



RPM International Inc.

Second Quarter Results Fiscal Year 2020

Consolidated Statements of Income



(As Reported)

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

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

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

Consolidated Statements of Income



(As Reported)

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

Unaudited

	Three months ended November 30,				
	2019	%	2018	%	% Change
Net Sales	\$ 1,401,292		\$ 1,362,531		2.8
Cost of Sales	871,894	62.2	868,800	63.8	
Gross Profit	529,398	37.8	493,731	36.2	
SG&A	403,357	28.8	385,842	28.3	
Restructuring Expense	4,801	0.4	7,724	0.6	
Other Expense, Net	1,951	0.1	3,412	0.2	
EBIT*	119,289	8.5	96,753	7.1	23.3
Interest Expense	26,341	1.9	23,127	1.7	
Investment (Income) Expense, Net	(8,805)	(0.6)	7,033	0.5	
Income Before Taxes	101,753	7.2	66,593	4.9	
Provision for Income Taxes	24,431	1.7	17,420	1.3	
Net Income	77,322	5.5	49,173	3.6	57.2
Less: Net Income (Loss) Attributable to Noncontrolling Interests	292	0.0	(51)	0.0	
Net Income Attributable to RPM Stockholders	\$ 77,030	5.5	\$ 49,224	3.6	56.5
Diluted EPS	\$ 0.59		\$ 0.37		59.5

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

Consolidated Statements of Income



(As Reported)

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

Unaudited

	Six months ended November 30,				
	2019	%	2018	%	% Change
Net Sales	\$ 2,874,056		\$ 2,822,520		1.8
Cost of Sales	1,769,904	61.6	1,779,436	63.0	
Gross Profit	1,104,152	38.4	1,043,084	37.0	
SG&A	803,923	28.0	800,895	28.4	
Restructuring Expense	11,423	0.4	27,800	1.0	
Other Expense, Net	3,736	0.1	3,725	0.1	
EBIT*	285,070	9.9	210,664	7.5	35.3
Interest Expense	54,658	1.9	47,533	1.7	
Investment (Income) Expense, Net	(14,190)	(0.5)	4,600	0.2	
Income Before Taxes	244,602	8.5	158,531	5.6	
Provision for Income Taxes	60,784	2.1	39,172	1.4	
Net Income	183,818	6.4	119,359	4.2	54.0
Less: Net Income Attributable to Noncontrolling Interests	600	0.0	371	0.0	
Net Income Attributable to RPM Stockholders	\$ 183,218	6.4	\$ 118,988	4.2	54.0
Diluted EPS	\$ 1.41		\$ 0.89		58.4

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



RPM International Inc.

Reconciliations of Non-GAAP Measures To GAAP Measures

Free Cash Flow Generation (Non-GAAP Measure)



(\$ in thousands)

	Fiscal Year Ended May 31,				
	2019	2018	2017	2016	2015
<u>Cash Flows from Operating Activities:</u>					
Net income	\$ 267,687	\$ 339,257	\$ 184,671	\$ 357,458	\$ 228,328
Depreciation and amortization	141,742	128,499	116,773	111,039	99,176
Working capital and all other operating activities	(116,488)	(77,373)	84,683	6,209	2,944
Cash Flow from Operations (GAAP)	292,941	390,383	386,127	474,706	330,448
<u>Cash Flows from Investing Activities:</u>					
Capital expenditures	(136,757)	(114,619)	(126,109)	(117,183)	(85,363)
<u>Cash Flows from Financing Activities:</u>					
Dividends	(181,409)	(167,476)	(156,752)	(144,350)	(136,179)
Free Cash Flow (non-GAAP measure)	(25,225)	108,288	103,266	213,173	108,906
All other investing activities	(111,489)	(146,574)	(213,556)	(48,683)	(474,090)
All other financing activities	127,567	(71,900)	192,723	(61,755)	246,372
Effect of exchange rate changes on cash and short-term investments	(12,107)	4,111	2,912	(12,294)	(39,345)
Net increase (decrease) in cash and short-term investments (GAAP)	\$ (21,254)	\$ (106,075)	\$ 85,345	\$ 90,441	\$ (158,157)

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

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

EBIT* (Non-GAAP Measure): RPM Consolidated



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

	Three months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 101,753	\$ 66,593
Interest Expense	26,341	23,127
Investment (Income) Expense, Net	(8,805)	7,033
EBIT* (non-GAAP measure)	119,289	96,753
Inventory-related charges (a)	5,582	3,609
Restructuring Expense (b)	5,100	7,724
Facility closure expense - other (c)	7,412	3,706
Receivable write-offs (d)	94	(1,121)
ERP consolidation plan (e)	2,720	1,188
Professional fees (f)	4,779	5,189
Acquisition-related costs (g)	35	2,931
Convertible debt extinguishment (h)	-	3,052
Fair value adjustments to acquisition earnout (i)	-	2,398
Loss on South Africa Business EE (j)	-	540
Unusual costs triggered by executive departures (k)	292	-
Divestitures (l)	(264)	-
Discontinued product line (m)	8,618	-
Adjusted EBIT**	\$ 153,657	\$ 125,969
Net Sales	\$ 1,401,292	\$ 1,362,531
EBIT* as a % of Net Sales (non-GAAP measure)	8.5%	7.1%
Adj. EBIT** as a % of Net Sales (non-GAAP measure)	11.0%	9.2%

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

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

NOTE: Refer to slide 7 for all adjustment detail.

EBIT* (Non-GAAP Measure): RPM Consolidated



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

	Six months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 244,602	\$ 158,531
Interest Expense	54,658	47,533
Investment (Income) Expense, Net	(14,190)	4,600
EBIT* (non-GAAP measure)	285,070	210,664
Inventory-related charges (a)	8,807	7,933
Restructuring Expense (b)	11,929	27,800
Facility closure expense - other (c)	8,464	6,161
Receivable write-offs (d)	3,227	6,899
ERP consolidation plan (e)	6,244	1,847
Professional fees (f)	12,925	9,486
Acquisition-related costs (g)	583	2,931
Convertible debt extinguishment (h)	-	3,052
Fair value adjustments to acquisition earnout (i)	-	2,398
Loss on South Africa Business EE (j)	-	540
Unusual costs triggered by executive departures (k)	639	-
Divestitures (l)	(264)	-
Discontinued product line (m)	8,618	-
Adjusted EBIT**	\$ 346,242	\$ 279,711
Net Sales	\$ 2,874,056	\$ 2,822,520
EBIT* as a % of Net Sales (non-GAAP measure)	9.9%	7.5%
Adj. EBIT** as a % of Net Sales (non-GAAP measure)	12.0%	9.9%

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

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

NOTE: Refer to slide 7 for all adjustment detail.

Reconciliation of "Reported" to "Adjusted" EPS



(Unaudited)

	Three months ended November 30,	
	2019	2018
<u>Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):</u>		
Reported Earnings per Diluted Share	\$ 0.59	\$ 0.37
Inventory-related charges (a)	0.03	0.02
Restructuring expense (b)	0.03	0.04
Facility closure expense - other (c)	0.05	0.02
Receivable write-offs (d)	-	(0.01)
ERP consolidation plan (e)	0.02	0.01
Professional fees (f)	0.03	0.03
Acquisition-related costs (g)	-	0.02
Convertible debt extinguishment (h)	-	0.01
Fair value adjustments to acquisition earnout (i)	-	0.01
Discontinued product line (m)	0.05	-
Investment returns (n)	(0.04)	0.06
Adjusted Earnings per Diluted Share (o)	\$ 0.76	\$ 0.58

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

NOTE: Refer to slide 7 for all adjustment detail

Reconciliation of "Reported" to "Adjusted" EPS



(Unaudited)

	<u>Six months ended November 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):</u>		
Reported Earnings per Diluted Share	\$ 1.41	\$ 0.89
Inventory-related charges (a)	0.05	0.05
Restructuring expense (b)	0.07	0.15
Facility closure expense - other (c)	0.05	0.04
Receivable write-offs (d)	0.02	0.05
ERP consolidation plan (e)	0.04	0.01
Professional fees (f)	0.08	0.05
Acquisition-related costs (g)	-	0.02
Convertible debt extinguishment (h)	-	0.01
Fair value adjustments to acquisition earnout (i)	-	0.01
Discontinued product line (m)	0.05	-
Investment returns (n)	(0.06)	0.06
Adjusted Earnings per Diluted Share (o)	<u>\$ 1.71</u>	<u>\$ 1.34</u>

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

NOTE: Refer to slide 7 for all adjustment detail

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



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

	Three months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 57,123	\$ 35,357
Add: Interest Expense, Net*	2,074	2,189
EBIT** (non-GAAP measure)	59,197	37,546
Inventory-related charges (a)	-	320
Restructuring expense (b)	1,896	3,960
Facility closure expense - other (c)	438	69
Receivable write-offs (d)	(20)	-
ERP consolidation plan (e)	293	161
Professional fees (f)	67	-
Acquisition-related costs (g)	-	1,106
Adjusted EBIT***	\$ 61,871	\$ 43,162
Net Sales	\$ 499,510	\$ 467,298
EBIT** as a % of Net Sales (non-GAAP measure)	11.9%	8.0%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	12.4%	9.2%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

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



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

	Six months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 139,803	\$ 100,401
Add: Interest Expense, Net*	4,101	4,479
EBIT** (non-GAAP measure)	143,904	104,880
Inventory-related charges (a)	271	549
Restructuring expense (b)	2,952	6,757
Facility closure expense - other (c)	640	69
Receivable write-offs (d)	33	-
ERP consolidation plan (e)	354	392
Professional fees (f)	76	-
Acquisition-related costs (g)	548	1,106
Adjusted EBIT***	\$ 148,778	\$ 113,753
Net Sales	\$ 1,035,615	\$ 984,790
EBIT** as a % of Net Sales (non-GAAP measure)	13.9%	10.6%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	14.4%	11.6%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

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



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

	Three months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 33,320	\$ 22,299
Add: Interest (Income) Expense, Net*	(25)	223
EBIT** (non-GAAP measure)	33,295	22,522
Inventory-related charges (a)	1,028	2,312
Restructuring expense (b)	1,239	993
Facility closure expense - other (c)	1,119	3,050
Receivable write-offs (d)	117	(1,121)
ERP consolidation plan (e)	129	348
Professional fees (f)	308	-
Acquisition-related costs (g)	35	1,825
Fair value adjustments to acquisition earnout (i)	-	2,398
Loss on South Africa Business EE (j)	-	540
Divestitures (l)	(264)	-
Adjusted EBIT***	\$ 37,006	\$ 32,867
Net Sales	\$ 292,712	\$ 291,960
EBIT** as a % of Net Sales (non-GAAP measure)	11.4%	7.7%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	12.6%	11.3%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

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



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

	Six months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 61,377	\$ 30,624
Add: Interest Expense, Net*	104	341
EBIT** (non-GAAP measure)	61,481	30,965
Inventory-related charges (a)	3,066	6,561
Restructuring expense (b)	3,848	6,035
Facility closure expense - other (c)	1,819	5,490
Receivable write-offs (d)	3,139	6,899
ERP consolidation plan (e)	496	348
Professional fees (f)	309	-
Acquisition-related costs (g)	35	1,825
Fair value adjustments to acquisition earnout (i)	-	2,398
Loss on South Africa Business EE (j)	-	540
Divestitures (l)	(264)	-
Adjusted EBIT***	\$ 73,929	\$ 61,061
Net Sales	\$ 589,953	\$ 588,379
EBIT** as a % of Net Sales (non-GAAP measure)	10.4%	5.3%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	12.5%	10.4%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

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



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

	Three months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 34,456	\$ 41,836
Add: Interest Expense, Net*	56	123
EBIT** (non-GAAP measure)	34,512	41,959
Inventory-related charges (a)	4,554	977
Restructuring Expense (b)	1,124	182
Facility closure expense - other (c)	5,626	-
Receivable write-offs (d)	(3)	-
ERP consolidation plan (e)	125	-
Professional fees (f)	128	-
Discontinued product line (m)	\$ 8,618	\$ -
Adjusted EBIT***	\$ 54,684	\$ 43,118
Net Sales	\$ 450,900	\$ 425,255
EBIT** as a % of Net Sales (non-GAAP measure)	7.7%	9.9%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	12.1%	10.1%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

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



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

	Six months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 93,614	\$ 92,805
Add: Interest Expense, Net*	161	297
EBIT** (non-GAAP measure)	93,775	93,102
Inventory-related charges (a)	5,470	823
Restructuring Expense (b)	2,406	1,200
Facility closure expense - other (c)	5,626	-
Receivable write-offs (d)	55	-
ERP consolidation plan (e)	125	-
Professional fees (f)	305	-
Discontinued product line (m)	\$ 8,618	\$ -
Adjusted EBIT***	\$ 116,380	\$ 95,125
Net Sales	\$ 930,230	\$ 902,618
EBIT** as a % of Net Sales (non-GAAP measure)	10.1%	10.3%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	12.5%	10.5%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

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



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

	Three months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 18,762	\$ 26,119
Add: Interest Expense (Income), Net*	7	(105)
EBIT** (non-GAAP measure)	18,769	26,014
Restructuring Expense (b)	819	1,528
Facility closure expense - other (c)	166	587
ERP consolidation plan (e)	2,172	679
Professional fees (f)	981	-
Unusual costs triggered by executive departures (k)	280	-
Adjusted EBIT***	\$ 23,187	\$ 28,808
Net Sales	\$ 158,170	\$ 178,018
EBIT** as a % of Net Sales (non-GAAP measure)	11.9%	14.6%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	14.7%	16.2%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

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



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

	Six months ended November 30,	
	2019	2018
Income Before Income Taxes	\$ 42,089	\$ 49,935
Add: Interest (Income), Net*	(19)	(198)
EBIT** (non-GAAP measure)	42,070	49,737
Restructuring Expense (b)	2,709	3,748
Facility closure expense - other (c)	315	602
ERP consolidation plan (e)	5,268	1,107
Professional fees (f)	981	-
Unusual costs triggered by executive departures (k)	473	-
Adjusted EBIT***	\$ 51,816	\$ 55,194
Net Sales	\$ 318,258	\$ 346,733
EBIT** as a % of Net Sales (non-GAAP measure)	13.2%	14.3%
Adj. EBIT*** as a % of Net Sales (non-GAAP measure)	16.3%	15.9%

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

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

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

NOTE: Refer to slide 7 for all adjustment detail.

EBIT* & EBITDA (Non-GAAP Measures)



(In thousands)

	2015 ⁽²⁾	2016	2017	2018	2019
Net income	\$ 228,328	\$ 357,458	\$ 184,671	\$ 339,257	\$ 267,687
Add: Provision (benefit) for income taxes	224,925	126,008	59,662	77,791	72,158
Add: Interest expense	87,615	91,683	96,954	104,547	102,392
Add: Investment expense (income), net	(18,577)	(10,365)	(13,984)	(20,442)	(730)
Add: 2020 MAP to Growth related initiatives				58,080	106,475
Add: Acquisition-related charges					5,385
Add: Convertible debt extinguishment					3,052
Add: Loss on South Africa Business					540
Add: Unusual costs triggered by executive departures					10,520
Add: Charge to exit Flowcrete China				4,164	
Add: Charge to exit Flowcrete Middle East			12,275		
Add: Goodwill and other intangible asset impairments			188,298		
Add: Severance expense			15,001		
Adjusted EBIT* (non-GAAP measure)	522,291	564,784	542,877	563,397	567,479
Add: Amortization	36,988	44,307	44,903	46,523	47,699
Adjusted EBITA* (non-GAAP measure)	559,279	609,091	587,780	609,920	615,178
Add: Depreciation	62,188	66,732	71,870	81,976	94,043
Adjusted EBITDA* (non-GAAP measure)	621,467	675,823	659,650	691,896	709,221
Deduct: Interest expense	(87,615)	(91,683)	(96,954)	(104,547)	(102,392)
Deduct: Investment expense (income), net	18,577	10,365	13,984	20,442	730
Deduct: Provision (benefit) for income taxes	(224,925)	126,008	(59,662)	(77,791)	(72,158)
Add: Changes in operating assets, liabilities and other	2,944	6,209	(130,891)	(139,617)	(242,460)
Cash from operating activities	\$ 330,448	\$ 474,706	\$ 386,127	\$ 390,383	\$ 292,941
Net sales	\$4,594,550	\$4,813,649	\$4,958,175	\$5,321,643	\$5,564,551
Adjusted EBITA* as % of net sales (non-GAAP measure)	12.2%	12.7%	11.9%	11.5%	11.1%
Adjusted EBITDA* as % of net sales (non-GAAP measure)	13.5%	14.0%	13.3%	13.0%	12.7%

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

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