



RPM International Inc.

## First Quarter Results Fiscal Year 2021

# Consolidated Statements of Income



(\$ in thousands, except per share data)

	Fiscal Year Ended May 31,				
	2020	%	2019	%	% Change
Net Sales	\$ 5,506,994		\$ 5,564,551		(1.0)
Cost of Sales	3,414,139	62.0	3,476,231	62.5	
Gross Profit	2,092,855	38.0	2,088,320	37.5	
SG&A	1,548,653	28.1	1,596,043	28.7	
Restructuring Expense	33,108	0.6	42,310	0.8	
Other Intangible Asset Impairments	-		4,190	0.1	
Other Expense, Net	12,066	0.2	4,270	0.1	
EBIT*	499,028	9.1	441,507	7.9	13.0
Interest Expense	101,003	1.8	102,392	1.8	
Investment (Income), Net	(9,739)	(0.2)	(730)	(0.0)	
Income Before Taxes	407,764	7.4	339,845	6.1	
Provision for Income Taxes	102,682	1.9	72,158	1.3	
Net Income	305,082	5.5	267,687	4.8	14.0
Less: Net Income Attributable to Noncontrolling Interests	697	0.0	1,129	0.0	
Net Income Attributable to RPM Stockholders	\$ 304,385	5.5	\$ 266,558	4.8	14.2
Diluted EPS	\$ 2.34		\$ 2.01		16.4

\*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.

# Consolidated Statements of Income



(\$ in thousands, except per share data)  
(Unaudited)

	Three Months Ended August 31,				
	2020	%	2019	%	% Change
<b>Net Sales</b>	\$ 1,606,670		\$ 1,472,764		9.1
<b>Cost of Sales</b>	953,015	59.3	898,010	61.0	
<b>Gross Profit</b>	653,655	40.7	574,754	39.0	
<b>SG&amp;A</b>	395,953	24.6	400,566	27.2	
<b>Restructuring Expense</b>	4,233	0.3	6,622	0.4	
<b>Other Expense, Net</b>	3,118	0.2	1,785	0.1	
<b>EBIT*</b>	250,351	15.6	165,781	11.3	51.0
<b>Interest Expense</b>	21,745	1.4	28,317	1.9	
<b>Investment (Income), Net</b>	(12,763)	(0.8)	(5,385)	(0.4)	
<b>Income Before Taxes</b>	241,369	15.0	142,849	9.7	
<b>Provision for Income Taxes</b>	60,584	3.8	36,353	2.5	
<b>Net Income</b>	180,785	11.3	106,496	7.2	69.8
<b>Less: Net Income Attributable to Noncontrolling Interests</b>	190	0.0	308	0.0	
<b>Net Income Attributable to RPM Stockholders</b>	\$ 180,595	11.2	\$ 106,188	7.2	70.1
<b>Diluted EPS</b>	\$ 1.39		\$ 0.82		69.5

\*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.



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,				
	2020	2019	2018	2017	2016
<b><u>Cash Flows from Operating Activities:</u></b>					
Net income	\$ 305,082	\$ 267,687	\$ 339,257	\$ 184,671	\$ 357,458
Depreciation and amortization	156,842	141,742	128,499	116,773	111,039
Working capital and all other operating activities	87,995	(116,488)	(77,373)	84,683	6,209
<b>Cash Flow from Operations (GAAP)</b>	<b>549,919</b>	<b>292,941</b>	<b>390,383</b>	<b>386,127</b>	<b>474,706</b>
<b><u>Cash Flows from Investing Activities:</u></b>					
Capital expenditures	(147,756)	(136,757)	(114,619)	(126,109)	(117,183)
<b><u>Cash Flows from Financing Activities:</u></b>					
Dividends	(185,101)	(181,409)	(167,476)	(156,752)	(144,350)
<b>Free Cash Flow (non-GAAP measure)</b>	<b>217,062</b>	<b>(25,225)</b>	<b>108,288</b>	<b>103,266</b>	<b>213,173</b>
All other investing activities	(61,857)	(111,489)	(146,574)	(213,556)	(48,683)
All other financing activities	(131,769)	127,567	(71,900)	192,723	(61,755)
Effect of exchange rate changes on cash and short-term investments	(13,188)	(12,107)	4,111	2,912	(12,294)
<b>Net increase (decrease) in cash and short-term investments (GAAP)</b>	<b>\$ 10,248</b>	<b>\$ (21,254)</b>	<b>\$ (106,075)</b>	<b>\$ 85,345</b>	<b>\$ 90,441</b>

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



- (a) Charges recorded in Cost of Goods Sold that reflect SKU rationalization at our Consumer segment, as well as inventory write-offs in connection with restructuring activities at our Consumer, Construction Products and Performance Coatings segments, offset somewhat by subsequent recoveries related to immaterial sales in excess of amounts reserved.
- (b) Reflects restructuring charges, including headcount reductions, closures of facilities and related costs, and other restructuring costs, all in relation to our Margin Acceleration Plan (“MAP to Growth”).
- (c) Includes accelerated depreciation and amortization expense related to the shortened useful lives of facilities and equipment, ERP systems, and intangibles that are currently in use, but are in the process of being retired associated with various MAP to Growth initiatives including facility closures, exiting businesses, and ERP consolidations.
- (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 our ERP consolidation plan.
- (f) Comprises professional fees as well as the negotiation of a cooperation agreement, all of which have been incurred in relation to our MAP to Growth.
- (g) Acquisition costs reflect amounts included in gross profit for inventory step-ups.
- (h) Reflects unusual compensation costs that resulted from executive departures related to our MAP to Growth, including stock and deferred compensation plan arrangements.
- (i) Reflects unusual compensation costs, net of insurance proceeds, that resulted from executive departures unrelated to our MAP to Growth
- (j) Reflects true-up of reserves related to prior period gains or losses incurred upon divestiture of a business and/or assets.
- (k) Reflects reversal of prior period charges related to the discontinuation of a product line targeting OEM markets and related inventory write-off. This resulted from ongoing product line rationalization efforts in connection with our MAP to Growth.
- (l) 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.

**Note:** Adjustments described above correspond to slides 7-12

# EBIT\*\* (Non-GAAP Measure): RPM Consolidated



(As Reported)

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

(Unaudited)

	Three Months Ended August 31,	
	2020	2019
Net Income	\$ 180,785	\$ 106,496
Provision for Income Taxes	60,584	36,353
Income Before Income Taxes	241,369	142,849
Interest Expense*	21,745	28,317
Investment (Income), Net	(12,763)	(5,385)
EBIT** (non-GAAP measure)	250,351	165,781
Inventory-related charges (a)	660	3,225
Restructuring Expense (b)	4,694	6,829
Accelerated expense - other (c)	1,535	1,052
Receivable write-offs (d)	(137)	3,133
ERP consolidation plan (e)	1,370	3,524
Professional fees (f)	8,277	8,146
Acquisition-related costs (g)	-	548
Unusual costs triggered by executive departures (h)	2,832	347
Unusual executive costs, net of insurance proceeds (i)	7	-
Divestitures (j)	(8)	-
Discontinued product line (k)	(375)	-
Adjusted EBIT***	\$ 269,206	\$ 192,585
Net Sales	\$ 1,606,670	\$ 1,472,764
EBIT** as a % of Net Sales (non-GAAP measure)	15.6%	11.3%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	16.8%	13.1%

\*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.

# Reconciliation of "Reported" to "Adjusted" EPS



(Unaudited)

	<u>Three Months Ended August 31,</u>	
	<u>2020</u>	<u>2019</u>
<b><u>Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):</u></b>		
Reported Earnings per Diluted Share	\$ 1.39	\$ 0.82
Inventory-related charges (a)	-	0.02
Restructuring expense (b)	0.03	0.04
Accelerated expense - other (c)	0.01	-
Receivable write-offs (d)	-	0.02
ERP consolidation plan (e)	0.01	0.02
Professional fees (f)	0.05	0.05
Unusual costs triggered by executive departures (h)	0.02	-
Investment returns (l)	(0.07)	(0.02)
<b>Adjusted Earnings per Diluted Share*</b>	<b><u>\$ 1.44</u></b>	<b><u>\$ 0.95</u></b>

\*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.



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



(As Reported)

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

(Unaudited)

	Three Months Ended August 31,	
	2020	2019
<b>Income Before Income Taxes</b>	\$ 98,349	\$ 82,680
<b>Add: Interest Expense, Net*</b>	2,110	2,027
<b>EBIT** (non-GAAP measure)</b>	<b>100,459</b>	<b>84,707</b>
<b>Inventory-related charges (a)</b>	(51)	271
<b>Restructuring Expense (b)</b>	1,046	1,055
<b>Accelerated expense - other (c)</b>	697	202
<b>Receivable write-offs (d)</b>	-	53
<b>ERP consolidation plan (e)</b>	117	60
<b>Professional fees (f)</b>	65	11
<b>Acquisition-related costs (g)</b>	-	548
<b>Divestitures (j)</b>	(8)	-
<b>Adjusted EBIT***</b>	<b>\$ 102,325</b>	<b>\$ 86,907</b>
<b>Net Sales</b>	<b>\$ 547,690</b>	<b>\$ 536,105</b>
<b>EBIT** as a % of Net Sales (non-GAAP measure)</b>	<b>18.3%</b>	<b>15.8%</b>
<b>Adj EBIT*** as a % of Net Sales (non-GAAP measure)</b>	<b>18.7%</b>	<b>16.2%</b>

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

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\*\*\*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.

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



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

	Three Months Ended August 31,	
	2020	2019
Income Before Income Taxes	\$ 28,514	\$ 28,057
Add: Interest Expense, Net*	31	129
EBIT** (non-GAAP measure)	28,545	28,186
Inventory-related charges (a)	36	2,038
Restructuring Expense (b)	1,356	2,608
Accelerated expense - other (c)	685	701
Receivable write-offs (d)	(137)	3,023
ERP consolidation plan (e)	129	367
Professional fees (f)	257	-
Adjusted EBIT***	\$ 30,871	\$ 36,923
Net Sales	\$ 259,788	\$ 297,241
EBIT** as a % of Net Sales (non-GAAP measure)	11.0%	9.5%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	11.9%	12.4%

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

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

\*\*\*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.

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



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

	Three Months Ended August 31,	
	2020	2019
Income Before Income Taxes	\$ 132,722	\$ 59,158
Add: Interest Expense, Net*	62	105
EBIT** (non-GAAP measure)	132,784	59,263
Inventory-related charges (a)	675	916
Restructuring Expense (b)	1,485	1,282
Accelerated expense - other (c)	22	-
Receivable write-offs (d)	-	58
ERP consolidation plan (e)	14	-
Professional fees (f)	123	177
Unusual costs triggered by executive departures (h)	2,000	-
Discontinued product line (k)	(375)	-
Adjusted EBIT***	\$ 136,728	\$ 61,696
Net Sales	\$ 641,168	\$ 479,330
EBIT** as a % of Net Sales (non-GAAP measure)	20.7%	12.4%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	21.3%	12.9%

\*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.

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



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

	Three Months Ended August 31,	
	2020	2019
Income Before Income Taxes	\$ 20,449	\$ 23,327
Add: Interest Expense (Income), Net*	82	(26)
EBIT** (non-GAAP measure)	20,531	23,301
Restructuring Expense (b)	808	1,889
Accelerated expense - other (c)	131	149
ERP consolidation plan (e)	1,110	3,097
Professional fees (f)	1,449	-
Unusual costs triggered by executive departures (h)	45	193
Adjusted EBIT***	\$ 24,074	\$ 28,629
Net Sales	\$ 158,024	\$ 160,088
EBIT** as a % of Net Sales (non-GAAP measure)	13.0%	14.6%
Adj EBIT*** as a % of Net Sales (non-GAAP measure)	15.2%	17.9%

\*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.

# EBIT\* & EBITDA (Non-GAAP Measures)



(in thousands)

	2016	2017	2018	2019	2020
Net Income	\$ 357,458	\$ 184,671	339,257	267,687	305,082
Add: Provision for income taxes	126,008	59,662	77,791	72,158	102,682
Add: Interest expense	91,683	96,954	104,547	102,392	101,003
Add: Investment (income), net	(10,365)	(13,984)	(20,442)	(730)	(9,739)
Add: MAP to Growth related initiatives			58,080	110,549	123,089
Add: Acquisition-related charges				2,991	919
Add: Convertible debt extinguishment				3,052	
Add: Loss on South Africa Business				540	
Add: Unusual costs triggered by executive departures				8,840	(1,696)
Add: Charge (adjustment) to exit Flowcrete China			4,164		(1,039)
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)	564,784	542,877	563,397	567,479	620,301
Add: Amortization	44,307	44,903	46,523	47,699	48,299
Adjusted EBITA * (non-GAAP measure)	609,091	587,780	609,920	615,178	668,600
Add: Depreciation	66,732	71,870	81,976	94,043	108,543
Adjusted EBITDA * (non-GAAP measure)	675,823	659,650	691,896	709,221	777,143
Deduct: Interest expense	(91,683)	(96,954)	(104,547)	(102,392)	(101,003)
Deduct: Investment expense (income), net	10,365	13,984	20,442	730	9,739
Deduct: Provision (benefit) for income taxes	126,008	(59,662)	(77,791)	(72,158)	102,682
Add: Changes in operating assets, liabilities, and other	6,209	(130,891)	(139,617)	(242,460)	(238,642)
Cash from operating activities	\$ 474,706	\$ 386,127	390,383	292,941	549,919
Net Sales	\$ 4,813,649	\$ 4,958,175	5,321,643	5,564,551	5,506,994
Adjusted EBITA * as a % of net sales (non-GAAP measure)	12.7%	11.9%	11.5%	11.1%	12.1%
Adjusted EBITDA * as a % of net sales (non-GAAP measure)	14.0%	13.3%	13.0%	12.7%	14.1%

\*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.