



RPM International Inc.

## Investor Presentation

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G. Research

Specialty Chemicals Conference

March 13, 2019

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WHO WE  
ARE



# Best Home for Entrepreneurial Businesses



**\$5.3 billion**  
(May 31, 2018)

**Consumer Segment**  
\$1.8 billion (33%)

**Specialty Segment**  
\$753 million (14%)

**Industrial Segment**  
\$2.8 billion (53%)

**RUST-OLEUM**



**SPECIALTY PRODUCTS GROUP**



**TREMCO**

**tremco illbruck**

**PERFORMANCE COATINGS**



Entrepreneurial Operating Philosophy • Competitive Advantage of Leading Brands • Balance Between Consumer and Industrial Markets • Growth Strategy Balanced Between Internal Investment and Acquisitions • Connections Creating Value • Sustainable Shared Value

# Strong Brand Leadership in Attractive Markets



## BENEFITS



✓ **Command**  
premium pricing  
that sticks

✓ **Accelerate**  
purchase decisions

✓ **Drive**  
repeat purchases



**STONHARD**

Flooring Systems



**TREMCO**

Construction Sealants, Roofing Systems



Concrete Admixtures & Repair



**carboline**

Corrosion Control Coatings, Fireproofing Coatings



**dryvit**

Exterior Insulating Finishes



**RUST-OLEUM**

Small-Project Paints



Caulks, Sealants, Adhesives & Repair



**Varathane**  
WOOD'S FIRST CHOICE®

Wood Stains & Finishes



Degreasers and Cleaners



Fluorescent Pigments



# New Product Development Propels Organic Growth



New products introduced over last 4 years  
represent ~20% of consolidated sales

New products typically have higher price points and margins  
for RPM and its valued partners



ALPHAGUARD



TUF-STRAND  
MACROFIBERS



CONSUMER ROOFING  
PRODUCTS



NEW BRICK



# Acquisitions Bring New Growth Opportunities



# International Expansion Strategy Opening New Markets



## Sales by Region

\$ in millions

### CONSOLIDATED

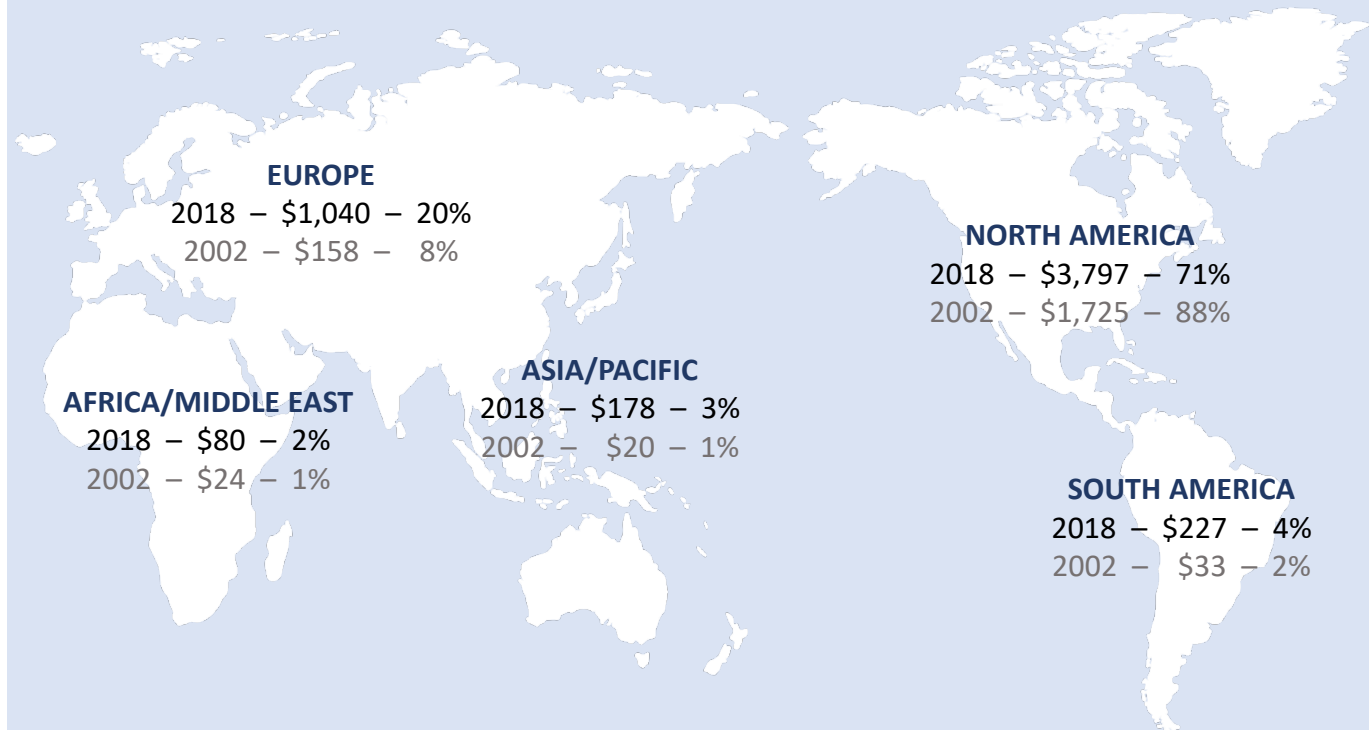
2018 – \$5,322

2002 – \$1,960

### OUTSIDE NA

2018 – \$1,525

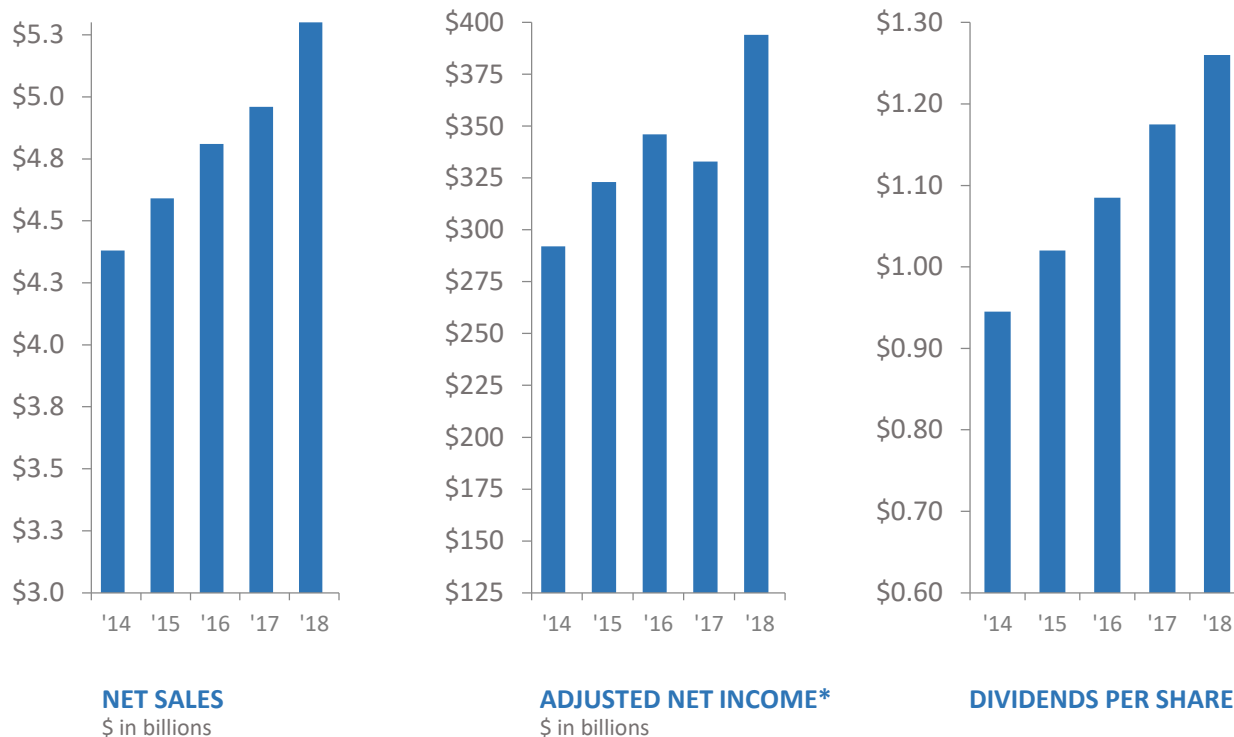
2002 – \$235



**GLOBAL MARKET: \$135 Billion\***

*\*Excludes \$66 bb architectural and \$57 bb OEM coatings from total \$258 bb global market.*

# Track Record of Top- and Bottom-Line Growth and Increasing Dividend



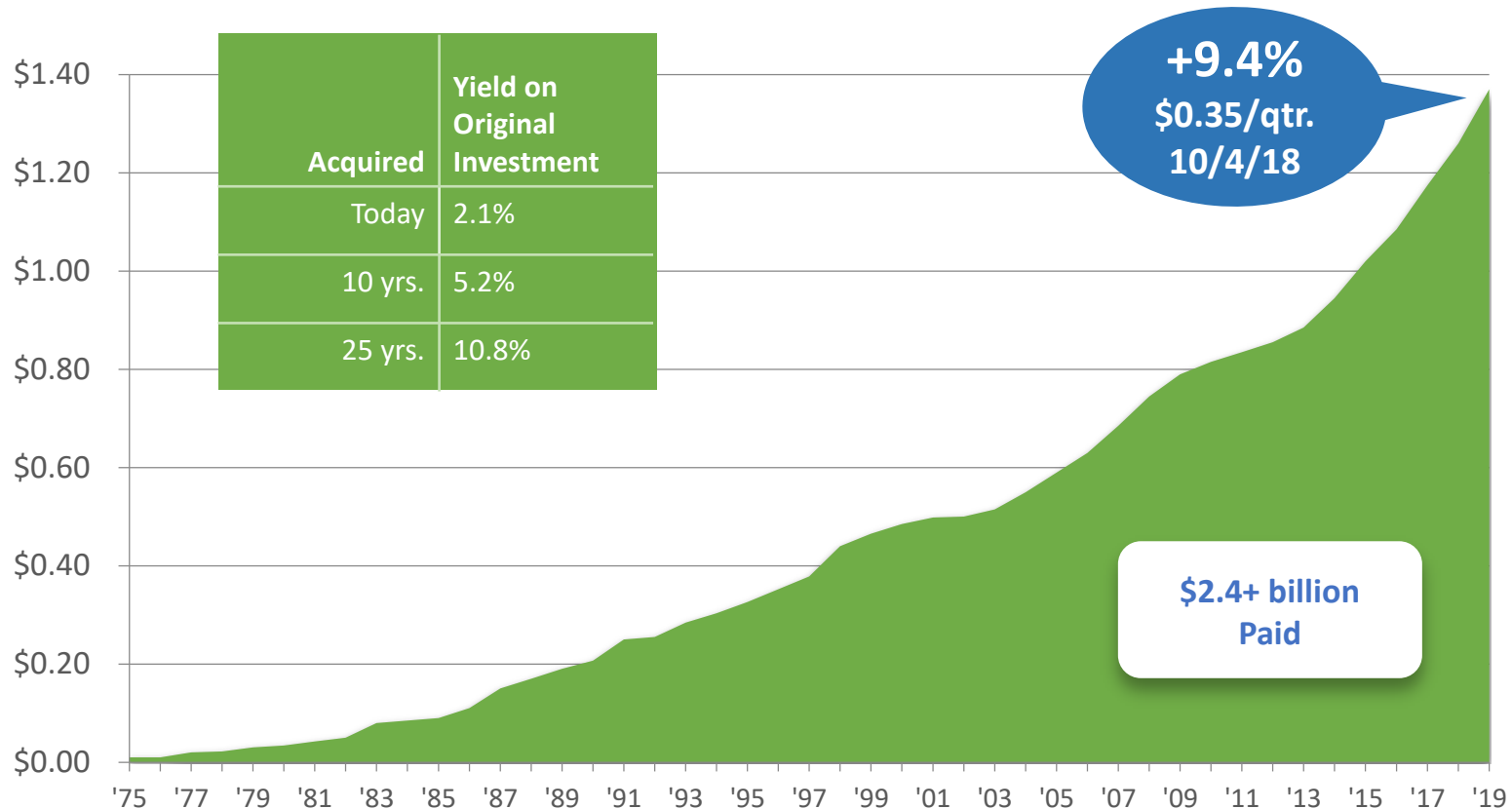
## FY14-18 CAGR

- Net Sales 5.0%
- Adj. Net Income 7.8%
- Dividends 7.5%

\* Fiscal 2015 net income of \$239 million is adjusted above to exclude the recognition of an ASC 740-30 liability for the potential repatriation of foreign earnings and related impact on net income attributable to noncontrolling interests of \$84 million after-tax. Fiscal 2016 net income of \$355 million is adjusted above to exclude the benefit of a reversal of contingent obligations for earnout targets that were not met at our Kirker reporting unit for \$9 million after-tax. Fiscal 2017 net income of \$182 million is adjusted above to exclude the after-tax impact of (i) a charge of \$12 million related to the Flowcrete decision to exit the Middle East; (ii) a charge of \$129 million of goodwill and intangible asset impairment losses related to our Kirker reporting unit; and (iii) a \$10 million impact for severance charges pursuant to a plan to reduce future SG&A expense. Fiscal 2018 net income of \$338 million is adjusted above to exclude (i) charges of \$4 million related to the decision to exit Flowcrete China; (ii) a charge of \$12 million after-tax for restructuring expense; (iii) charges of \$26 million after-tax for inventory-related charges associated with product line and SKU rationalization and related obsolete inventory identification at our Consumer Segment and inventory write-offs in connection with restructuring activities at our Industrial Segment; (iv) charges of \$1 million after-tax related to professional fees incurred in connection with the negotiation of a cooperation agreement; (v) charges of \$1 million after-tax for implementation costs associated with an ERP consolidation plan incurred by our Specialty Segment; and (vi) an adjustment to tax expense for \$12 million for U.S. tax reform and related guidance subsequently issued by the IRS.

# Delivering Value to SHAREHOLDERS

## 45 Consecutive Years of Dividend Increases



Only **41** of all 5,300 publicly traded companies in the U.S. have an equal or better record

Sources: Mergent Handbook of Dividend Achievers, U.S.: Mergent Inc., July 2018, ISBN 978-1-68200-739-6 and World Federation of Exchanges. (2018 August). Number of Listed Companies. Retrieved from <https://www.world-exchanges.org/home/index.php/statistics/monthly-reports>.





WHERE  
WE ARE

# Fiscal 2019 First-Half *Reported* Results



(\$ in millions, except per share amounts)

CONSOLIDATED			
<i>Six months ended Nov. 30</i>	2018	2017	%
Sales	\$2,823	\$2,661	+6.1%
Gross Profit	\$1,132	\$1,123	+0.8%
SG&A	\$890	\$814	+9.3%
EBIT	\$211	\$309	(31.9)%
Net Income	\$119	\$212	(43.8)%
Diluted EPS	\$0.89	\$1.56	(42.9)%

## SEGMENT RESULTS

INDUSTRIAL			
<i>Six mos. ended Nov. 30</i>	2018	2017	%
Sales	\$1,500	\$1,433	+4.7%
EBIT	\$128	\$162	(20.7)%
CONSUMER			
<i>Six mos. ended Nov. 30</i>	2018	2017	%
Sales	\$918	\$843	+8.9%
EBIT	\$93	\$118	(21.2)%
SPECIALTY			
<i>Six mos. ended Nov. 30</i>	2018	2017	%
Sales	\$405	\$386	+5.0%
EBIT	\$58	\$67	(14.5)%

- Bottom-line results for the fiscal 2019 first half were impacted by charges for acquisitions, convertible debt extinguishment, asset write-offs, restructuring and other expenses.
- Fiscal 2018 first-half earnings were impacted by a favorable discrete tax adjustment of \$18.0 million.
- Industrial sales growth led by North American waterproofing and construction sealants, businesses serving the oil and gas sector, corrosion control coatings, and concrete admixture and repair products. Sales internationally were soft.
- Consumer sales driven by new accounts and market share gains, particularly in wood stains and automotive finishes, which offset poor point-of-sale performance from exceptionally wet weather in the U.S. during the second quarter.
- Specialty sales faced difficult first-quarter comparisons from elevated prior-year restoration equipment sales due to Hurricane Harvey; 2Q sales driven by Nudura acquisition, wood and powder coatings and fluorescent colorants.

# Fiscal 2019 First-Half *Adjusted* Results



(\$ in millions, except per share amounts)

CONSOLIDATED			
<i>Six months ended Nov. 30</i>	2018	2017	%
Sales	\$2,823	\$2,661	+6.1%
Gross Profit	\$1,149	\$1,123	+2.3%
SG&A	\$868	\$814	+6.7%
EBIT*	\$280	\$309	(9.6)%
Net Income*	\$173	\$194	(10.9)%
Diluted EPS*	\$1.28	\$1.43	(10.5)%

## SEGMENT RESULTS

INDUSTRIAL			
<i>Six mos. ended Nov. 30</i>	2018	2017	%
Sales	\$1,500	\$1,433	+4.7%
EBIT*	\$165	\$162	+1.9%
CONSUMER			
<i>Six mos. ended Nov. 30</i>	2018	2017	%
Sales	\$918	\$843	+8.9%
EBIT*	\$96	\$118	(18.7)%
SPECIALTY			
<i>Six mos. ended Nov. 30</i>	2018	2017	%
Sales	\$405	\$386	+5.0%
EBIT*	\$65	\$67	(4.1)%

- \*Fiscal 2019 adjusted EBIT excludes charges of \$69.0 million and adjusted net income excludes after-tax charges of \$53.7 million primarily for acquisitions, convertible debt extinguishment, asset write-offs, restructuring and other expenses.
- \*Fiscal 2018 favorable discrete tax adjustment of \$18.0 million related to the implementation of a foreign legal entity realignment and corresponding planning strategy.
- To assist understanding of this non-GAAP information, RPM has posted reconciliations to the most directly comparable GAAP financial measures on the RPM web site.

# Fiscal 2019 Second-Quarter *Adjusted* Results



(\$ in millions, except per share amounts)

CONSOLIDATED			
Three months ended Nov. 30	2018	2017	%
Sales	\$1,363	\$1,315	+3.6%
Gross Profit	\$548	\$551	(0.6)%
SG&A	\$422	\$420	+0.5%
EBIT*	\$126	\$132	(4.5)%
Net Income*	\$70	\$77	(9.9)%
Diluted EPS*	\$0.52	\$0.57	(8.8)%

## SEGMENT RESULTS

INDUSTRIAL			
Three mos. ended Nov. 30	2018	2017	%
Sales	\$718	\$703	+2.1%
EBIT*	\$71	\$70	+1.0%
CONSUMER			
Three mos. ended Nov. 30	2018	2017	%
Sales	\$433	\$415	+4.1%
EBIT*	\$43	\$45	(5.1)%
SPECIALTY			
Three mos. ended Nov. 30	2018	2017	%
Sales	\$212	\$197	+7.6%
EBIT*	\$34	\$34	(0.7)%

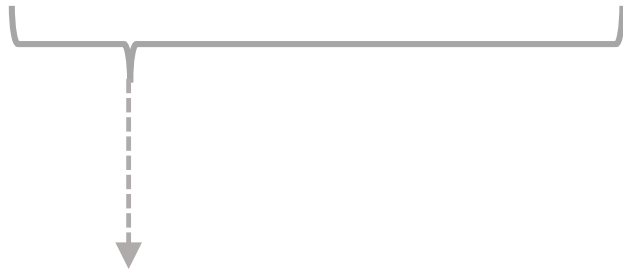
- Price increases implemented during the quarter began to combat pressure on margins created by continued raw material cost increases; anticipate that raw material costs will level off in the back half of the fiscal year, further closing the gap on margins.
- Better cost control led to an adjusted SG&A-to-sales ratio improvement of 100 basis points over last year.
- \*Fiscal 2019 adjusted EBIT excludes impact of \$29.2 million and adjusted net income excludes impact of \$20.5 million primarily for acquisitions, convertible debt extinguishment and restructuring related to the company's operating improvement plan.
- \*Fiscal 2018 excludes favorable discrete tax adjustment of \$18.0 million related to the implementation of a foreign legal entity realignment and corresponding planning strategy.
- To assist understanding of this non-GAAP information, RPM has posted reconciliations to the most directly comparable GAAP financial measures on the RPM web site.



WHERE WE'RE  
GOING



# Recognition That Our Historically Successful Growth and Value Creation Model Had Become Challenged



## Led to:

- ✓ Dialogue with multiple stakeholders and partners
- ✓ Active engagement by our board and senior management



## Resulting in:

- ✓ Identification of strategic changes necessary to drive RPM market capitalization to \$15 - \$20 billion

## PURPOSE

To position RPM for sustained, profitable growth creating superior value for its customers, entrepreneurs, associates and shareholders.



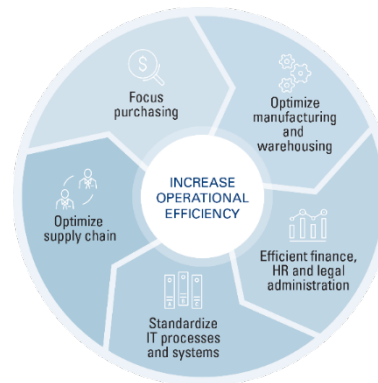
Maintain Entrepreneurial Growth Culture

## VISION

To transform RPM into a more connected and efficient company focused on operational excellence and continuous improvement, while maintaining the strengths of its entrepreneurial culture.



Organize to Execute



Increase Operational Efficiency

## 2020 MAP TO GROWTH STRATEGY

## GOALS

By May 31, 2021, RPM is targeting improvements to:

- \$6.25 bb Revenues
- \$1.0 bb EBIT on an annualized run rate
- \$1.5 bb Return of Capital

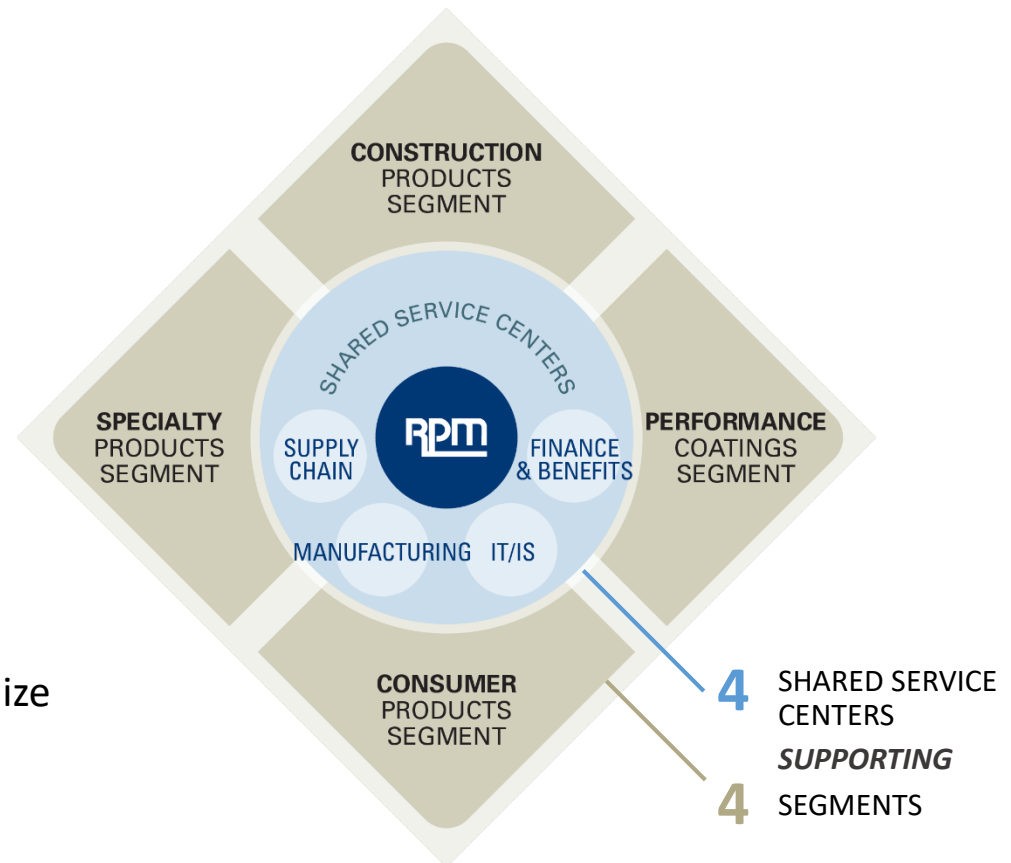
# 2020 MAP to Growth: Maintain Entrepreneurial Growth Culture



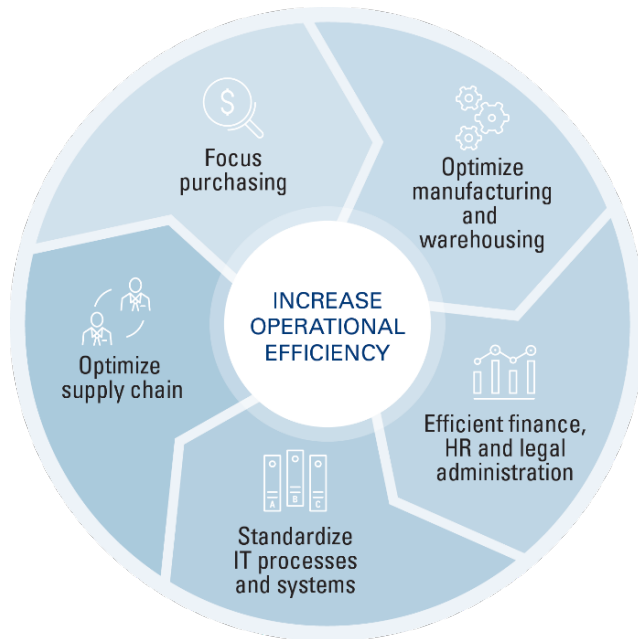
- ✓ Keep customer-centric functions at the operating level
- ✓ Maintain top-line sales growth
- ✓ Develop innovative new products and services
- ✓ Provide exceptional customer service and technical support
- ✓ Respond quickly to customer needs and changing market conditions
- ✓ Compete and win in markets served



- ✓ Center-led in functional areas of:
  - Manufacturing and operations
  - Procurement and supply chain
  - Information technology
  - Accounting/finance/legal/general administration
- ✓ Embed structural and process improvements into culture to maximize continuous improvement



# 2020 MAP to Growth: Increase Operational Efficiency



- ✓ Launch new strategic sourcing team for focused packaging and raw material purchasing
- ✓ Optimize manufacturing and warehousing assets and improve overall equipment effectiveness
- ✓ Organize finance, HR and legal administration for greater control, efficiencies and economies of scale
- ✓ Optimize supply chain by resetting inventory levels and implementing hub/spoke model

## Our Manufacturing Has Prioritized Obsessive Customer Service Over Efficiency – We Can Do Both



### Opportunities to improve:

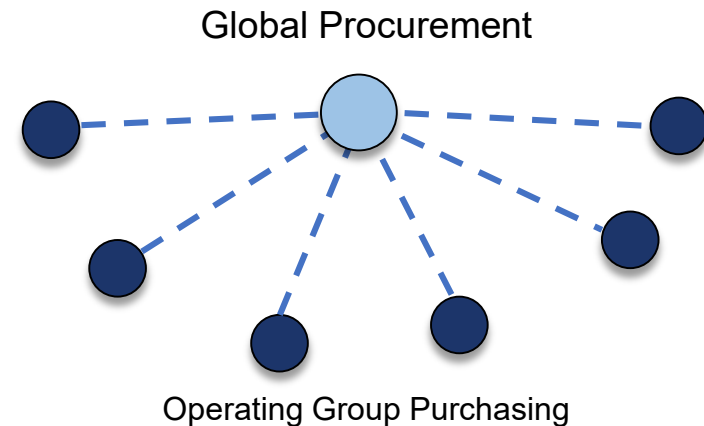
- ✓ Yields with better package fill control and material composition of finished goods
- ✓ OEE (Overall Equipment Effectiveness) via engineered availability improvement
- ✓ Capacity usage and strengthen new product development, service and cost efficiency
- ✓ Culture by focusing on continuous improvement

### Optimize asset base:

- ✓ Fewer and more efficient plants
  - Where appropriate, serving multiple companies across RPM operations and across groups
- ✓ Human capital
- ✓ Investment capital

## CENTER-LED

A central group to coordinate procurement, leverage spending, set policy, maintain master material lists and share leading practices.



These areas represent over \$1.5 billion of addressable spend, presenting significant opportunities for margin improvement

Initiative Categories	Key Levers
CHEMICALS	Structured sourcing process, value engineering, specification standardization, in-sourcing
PACKAGING	
OTHER/INDIRECT	New suppliers, MRO, facilities, and administrative spend
IN-FLIGHT PROJECTS	Distributor consolidation, direct sourcing, price level

# Corporate-Driven Center-Led IT Segment-Level IT Platforms – Strategy

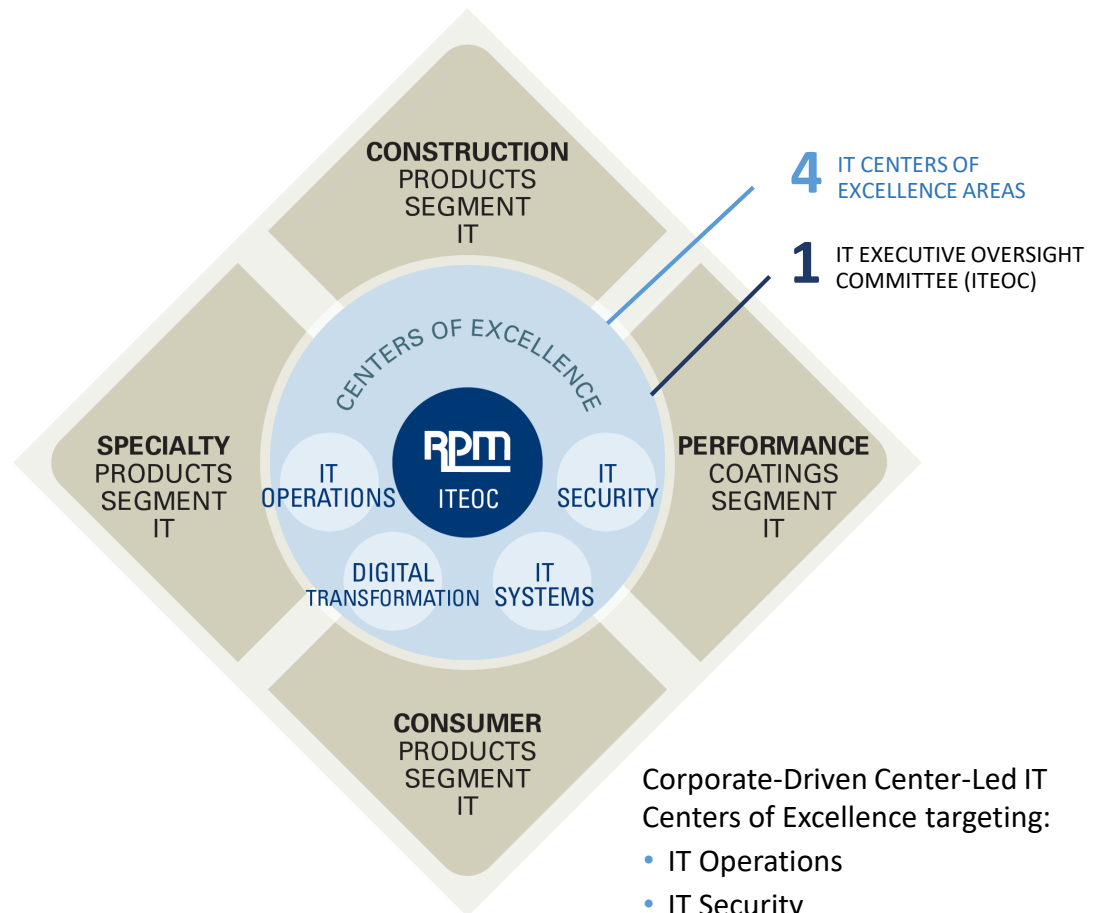
Expedite the integration  
of our organization  
from 45 ERP platforms running  
on 75 separate instances

ONTO

## Our existing 4 segment-level platforms

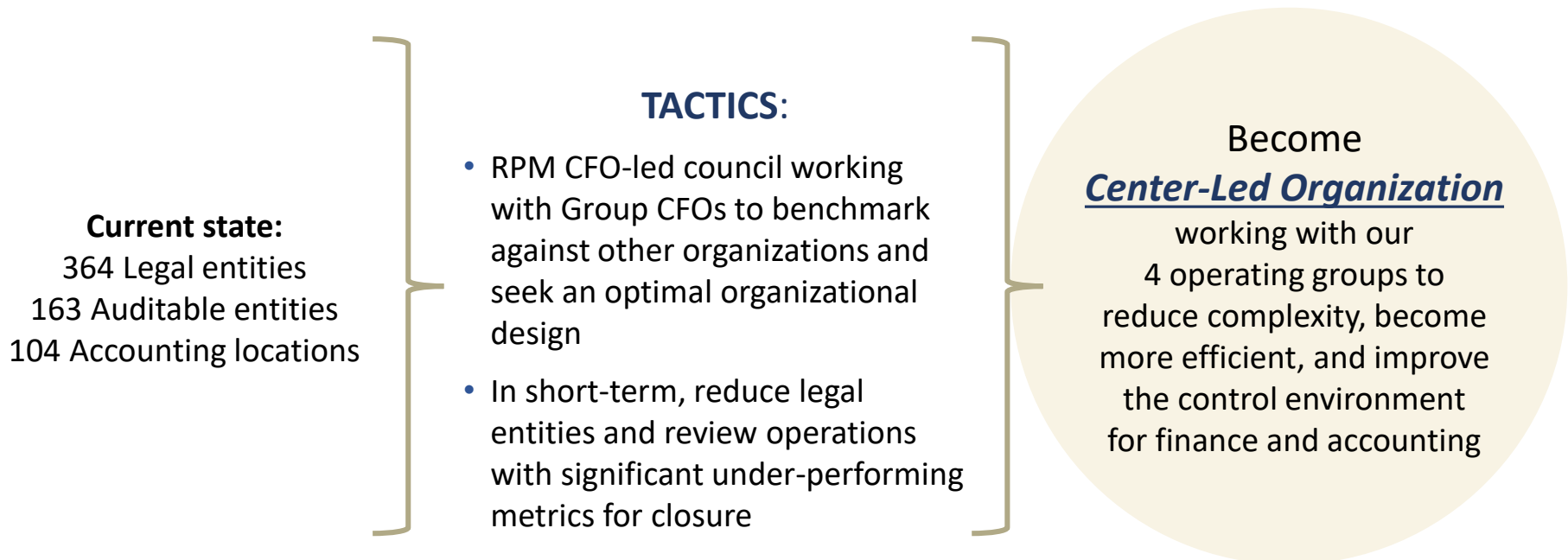
### Centralize at the Segment-Level

IT support / IT infrastructure  
Standard processes and controls  
Platforms for other back-office,  
shared Centers of Excellence



Corporate-Driven Center-Led IT  
Centers of Excellence targeting:

- IT Operations
- IT Security
- IT Systems
- Digital Transformation



# 2020 MAP to Growth: Waves Plan Summary

We have developed a detailed Implementation Roadmap organized into logical waves

## Waves Plan MAP 2020

**Annualized  
Run Rate**

\$ in millions



**MANUFACTURING**



**Scope:** 14 In-flight Initiatives underway, ZBY & OEE implementation large plants and Asset Optimization: Validation and Risk analysis



**PROCUREMENT**



**Scope:** In-flight Initiatives, Chemicals



**G&A**



**Scope:** Group RIFs; spend control for largest expense categories

**Scope:** 6 In-flight Initiatives, ZBY & OEE Implementation next plants and Asset Optimization: Prep & Execution

**Scope:** Chemicals, Packaging and MRO; early stages of commodity cycle margin recovery

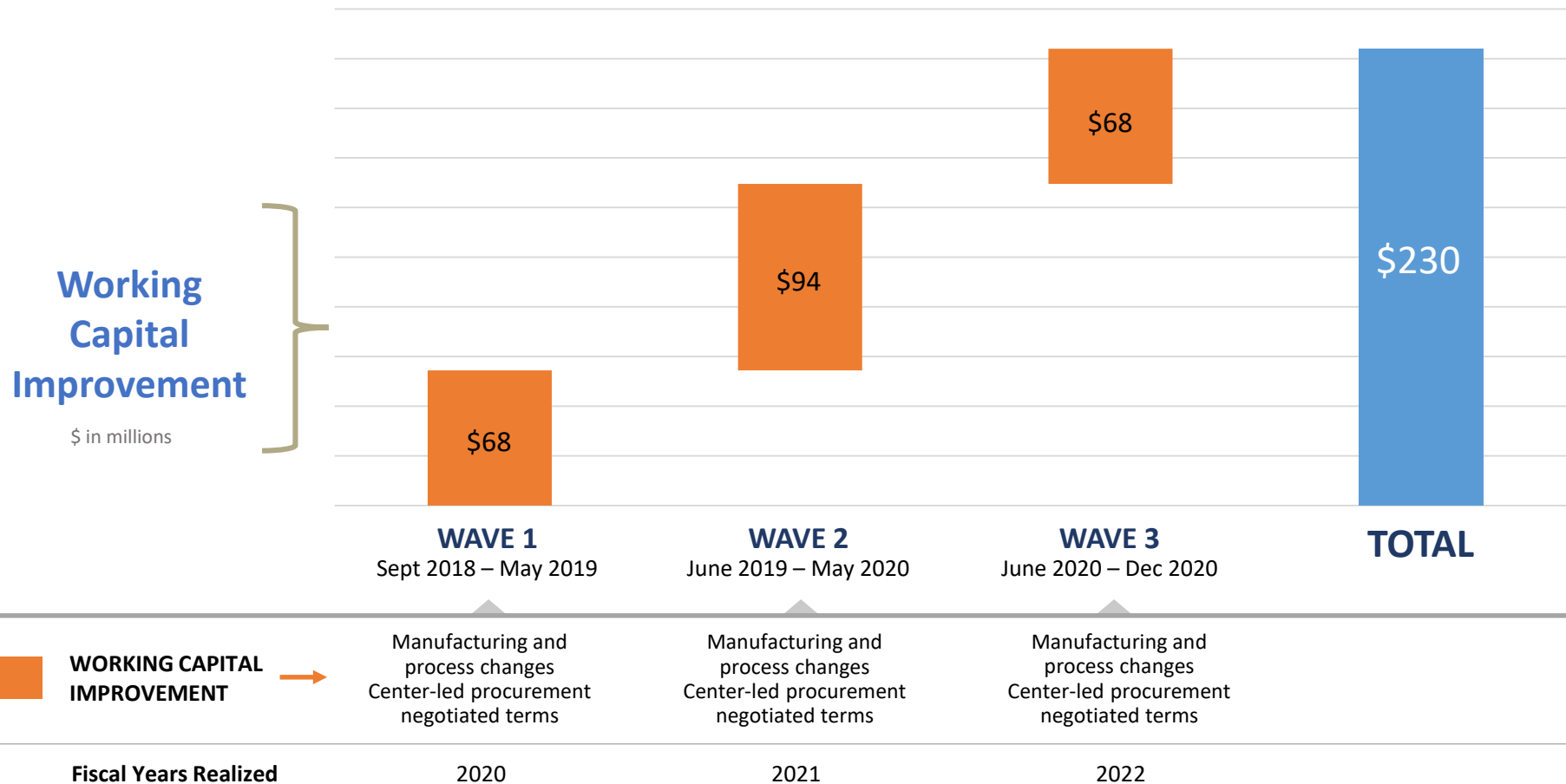
**Scope:** Finance and HR functional optimization; spend control for next tier of G&A categories

**Scope:** Asset Optimization remaining plants and Asset Optimization Execution

**Scope:** Chemicals, Packaging and Insourcing; commodity cycle margin recovery

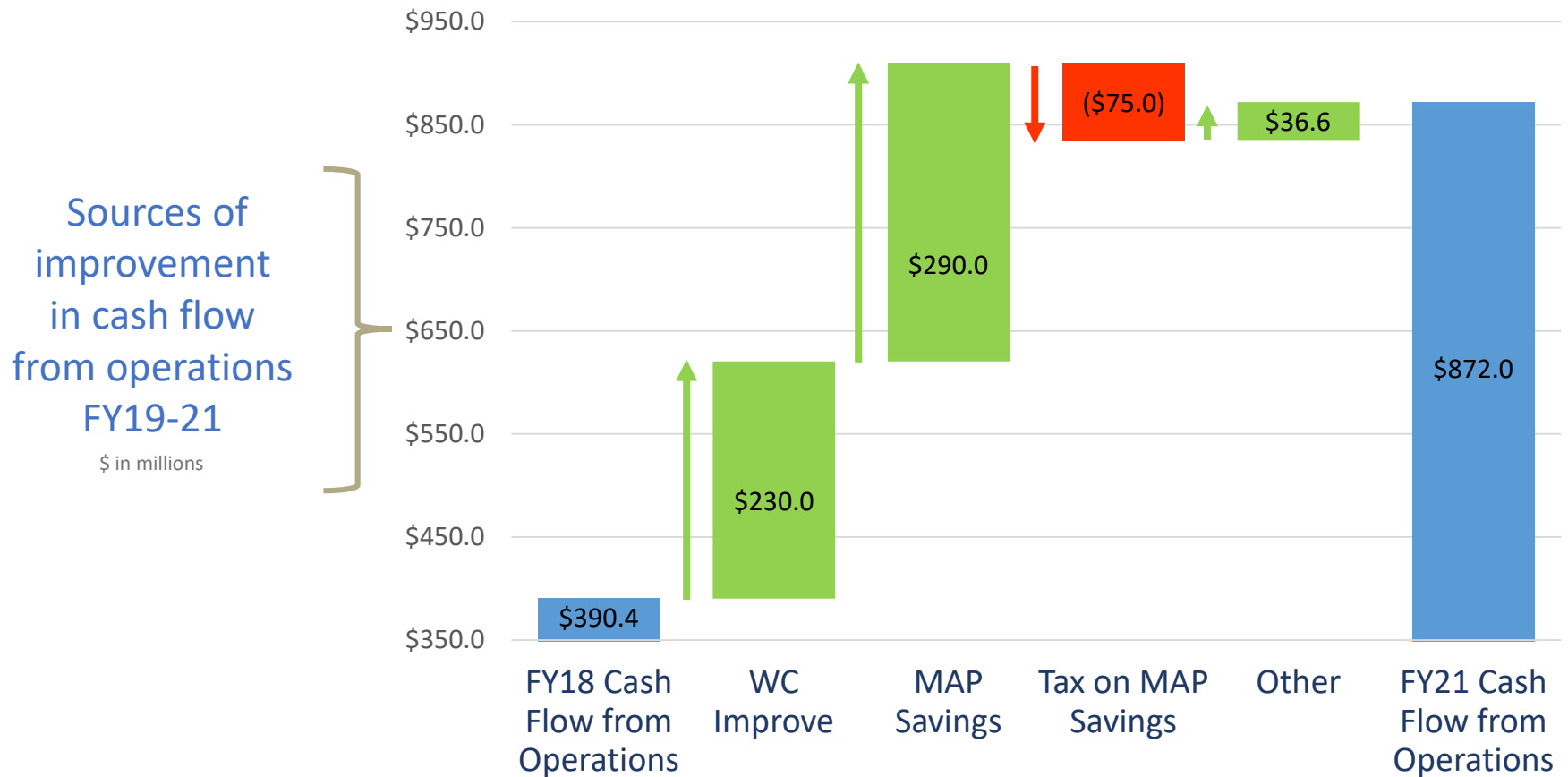
**Scope:** R&D Centers of Excellence; RIFs driven by ERP consolidations; spend control for next tier of G&A categories

# 2020 MAP to Growth: Working Capital Improvement





# 2020 MAP to Growth: Improvements in Cash Flow

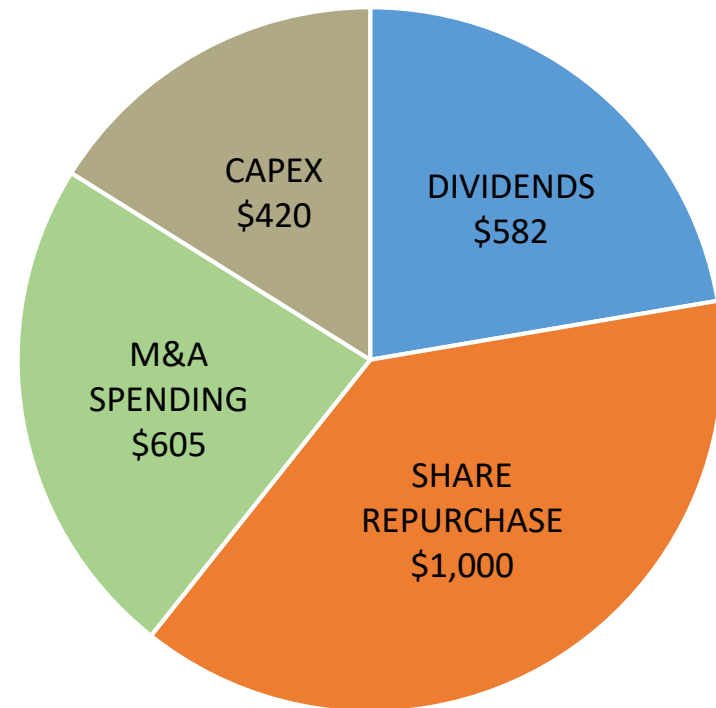


# 2020 MAP to Growth: Capital Allocation Cash Flow



- “Protect the House” – maintain investment-grade profile
- Internal investment for growth
- Acquisitions
- Growing dividend
- Share repurchase

FY19-21 Capital Allocation



\$ in millions

# 2020 MAP to Growth: Financial Goals



## KEY ASSUMPTIONS

- Continuing modest economic growth
- Improving raw material environment in calendar 2020 and beyond
- 3% organic growth + \$150-\$200 MM annually in acquisitions

\* Projected targets other than revenue are annualized run rate to be fully realized in FY 2022

	Actual FY18	Improvement	Projected FY21*	CAGR
Total Revenue	\$5,322	+\$937	\$6,259	5.6%
Adjusted Gross Profit % margin	\$2,218 41.7%	+\$625 +370 bps	\$2,843 45.4%	8.6%
Adjusted SG&A % margin	\$1,655 31.1%	+\$188 -170 bps	\$1,843 29.4%	3.7%
Adjusted EBIT % margin	\$563 10.6%	+\$437 +540 bps	\$1,000 16.0%	21.1%
Adjusted EBITDA % margin	\$688 12.9%	+\$470 +560 bps	\$1,158 18.5%	19.0%
Adjusted EPS	\$2.92		\$4.90-\$5.30	

\$ in millions, except per share amounts



- ✓ As company has grown, we have reached the scale to improve efficiency
- ✓ Can eliminate redundancies without impacting customer experience
- ✓ “No stone unturned” in our review
- ✓ Plans and people in place to execute
- ✓ Will create better platforms to:
  - Extend our business via acquisition
  - Leverage top-line growth to bottom line
- ✓ Continuous improvement process will be part of our culture after MAP project is completed

# Why RPM is a Great Investment Opportunity



Proven strategy delivers sustainable organic and acquisition growth



Track record of superior long-term returns for shareholders



Portfolio of leading brands that customers know and trust



Disciplined capital allocation for growth initiatives and shareholder returns



## *The Value of* **168<sup>®</sup>**

***“Hire the best people you can  
find. Create an atmosphere  
that will keep them.  
Then let them do their jobs.”***

*Frank C. Sullivan, 1947*