), Net

| <i>(in millions)</i> | Three months ended | |
|----------------------------------|---------------------------|------------------------|
| | August 31, 2021 | August 31, 2020 |
| Dividend & interest (income) | \$ (2.3) | \$ (1.0) |
| (Gains) on marketable securities | (3.5) | (11.8) |
| Investment (Income), Net | \$ (5.8) | \$ (12.8) |

See Note 6, “Investment (Income), Net,” to the Consolidated Financial Statements for additional details.

Income (Loss) Before Income Taxes (“IBT”)

| <i>(in millions, except percentages)</i> | Three months ended | | | |
|--|---------------------------|-----------------------|------------------------|-----------------------|
| | August 31, 2021 | % of net sales | August 31, 2020 | % of net sales |
| CPG Segment | \$ 114.4 | 17.7 % | \$ 98.3 | 18.0 % |
| PCG Segment | 35.1 | 12.3 % | 28.5 | 11.0 % |
| Consumer Segment | 45.9 | 8.5 % | 132.7 | 20.7 % |
| SPG Segment | 24.5 | 13.5 % | 20.4 | 12.9 % |
| Non-Op Segment | (38.4) | — | (38.5) | — |
| Consolidated | \$ 181.5 | | \$ 241.4 | |

Our CPG segment results reflect market share gains, operational improvements, proactive cost controls and selling price increases, which offset production inefficiencies due to supply chain disruptions and material cost inflation. Our PCG segment results reflect improved pricing, incremental savings from operating improvement initiatives and recent acquisitions. Our Consumer segment results reflect the decrease in sales, inflation in materials, freight and labor, as well as the unfavorable impact of supply shortages on productivity. Our SPG segment results reflect higher sales volume and incremental operating improvement program savings, which were partially offset by raw material inflation, inefficiencies due to supply chain disruption and investments in future growth initiatives.

Income Tax Rate The effective income tax rate of 25.7% for the three months ended August 31, 2021, compares to the effective income tax rate of 25.1% for the three months ended August 31, 2020. The effective income tax rates for the three months ended August 31, 2021, and 2020 reflect variances from the 21% statutory rate due primarily to the unfavorable impact of state and local income taxes, non-deductible business expenses and the net tax on foreign subsidiary income resulting from the global intangible low-taxed income provisions, partially offset by tax benefits related to equity compensation.

Net Income

| | Three months ended | | | |
|--|--------------------|----------------|-----------------|----------------|
| | August 31, 2021 | % of net sales | August 31, 2020 | % of net sales |
| <i>(in millions, except percentages and per share amounts)</i> | | | | |
| Net income | \$ 134.8 | 8.2% | \$ 180.8 | 11.3% |
| Net income attributable to RPM International Inc. stockholders | 134.6 | 8.2% | 180.6 | 11.2% |
| Diluted earnings per share | 1.04 | | 1.39 | |

LIQUIDITY AND CAPITAL RESOURCES

Fiscal 2022 Compared with Fiscal 2021

Operating Activities

Approximately \$76.1 million of cash was provided by operating activities during the first three months of fiscal 2022, compared with \$318.1 million of cash provided by operating activities during the same period last year. The net change in cash from operations includes the change in net income, which decreased by \$46.0 million during the first three months of fiscal 2022 versus the same period during fiscal 2021. Cash provided from operations, along with the use of available credit lines, as required, remain our primary sources of liquidity.

The change in accounts receivable during the first three months of fiscal 2022 provided approximately \$97.5 million more cash than during the same period a year ago. This resulted primarily from the timing of sales, particularly in our Consumer segment. Days sales outstanding (“DSO”) at August 31, 2021 decreased to 59.8 days from 60.4 days at August 31, 2020.

During the first three months of fiscal 2022, the change in inventory used approximately \$111.6 million more cash compared to our spending during the same period a year ago, which resulted primarily from the timing of purchases by retail customers. Days of inventory outstanding (“DIO”) was approximately 86.5 and 74.0 days at August 31, 2021 and 2020, respectively. The increase in DIO was driven mainly by the Consumer segment, which resulted from material price inflation and build-up of raw material inventory in order to mitigate supply chain disruptions.

The change in accounts payable during the first three months of fiscal 2022 used approximately \$47.9 million more cash than during the first three months of fiscal 2021 due principally to the timing of purchases, which were restrained at the beginning of fiscal 2021 due to the sharp business downturn caused by pandemic lockdown restrictions. However, days payables outstanding (“DPO”) increased by approximately 9.1 days to 84.9 days at August 31, 2021 from 75.8 days at August 31, 2020. The longer DPO is a direct result of moving toward a center-led procurement process that includes negotiating modified payment terms.

The change in accrued compensation and benefits during the first three months of fiscal 2022 used approximately \$44.8 million more cash than during the first three months of fiscal 2021 due to higher incentive compensation earned during fiscal 2021 (which was paid out in the first quarter of fiscal 2022) as compared to fiscal 2020 (which was paid out in the first quarter of fiscal 2021). The change in other accrued liabilities during the first three months of fiscal 2022 provided approximately \$71.5 million less cash than during the first three months of fiscal 2021 due principally to the timing of income taxes payable and the increase in customer rebate accruals. Additionally, certain government entities located where we have operations have enacted various pieces of legislation designed to help businesses weather the economic impact of Covid and ultimately preserve jobs. Some of this legislation, such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the United States, enables employers to defer the payment of various types of taxes over varying time horizons. As of May 31, 2021, we had a remaining deferral of \$27.1 million of such government payments that would have normally been paid during fiscal 2020 and fiscal 2021, but which will be paid in future periods. During the first quarter ended August 31, 2021, we did not defer any additional government payments that would have normally been paid during our first quarter of fiscal 2022. During the prior year first quarter ended August 31, 2020, we deferred \$14.8 million of such government payments that would have normally been paid during our first quarter of fiscal 2021. Of the remaining \$27.1 million, at August 31, 2021, we expect to pay approximately half of the balance during our third quarter of fiscal 2022 and approximately half of the balance during our third quarter of fiscal 2023.

Investing Activities

For the first three months of fiscal 2022, cash used for investing activities increased by \$48.2 million to \$90.5 million as compared to \$42.3 million in the prior year period. This year-over-year increase in cash used for investing activities was mainly driven by \$35.8 million in more cash spent on acquisitions as we did not have any acquisition activity during the first three months of fiscal 2021.

Capital expenditures, other than for ordinary repairs and replacements, are made to accommodate our continued growth to achieve production and distribution efficiencies, expand capacity, introduce new technology, improve environmental health and safety capabilities, improve information systems, and enhance our administration capabilities. We paid for capital expenditures of \$51.9 million and \$41.5 million during the first three months of fiscal 2022 and fiscal 2021, respectively. We have continued to maintain an elevated level of capital spending in fiscal 2022, in an effort to consolidate ERP systems and our plant footprint, as part of the finalization of our MAP to Growth.

Our captive insurance companies invest their excess cash in marketable securities in the ordinary course of conducting their operations, and this activity will continue. Differences in the amounts related to these activities on a year-over-year basis are primarily attributable to differences in the timing and performance of their investments balanced against amounts required to satisfy claims. At August 31, 2021 and May 31, 2021, the fair value of our investments in available-for-sale debt securities and marketable equity securities, which includes captive insurance-related assets, totaled \$175.6 million and \$168.8 million, respectively. The fair value of our portfolio of marketable securities is based on quoted market prices for identical, or similar, instruments in active or non-active markets or model-derived-valuations with observable inputs. We have no marketable securities whose fair value is subject to unobservable inputs.

As of August 31, 2021, approximately \$191.3 million of our consolidated cash and cash equivalents were held at various foreign subsidiaries, compared with \$221.1 million at May 31, 2021. Undistributed earnings held at our foreign subsidiaries that are considered permanently reinvested will be used, for instance, to expand operations organically or for acquisitions in foreign jurisdictions. Further, our operations in the U.S. generate sufficient cash flow to satisfy U.S. operating requirements. Refer to Note 8, "Income Taxes," to the Consolidated Financial Statements for additional information regarding unremitted foreign earnings.

Financing Activities

For the first three months of fiscal 2022, cash used for financing activities decreased by \$261.7 million to \$7.2 million as compared to \$268.9 million in the prior year period. The overall decrease in cash used for financing activities was driven principally by debt-related activities, as we used approximately \$212.6 million less cash to paydown existing debt and provided approximately \$60.4 million more cash from additions to short and long-term debt during the first three months of fiscal 2022 as compared to the prior year. See below for further details on the significant components of our debt.

The decrease in cash used for debt-related activities was partially offset by a \$12.5 million increase in cash used for the repurchase of common stock during the first three months of fiscal 2022, as compared to the prior year. This increase was a result of the macroeconomic uncertainty in the prior year caused by the Covid pandemic, which led to the temporary suspension of our stock repurchase program during the fourth quarter of fiscal 2020, which lasted through the second quarter of fiscal 2021.

Our available liquidity, including our cash and cash equivalents and amounts available under our committed credit facilities, stood at \$1.38 billion at August 31, 2021, compared with \$1.46 billion at May 31, 2021. Significant components of our debt include (refer to "Note G – Borrowings" in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021 for more comprehensive details):

Revolving Credit Agreement

During the quarter ended November 30, 2018, we replaced our previous \$800.0 million revolving credit agreement, which was set to expire on December 5, 2019, with a \$1.3 billion unsecured syndicated revolving credit facility (the "Revolving Credit Facility"), which expires on October 31, 2023. The Revolving Credit Facility includes sublimits for the issuance of swingline loans, which are comparatively short-term loans used for working capital purposes and letters of credit. The aggregate maximum principal amount of the commitments under the Revolving Credit Facility may be expanded upon our request, subject to certain conditions, up to \$1.5 billion. The Revolving Credit Facility is available to refinance existing indebtedness, to finance working capital and capital expenditures, and for general corporate purposes.

The Revolving Credit Facility requires us to comply with various customary affirmative and negative covenants, including a leverage covenant (i.e., Net Leverage Ratio) and interest coverage ratio, which are calculated in accordance with the terms as defined by the Revolving Credit Facility. Under the terms of the leverage covenant, we may not permit our leverage ratio for total indebtedness to consolidated EBITDA for the four most recent fiscal quarters to exceed 3.75 to 1.00. During certain periods and per the terms of the Revolving Credit Facility, this ratio may be increased to 4.25 to 1.00 in connection with certain "material acquisitions." The acquisition of Ali Industries, LLC occurred on September 1, 2020 and qualifies as a "material acquisition," which enables us to request an increase in the maximum permitted Net Leverage Ratio covenant. We provided such notice to our Administrative Agent to trigger this provision

of the agreement during our second quarter of fiscal 2021, and therefore, our Net Leverage Ratio covenant has been increased to 4.25 to 1.00 through August 31, 2021. The minimum required consolidated interest coverage ratio for EBITDA to interest expense is 3.50 to 1.00. The interest coverage ratio is calculated at the end of each fiscal quarter for the four fiscal quarters then ended using EBITDA as defined in the Revolving Credit Facility.

As of August 31, 2021, we were in compliance with all financial covenants contained in our Revolving Credit Facility, including the Net Leverage Ratio and Interest Coverage Ratio covenants. At that date, our Net Leverage Ratio was 2.42 to 1.00, while our Interest Coverage Ratio was 11.49 to 1.00. As of August 31, 2021, we had \$971.1 million of borrowing availability on our Revolving Credit Facility.

Our access to funds under our Revolving Credit Facility is dependent on the ability of the financial institutions that are parties to the Revolving Credit Facility to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. Moreover, the obligations of the financial institutions under our Revolving Credit Facility are several and not joint and, as a result, a funding default by one or more institutions does not need to be made up by the others.

Accounts Receivable Securitization Program

As of August 31, 2021, the outstanding balance under our AR Program was \$60.0 million, which compares with the maximum availability of \$250.0 million on that date. The maximum availability under the AR Program is \$250.0 million, but availability is further subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the accounts receivable being transferred and, therefore, at certain times, we may not be able to fully access the \$250.0 million of funding available under the AR Program.

The AR Program contains various customary affirmative and negative covenants, as well as customary default and termination provisions. Our failure to comply with the covenants described above and other covenants contained in the Revolving Credit Facility could result in an event of default under that agreement, entitling the lenders to, among other things, declare the entire amount outstanding under the Revolving Credit Facility to be due and payable immediately. The instruments governing our other outstanding indebtedness generally include cross-default provisions that provide that, under certain circumstances, an event of default that results in acceleration of our indebtedness under the Revolving Credit Facility will entitle the holders of such other indebtedness to declare amounts outstanding immediately due and payable.

Term Loan Facility Credit Agreement

On February 21, 2020, we and our subsidiary, RPM Europe Holdco B.V. (formerly "RPM New Horizons Netherlands, B.V.") (the "Foreign Borrower"), entered into an unsecured syndicated term loan facility credit agreement (the "New Credit Facility") with the lenders party thereto and PNC Bank, National Association, as administrative agent for the lenders. The New Credit Facility provides for a \$300 million term loan to us and a \$100 million term loan to the Foreign Borrower (together, the "Term Loans"), each of which was fully advanced on the closing date. The Term Loans mature on February 21, 2023, with no scheduled amortization before that date, and the Term Loans may be prepaid at any time without penalty or premium. We agreed to guarantee all obligations of the Foreign Borrower under the New Credit Facility. The proceeds of the Term Loans were used to repay a portion of the outstanding borrowings under our Revolving Credit Facility. See "Revolving Credit Agreement" above for further details.

The Term Loans will bear interest at either the base rate or the Eurodollar Rate, at our option, plus a spread determined by our debt rating. We, and the Foreign Borrower, have entered into multicurrency floating to fixed interest rate swap agreements that effectively fix interest payment obligations on the entire principal amount of the Term Loans through their maturity at (a) 0.612% per annum on our Term Loan, and (b) 0.558% per annum on the Foreign Borrower's Term Loan.

The New Credit Facility contains customary covenants, including but not limited to, limitations on our ability, and in certain instances, our subsidiaries' ability, to incur liens, make certain investments, or sell or transfer assets. Additionally, we may not permit (i) our consolidated interest coverage ratio to be less than 3.50 to 1.00, or (ii) our leverage ratio (defined as the ratio of total indebtedness, less unencumbered cash and cash equivalents in excess of \$50 million, to consolidated EBITDA for the four most recent fiscal quarters) to exceed 3.75 to 1.00. Upon notification to the lenders, however, the maximum permitted leverage ratio can be relaxed to 4.25 to 1.00 for a one-year period in connection with certain material acquisitions. In addition, the agreement was amended on April 30, 2020 to allow the maximum permitted Net Leverage Ratio to be increased to 4.25 to 1.00 during certain periods (refer to the "Revolving Credit Agreement" section above). As noted in the "Revolving Credit Agreement" section above, we provided such notice to our Administrative Agent during our second quarter of fiscal 2021, and therefore, our Net Leverage Ratio covenant has been increased to 4.25 to 1.00 through August 31, 2021. The covenants contained in the New Credit Facility are substantially similar to those contained in our Revolving Credit Facility. See "Revolving Credit Agreement" above for details on our compliance with all significant financial covenants at August 31, 2021.

Stock Repurchase Program

See Note 10, "Stock Repurchase Program" to the Consolidated Financial Statements, for further detail surrounding our stock repurchase program.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financings. We have no subsidiaries that are not included in our financial statements, nor do we have any interests in, or relationships with, any special purpose entities that are not reflected in our financial statements.

OTHER MATTERS

Environmental Matters

Environmental obligations continue to be appropriately addressed and, based upon the latest available information, it is not anticipated that the outcome of such matters will materially affect our results of operations or financial condition. Our critical accounting policies and estimates set forth above describe our method of establishing and adjusting environmental-related accruals and should be read in conjunction with this disclosure. For additional information, refer to "Part II, Item 1. Legal Proceedings."

FORWARD-LOOKING STATEMENTS

The foregoing discussion includes forward-looking statements relating to our business. These forward-looking statements, or other statements made by us, are made based on our expectations and beliefs concerning future events impacting us and are subject to uncertainties and factors (including those specified below), which are difficult to predict and, in many instances, are beyond our control. As a result, our actual results could differ materially from those expressed in or implied by any such forward-looking statements. These uncertainties and factors include (a) global markets and general economic conditions, including uncertainties surrounding the volatility in financial markets, the availability of capital and the effect of changes in interest rates, and the viability of banks and other financial institutions; (b) the prices, supply and capacity of raw materials, including assorted pigments, resins, solvents, and other natural gas- and oil-based materials; packaging, including plastic and metal containers; and transportation services, including fuel surcharges; (c) continued growth in demand for our products; (d) legal, environmental and litigation risks inherent in our construction and chemicals businesses and risks related to the adequacy of our insurance coverage for such matters; (e) the effect of changes in interest rates; (f) the effect of fluctuations in currency exchange rates upon our foreign operations; (g) the effect of non-currency risks of investing in and conducting operations in foreign countries, including those relating to domestic and international political, social, economic and regulatory factors; (h) risks and uncertainties associated with our ongoing acquisition and divestiture activities; (i) the timing of and the realization of anticipated cost savings from restructuring initiatives and the ability to identify additional cost savings opportunities; (j) risks related to the adequacy of our contingent liability reserves; (k) risks relating to the Covid pandemic; (l) risks related to adverse weather conditions or the impacts of climate change and natural disasters; and (m) other risks detailed in our filings with the Securities and Exchange Commission, including the risk factors set forth in our Annual Report on Form 10-K for the year ended May 31, 2021, as the same may be updated from time to time. We do not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the filing date of this document.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in raw materials costs, interest rates and foreign exchange rates since we fund our operations through long- and short-term borrowings and conduct our business in a variety of foreign currencies. There were no material potential changes in our exposure to these market risks since May 31, 2021. However, refer to the "Gross Profit Margin" paragraphs in the "RESULTS OF OPERATIONS" for the "Three Months Ended August 31, 2021" section above, for additional details on recent inflationary cost pressure and supply chain disruption at some of our businesses across certain product categories.

ITEM 4. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of August 31, 2021 (the "Evaluation Date"), have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the

Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) CHANGES IN INTERNAL CONTROL.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended August 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Environmental Proceedings

Like other companies participating in similar lines of business, some of our subsidiaries are identified as a “potentially responsible party” under the federal Comprehensive Environmental Response, Compensation and Liability Act and similar local environmental statutes or are participating in the cost of certain clean-up efforts or other remedial actions relating to environmental matters. Our share of such costs to date, however, has not been material and management believes that these environmental proceedings will not have a material adverse effect on our consolidated financial condition or results of operations. See “Item 1 — Business — Environmental Matters,” in our Annual Report on Form 10-K for the year ended May 31, 2021.

As permitted by SEC rules, and given the size of our operations, we have elected to adopt a quantitative threshold for environmental proceedings of \$1 million. As of the date of this filing, we are not aware of any matters that exceed this threshold and meet the definition for disclosure.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the other risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents information about repurchases of RPM International Inc. common stock made by us during the first quarter of fiscal 2022:

| Period | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs(2) |
|--|---|------------------------------------|--|---|
| June 1, 2021 through June 30, 2021 | 134,813 | \$ 93.71 | 133,388 | |
| July 1, 2021 through July 31, 2021 | 57,559 | \$ 87.63 | - | |
| August 1, 2021 through August 31, 2021 | 7,590 | \$ 82.29 | - | |
| Total - First Quarter | <u>199,962</u> | <u>\$ 91.53</u> | <u>133,388</u> | |

(1) 66,574 shares of common stock that were disposed of back to us in satisfaction of tax obligations related to the vesting of restricted stock which was granted under RPM International Inc.'s equity and incentive plans.

(2) The maximum dollar amount that may yet be repurchased under our program was approximately \$407.3 million at August 31, 2021. Refer to Note 10 “Stock Repurchase Program” to the Consolidated Financial Statements for further information regarding our stock repurchase program.

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|-----------------------|---|
| 31.1 | Rule 13a-14(a) Certification of the Company's Chief Executive Officer.(x) |
| 31.2 | Rule 13a-14(a) Certification of the Company's Chief Financial Officer.(x) |
| 32.1 | Section 1350 Certification of the Company's Chief Executive Officer.(x) |
| 32.2 | Section 1350 Certification of the Company's Chief Financial Officer.(x) |
| 101.INS | Inline XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 104 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2021, has been formatted in Inline XBRL (x) Filed herewith. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RPM International Inc.

By: /s/ Frank C. Sullivan
Frank C. Sullivan
Chairman and Chief Executive Officer

By: /s/ Russell L. Gordon
Russell L. Gordon
Vice President and
Chief Financial Officer

Dated: October 6, 2021

RULE 13a-14(a) CERTIFICATION

I, Frank C. Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RPM International Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Frank C. Sullivan
Frank C. Sullivan
Chairman and Chief Executive Officer

Dated: October 6, 2021

RULE 13a-14(a) CERTIFICATION

I, Russell L. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RPM International Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Russell L. Gordon
Russell L. Gordon
Vice President and Chief Financial Officer

Dated: October 6, 2021

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of RPM International Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2021 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

/s/ Frank C. Sullivan
Frank C. Sullivan
Chairman and Chief Executive Officer

Dated: October 6, 2021

The foregoing Certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 10-Q or as a separate disclosure document.

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of RPM International Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2021 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

/s/ Russell L. Gordon
Russell L. Gordon
Vice President and Chief Financial Officer

Dated: October 6, 2021

The foregoing Certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 10-Q or as a separate disclosure document.
