

To Our Shareholders

We are pleased to report record sales, net income and earnings per diluted share for our fiscal 2017 first quarter, ended August 31, 2016, despite continued strong headwinds from currency exchange, softness in the energy and heavy equipment industries worldwide, and an overall sluggish global economy. We were very encouraged with the balanced EBIT leverage across all three of our segments during the first quarter, especially in light of the challenging revenue growth environment globally.

First-Quarter Results

Fiscal 2017 first-quarter net sales of \$1.25 billion increased 0.8% over the \$1.24 billion reported a year ago. First-quarter net income was up 13.0% to \$112.8 million from \$99.8 million in the year-ago period, and diluted earnings per share of \$0.83 were up 12.2% from \$0.74 in the fiscal 2016 first quarter. Our consolidated earnings before interest and taxes (EBIT) increased 4.2% to \$167.4 million from \$160.6 million reported in the fiscal 2016 first quarter.

During the quarter, we early adopted ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." As a result of adoption of this accounting standard, the company recognized a tax benefit, which contributed to lowering the quarterly effective tax rate to 23.6%.

Unfavorable foreign currency translation reduced our total sales by 2.1% in the quarter. The British pound alone dropped about 15% against the U.S. dollar over the summer following the "Brexit" vote. England is our largest consumer market outside North America and represents a sizeable market for our industrial products as well.

First-Quarter Segment Sales and Earnings

Our industrial segment net sales declined 0.2%, to \$675.8 million from \$677.1 million reported a year ago, with 1.2% in organic growth, while acquisitions added 1.0%. Foreign currency translation reduced sales by 2.4%. Industrial segment EBIT increased 5.9% to \$91.1 million from \$86.0 million in the fiscal 2016 first quarter.

Our industrial businesses continued a recent trend of mixed results, depending on the markets they serve, both geographically and by industry. Our companies serving North American commercial construction markets continued to post strong results, while those serving the energy and heavy equipment industries worldwide faced continued dampened demand. Currency headwinds continued to affect our industrial businesses outside the U.S., although our Brazilian business delivered mid-single-digit growth at actual exchange rates and high-single-digit growth in local currencies.

Our specialty segment had sales growth of 3.8%, to \$176.3 million from \$169.9 million in the fiscal 2016 first quarter. Organic growth contributed 2.6%, while acquisition growth was 2.9%. Foreign currency translation was a negative 1.7%. Specialty segment EBIT was up 15.5% to \$30.4 million from \$26.3 million in the fiscal 2016 first quarter.

Many of our specialty business units had solid performance in the quarter, led by our Legend Brands restoration equipment unit and recent acquisitions that added incrementally, all of which contributed to great EBIT conversion.

Our consumer segment reported a 1.1% increase in sales to \$399.9 million from \$395.6 million in the fiscal 2016 first quarter. Organic sales improved 1.8%, while acquisition growth contributed 1.0%. Foreign currency translation reduced sales by 1.7%. Consumer segment EBIT improved 6.1% to \$70.1 million from \$66.1 million in the fiscal 2016 first quarter.

Our core consumer businesses of small project paints, primers, and patch and repair products met our expectations, while our nail enamel product line results were below the prior-year first quarter, as expected. In addition, we struggled a bit in our core caulks and sealants category, as an extremely strong spring sell-in season depleted safety stocks and we were unable to meet continued strong demand during the quarter. Additional capacity is being installed, which should alleviate this issue by the end of our fiscal second quarter.

Cash Flow and Financial Position

During the fiscal 2017 first quarter, our cash from operations was \$6.5 million compared to \$6.6 million a year ago. Capital expenditures were \$17.0 million in the quarter, compared to \$12.0 million in the year-ago period.

Total debt at August 31, 2016 of \$1.66 billion compares to \$1.64 billion at May 31, 2016 and \$1.72 billion at the end of last year's first quarter. Net (of cash) debt-to-total capital was 50.5%, versus 54.5% at the end of last year's first quarter and 50.0% at the end of the prior fiscal year. Liquidity, including cash, was \$976.0 million, compared to \$882.2 million a year ago and \$1.1 billion at May 31, 2016.

RPM continues to be in a strong financial position to fund a growing cash dividend, acquisitions and internal growth investments.

Tom Sullivan Honored at Annual Meeting of Shareholders

We welcomed nearly 1,000 shareholders to our annual meeting on October 6 and recognized Thomas C. Sullivan for his 55 years of leadership at RPM. He joined his father's \$2 million coatings business, Republic Powdered Metals, in 1961 and 10 years later became CEO of the then-\$11-million business following his father's unexpected death. He led the phenomenal growth of the company to \$2 billion in sales by the time he stepped down as CEO in 2002. Tom continued as board chairman until 2008, when he became chairman emeritus. He retired from the RPM board at the annual meeting.

- Net income and diluted EPS up double-digit levels
- Full-year EPS guidance maintained
- Dividend increased for 43rd consecutive year
- Tom Sullivan retires after 55 years of service
- Four directors re-elected

The Value of
168[®]

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.

During Tom's 45 years at the helm of RPM, shareholders received a total return that is more than six times the total return of the S&P 500 during that same time. In addition, he imbued the current generation of management with a proven operational philosophy, a passion for growth and a strong set of core values.

At the annual meeting, four directors were elected to serve in Class I with three-year terms expiring at the annual meeting in 2019. They include David A. Daberko, retired chairman of the board and chief executive officer of National City Corporation, now part of PNC Financial Services Group, Inc.; Thomas S. Gross, retired vice chairman and chief operating officer for the Electrical Sector of Eaton Corporation plc; Craig S. Morford, chief legal and compliance officer of Cardinal Health, Inc.; and Frank C. Sullivan, chairman and CEO of RPM.

Approximately 92% of shares outstanding were represented by proxy at the meeting. Of those, more than 95% of shareholders voted for the three resolutions proposed at the annual meeting, including approval of directors, approval of executive compensation and approval of Deloitte and Touche as independent accountants.

Cash Dividend Increased for 43rd Consecutive Year

Prior to the annual meeting, the board of directors voted to increase the quarterly cash dividend by 9.1% to \$0.30 per common share, payable October 31, 2016 to stockholders of record as of October 17, 2016. This action marks RPM's 43rd consecutive annual increase in the cash dividend, which places the company in an elite category of less than half of 1 percent of all 19,000 publicly traded U.S. companies that have consecutively paid an increasing cash dividend for this period of time or longer, according to the 2016 edition of the *Mergent Handbook of Dividend Achievers*.

Acquisition Activity Robust

During the first quarter and subsequent to it, we completed three acquisitions of companies whose sales total \$46 million. All are expected to be accretive to earnings within one year and include:

- Duram Industries Pty Limited, a \$6 million Australian-based manufacturer of a comprehensive range of commercial waterproofing products acquired July 5, 2016. It will operate as part of our Tremco Group;
- Applied Polymerics, Inc. & Marketing Associates, Inc. (API/MAI), a \$14 million specialist civil engineering and construction organization focusing on bridges, roads and major structures, and based in Mt. Airy, North Carolina. API/MAI, acquired July 7, 2016, will operate as part of the Performance Coatings Group's Universal Sealants (U.K.) Limited (USL) business unit, providing bridge expansion joints, concrete repair compounds and protective coatings, as well as USL's proprietary differentiated products, in the U.S. market; and
- Specialty Polymer Coatings, a \$26 million Canadian manufacturer of high-performance coatings for the global oil and gas pipeline market, acquired September 12, 2016. It will operate as a free-standing business within RPM's Performance Coatings Group and be aligned with its Carboline unit.

Business Outlook

In our industrial segment, we expect continued solid growth for those businesses serving the U.S. commercial construction market to be offset somewhat by the continued slowdown in certain geographies, as well as by the sluggish global energy sector. As a result, we are maintaining our guidance for industrial sales growth in the low-single-digit range for the full 2017 fiscal year.

In our specialty segment, we expect these predominantly U.S.-based niche businesses to continue gaining share and growing in the mid-single-digit range, in line with the guidance we issued in July.

Market share gains and new product placements from the past fiscal year are expected to continue driving consumer segment sales through fiscal 2017. The capacity issues facing our caulks and sealants business should be behind us by the end of the fall. As a result, we are maintaining guidance for consumer segment sales growth in the mid-single-digit range for fiscal 2017.

We continue to generate growth across most RPM businesses despite many market and economic challenges, and our operating units were able to leverage this modest sales growth into very strong EBIT growth. Therefore, we are maintaining our guidance for diluted earnings per share in fiscal 2017 of between \$2.68 and \$2.78.

Thank you for your investment and confidence in RPM. I also want to thank our 13,000 associates around the world for their continued efforts and dedication to RPM and for continuing to drive positive revenue growth in a very challenging market.

Sincerely yours,



Frank C. Sullivan
Chairman and Chief Executive Officer

October 31, 2016

CONSOLIDATED STATEMENTS OF INCOME

IN THOUSANDS, EXCEPT PER SHARE DATA (UNAUDITED)

	Three Months Ended August 31,	
	2016	2015
Net Sales	\$ 1,252,063	\$ 1,242,526
Cost of sales	700,021	709,568
Gross profit	552,042	532,958
Selling, general & administrative expenses	384,085	372,854
Interest expense	22,778	22,460
Investment (income), net	(3,838)	(4,068)
Other expense (income), net	542	(489)
Income before income taxes	148,475	142,201
Provision for income taxes	35,081	41,839
Net income	113,394	100,362
Less: Net income attributable to noncontrolling interests	625	547
Net income attributable to RPM International Inc. Stockholders	<u>\$ 112,769</u>	<u>\$ 99,815</u>
Earnings per share of common stock attributable to RPM International Inc. Stockholders:		
Basic	<u>\$ 0.85</u>	<u>\$ 0.76</u>
Diluted	<u>\$ 0.83</u>	<u>\$ 0.74</u>
Average shares of common stock outstanding - basic	130,600	130,045
Average shares of common stock outstanding - diluted	135,241	137,307

CONSOLIDATED BALANCE SHEETS

IN THOUSANDS (UNAUDITED)

	August 31, 2016	August 31, 2015	May 31, 2016
Assets			
Current Assets			
Cash and cash equivalents	\$ 194,470	\$ 169,458	\$ 265,152
Trade accounts receivable	960,575	951,245	987,692
Allowance for doubtful accounts	(27,940)	(25,032)	(24,600)
Net trade accounts receivable	932,635	926,213	963,092
Inventories	728,597	718,969	685,818
Deferred income taxes	-	33,203	-
Prepaid expenses and other current assets	239,383	274,670	221,286
Total current assets	<u>2,095,085</u>	<u>2,122,513</u>	<u>2,135,348</u>
Property, Plant and Equipment, at Cost	1,362,075	1,259,536	1,344,830
Allowance for depreciation	(729,584)	(679,178)	(715,377)
Property, plant and equipment, net	<u>632,491</u>	<u>580,358</u>	<u>629,453</u>
Other Assets			
Goodwill	1,222,659	1,202,311	1,219,630
Other intangible assets, net of amortization	563,225	592,322	575,401
Deferred income taxes, non-current	20,206	6,904	19,771
Other	193,233	143,698	185,366
Total other assets	<u>1,999,323</u>	<u>1,945,235</u>	<u>2,000,168</u>
Total Assets	<u>\$ 4,726,899</u>	<u>\$ 4,648,106</u>	<u>\$ 4,764,969</u>
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	\$ 430,475	\$ 442,606	\$ 500,506
Current portion of long-term debt	4,201	1,578	4,713
Accrued compensation and benefits	106,145	102,272	183,768
Accrued losses	32,969	20,504	35,290
Other accrued liabilities	309,813	245,856	277,914
Total current liabilities	<u>883,603</u>	<u>812,816</u>	<u>1,002,191</u>
Long-Term Liabilities			
Long-term debt, less current maturities	1,652,529	1,717,312	1,635,260
Other long-term liabilities	699,822	737,819	702,979
Deferred income taxes	53,381	83,137	49,791
Total long-term liabilities	<u>2,405,732</u>	<u>2,538,268</u>	<u>2,388,030</u>
Total liabilities	<u>3,289,335</u>	<u>3,351,084</u>	<u>3,390,221</u>
Commitments and contingencies			
Stockholders' Equity			
Preferred stock; none issued			
Common stock (outstanding 133,377; 133,146; 132,944)	1,334	1,331	1,329
Paid-in capital	930,123	878,835	921,956
Treasury stock, at cost	(213,379)	(160,276)	(196,274)
Accumulated other comprehensive (loss)	(506,251)	(427,665)	(502,047)
Retained earnings	1,223,611	1,002,177	1,147,371
Total RPM International Inc. stockholders' equity	<u>1,435,438</u>	<u>1,294,402</u>	<u>1,372,335</u>
Noncontrolling interest	2,126	2,620	2,413
Total equity	<u>1,437,564</u>	<u>1,297,022</u>	<u>1,374,748</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,726,899</u>	<u>\$ 4,648,106</u>	<u>\$ 4,764,969</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

IN THOUSANDS (UNAUDITED)

	Three Months Ended August 31,	
	2016	2015
Cash Flows From Operating Activities:		
Net income	\$ 113,394	\$ 100,362
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	17,679	16,775
Amortization	11,121	11,092
Deferred income taxes	(434)	(8,207)
Stock-based compensation expense	8,171	6,707
Other non-cash interest expense	2,481	2,430
Realized (gain) on sales of marketable securities	(2,584)	(2,375)
Other	18	(337)
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	28,663	19,112
(Increase) in inventory	(42,763)	(52,082)
(Increase) decrease in prepaid expenses and other current and long-term assets	(18,206)	186
(Decrease) in accounts payable	(70,598)	(65,285)
(Decrease) in accrued compensation and benefits	(77,738)	(65,704)
(Decrease) in accrued losses	(2,021)	(1,466)
Increase in other accrued liabilities	38,015	35,868
Other	1,302	9,519
Cash Provided By Operating Activities	6,500	6,595
Cash Flows From Investing Activities:		
Capital expenditures	(16,957)	(12,035)
Acquisition of businesses, net of cash acquired	(17,274)	(5,120)
Purchase of marketable securities	(13,099)	(4,775)
Proceeds from sales of marketable securities	12,602	11,218
Other	272	375
Cash (Used For) Investing Activities	(34,456)	(10,337)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	91,669	94,516
Reductions of long-term and short-term debt	(76,973)	(18,401)
Cash dividends	(36,529)	(34,634)
Shares of common stock repurchased and returned for taxes	(17,105)	(35,348)
Payments of acquisition-related contingent consideration	(4,033)	(1,585)
Other	(866)	267
Cash (Used For) Provided By Financing Activities	(43,837)	4,815
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,111	(6,326)
Net Change in Cash and Cash Equivalents	(70,682)	(5,253)
Cash and Cash Equivalents at Beginning of Period	265,152	174,711
Cash and Cash Equivalents at End of Period	\$ 194,470	\$ 169,458

SUPPLEMENTAL SEGMENT INFORMATION

IN THOUSANDS (UNAUDITED)

	Three Months Ended August 31,	
	2016	2015
Net Sales:		
Industrial Segment	\$ 675,840	\$ 677,108
Specialty Segment	176,336	169,861
Consumer Segment	399,887	395,557
Total	\$ 1,252,063	\$ 1,242,526
Income Before Income Taxes (a):		
Industrial Segment		
Income Before Income Taxes (b)	\$ 89,266	\$ 84,468
Interest (Expense), Net (c)	(1,837)	(1,523)
EBIT (d)	\$ 91,103	\$ 85,991
Specialty Segment		
Income Before Income Taxes (b)	\$ 30,504	\$ 26,489
Interest Income, Net (c)	153	220
EBIT (d)	\$ 30,351	\$ 26,269
Consumer Segment		
Income Before Income Taxes (b)	\$ 70,088	\$ 66,123
Interest (Expense) Income, Net (c)	(3)	58
EBIT (d)	\$ 70,091	\$ 66,065
Corporate/Other		
(Expense) Before Income Taxes (b)	\$ (41,383)	\$ (34,879)
Interest (Expense), Net (c)	(17,253)	(17,147)
EBIT (d)	\$ (24,130)	\$ (17,732)
Consolidated		
Income Before Income Taxes (b)	\$ 148,475	\$ 142,201
Interest (Expense), Net (c)	(18,940)	(18,392)
EBIT (d)	\$ 167,415	\$ 160,593

(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 income (expense), net includes the combination of interest income (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 in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness. 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) owns subsidiaries that are world leaders in coatings, sealants and building materials. It is comprised of three business segments: industrial, specialty and consumer. Among its many products are small project paints, primer-sealers, wood stains, corrosion control coatings, flooring coatings, caulks, sealants, adhesives, fluorescent pigments, roofing systems, concrete admixtures and other construction chemicals. RPM's leading brands include Rust-Oleum, DAP, Varathane, Zinsser, Tremco, Stonhard, Carboline, Day-Glo, Dryvit and Pettit.

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Cautionary statement for purposes of the Safe Harbor provisions of The Private Securities Litigation Reform Act of 1995: Statements in this quarterly report that are not strictly historical may be forward-looking statements, which involve risks and uncertainties. Risk factors include general economic and industry conditions, effects of leverage, legal and environmental matters, technological developments, product pricing, raw material cost changes, and international operations, among others, which are set forth in the company's SEC filings.