Quarterly
Report 3

RPM International Inc.

Third-Quarter Report

For Period Ended February 29, 2016

- **Sales +5% to record $989 million**
- **EBIT +23% to record $42 million**
- **Net income of $19 million**
- **Diluted earnings per share of $0.14**
- **Acquires Holton Food Products and Seal-Krete**
- **Fiscal 2016 full-year guidance maintained**

The Value of
168®

To Our Shareholders

We were pleased with our sales growth, as well as our strong leverage to EBIT (earnings before interest and taxes) during our fiscal 2016 third quarter, which is RPM's seasonally slowest period. We continue to be challenged by the strength of the U.S. dollar relative to our other major currencies, as well as struggling economies in a number of markets we serve.

Third-Quarter Results

Net sales grew 4.5% to $988.6 million in the fiscal 2016 third quarter from $946.4 million in the fiscal 2015 third quarter. Consolidated EBIT was $42.1 million, up 23.1% from $34.2 million a year ago. Net income of $18.6 million in the fiscal 2016 third quarter compares to a reported loss of $57.3 million a year ago. Third-quarter diluted earnings per common share were $0.14, compared to a year-ago reported loss of $0.44.

The year-ago loss for the quarter was due to a one-time, non-cash net charge for a tax accrual related to possible repatriation of overseas earnings to fund future obligations for our Specialty Products Holding Corp. (SPHC) bankruptcy settlement. On an as-adjusted basis, earnings per diluted share were $0.20 in the prior year's third quarter, which included a $13.0 million, or $0.10 per share, tax benefit.

We were encouraged by RPM's performance during our seasonally slow third quarter, considering the headwinds posed by foreign currency translation, which reduced sales by approximately $40 million, or 4.2% in the quarter, along with struggling economies in a number of the international markets we serve. Including transactional foreign exchange, earnings per diluted share were reduced by $0.04 due to currency. Still, we were able to leverage good sales growth into EBIT growth of 23%.

Third-Quarter Segment Sales and Earnings

Industrial segment sales declined 3.1% to $484.0 million from $499.6 million in the fiscal 2015 third quarter. Organic sales improved 2.6%, while acquisitions added 0.7%. Foreign currency translation negatively impacted sales by 6.4%. Industrial segment EBIT of $2.1 million for the quarter was $6.7 million below last year's EBIT of $8.8 million. During the quarter, the industrial segment had $6.9 million in higher product warranty expenses and severance-related charges across businesses operating in weaker end markets. Excluding these items, industrial EBIT would have been up slightly year over year.

Results from our industrial segment continue to be mixed by both end markets and geography. Our U.S. based industrial companies serving the commercial construction markets enjoyed high single-digit growth. However, our businesses with exposure to the global energy sector continue to be down by about 10%. Geographically, our Latin American industrial businesses showed strong organic growth in local currencies, while performance by businesses in Europe was somewhat choppy.

Third-quarter sales in our specialty segment increased 37.5% to $165.6 million from $120.4 million a year ago. Organic sales increased 7.5%. Acquisitions added 31.5%, primarily a result of the inclusion of December's results from SPHC companies that were reconsolidated with RPM at the beginning of the 2015 calendar year, along with the Morrells acquisition in March 2015. Foreign currency translation negatively impacted sales by 1.5%. Specialty segment EBIT increased 128.4% to $21.4 million from $9.4 million in the fiscal 2015 third quarter. This group of high-margin, unique entrepreneurial businesses has been re-energized by the reconsolidation of SPHC and continues to take market share in its respective niche markets, while delivering strong sales and earnings growth.

Sales in our consumer segment increased 3.9% to $339.0 million from $326.4 million in the fiscal 2015 third quarter. Organic sales increased 4.6%, while acquisitions added 1.2%. Foreign currency translation negatively impacted sales by 1.9%. Consumer segment EBIT increased 10.3% to $38.8 million from $35.1 million a year ago.

In our consumer segment, excluding the weak nail enamels business, organic growth was approximately 6%. This predominately organic growth has been driven largely by several product line rollouts resulting from market share gains and new product placements that started to ship later in the quarter when our major customers began stocking for the spring sell-in season.

Cash Flow and Financial Position

For the first nine months of fiscal 2016, cash from operations was $223.8 million, compared to $24.1 million in the first nine months of fiscal 2015. The improvement was due primarily to the change in working capital caused by faster collections and lower bonus and pension payments. Capital expenditures during the current nine-month period of $54.8 million compare to $47.3 million over the same time in fiscal 2015. Total debt at the end of the first nine months of fiscal 2016 was $1.75 billion, compared to $1.87 billion a year ago and $1.66 billion at the end of fiscal 2015. RPM's net (of cash) debt-to-total capitalization ratio was 55.3%, compared to 57.2% at February 28, 2015. During the first nine months of fiscal 2016, we repurchased 800,000 shares of our stock in the open market at a cost of $35.1 million.

At February 29, 2016, RPM's total liquidity, including cash and long-term committed available credit, was $864.5 million. We continue our search for strong acquisition candidates to enhance our product offerings and broaden our geographic presence, as well as investing in our future through internal growth initiatives.

Nine-Month Results

Nine-month net sales grew 5.1% to $3.39 billion from $3.22 billion a year ago. Consolidated EBIT was $344.4 million, up 8.3% from $318.0 million a year ago. Reported net income of $201.8 million, or $1.50 per diluted share, increased 81.0% from reported net income of $111.5 million, or $0.84 per diluted share, in the year-ago period. Excluding fiscal 2015's third-quarter non-cash, net tax charge, fiscal 2016 nine-month net income improved 3.5% from $195.0 million a year ago, or $1.44 per diluted share.

Continued on inside page

The Value of 168®

The Value of 168 is a statement of the corporate philosophy of RPM. This figure, often cited by our founder, Frank C. Sullivan, literally represents the number of hours in a week. On a deeper level, it serves to remind us of his belief that we are born with two great gifts: life and the time to do something with it.

The Value of 168 signifies RPM's enduring commitment to our fellow employees, customers and stockholders. This commitment springs from an ethos woven into our culture. It is evident in the stimulus of a work environment characterized by empowerment, accountability, opportunity and respect. The care that goes into building and sustaining long-term relationships with those we serve. The refusal to compromise on quality. The integrity that ensures results the right way.

The Value of 168 is the essence of RPM.

Nine-Month Segment Sales and Earnings

Sales for our industrial segment declined 4.6%, to $1.76 billion from $1.84 billion in the fiscal 2015 first nine months. Organic sales increased 2.8%, while acquisitions added 0.6%. Foreign currency translation negatively impacted sales by 8.0%. Industrial segment EBIT of $150.8 million declined 6.7% from EBIT of $161.7 million in the first nine months of fiscal 2015.

Specialty segment sales increased 98.1% to $535.9 million from $270.5 million in the first nine months a year ago. Organic sales increased 3.4% and acquisitions, primarily the SPHC reconsolidation, added 99.4%. Foreign currency translation negatively impacted sales by 4.7%. Specialty segment EBIT grew 93.5% to $78.5 million from $40.6 million in the same period a year ago.

In our consumer segment, nine-month sales declined 1.4% to $1.10 billion from $1.11 billion in the first nine months of fiscal 2015. Organic sales improved 0.4%, while acquisitions added 0.7%. Foreign currency negatively impacted sales by 2.5%. Consumer segment EBIT declined 1.8%, to $170.2 million from $173.4 million in the first nine months a year ago.

Business Outlook

For the fourth quarter of our fiscal year, we expect consumer segment sales to grow in the mid-single-digit range. Benefits from recent market share gains and new product placements that just began impacting sales in the third quarter this year are expected to continue adding incremental sales into fiscal 2017.

In our industrial segment, we expect solid growth for businesses serving the U.S. commercial construction markets to be somewhat offset by results from businesses serving the global energy sector. Our "connections creating value" strategy continues to expand RPM's geographical footprint.

In our specialty segment businesses, sales growth in the mid- to upper-single-digit range will be predominately organically driven.

While the negative impact of currency translation is diminishing slightly on a sequential basis, it will continue to challenge us. In addition, during last year's fiscal fourth quarter, the company reversed a Synta earn-out accrual in the amount of $9.9 million, impacting EPS favorably by $0.05 per share. Taking into account all of these factors, we are maintaining our guidance for fiscal 2016 full-year results of $2.50 per diluted share.

Dividend

On April 8, 2016, our board of directors declared a regular cash dividend of $0.275 per share, payable April 29, 2016, to shareholders of record as of April 18, 2016.

Acquisitions

On February 11, 2016, we announced that our Mantrose-Haeuser Co., Inc. subsidiary, part of the RPM Specialty Products Group, acquired Holton Food Products Company, a leading U.S. supplier of food stabilizer and dry egg white products for the bakery and prepared foods markets. Based in LaGrange, Illinois, Holton has annual sales of approximately $7 million. The acquisition, terms of which were not disclosed, is expected to be accretive to earnings within one year.

Holton, with its high degree of expertise in food stabilizers, is a great strategic fit with our Mantrose-Haeuser unit. It extends Mantrose's range of specialty food ingredients and provides a key entry into the bakery market. Further, we expect to grow Horton internationally by leveraging the Mantrose distribution network. Ross, John and Dave Holton, sons of the company's founder, will stay on to run the business.

Shortly after the end of the third quarter, on March 3, 2016, we announced that our Rust-Oleum Corporation subsidiary acquired Seal-Krete, a leading U.S. manufacturer of concrete care coatings and sealants for the retail market with annual sales of more than $10 million. Terms of the transaction, which is expected to be accretive to earnings within one year, were not disclosed.

Formerly a division of Clayton Valve, Seal-Krete manufactures a complete line of priming, painting, sealing and finishing products for maintaining and decorating concrete, masonry, brick and pavers. Its products are sold primarily through home improvement centers, as well as through independent hardware and paint stores. Leading brands, including Seal-Krete, Original Damplock, Epoxy-Seal and Clear-Seal, will expand Rust-Oleum's range of concrete care products that include the EpoxyShield and RockSolid brands. Seal-Krete product lines will benefit from Rust-Oleum's extensive distribution presence in the DIY market.

Despite a challenging economic environment, we remain highly optimistic regarding our outlook for the remainder of fiscal 2016. We look forward to updating you on the year-end results in July and providing outlook for our new fiscal year, which begins on June 1. We are grateful for the dedication and efforts of our 13,000 employees worldwide, and thank you for your continued support of RPM.

Sincerely yours,

Frank C. Sullivan
Chairman and Chief Executive Officer

April 29, 2016

Consolidated Statements of Income

IN THOUSANDS, EXCEPT PER SHARE DATA *(UNAUDITED)*

	AS REPORTED				ADJUSTED (1)	
	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015	February 28, 2015	February 28, 2015
Net Sales	$ 988,555	$ 946,367	$ 3,387,065	$ 3,221,391	$ 946,367	$ 3,221,391
Cost of sales	575,593	566,629	1,947,211	1,879,317	566,629	1,879,317
Gross profit	412,962	379,738	1,439,854	1,342,074	379,738	1,342,074
Selling, general & administrative expenses	370,913	346,171	1,096,361	1,027,585	346,171	1,027,585
Interest expense	23,140	21,493	68,078	60,312	21,493	60,312
Investment (income), net	(2,909)	(7,693)	(8,077)	(16,554)	(7,693)	(16,554)
Other (income), net	(88)	(660)	(876)	(3,524)	(660)	(3,524)
Income before income taxes	21,906	20,427	284,368	274,255	20,427	274,255
Provision for income taxes	2,613	99,379	80,564	174,512	(6,847)	68,286
Net income	19,293	(78,952)	203,804	99,743	27,274	205,969
Less: Net income attributable to noncontrolling interests	711	(21,604)	1,974	(11,754)	1,118	10,968
Net income attributable to RPM International Inc. Stockholders	$ 18,582	$ (57,348)	$ 201,830	$ 111,497	$ 26,156	$ 195,001
Earnings per share of common stock attributable to RPM International Inc. Stockholders:						
Basic	$ 0.14	$ (0.44)	$ 1.53	$ 0.84	$ 0.20	$ 1.47
Diluted	$ 0.14	$ (0.44)	$ 1.50	$ 0.84	$ 0.20	$ 1.44
Average shares of common stock outstanding - basic	129,068	129,795	129,506	130,039	129,795	130,039
Average shares of common stock outstanding - diluted	129,068	129,795	136,848	134,995	129,795	134,995

(1) See below for reconciliation from As Reported to Adjusted figures

Consolidated Statements of Income

RECONCILIATION OF "AS REPORTED" TO "ADJUSTED"

IN THOUSANDS, EXCEPT PER SHARE DATA *(UNAUDITED)*

	Three Months Ended February 28, 2015			Nine Months Ended February 28, 2015		
	AS REPORTED	Adjustments	ADJUSTED	AS REPORTED	Adjustments	ADJUSTED
Net Sales	$ 946,367	$ -	$ 946,367	$ 3,221,391	$ -	$ 3,221,391
Cost of sales	566,629	-	566,629	1,879,317	-	1,879,317
Gross profit	379,738	-	379,738	1,342,074	-	1,342,074
Selling, general & administrative expenses	346,171	-	346,171	1,027,585	-	1,027,585
Interest expense	21,493		21,493	60,312	-	60,312
Investment expense (income), net	(7,693)		(7,693)	(16,554)	-	(16,554)
Other expense (income), net	(660)	-	(660)	(3,524)	-	(3,524)
Income before income taxes	20,427	-	20,427	274,255	-	274,255
Provision for income taxes	99,379	(106,226) (2)	(6,847)	174,512	(106,226) (2)	68,286
Net income (loss)	(78,952)	106,226	27,274	99,743	106,226	205,969
Less: Net (loss) income attributable to noncontrolling interests	(21,604)	22,722 (2)	1,118	(11,754)	22,722 (2)	10,968
Net (loss) income attributable to RPM International Inc. Stockholders	$ (57,348)	$ 83,504	$ 26,156	$ 111,497	$ 83,504	$ 195,001
(Loss) earnings per share attributable to RPM International Inc. Stockholders:						
Basic	$ (0.44)	$0.64	$ 0.20	$ 0.84	$ 0.63	$ 1.47
Diluted	$ (0.44)	$0.64	$ 0.20	$ 0.84	$ 0.60	$ 1.44

(2) Reflects adjustments related to the recognition of an ASC 740-30 tax liability for the potential repatriation of foreign earnings and related impact on NCI Net Income.

Consolidated Balance Sheets

IN THOUSANDS (UNAUDITED)

	February 29, 2016		February 28, 2015		May 31, 2015	
Assets						
Current Assets						
Cash and cash equivalents		$ 220,712		$ 220,390		$ 174,711
Trade accounts receivable	769,003		823,126		980,737	
Allowance for doubtful accounts	(22,450)		(25,975)		(24,526)	
Net trade accounts receivable		746,553		797,151		956,211
Inventories		739,716		724,116		674,205
Deferred income taxes		29,042		29,644		29,892
Prepaid expenses and other current assets		194,285		255,468		264,827
Total current assets		1,930,308		2,026,769		2,099,846
Property, Plant and Equipment, at Cost		1,278,553		1,224,640		1,258,304
Allowance for depreciation		(698,902)		(656,328)		(668,658)
Property, plant and equipment, net		579,651		568,312		589,646
Other Assets						
Goodwill		1,182,293		1,201,112		1,215,688
Other intangible assets, net of amortization		566,977		603,398		604,130
Deferred income taxes, non-current		2,237		-		5,685
Other		186,623		155,125		179,245
Total other assets		1,938,130		1,959,635		2,004,748
Total Assets		$ 4,448,089		$ 4,554,716		$ 4,694,240
Liabilities and Stockholders' Equity						
Current Liabilities						
Accounts payable		$ 367,038		$ 379,975		$ 512,165
Current portion of long-term debt		3,405		151,531		2,038
Accrued compensation and benefits		129,105		117,773		169,370
Accrued losses		27,581		21,808		22,016
Other accrued liabilities		255,274		182,145		197,647
Total current liabilities		782,403		853,232		903,236
Long-Term Liabilities						
Long-term debt, less current maturities		1,749,823		1,716,580		1,654,037
Other long-term liabilities		609,952		706,915		752,821
Deferred income taxes		65,391		44,196		90,681
Total long-term liabilities		2,425,166		2,467,691		2,497,539
Total liabilities		3,207,569		3,320,923		3,400,775
Commitments and contingencies						
Stockholders' Equity						
Preferred stock; none issued						
Common stock (outstanding 132,846; 133,236; 133,203)		1,328		1,332		1,332
Paid-in capital		895,131		852,559		872,127
Treasury stock, at cost		(191,693)		(121,312)		(124,928)
Accumulated other comprehensive (loss)		(497,754)		(344,576)		(394,135)
Retained earnings		1,031,020		843,647		936,996
Total RPM International Inc. stockholders' equity		1,238,032		1,231,650		1,291,392
Noncontrolling interest		2,488		2,143		2,073
Total equity		1,240,520		1,233,793		1,293,465
Total Liabilities and Stockholders' Equity		$ 4,448,089		$ 4,554,716		$ 4,694,240

Consolidated Statements of Cash Flows

IN THOUSANDS (UNAUDITED)

	Nine Months Ended February 29, 2016	Nine Months Ended February 28, 2015
Cash Flows From Operating Activities:		
Net income	$ 203,804	$ 99,743
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	49,980	45,870
Amortization	33,151	25,961
Reversal of contingent consideration obligations	(14,500)	(19,180)
Deferred income taxes	(18,556)	93,274
Stock-based compensation expense	23,000	22,443
Other non-cash interest expense	7,305	3,182
Other	1,994	(4,961)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	179,003	72,633
(Increase) in inventory	(81,837)	(83,257)
(Increase) decrease in prepaid expenses and other current and long-term assets	(13,347)	435
(Decrease) in accounts payable	(133,841)	(147,979)
(Decrease) in accrued compensation and benefits	(35,202)	(53,593)
Increase (decrease) in accrued losses	5,948	(7,579)
Increase in other accrued liabilities	4,696	18,801
Other	12,221	(41,678)
Cash Provided By Operating Activities	223,819	24,115
Cash Flows From Investing Activities:		
Capital expenditures	(54,819)	(47,293)
Acquisition of businesses, net of cash acquired	(28,926)	(433,885)
Purchase of marketable securities	(21,981)	(35,033)
Proceeds from sales of marketable securities	18,722	41,308
Other	7,430	13,126
Cash (Used For) Investing Activities	(79,574)	(461,777)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	116,578	526,585
Reductions of long-term and short-term debt	(19,419)	(10,609)
Cash dividends	(107,806)	(101,541)
Shares of common stock repurchased and returned for taxes	(66,765)	(35,912)
Payments of acquisition-related contingent consideration	(2,006)	(24,750)
Other	(1,239)	1,969
Cash (Used For) Provided By Financing Activities	(80,657)	355,742
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(17,587)	(30,558)
Net Change in Cash and Cash Equivalents	46,001	(112,478)
Cash and Cash Equivalents at Beginning of Period	174,711	332,868
Cash and Cash Equivalents at End of Period	$ 220,712	$ 220,390

Supplemental Segment Information

IN THOUSANDS (UNAUDITED)

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015	Nine Months Ended February 29, 2016	Nine Months Ended February 28, 2015
Net Sales:				
Industrial Segment	$ 484,012	$ 499,594	$ 1,757,542	$ 1,841,714
Specialty Segment	165,559	120,403	535,928	270,516
Consumer Segment	338,984	326,370	1,093,595	1,109,161
Total	$ 988,555	$ 946,367	$ 3,387,065	$ 3,221,391
Income Before Income Taxes (a):				
Industrial Segment				
Income Before Income Taxes (b)	$ 628	$ 6,902	$ 146,341	$ 155,135
Interest (Expense), Net (c)	(1,448)	(1,872)	(4,482)	(6,519)
EBIT (d)	$ 2,076	$ 8,774	$ 150,823	$ 161,654
Specialty Segment				
Income Before Income Taxes (b)	$ 21,587	$ 9,558	$ 79,117	$ 40,898
Interest Income, Net (c)	188	188	583	304
EBIT (d)	$ 21,399	$ 9,370	$ 78,534	$ 40,594
Consumer Segment				
Income Before Income Taxes (b)	$ 38,785	$ 35,147	$ 170,337	$ 173,378
Interest Income (Expense), Net (c)	16	6	116	(6)
EBIT (d)	$ 38,769	$ 35,141	$ 170,221	$ 173,384
Corporate/Other				
(Expense) Before Income Taxes (b)	$ (39,094)	$ (31,180)	$ (111,427)	$ (95,156)
Interest (Expense), Net (c)	(18,987)	(12,122)	(56,218)	(37,537)
EBIT (d)	$ (20,107)	$ (19,058)	$ (55,209)	$ (57,619)
Consolidated				
Income Before Income Taxes (b)	$ 21,906	$ 20,427	$ 284,368	$ 274,255
Interest (Expense), Net (c)	(20,231)	(13,800)	(60,001)	(43,758)
EBIT (d)	$ 42,137	$ 34,227	$ 344,369	$ 318,013

(a) Prior period information has been recast to reflect the current period change in reportable segments.
(b) The presentation includes a reconciliation of Income (Loss) Before Income Taxes, a measure defined by Generally Accepted Accounting Principles in the United States (GAAP), to EBIT.
(c) Interest (expense), net includes the combination of interest (expense) and investment income/(expense), net.
(d) EBIT 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 expense is essentially related to acquisitions, as opposed to segment operations. For that reason, we believe EBIT is also useful to investors 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 and taxes in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness and ongoing tax obligations. 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.

RPM International Inc. (NYSE: RPM) owns subsidiaries that are world leaders in specialty coatings, sealants and building materials. RPM's industrial products include roofing systems, sealants, corrosion control coatings, flooring coatings and other construction chemicals. Its consumer products are used for home maintenance and improvement. RPM's specialty products include colorants, exterior finishes, industrial cleaners, specialty OEM coatings, edible coatings and restoration services equipment. Among its leading brands are Rust-Oleum, DAP, Varathane, Day-Glo, Dryvit, Stonhard, Tremco and Carboline.

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RPM App

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