

To Our Shareholders

I am pleased to report that for our fiscal 2018 first quarter ended August 31, 2017, RPM generated record sales, net income and diluted earnings per share, meeting our goals for the quarter. We saw very strong top-line growth from all three of our business segments. This was largely driven by acquisitions we completed during fiscal 2017. Results were tempered by a continued trend of higher raw material costs. Cost reduction actions from last year helped to offset much of the higher raw material costs. We expect that the severe hurricane season will impact performance in our second quarter and, in particular, will perpetuate the challenging raw material environment we experienced in the first quarter.

First-Quarter Results

Fiscal 2018 first-quarter net sales of \$1.35 billion increased 7.5% over the \$1.25 billion reported a year ago. First-quarter net income was up 3.2% to \$116.4 million from \$112.8 million in the year-ago period. Diluted earnings per share of \$0.86 were up 3.6% from \$0.83 in the fiscal 2017 first quarter. Income before income taxes (IBT) increased 4.6% to \$155.3 million from \$148.5 million in the fiscal 2017 first quarter. Consolidated earnings before interest and taxes (EBIT) increased 6.1% to \$177.6 million from \$167.4 million reported in the fiscal 2017 first quarter.

We derived significant benefits from the nine acquisitions made in fiscal 2017, along with our selling, general and administrative (SG&A) cost reduction actions taken last year. Rising raw material costs negatively impacted gross profit margins. As a result, we instituted price increases, which began to take effect late in the quarter. After three years of foreign currency headwinds attributable to the strengthening U.S. dollar during that time, currency translation was essentially neutral this quarter.

First-Quarter Segment Sales and Earnings

Our industrial segment net sales increased 8.0%, to \$729.8 million from \$675.8 million reported a year ago, with 3.2% in organic growth, while acquisitions added 4.3%. Foreign currency translation increased sales by 0.5%. Industrial segment EBIT increased 0.4% to \$91.5 million from \$91.1 million in the fiscal 2017 first quarter.

Industrial segment results reflect a combination of higher raw material costs, unfavorable product mix, higher distribution expense and disappointing results from a struggling Latin America, particularly in Brazil, where our largest Latin American business unit is based. Our European and Canadian businesses performed very well in the quarter. North American commercial construction markets, which have bolstered the industrial segment's performance over the past several years, have become a bit choppy. Our businesses serving the oil and gas industries were down in the mid-single digits, compared to double-digit declines over the past few years. We expect sales at those businesses to turn positive in the second half of this fiscal year.

RPM's consumer segment reported a 6.8% increase in sales to \$427.1 million from \$399.9 million in the fiscal 2017 first quarter. Organic sales declined 1.2%, while acquisition growth contributed 8.1%. Foreign currency translation reduced sales by 0.1%. Consumer segment EBIT improved 3.5% to \$72.6 million from \$70.1 million in the fiscal 2017 first quarter.

Consumer segment growth is being driven by the DAP Touch n' Foam business and Rust-Oleum Europe's SPS Group, both of which were acquired in the third quarter of fiscal 2017. While the residential housing market remains solid, overall organic growth in the U.S. paint category, across the industry, has been slower over the last couple of quarters. Driving this has been softer consumer takeaway at our larger retail customers. A good portion of higher raw material costs were offset by cost reductions in SG&A last year, resulting in an increase in EBIT.

Our specialty segment had sales growth of 6.9%, to \$188.5 million from \$176.3 million in the fiscal 2017 first quarter. Organic growth contributed 3.0%, while acquisition growth was 4.1%. Foreign currency translation was a negative 0.2%. Specialty segment EBIT was up 8.9% to \$33.0 million from \$30.4 million in the fiscal 2017 first quarter.

Many of our specialty business units had solid performance in the quarter, led by a surge at our restoration equipment unit, which was partially due to immediate response efforts to Hurricane Harvey. Our powder coatings, wood finishes and wood preservatives businesses also performed well in the quarter. The segment more than offset higher raw material costs through SG&A savings resulting from actions taken in the prior fiscal year, which included the closure of a European manufacturing plant.

Cash Flow and Financial Position

During the fiscal 2018 first quarter, cash used from operations was \$26.1 million compared to cash provided by operations of \$6.5 million a year ago. This was principally attributable to increased sales and the timing of receivable collections, as well as the timing of accruals associated with customer rebates and income taxes. Capital expenditures were \$17.5 million in the quarter, compared to \$17.0 million in the year-ago period.

Total debt at August 31, 2017 of \$2.12 billion compares to \$2.09 billion at May 31, 2017 and \$1.66 billion at the end of last year's first quarter. The increase is largely attributable to cash used for fiscal 2017 acquisitions and to

RPM International Inc.

First-Quarter Report

For Period Ended August 31, 2017

- Sales +8%
- Net income +3%
- Full-year EPS guidance maintained
- Dividend increased for 44th consecutive year

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.

fund both the 524(g) trust obligation and our pension plan. Net (of cash) debt-to-total capital was 54.7%, versus 50.5% at the end of last year's first quarter and 54.8% at the end of the prior fiscal year. Liquidity, including cash, was \$1.0 billion, compared to \$976.0 million a year ago and \$1.15 billion at May 31, 2017.

Annual Meeting of Shareholders; New Directors

We were pleased to welcome nearly 1,000 shareholders to our annual meeting on October 5. At the meeting, four directors were elected to serve with three-year terms expiring at the annual meeting of stockholders in 2020. They included Julie A. Lagacy, vice president of global information services and chief information officer of Caterpillar Inc.; Robert A. Livingston, president and chief executive officer of Dover Corporation; Frederick R. Nance, global managing partner of Squire Patton Boggs (US) LLP; and William B. Summers, Jr., retired chairman and chief executive officer of McDonald Investments Inc., which is part of KeyBanc Capital Markets.

Julie and Bob are new to the board and bring extensive experience in management, finance, strategy, technology, acquisitions and capital allocation. I look forward to the perspective that they will bring to drive RPM's growth and create value for our stockholders.

Dividend Increased for 44th Consecutive Year

Just prior to the annual meeting, the board of directors voted to increase the quarterly cash dividend to \$0.32 per share, payable on October 31, 2017, to stockholders of record as of October 16, 2017. This payment represents a 6.7% increase over the \$0.30 quarterly cash dividend paid at this time last year.

This is RPM's 44th consecutive year of increasing our cash dividend paid to stockholders, which places RPM in an elite category of less than half of 1% of all 19,000 publicly traded U.S. companies. According to the 2017 edition of the Mergent Handbook of Dividend Achievers, only 41 other companies, besides RPM, have consecutively paid an increasing annual dividend for this period of time or longer.

We are delighted to again reward our shareholders by increasing the cash dividend. It has been key to our ability to outperform the cumulative total return generated by both the S&P 500 and our peers over the past decade.

Business Outlook

In the industrial segment, strong sales in Europe and Canada are expected to continue, while poor economic conditions in South America, specifically Brazil, are anticipated to persist. Our businesses serving the oil and gas markets are nearing bottom and should rebound slightly in the back half of this fiscal year. In the U.S., non-residential construction activity remains favorable, but has become a bit choppy across our businesses in recent quarters. Overall, we expect commercial construction activity to continue driving favorable results in the U.S. for the balance of the fiscal year. We continue to incur expenses relating to the ongoing integration of our Flowcrete and Euclid businesses into the Euclid Group. In addition, we are very focused on driving improved operating leverage throughout the entire industrial segment. With this backdrop, we expect industrial segment sales growth for the balance of the fiscal year to remain in the mid-single-digit range.

In the consumer segment, fiscal 2017 acquisitions are driving top-line sales and offsetting weaker organic sales. Economic conditions, such as residential housing, employment and consumer confidence, continue to be favorable. For the balance of the fiscal year, we expect consumer sales growth to continue in the mid-single-digit range, with positive organic growth.

The specialty segment should benefit from higher restoration services equipment sales, which we expect to continue through the second quarter, along with higher powder coatings, wood treatment and wood preservatives sales. We expect that lost sales on a U.S. patent expiration in our edible coatings business will negatively impact results for the balance of the fiscal year. This will limit sales growth in the specialty segment to the low- to mid-single-digit range.

Based on this business segment outlook, we are maintaining our full-year EPS guidance of \$2.85 to \$2.95 per diluted share.

I would like to extend my gratitude to our more than 14,000 worldwide employees for serving our customers and winning in the markets they serve. I also thank you for your ongoing investment in RPM. We continue our work to make it a rewarding one.

Sincerely yours,



Frank C. Sullivan
Chairman & Chief Executive Officer

October 17, 2017

CONSOLIDATED STATEMENTS OF INCOME

IN THOUSANDS, EXCEPT PER SHARE DATA (UNAUDITED)

	Three Months Ended August 31,	
	2017	2016
Net Sales	\$ 1,345,394	\$ 1,252,063
Cost of sales	773,386	700,021
Gross profit	572,008	552,042
Selling, general & administrative expenses	394,409	384,085
Interest expense	26,773	22,778
Investment (income), net	(4,453)	(3,838)
Other (income) expense, net	(5)	542
Income before income taxes	155,284	148,475
Provision for income taxes	38,381	35,081
Net income	116,903	113,394
Less: Net income attributable to noncontrolling interests	487	625
Net income attributable to RPM International Inc. Stockholders	<u>\$ 116,416</u>	<u>\$ 112,769</u>
Earnings per share of common stock attributable to RPM International Inc. Stockholders:		
Basic	<u>\$ 0.87</u>	<u>\$ 0.85</u>
Diluted	<u>\$ 0.86</u>	<u>\$ 0.83</u>
Average shares of common stock outstanding - basic	131,236	130,600
Average shares of common stock outstanding - diluted	<u>135,720</u>	<u>135,241</u>

CONSOLIDATED BALANCE SHEETS

IN THOUSANDS (UNAUDITED)

	August 31, 2017	August 31, 2016	May 31, 2017
Assets			
Current Assets			
Cash and cash equivalents	\$ 236,191	\$ 194,470	\$ 350,497
Trade accounts receivable	1,060,147	960,575	1,039,468
Allowance for doubtful accounts	(45,063)	(27,940)	(44,138)
Net trade accounts receivable	1,015,084	932,635	995,330
Inventories	851,312	728,597	788,197
Prepaid expenses and other current assets	260,361	239,383	263,412
Total current assets	<u>2,362,948</u>	<u>2,095,085</u>	<u>2,397,436</u>
Property, Plant and Equipment, at Cost	1,526,565	1,362,075	1,484,579
Allowance for depreciation	(770,692)	(729,584)	(741,893)
Property, plant and equipment, net	<u>755,873</u>	<u>632,491</u>	<u>742,686</u>
Other Assets			
Goodwill	1,169,083	1,222,659	1,143,913
Other intangible assets, net of amortization	587,274	563,225	573,092
Deferred income taxes, non-current	22,126	20,206	19,793
Other	211,612	193,233	213,529
Total other assets	<u>1,990,095</u>	<u>1,999,323</u>	<u>1,950,327</u>
Total Assets	<u>\$ 5,108,916</u>	<u>\$ 4,726,899</u>	<u>\$ 5,090,449</u>
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	\$ 469,954	\$ 430,475	\$ 534,718
Current portion of long-term debt	254,061	4,201	253,645
Accrued compensation and benefits	115,124	106,145	181,084
Accrued losses	26,406	32,969	31,735
Other accrued liabilities	229,602	309,813	234,212
Total current liabilities	<u>1,095,147</u>	<u>883,603</u>	<u>1,235,394</u>
Long-Term Liabilities			
Long-term debt, less current maturities	1,868,229	1,652,529	1,836,437
Other long-term liabilities	491,677	699,822	482,491
Deferred income taxes	91,660	53,381	97,427
Total long-term liabilities	<u>2,451,566</u>	<u>2,405,732</u>	<u>2,416,355</u>
Total liabilities	<u>3,546,713</u>	<u>3,289,335</u>	<u>3,651,749</u>
Commitments and contingencies			
Stockholders' Equity			
Preferred stock; none issued			
Common stock (outstanding 133,537; 133,377; 133,563)	1,335	1,334	1,336
Paid-in capital	961,956	930,123	954,491
Treasury stock, at cost	(223,567)	(213,379)	(218,222)
Accumulated other comprehensive (loss)	(429,382)	(506,251)	(473,986)
Retained earnings	1,248,769	1,223,611	1,172,442
Total RPM International Inc. stockholders' equity	<u>1,559,111</u>	<u>1,435,438</u>	<u>1,436,061</u>
Noncontrolling interest	3,092	2,126	2,639
Total equity	<u>1,562,203</u>	<u>1,437,564</u>	<u>1,438,700</u>
Total Liabilities and Stockholders' Equity	<u>\$ 5,108,916</u>	<u>\$ 4,726,899</u>	<u>\$ 5,090,449</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

IN THOUSANDS (UNAUDITED)

	Three Months Ended August 31,	
	2017	2016
Cash Flows From Operating Activities:		
Net income	\$ 116,903	\$ 113,394
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	19,893	17,679
Amortization	11,483	11,121
Deferred income taxes	9,815	(434)
Stock-based compensation expense	7,465	8,171
Other non-cash interest expense	1,422	2,481
Realized (gain) on sales of marketable securities	(2,861)	(2,584)
Other	(140)	18
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	1,646	28,663
(Increase) in inventory	(46,771)	(42,763)
(Increase) in prepaid expenses and other current and long-term assets	(10,865)	(18,206)
(Decrease) in accounts payable	(72,688)	(70,598)
(Decrease) in accrued compensation and benefits	(69,008)	(77,738)
(Decrease) in accrued losses	(5,765)	(2,021)
Increase in other accrued liabilities	20,147	38,015
Other	(6,765)	1,302
Cash (Used For) Provided By Operating Activities	<u>(26,089)</u>	<u>6,500</u>
Cash Flows From Investing Activities:		
Capital expenditures	(17,533)	(16,957)
Acquisition of businesses, net of cash acquired	(36,169)	(17,274)
Purchase of marketable securities	(56,275)	(13,099)
Proceeds from sales of marketable securities	40,792	12,602
Other	702	272
Cash (Used For) Investing Activities	<u>(68,483)</u>	<u>(34,456)</u>
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	19,125	91,669
Reductions of long-term and short-term debt	(760)	(76,973)
Cash dividends	(40,089)	(36,529)
Shares of common stock repurchased and returned for taxes	(5,346)	(17,105)
Payments of acquisition-related contingent consideration	(3,258)	(4,033)
Other	(747)	(866)
Cash (Used For) Financing Activities	<u>(31,075)</u>	<u>(43,837)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11,341	1,111
Net Change in Cash and Cash Equivalents	(114,306)	(70,682)
Cash and Cash Equivalents at Beginning of Period	350,497	265,152
Cash and Cash Equivalents at End of Period	<u>\$ 236,191</u>	<u>\$ 194,470</u>

SUPPLEMENTAL SEGMENT INFORMATION

IN THOUSANDS (UNAUDITED)

	Three Months Ended August 31,	
	2017	2016
Net Sales:		
Industrial Segment	\$ 729,768	\$ 675,840
Consumer Segment	427,144	399,887
Specialty Segment	188,482	176,336
Total	<u>\$ 1,345,394</u>	<u>\$ 1,252,063</u>
Income Before Income Taxes (a):		
Industrial Segment		
Income Before Income Taxes (a)	\$ 88,902	\$ 89,266
Interest (Expense), Net (b)	(2,554)	(1,837)
EBIT (c)	<u>\$ 91,456</u>	<u>\$ 91,103</u>
Consumer Segment		
Income Before Income Taxes (a)	\$ 72,368	\$ 70,088
Interest (Expense), Net (b)	(196)	(3)
EBIT (c)	<u>\$ 72,564</u>	<u>\$ 70,091</u>
Specialty Segment		
Income Before Income Taxes (a)	\$ 33,167	\$ 30,504
Interest Income, Net (b)	120	153
EBIT (c)	<u>\$ 33,047</u>	<u>\$ 30,351</u>
Corporate/Other		
(Expense) Before Income Taxes (a)	\$ (39,153)	\$ (41,383)
Interest (Expense), Net (b)	(19,690)	(17,253)
EBIT (c)	<u>\$ (19,463)</u>	<u>\$ (24,130)</u>
Consolidated		
Income Before Income Taxes (a)	\$ 155,284	\$ 148,475
Interest (Expense), Net (b)	(22,320)	(18,940)
EBIT (c)	<u>\$ 177,604</u>	<u>\$ 167,415</u>

- (a) 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.
- (b) Interest income (expense), net includes the combination of interest income (expense) and investment income (expense), net.
- (c) 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.