RPM International Inc.

Fourth Quarter Results
Fiscal Year 2019

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	3,302,644	59.4	3,140,431	59.0	
Gross Profit	2,261,907	40.6	2,181,212	41.0	
SG&A	1,769,630	31.8	1,663,143	31.3	
Restructuring Expense	42,310	0.7	17,514	0.3	
Other Intangible Asset Impairments	4,190	0.1	-	0.0	
Other Expense (Income), Net	4,270	0.1	(598)	0.0	
EBIT*	441,507	7.9	501,153	9.4	(11.9)
Interest Expense	102,392	1.8	104,547	2.0	
Investment (Income), Net	(730)	0.0	(20,442)	(0.4)	
Income Before Income Taxes	339,845	6.1	417,048	7.8	
Provision for Income Taxes	72,158	1.3	77,791	1.5	
Net Income	267,687	4.8	339,257	6.3	(21.1)
Less: Net Income Attributable to Noncontrolling Interests	1,129	0.0	1,487	0.0	
Net Income Attributable to RPM Stockholders	$ 266,558	4.8	$ 337,770	6.3	(21.1)
Diluted Earnings Per Share	$ 2.01		$ 2.50		(19.6)

*Non-GAAP measure

Consolidated Statements of Income

(As Reported)

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

Unaudited

	Three Months Ended May 31,				
	2019	%	2018	%	% Change
Net Sales	$ 1,601,401		$ 1,558,156		2.8
Cost of Sales	917,645	57.3	939,460	60.3	
Gross Profit	683,756	42.7	618,696	39.7	
SG&A	470,926	29.4	466,163	29.9	
Restructuring Expense	5,831	0.4	17,514	1.1	
Other Intangible Asset Impairments	2,201	0.1	-	0.0	
Other Expense (Income), Net	218	0.0	(6)	0.0	
EBIT*	204,580	12.8	135,025	8.7	51.5
Interest Expense	28,334	1.8	23,919	1.5	
Investment (Income), Net	(604)	0.0	(6,779)	(0.4)	
Income Before Taxes	176,850	11.0	117,885	7.6	
Income Tax Expense	43,018	2.6	31,977	2.1	
Net Income	133,832	8.4	85,908	5.5	55.8
Less: Net Income Attributable to Noncontrolling Interests	452	0.1	244	0.0	
Net Income Attributable to RPM Stockholders	$ 133,380	8.3	$ 85,664	5.5	55.7
Diluted EPS	$ 1.02		$ 0.63		61.9

*Non-GAAP measure

RPM International Inc.

Reconciliations of Non-GAAP Measures To GAAP Measures

Free Cash Flow Generation (Non-GAAP Measure)

($ in thousands)

	Fiscal Year Ended May 31,				
	2019	2018	2017	2016	2015
Cash Flows from Operating Activities:					
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
Cash Flows from Investing Activities:					
Capital expenditures	(136,757)	(114,619)	(126,109)	(117,183)	(85,363)
Cash Flows from Financing Activities:					
Dividends	(181,409)	(167,476)	(156,752)	(144,350)	(136,179)
Free Cash Flow (non-GAAP measure)	*(25,225)*	*108,288*	*103,266*	*213,173*	*108,906*
All other investing activities	(111,489)	(146,574)	(213,556)	(48,683)	(474,090)
All other financing activities	127,567	(71,900)	192,723	(61,755)	246,372
Effect of exchange rate changes on cash and short-term investments	(12,107)	4,111	2,912	(12,294)	(39,345)
Net increase (decrease) in cash and short-term investments (GAAP)	$ (21,254)	$ (106,075)	$ 85,345	$ 90,441	$ (158,157)

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

Adjustments Detail

(a) Inventory related charges reflect the following in fiscal 2019; charges at our Consumer segment resulting from business process changes related to MAP to Growth resulting in more proactive management of inventory, a true-up of prior year inventory write-offs at our Consumer segment, and inventory write-offs and disposals at our Industrial segment; and the following in fiscal 2018; product line and SKU rationalization and related obsolete inventory identification at our Consumer segment, as well as inventory write-offs in connections with MAP to Growth at our Industrial segment, all of which have been recorded in cost of goods sold.

(b) Reflects restructuring charges, including headcount reductions, closures of facilities and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan initiatives.

(c) Includes accelerated depreciation expense related to the shortened useful lives of facilities currently operating, but are in the process of being prepared for closure.

(d) Reflects the increase in our allowance for doubtful accounts deemed uncollectible as a result of a change in market and leadership strategy, offset by subsequent reversals.

(e) Includes implementation costs associated with the current phase of our ERP consolidation plan.

(f) Comprises professional fees incurred in connection with our restructuring plan as well as the negotiation of a cooperation agreement and related fees incurred in connection with hosting an investor conference, all of which have been incurred in relation to our 2020 Margin Acceleration Plan initiatives.

(g) Acquisition costs reflect amounts included in gross profit for inventory disposals and step-ups related to fiscal 2019 acquisitions, and amounts included in SG&A for acquisition-related professional fees.

(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 fiscal 2019.

(j) Reflects other expense associated with a change in ownership of a joint venture 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 2019 that resulted from executive departures unrelated to our 2020 MAP to Growth initiative, including stock and deferred compensation plan arrangements.

(l) Reflects the charges related to Flowcrete decision to exit China.

(m) Investment returns include realized net gains and losses on sales of investments during fiscal 2019 and 2018, and unrealized net gains and losses on equity securities pursuant to new accounting rules beginning in fiscal 2019, 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.

(n) Represents a fiscal 2018 favorable discrete tax adjustment related to a foreign legal entity realignment and corresponding tax planning strategy.

(o) Discrete tax adjustments due to U.S. income tax reform.

EBIT* (Non-GAAP Measure): RPM Consolidated

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

	Three months ended May 31,	
	2019	2018
Income Before Income Taxes	$ 176,850	$ 117,885
Add: Interest Expense, Net	27,730	17,140
EBIT* (non-GAAP measure)	204,580	135,025
Inventory-related charges (a)	10,233	37,683
Restructuring Expense (b)	5,831	17,514
Facility closure expense - other (c)	654	
Receivable write-offs (d)	(341)	
ERP consolidation plan (e)	2,967	1,416
Professional fees (f)	8,650	1,467
Unusual costs triggered by executive departures (k)	8,840	
Charge to exit Flowcrete China (l)		4,164
Adjusted EBIT	$ 241,414	$ 197,269
Net Sales	$ 1,601,401	$ 1,558,156
EBIT* as a % of Net Sales (non-GAAP measure)	12.8%	8.7%
Adj EBIT as a % of Net Sales (non-GAAP measure)	15.1%	12.7%

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

NOTE: Refer to slide 6 for all adjustment detail.

EBIT* (Non-GAAP Measure): RPM Consolidated

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

	Year Ended May 31,	
	2019	2018
Income Before Income Taxes	$ 339,845	$ 417,048
Add: Interest Expense, Net	101,662	84,105
EBIT* (non-GAAP measure)	441,507	501,153
Inventory-related charges (a)	20,022	37,683
Restructuring Expense (b)	42,310	17,514
Facility closure expense - other (c)	5,383	
Receivable write-offs (d)	6,442	
ERP consolidation plan (e)	6,375	1,416
Professional fees (f)	25,943	1,467
Acquisition-related costs (g)	2,991	
Convertible debt extinguishment (h)	3,052	
Fair value adjustments to acquisition earnout (i)	2,394	
Loss on South Africa Business EE (j)	540	
Unusual costs triggered by executive departures (k)	10,520	
Charge to exit Flowcrete China (l)	-	4,164
Adjusted EBIT	$ 567,479	$ 563,397
Net Sales	$ 5,564,551	$ 5,321,643
EBIT* as a % of Net Sales (non-GAAP measure)	7.9%	9.4%
Adj EBIT as a % of Net Sales (non-GAAP measure)	10.2%	10.6%

*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.

NOTE: Refer to slide 6 for all adjustment detail.

Reconciliation of "Reported" to "Adjusted" Net Income

($ in thousands)
(Unaudited)

	Three Months Ended May 31,		Year Ended May 31,	
	2019	2018	2019	2018
Net Income, As Reported	$ 133,380	$ 85,664	$ 266,558	$ 337,770
Adjustments, pre-tax	38,233	59,001	131,172	52,168
Tax impact of adjustments	(8,351)	(5,722)	(37,047)	(36,111)
Net Income, As Adjusted	$ 163,262	$ 138,943	$ 360,683	$ 353,827

NOTE: Refer to slide 6 for all adjustment detail

Reconciliation of "Reported" to "Adjusted" EPS

(Unaudited)

	Three Months Ended May 31,	
	2019	2018
Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):		
Reported Earning per Diluted Share	$ 1.02	$ 0.63
Inventory-related charges (a)	0.06	0.19
Restructuring Expense (b)	0.03	0.09
ERP consolidation plan (e)	0.02	0.01
Professional fees (f)	0.05	0.01
Unusual costs triggered by executive departures (k)	0.05	
Investment returns (m)	0.01	(0.03)
Discrete tax adjustment (o)		0.09
Charge to exit Flowcrete China (l)		0.03
Adjusted Earnings per Diluted Share (p)	$ 1.24	$ 1.02

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

NOTE: Refer to slide 6 for all adjustment detail

Reconciliation of "Reported" to "Adjusted" EPS

(Unaudited)

	Year Ended May 31,			
	2019		2018	
Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):				
Reported Earning per Diluted Share	$	2.01	$	2.50
Inventory-related charges (a)		0.12		0.19
Restructuring Expense (b)		0.23		0.09
Facility closure expense - other (c)		0.03		
Receivable write-offs (d)		0.05		
ERP consolidation plan (e)		0.04		0.01
Professional fees (f)		0.15		0.01
Acquisition-related costs (g)		0.03		
Fair value adjustments to acquisition earnout (i)		0.01		
Unusual costs triggered by executive departures (k)		0.06		
Investment returns (m)		0.06		(0.08)
Non-recurring tax adjustement (n)				(0.13)
Discrete tax adjustment (o)		(0.08)		
Charge to exit Flowcrete China (l)				0.03
Adjusted Earnings per Diluted Share (p)	$	2.71	$	2.62

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

NOTE: Refer to slide 6 for all adjustment detail

EBIT* (Non-GAAP Measure): Industrial Segment

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

	Three months ended May 31,	
	2019	2018
Income Before Income Taxes	$ 108,416	$ 96,390
Add: Interest Expense, Net	1,449	2,935
EBIT* (non-GAAP measure)	109,865	99,325
Inventory-related charges (a)	1,781	1,220
Restructuring Expense (b)	3,785	4,587
Facility closure expense - other (c)	205	
Receivable write-offs (d)	(341)	
Professional fees (f)	324	
Unusual costs triggered by executive departures (k)	127	
Charge to exit Flowcrete China (l)		4,164
Adjusted EBIT	$ 115,746	$ 109,296
Net Sales	$ 808,992	$ 812,872
EBIT* as a % of Net Sales (non-GAAP measure)	13.6%	12.2%
Adj EBIT as a % of Net Sales (non-GAAP measure)	14.3%	13.4%

*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.

NOTE: Refer to slide 6 for all adjustment detail

EBIT* (Non-GAAP Measure): Industrial Segment

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

	Year Ended May 31,	
	2019	2018
Income Before Income Taxes	$ 243,234	$ 270,792
Add: Interest Expense, Net	8,815	10,507
EBIT* (non-GAAP measure)	252,049	281,299
Inventory-related charges (a)	9,960	1,220
Restructuring Expense (b)	19,999	4,587
Facility closure expense - other (c)	5,891	
Receivable write-offs (d)	6,379	
ERP consolidation plan (e)	348	
Professional fees (f)	442	
Acquisition-related costs (g)	1,823	
Fair value adjustments to acquisition earnout (i)	2,394	
Loss on South Africa Business EE (j)	540	
Unusual costs triggered by executive departures (k)	127	
Charge to exit Flowcrete China (l)		4,164
Adjusted EBIT	$ 299,952	$ 291,270
Net Sales	$ 2,889,822	$ 2,814,755
EBIT* as a % of Net Sales (non-GAAP measure)	8.7%	10.0%
Adj EBIT as a % of Net Sales (non-GAAP measure)	10.4%	10.3%

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

NOTE: Refer to slide 6 for all adjustment detail

EBIT* (Non-GAAP Measure): Consumer Segment

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

	Three months ended May 31,	
	2019	2018
Income Before Income Taxes	$ 99,255	$ 25,298
Add: Interest Expense, Net	107	220
EBIT* (non-GAAP measure)	99,362	25,518
Inventory-related charges (a)	8,452	36,463
Restructuring Expense (b)	1,263	10,791
Facility closure expense - other (c)	3	
ERP consolidation plan (e)	499	
Adjusted EBIT	$ 109,579	$ 72,772
Net Sales	$ 584,999	$ 548,394
EBIT* as a % of Net Sales (non-GAAP measure)	17.0%	4.7%
Adj EBIT as a % of Net Sales (non-GAAP measure)	18.7%	13.3%

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

NOTE: Refer to slide 6 for all adjustment detail

EBIT* (Non-GAAP Measure): Consumer Segment

RPM

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

	Year Ended May 31,	
	2019	2018
Income Before Income Taxes	$ 215,002	$ 171,874
Add: Interest Expense, Net	481	713
EBIT* (non-GAAP measure)	215,483	172,587
Inventory-related charges (a)	10,062	36,463
Restructuring Expense (b)	5,959	10,791
Facility closure expense - other (c)	(127)	
Receivable write-offs (d)	63	
ERP consolidation plan (e)	520	
Adjusted EBIT	$ 231,960	$ 219,841
Net Sales	$ 1,887,767	$ 1,754,339
EBIT* as a % of Net Sales (non-GAAP measure)	11.4%	9.8%
Adj EBIT as a % of Net Sales (non-GAAP measure)	12.3%	12.5%

*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.

NOTE: Refer to slide 6 for all adjustment detail

EBIT* (Non-GAAP Measure): Specialty Segment

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

	Three months ended May 31,	
	2019	2018
Income Before Income Taxes	$ 26,514	$ 32,909
Add: Interest Expense, Net	(82)	(592)
EBIT* (non-GAAP measure)	26,432	32,317
Restructuring Expense (b)	884	
Facility closure expense - other (c)	446	
ERP consolidation plan (e)	2,468	1,416
Unusual costs triggered by executive departures (k)	2,079	
Adjusted EBIT	$ 32,309	$ 33,733
Net Sales	$ 207,410	$ 196,890
EBIT* as a % of Net Sales (non-GAAP measure)	12.7%	16.4%
Adj EBIT as a % of Net Sales (non-GAAP measure)	15.6%	17.1%

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

NOTE: Refer to slide 6 for all adjustment detail

EBIT* (Non-GAAP Measure): Specialty Segment

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

	Year Ended May 31,	
	2019	2018
Income Before Income Taxes	$ 101,441	$ 123,307
Add: Interest Expense, Net	(368)	(876)
EBIT* (non-GAAP measure)	101,073	122,431
Restructuring Expense (b)	6,368	
Facility closure expense - other (c)	(381)	
ERP consolidation plan (e)	5,507	1,416
Acquisition-related costs (g)	1,168	
Unusual costs triggered by executive departures (k)	2,079	
Adjusted EBIT	$ 115,814	$ 123,847
Net Sales	$ 786,962	$ 752,549
EBIT* as a % of Net Sales (non-GAAP measure)	12.8%	16.3%
Adj EBIT as a % of Net Sales (non-GAAP measure)	14.7%	16.5%

*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.

NOTE: Refer to slide 6 for all adjustment detail

EBIT* & EBITDA (Non-GAAP Measures)

RPM

(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%*

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.

*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.