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RPM - Q3 2015 RPM International Inc Earnings Call

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OVERVIEW:

Co. reported 3Q15 consolidated net sales of $946.4m and as-adjusted net income of $26.2m or $0.20 per diluted share. Expects FY15 as-adjusted EPS to be at upper end of current range of $2.25-2.30.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the RPM International Conference Call for the FY15 third quarter. Today's call is being recorded. This call is also being webcast, and can be accessed live or replayed on the RPM's website at www.RPMinc.com.

Comments made on this call may include forward-looking statements based on current expectations that involve risks and uncertainties which could cause actual results to be materially different. For more information on these risks and uncertainties, please review RPM's reports filed with the SEC.

During this conference call, references may be made to non-GAAP financial measures. To assist you in understanding these non-GAAP terms, RPM has posted reconciliations of the most directly comparable GAAP financial measures on the RPM website.

(Operator Instructions)

At this time, I would like to turn the call over to RPM's Chairman and CEO, Mr. Frank Sullivan, for opening remarks. Please go ahead, sir.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Thank you, Sylvia. Good morning, and welcome to the RPM International Investor Call for our 2015 third quarter, for the period ended February 28, 2015. On the call with me this morning are Rusty Gordon, RPM's Vice President and Chief Financial Officer; and Barry Slifstein, our Vice President, Investor Relations and planning. On our call today we'll discuss our third-quarter results, including some detail provided by Barry, comments on the outlook for the balance of our FY15, and take your questions.

To remind everyone, the plan of reorganization for Specialty Products Holding Corp. was confirmed by the courts on December 10, and the initial $450 million payment essentially closing this transaction was completed on December 22. The results of operations of SPHC companies have been reconsolidated into RPM effective January 1, 2015. Once again, our deliberate strategic balance between consumer and industrial markets, and growth balance between internal investment and acquisitions, has delivered for RPM.

You can't avoid talking about foreign currency and the strengthening of the US dollar related to our third-quarter results. We have worked hard over the last decade to expand our breadth geographically, and at this moment in time it's working against us, as we now have roughly 40% of all of our sales outside of the United States.

The negative impact from foreign currency is extreme, not only because of the dramatic movement in currencies, but also because of how quickly it occurred. For instance, in Europe, which represents about 20% of our consolidated sales and is by far our largest region outside of the US, in standard rates we were down 16% in revenues year over year, but in local currencies we're roughly flat, a major accomplishment given the comparison to double-digit sales growth in the prior year throughout Europe. In addition, some of our overseas businesses purchased raw materials denominated in dollars, and sell their products in local currencies, causing a hit to gross margins.

Some of our smaller niche players, particularly those serving the European market, have struggled because of the slow-down in global demand. These businesses, although smaller in size, tend to be more international, are generally higher in margin, and when sales are off, it has a noticeable impact on our margin mix. These include our fluorescent pigment, food coating, waterproofing, restoration services, and nail polish businesses.

Our core consumer segment is solid, with strong organic growth in the quarter despite challenging weather, especially in the Northeast and Midwest, as we had another year of extended winter weather. We recognize that the residential housing market has had its starts and stops, but overall remain optimistic about the trend, especially in home values, consumer confidence and discretionary spending, all of which bode well for our great branded consumer products, and higher-ticket home remodeling and redecoration products. Also in our consumer segment, our innovation pipeline continues to be strong.

Our businesses serving commercial construction continue to plow forward with slow but steady momentum. Calendar year 2015 is projected to be the first year in roughly eight years where all major sectors of the US new construction market will be in positive territory. Our Tremco sealants, Stonhard flooring, and Euclid Chemical businesses lead the way in this sector. Our Euclid Tuf-Strand macrofiber products, which we've commented on in the past, continue to gain acceptance in North America and globally; and in our newly opened second manufacturing facility in Atlanta, Georgia, we are already nearly out of capacity.

While we are facing many challenges, principally the troubled economic conditions in Europe and the dramatic rise in the value of the US dollar, our deliberate strategic balance delivered a strong quarter, with sales up 9.6%, and consolidated EBIT, adjusted for approximately $8.8 million of one-time SPHC reconsolidation fees and expenses in the quarter -- EBIT on that basis was up 15.6%. These strong results include the negative impact of FX on the quarter, without which we would have shown even stronger performance and results.

I would now like to turn the call over to Barry Slifstein to provide more detail on our third quarter.

Barry Slifstein - *RPM International, Inc. - VP, IR & Planning*

Thanks, Frank, and good morning, everyone. Thank you for joining us on today's call.

During the quarter, the company took a non-cash net charge of $83.5 million related to the possible repatriation of overseas earnings to fund the remaining obligations in the SPHC settlement. I will therefore review the results of operations for our FY15 third quarter on an as-adjusted basis, excluding the $83.5 million non-cash charge, and then cover some February 28, 2015 balance sheet and cash flow items. I'll then turn the call over to Rusty, who will discuss the outlook for the balance of FY15.

Third-quarter consolidated net sales of $946.4 million increased 9.6% from last year. Organic sales increased 6.7%, acquisition growth added an additional 8.5% and foreign currency translation reduced sales by 5.6%.

Industrial segment sales increased 10.6% year over year to $620 million. Organic growth increased 5.5%, acquisition growth added an additional 12.4%, and foreign currency translation reduced sales by 7.3%.

Consumer segment sales increased 7.8% to $326.4 million. Organic growth increased 9.1%. Acquisition growth added an additional 1.2%, and foreign currency translation reduced sales by 2.5%.

Our consolidated gross profit increased 6.1% to $379.7 million, from $358 million last year. As a percent of net sales, gross profit decreased from 41.5% last year to 40.1% this year. Negatively impacting gross profit was foreign currency, unfavorable product mix and $5 million in stepped-up inventory costs at SPHC.

Consolidated SG&A increased 7.4% to $346.2 million, from $322.2 million last year, and as a percent of net sales, decreased to 36.6%, from 37.3% last year. Nearly all of the increase was due to consolidating the SPHC businesses during the third quarter. Additionally, included in SG&A was $3.8 million of non-recurring expenses related to the SPHC settlement.

Consolidated earnings before interest and taxes, EBIT, decreased 7.9% to $34.2 million, from $37.2 million last year, and included the non-recurring SPHC expenses related to the settlement and stepped-up inventory expense. Excluding these two items, consolidated EBIT was $43 million, and increased 15.6% over last year. At the industrial segment, EBIT decreased 19.6% to $18.2 million, including $5 million in SPHC stepped-up inventory expense, compared to $22.7 million last year.

Consumer segment EBIT increased 13.9% to $35 million, compared to $30.8 million last year. Corporate other expenses of $19.1 million were above last year's amount of $16.3 million, primarily due to the $3.8 million non-recurring SPHC settlement expenses mentioned in SG&A. Interest expense increased from $19.7 million last year to $21.5 million this year, primarily due to the $450 million payment to the 524(g) trust in December 2014, which was funded from the revolving credit and accounts receivable securitization facilities. Investment income of $7.7 million for the quarter was essentially flat to last year.

Income taxes for the third quarter decreased from an effective tax rate of 32.9% last year to an as-adjusted tax benefit this year. The change is primarily due to the reversal of valuation allowances, favorable adjustments to tax contingency reserves, and the overall impact of such items relative to the seasonally low actual quarterly income. We are forecasting that on an as-adjusted basis, the full-year FY15 effective tax rate will be in line with last year's full-year tax rate.

Net income increased 61.2% to $26.2 million, from $16.2 million last year. Diluted EPS of $0.20 per share was $0.08 per share, or 66.7% above last year's EPS of $0.12 per share. Foreign currency negatively impacted EPS by approximately $0.05 per share, and SPHC was dilutive to EPS by $0.01 per share.

Now a quick look at the cash flows and balance sheet. Cash provided by operating activities during the first nine months of the year was $24.1 million, versus $25.9 million for the same period last year. Last year's amount included the GSA payments approximating $45 million after tax.

This year's amount reflects higher working capital needs to fund higher sales, cash payments for professional fees related to the final settlement of SPHC and payments from accrued compensation and benefits and other accrued liabilities.

Depreciation and amortization expense was $71.8 million, compared to $67.3 million last year. CapEx of $47.3 million this year compared to $54.3 million last year. Our accounts receivable DSO was 73 days this year, compared to 70 days last year. Days of inventory increased to 115 days this year, compared to 113 days last year.

Finally, a few comments on our capital structure and overall liquidity. During the quarter, the company re-purchased 550,000 shares in the open market for approximately $26 million. As of February 28, 2015, total debt was $1.87 billion, compared to last year at $1.39 billion. The increase was principally due to the $450 million trust payment made in December 2014, using funds from our revolving credit facility.

Our net debt-to-capital ratio was 57.2% at February 28, 2015, compared to 47.3% last year. Our long-term liquidity at February 28, 2015, was $648 million, with $220 million in cash and $428 million available through our bank revolver and AR securitization facilities.

On May 9, 2014, we replaced our existing $150 million accounts receivable securitization facility with a three-year $200 million accounts receivable securitization facility that expires on May 8, 2017. On December 5, 2014, we replaced our existing $600 million revolving credit facility with a new five-year $800 million facility which can be expanded upon request to $1 billion. The new facility contains customary covenants, including a leverage ratio not to exceed 65%, and an interest coverage ratio not to be below 3.5 to 1.

With that, I'll turn the call over to Rusty.

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Thank you, Barry. I would like to briefly cover our full year FY15 outlook. For the fourth quarter of our fiscal year, we expect our consumer segment to benefit from continued innovation and consistent growth in consumer DIY spending. In the industrial segment, our European businesses continue to be challenged with a sluggish economy, with a strong dollar negatively impacting already weak results and extremely difficult comparisons to the prior year, when sales were growing by double digits.

Our RPM 2 operating segments will also face difficult prior-year comparisons, and most likely continue to suffer from unfavorable product mix. We are also beginning to see a slow-down in top-line sales in our businesses serving the energy sector, as production is slowing down with the lower cost of oil. However we do expect continued positive momentum from our other US-based industrial businesses, especially those serving the US commercial construction market.

Based on these factors, along with an anticipated benefit from the SPHC companies in the fourth quarter, we are guiding to the upper end of our current range of $2.25 to $2.30 per share on an as-adjusted basis for the full FY15 year.

From a longer-term perspective we are optimistic, given the return of our SPHC businesses, and the elimination of their asbestos liability. We can now accelerate growth investments in our businesses, and more aggressively return capital to shareholders when appropriate.

That concludes our prepared remarks, and we will now be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from John McNulty from Credit Suisse.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning, John.

John McNulty - *Credit Suisse - Analyst*

Yes, good morning. Thanks for taking my questions.

When we look at the full year guidance for 2015, and look at the puts and takes, it's obvious that FX has worked against you. And yet you're guiding to coming in at the high end of the range. I'm wondering what's changed in the rest of the businesses, or what's giving you the confidence to come in at the higher end of the range despite FX headwinds?

Then tied to that, how does that make you think about what you've put out there for the 2016 guide as well?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I think that we're continuing to see a good performance out of our North American-based construction chemical businesses, and consumer continues to be strong. SPHC is delivering both because it's a return of very well-run businesses and also because it's basically US-based business. That's where we are seeing the strongest performance economically. Those are really the reasons why we're comfortable with continuing to reinforce our guidance, and believe we'll be at the high end of that for the quarter.

It's hard to say for our 2016 guidance. Certainly we'll give you an update, as we normally would, and some detail about 2016 when we release our 2015 fourth quarter and full-year results in July. I say that because it depends what the dollar does. We will be suffering through this FX hit, assuming the dollar stabilizes where it is, into or through our second quarter. Unless there's a further deterioration, which we are not anticipating, that negative drag will pretty much dissipate in the second half of next year.

John McNulty - *Credit Suisse - Analyst*

Okay, fair enough. Then a question with regard to the consumer business. Clearly, weather wasn't as big of an issue as it was maybe last year, but it still looked like it probably nicked the quarter a little bit. How much business can you tell was maybe pushed out to fiscal 4Q from 3Q, just owing to the weather issues?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I don't think that we had a big impact on weather. We had a pretty good finish to the quarter in our consumer segment. I think the weather actually negatively impacted our industrial businesses more. We're seeing good revenue performance, finally, at Tremco Roofing. Dryvit, which is a returned SPHC business, is also expected to show good growth. But a lot of our businesses like those two whose products are used on the exterior were negatively impacted because of the deep and extended winter. I think that's also a reason for optimism as we get into the fourth quarter with those businesses, and maybe some slightly stronger performance out of our industrial sector.

John McNulty - *Credit Suisse - Analyst*

Great, and maybe just one last question, if I can. With regard to the buy-backs that you did in the quarter, when I look back, other than maybe a small period in 2009 in the recession where I think you guys were just opportunistic about it, you haven't really bought this level of stock back in 10 to 12 years. What's maybe changed, or is this just a one off? How should we be thinking about the ability for RPM to return cash to the shareholders in buy-backs going forward?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Obviously it will be circumstantial for us, but I reflect back over the last decade where RPM's total shareholder return doubled the return of the S&P 500, and out-performed a very formidable peer group by about 34%. That was despite the fact before this settlement we paid out $600 million in pre-tax dollars to this asbestos mess. Those were dollars that over that decade could have gone to a greater investment or greater shareholder returns. Going forward, while we still have about $357, I believe it is, $347.5 million of future obligations, that drag on our cash flow and the uncertainty of a major contingent liability is behind us. I think you'll see us have an opportunity circumstantially to be somewhat more aggressive in returning capital.

Our priorities will continue to be internal investment and acquisitions, particularly where they're at the right values; continuing to grow our dividend on an annual basis, which we've done for 41 straight years, and has been an important part of that total shareholder return performance. But this is a long-winded answer to your question. We're excited that 100% of the cash generated by our businesses will be able to be utilized by RPM for purposes that will benefit growth in our shareholders.

John McNulty - *Credit Suisse - Analyst*

Great, thanks very much for the time.

Operator

The next question comes from Rosemarie Morbelli from Gabelli & Company.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Following up on John's question on the SPHC. Is there some part of the reason or all of the reason why you are looking at the high end of the EPS? Is that what you expect to be the contribution for SPHC in the fourth quarter, versus nothing when you first gave us the guidance?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Rosemarie, we had talked about SPHC contributing roughly $0.05 per share for 2015. Now that you see the fact that on an after-tax, after one-time expenses, after all of the crazy tax stuff, they actually hurt us in the quarter by $0.01. All of that $0.05 of positive accretion from SPHC we expect to realize in the fourth quarter.

I would also remind you that we've reduced our original guidance principally as a result of what's happening in Europe and the dramatic change in the value of the dollar. But in general, there are some pockets of problems geographically and with some of our businesses; but fortunately there are more areas of strength, so we are comfortable about hitting that guidance that we provided.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

If you already had the $0.05, which areas are doing better than you anticipated?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Barry, maybe you can talk a little bit about new products and/or business units or segments that are growing, and expected to contribute to positive growth in sales and earnings in the fourth quarter?

Barry Slifstein - *RPM International, Inc. - VP, IR & Planning*

Absolutely. Rosemarie, we've seen a continued improvement in our businesses serving the commercial construction markets here in the US. Euclid Chemical, their Tuf-Strand product continues to gain a lot of acceptance. Our commercial sealants over at Tremco -- that's not been robust, but over the last several years, we've seen steady improvement quarter over quarter, year over year.

Also our consumer segment, we continued to launch new products. We've been talking about Synta a lot this year, and they've issued several new products this spring that have already been loaded into some of the channels. They originally came out with a Restore 10X, which was a very thick product that covered cracks and nail holes, et cetera. They followed that up now with a 4X and 2X, so when the deck is not as damaged, these products will do a great job. They also have combined NeverWet with Restore for better repelling of water on a deck; and also issued a Restore CoolTouch product, so that even if you have a dark surface it will stay cool to the touch, if you're barefoot.

On the Tremco roofing side, roofing has gone through two very difficult years of restructuring, new management. We think we've seen the bottom with roofing, and we're real excited about their growth prospects moving forward. They launched a new product called AlphaGuard, which is a polyurethane roof coating. The great thing is they've teamed up with the Tremco sealants group because it's manufactured by a sister company, so we're utilizing our plant capacity much better than before. If you have a damaged asphalt-based roof, this is a much better option than tearing off the asphalt and replacing it with asphalt.

Tremco roofing is also teaming up with our Legend Brands restoration company, and they are developing trucks, mobile trucks, that are designed to clean roofs in less than half the time that a normal contractor would take to clean a roof. They could actually start coating the roof even before it's completely clean.

There's a lot of exciting things. One other -- I don't want to take too much time -- but within the SPHC group of companies, one of the companies coming back is called Kop-Coat wood treatment, wood care. They've developed a product called Tru-Core that a home builder, residential home builder, could actually build a home and guarantee it to be termite free for life. There are a lot of exciting growth opportunities happening around RPM.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Thank you. That was very helpful, and if I may ask one last question. SPHC revenues went from $300 million to $400 million in revenues over the past four years. If my memory serves me right, EBITDA margin I believe was around 10%. I think it is EBITDA as opposed to EBIT, so correct me if I am wrong. Has that margin improved, as well?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Well, we generally don't provide that type of detail. Your recollection is correct. We did provide that when we put the SPHC businesses into bankruptcy. Without providing a specific number, I can tell you that your question is correct. Revenues are now annualized at about $400 million and growing, and their margins over that four-year period have improved.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay, thank you.

Operator

Our next question comes from Vincent Andrews from Morgan Stanley.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning.

Matt Gingrich - *Morgan Stanley - Analyst*

Good morning, this is Matt Gingrich on for Vincent. I was wondering if you could speak to the significance of your end market exposures to the energy sector, and the likely cadence and magnitude of any imminent headwinds there?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

We have a couple of business units, principally our Carboline business, which is pretty global, that serves the oil and gas industry -- whether it's petrochemical, offshore, with corrosion control coatings and fireproofing products. You are seeing a little bit of the impact of that in the third quarter. We anticipate for the balance of the year essentially lower sales in that sector as the major global oil players cut back on maintenance spending and idle some capacity. That is the principal area where we're seeing the negative impact of that.

Matt Gingrich - *Morgan Stanley - Analyst*

Sure. On the other side of things, if you could clarify your expectations on the oil-derived raw materials, and how that might translate to a tail wind going forward? Are you already benefiting from any reduction in freight costs or lower commodity like oil-derivative products?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Obviously we aren't seeing that in the third quarter. One comment I would make about the third quarter on all of these percentages or impacts is it's such a seasonally low period that it doesn't take a lot of changes in mix or the FX impact to negatively impact that. We are seeing and expect to see some raw material improvements in the coming months. I think in a stronger, higher-revenue quarter in the fourth quarter, you'll see a truer picture of all of that.

Freight, as we have commented in the past, for the first time has not really followed the decline in diesel prices as much as you would expect, because of regulations around drivers and freight that's really keeping freight costs higher than historically we would have seen, given the decline in oil prices. But I would expect to see in some of our business areas improvement in gross margins in the coming months, and certainly in the fourth quarter.

Matt Gingrich - *Morgan Stanley - Analyst*

Great, thanks.

Operator

Our next question comes from Jeffrey Zekauskas from JPMorgan.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning, Silke.

Silke Kueck - *JPMorgan - Analyst*

Good morning, how are you?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good, thank you.

Silke Kueck - *JPMorgan - Analyst*

If you look at SPHC, you said it was $0.01 a share dilutive in the quarter. If you stripped out the $8.8 million in charges, would it have been accretive by that $0.04 a share, or do you include interest expense in the dilution calculation as well?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Yes, I think that you're on to the right way to think about the quarter. The right way I think about the quarter, and I think the right way investors should think about the quarter is to focus on EBIT, because there is higher interest expense, there are some big swings in the tax situation, there's the non-controlling interest. All of that gets confused in the bottom line, and I think you'll see a truer picture all the way down to earnings per share and net income in the fourth quarter, and certainly in 2016.

As you think about EBIT, I think if you want to put pennies per share on the EBIT in the quarter, then I think using that $8.8 million is the right way to think about it. But again, I would encourage people to look at our results on an EBIT basis; and on that basis, both on a consolidated basis adjusted for those one-time costs and in each segment, we're doing pretty well and are actually really pleased. Had we been facing comparable FX rates year over year, we'd had a blowout quarter.

Silke Kueck - *JPMorgan - Analyst*

To clarify, when you look at SPHC, you don't include interest costs that have to do with the funding of the asbestos trust in those results, right -- when you look at SPHC on an EPS basis?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Again, that's why I would focus you to look at our industrial segment EBIT and our consumer segment EBIT. It depends on how you want to look at it. Most certainly, one way to look at it -- and this is how we will be reporting it in this quarter and in the next quarter and the first half of next year -- we'll treat the SPHC reconsolidation for reporting purposes, particularly at the revenue level, as if it were an acquisition. The after-tax, because these payments are tax deductible, the after-tax net present value by the time we get to tax flows and the benefit of taxes through our P&L over the next 12 or 18 months, is somewhere around $485 million.

I think the right way to think about it long term is we paid $485 million to get back a chunk of growing, well-known $400 million of businesses with expanded margins. It's a little confused there. There's a higher level of debt, and we're paying interest on that; but as the year rolls out, we will get much of that back in terms of effectively lowering the net debt through tax deductions.

Silke Kueck - *JPMorgan - Analyst*

I have a question on the consumer business and I guess I have tax questions, but I'll leave those for the end. Can you discuss the specific level of business at your big box retailers through what you've seen in February, March, beginning of April?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Sure. In general, we've had a very good performance in our consumer segment. We saw a nice start to the spring selling season across all of our big box accounts; and a very strong February, which I think is heartening, because that's typically inventory load-in for what is anticipated to be a pretty good spring for DIY; and also a return back to normal inventory levels for most of our businesses, relative to some inventory issues that we commented on in the second quarter.

Silke Kueck - *JPMorgan - Analyst*

Did those trends carry through to March and the beginning of April?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I'm actually talking remotely so I don't have access to that data right now, but we expect to have a strong fourth quarter in our consumer businesses.

Silke Kueck - *JPMorgan - Analyst*

Okay. Then I have some tax questions. The one thing is when will you make a decision as to whether the foreign funds will be repatriated, and when do you actually have to make the payment? Presumably -- currently the $84 million is like non-cash, because it's just like an estimated payment on bringing back foreign funds; but presumably that's money that has to be paid if the funds actually repatriate. When do you think that will happen?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Sure, let me have Rusty answer that question and any other tax questions?

Silke Kueck - *JPMorgan - Analyst*

Okay, thank you.

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Yes. Silke, we have not repatriated those funds, nor do we have any time frame for that. All we did during the third quarter is we concluded that we can no longer assert permanent reinvestment on foreign undistributed earnings for $347.5 million. There's no time frame associated with the actual repatriation. We're just acknowledging the possibility that those funds could be repatriated. When you acknowledge that possibility, it triggers under ASC740-30 to take a charge associated with the deferred income taxes for repatriating those funds.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Just to add a point to that, Silke, the actual cash, it's my understanding the actual cash taxes aren't triggered until such time as you actually repatriate the funds.

Rusty Gordon - *RPM International, Inc. - VP and CFO*

That's correct. It's a non-cash charge of $106 million.

Barry Slifstein - *RPM International, Inc. - VP, IR & Planning*

One last point on that, Silke, is that if at some point in time in the future, we could then reassert we won't have to repatriate, we would be able reverse all or a portion of that charge.

Silke Kueck - *JPMorgan - Analyst*

Okay. Secondly, can you explain the tax benefit that you may get from funding the asbestos trust, and over which period you may realize those benefits -- maybe just for like the first 450 that were funded. How does that work? Do you set up an NOL, or I wonder if you can explain that?

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Sure. There's a couple of pieces to it. The first is that we are able to reduce our estimated US tax payments, so we've been doing that, and we'll continue to do that for the next few months. The second phase is we're going to apply for an NOL carry-back. We can go back ten years and apply for basically a refund. We would anticipate the ability to do that within the next, I would say 12 or 15 months.

Silke Kueck - *JPMorgan - Analyst*

Just to clarify, did you realize any benefit this quarter already from funding the trust, and could you quantify it?

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Sure. We have been able to reduce our US estimated tax payments, so we have picked up several million dollars. But we have picked up some benefit. Of course in our cash flow, we've had some other things going the other way, which have overshadowed some of that benefit; but there's more to come.

Silke Kueck - *JPMorgan - Analyst*

Okay, maybe I'll follow up on that. I think that's all I have. Thank you very much.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Thank you.

Operator

The next question comes from Kevin McCarthy from Bank of America Merrill Lynch.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning, Kevin.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Good morning, everyone. Your financial leverage has increased obviously with the trust settlement; and yet as I listen to the outlook, you seem to be contemplating acceleration of growth investments and more aggressive return of capital to holders where appropriate. I'm wondering what your outlook would be for your ratio of net debt to EBITDA. Would you expect that ratio to rise or fall in the future, or is the current level a new normal of sorts?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Historically we've been able to operate with a BBB investment grade rating and a debt cap ratio that's got a range from a low of 40% to a high of approaching 65%. I think we're comfortable operating in that range. It will remain our goal, as we have stated and delivered in the past, to remain investment grade, so we will keep that in mind.

I will comment in terms of some flexibility in our balance sheet. One of our pieces of debt, which is incorporated in the fully diluted earnings per share, is a convert. It will either mature as a very nice low, fixed-rate piece of our capital structure, or possibly could be converted into equity, so there's some flexibility there, as well. But I would expect us to do what we've done in the past, and maintain our investment grade rating. I would also expect as the bigger pieces of the tax benefit we're talking about are realized over the next 12 months, you'll see a reduction in debt and a reduction in that debt cap ratio, both from a combination of free cash flow generation and the benefit of the tax shield on the SPHC payments.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Very good. Second question on the consumer side. Would you provide an update on Kirker in terms of fundamental trends, and also the packaging facility that you were looking to establish, and related permit in New Jersey?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Sure. As we commented in prior quarters, the Kirker business had a very strong year a year ago, with some big new customer sell-ins. Those have not been repeated this year, so we're suffering from both a slow-down in their core market, which went from high single-digit organic growth to relatively flat, and very difficult comparisons, so we've under-performed this year.

We expect that to continue for the balance of the year. I think we'll be in a position to be more of a full-service provider in terms of not only color, but for certain customers filling next year. I would expect to have a very strong 2016 with our Kirker business, both as the result of very easy comparisons and some new capabilities relative to the market place and our customers.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Great, and then last one for me on the industrial side. Is there any material impact from weather in your US roofing business? Anecdotally, we've heard about a lot of flat roofs coming under problems with snowfall, basically, in the northeast. Not sure if that's meaningful for you at the national level, and whether there's any knock on benefit in the balance of the year?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Sure. As Rusty commented on earlier, our Tremco roofing business is showing nice results, which is after two very challenged years, for a number of reasons we've communicated in the past. The longer winter weather impacted the timing of sales a little bit for Tremco roofing, for Dryvit and a few other businesses in the industrial sector whose products are used on the exterior. We would expect strong fourth-quarter performance from all those businesses, since we're now enjoying a long-awaited spring.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Thank you very much.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Thank you.

Operator

Our next question comes from Michael Ritzenthaler from Piper Jaffrey.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning.

Michael Ritzenthaler - *Piper Jaffray & Company - Analyst*

Good morning. Thanks for taking my questions. I don't mean to belabor this point, but on the SPHC and the taxes, wouldn't the right way to think about the valuation on that acquisition, or what amounts to be an acquisition, be to include some of the repatriation taxes? Those two things are linked, are they not?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

At the point in time that if and when we would decide to utilize those dollars or those earnings, I suspect the answer to that is yes.

Michael Ritzenthaler - *Piper Jaffray & Company - Analyst*

Okay. All right, thanks for clarifying that for us. On the industrial business, I'm curious about the portion of the business -- so the portion of the business that has exposure to US commercial and industrial construction, are low-double-digit growth expectations a fair way to look at specifically those end markets? For the remainder of the businesses, is flat sales on a constant-currency basis a fair assumption for Europe?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I think for the balance of the year we'll continue to work hard to generate year-over-year flat sales in Europe, both in relationship to double-digit growth we had last year and sales and earnings (that we had talked about), and continued struggling economies over there. The dollar is -- I think maybe Barry or Rusty can provide some detail on a different geography. In Latin America, if you guys have that, we had a gang-buster quarter in terms of sales growth again and the currency whacked it down a lot.

The same is true in Europe. I think I misspoke; in actual rates we were down 16% in Europe. But in standard common rates in local currencies we were slightly below flat. That gives you a sense of the magnitude of the FX hit. I don't think anybody's forecasting another 20% or 25% strengthening in the dollar from where it is; so as we annualize this stronger dollar starting in October-November, that will -- that impact on our results will dissipate.

Michael Ritzenthaler - *Piper Jaffray & Company - Analyst*

Sure, that makes sense. One last question for me on new products, specifically on the NeverWet OEM application. I think we've talked about this over the last couple quarters, that there was something this spring. I'm curious if there's an update on that, per product, in particular?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Yes, we are starting to ship our first NeverWet OEM products into a fabric area. It's a whole new area with a lot of promise. I think we'll be in a position to provide some more commentary on that in the fourth quarter when we report that in July. There's a lot of promise here. I think we need to get it in the market place on a number of -- with a number of different OEM customers, and then see how that works in the future. But it's certainly an exciting area for Rust-Oleum.

Michael Ritzenthaler - *Piper Jaffray & Company - Analyst*

Outstanding, thank you.

Operator

The next question comes from Ghansham Panjabi from Robert W. Baird.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Hi, good morning. This is actually Mehul Dalia sitting in for Ghansham. How are you doing?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Great. How are US commercial construction trends relative to a few months ago? Has there been an acceleration in activity, or more or less the same?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Barry, do you want to talk about what we're seeing in US construction trends?

Barry Slifstein - *RPM International, Inc. - VP, IR & Planning*

Yes, we just continue to see a steady improvement -- not anything robust, but just steady.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. Can you talk a little more about the new products that you're introducing in consumer?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Go ahead, Barry.

Barry Slifstein - *RPM International, Inc. - VP, IR & Planning*

I was just talking about the whole family of new products that came out on the Synta Restore line, where they had originally introduced a 10X, which was very thick, filled in cracks. They came out with a 4X and 2X, so if the deck is less damaged, these are easier to apply. We're combining Restore and NeverWet for better liquid-repelling, water-repelling capabilities. Restore also has a CoolTouch, so even if it's a darker surface, the surface won't get hot.

Rustoleum this spring is launching a product called Spray Smart. It's a line-marking paint, aerosol paint; but it's using a disposable pouch, so you only need one chargeable canister, and you could replace the pouch very quickly. Then DAP has a product called SmartBond that we've been talking about over the last number of months, which is an aerosol sub-floor adhesive that goes on as a foam and turns to a gel. One aerosol can replaces eight cartridges of sub-floor adhesive. That's just a few of the consumer products.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. One last one for me. Can you talk a little more about your M&A pipeline and what geographies and markets are attractive to you?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Sure. We're continuing to pursue acquisitions as we have in the past. They tend to fall into the category of either product lines that we can integrate, like the Synta product line, or others that we've commented on in the past; or freestanding businesses that where a management team -- very often a second- or third-generation family member--would stay and run that business as part of one of RPM's groups. Typically we're looking in the $5-million lower end on the product line as small as that -- maybe up to a couple hundred million, let's say $500 million, and that's really our bread and butter.

The pipeline is really good. Most of it, as we've done in the last four or five years, has been outside of the US, although we certainly are open to transactions in the US as well. We're seeing, as you might guess in these challenging times, some interesting opportunities in Europe.

Mehul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Thank you.

Operator

Our next question comes from Ivan Marcuse from KeyBanc Capital Markets.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning, Ivan.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Good morning. Just a couple quick questions. I may have missed this, but in your industrial you talked about the energy exposure. About how much -- what percentage of sales, or how big are sales that go into the energy sector relative to industrial? Does demand sort of track with CapEx, or is there another way to think about it?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I don't know if Rusty or Barry have a good sense of that question?

Barry Slifstein - *RPM International, Inc. - VP, IR & Planning*

Ivan, roughly 10% to 15% of our industrial sales are probably in some shape or form tied to the energy sector. It's hard right now to really gauge exactly what the full impact is going to be, so I think we'll have to comment a little bit later on what the actual impact is.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Great. Rusty, you talked about the refund in the tax from SPHC. How big could that be, once it -- what sort of how to think about the potential tax or potential cash impact of when you get that refund and the timing?

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Sure. Yes, I outlined the timing for the initial $450-million payment; but the quick answer is that we generate year in year out about a 30% tax rate on average. If you apply 30% to our consideration of $797 million, that would give you a pretty rough answer, but a good answer.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Great. Thanks for taking my questions.

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Sure.

Operator

Our next question comes from Christopher Perrella from Bloomberg.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning.

Christopher Perrella - *Bloomberg - Analyst*

Thank you for taking my call. Could you just give a little more color on the Latin American business? Is that growth coming from your small position and you're grabbing share, or has the overall Brazilian construction market perked a bit?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I think it's a little bit of both. Our manufacturing presence in Latin America has really grown over the last decade, so we've got a number of facilities and strong presence in Mexico. We have manufacturing and a strong presence in Colombia, in Chile, in Argentina, and more recently a very strong presence in Brazil. We are taking market share. The markets we serve ex-Brazil continue to be growing.

In Brazil, I think we are performing better than the headline economic data would indicate. We're also making some significant investments in Brazil, as we look at Viapol, which is part of our Euclid Chemical business, as really a platform for a number of RPM companies. We will be making certain industrial coatings there, admixtures, construction chemicals, sealants. The challenge there for us is to stay out of the way of the very good managers of the Viapol business who continue to generate positive growth, despite some challenges in Brazil economically, while at the same time being thoughtful about how we want to expand their manufacturing base into a number of other RPM product categories.

Christopher Perrella - *Bloomberg - Analyst*

All right, thank you, and then just a quick question. Will there be any potential earn-out adjustments coming in the fourth quarter here? I think there was one last quarter?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Yes. We have remaining earn-out payments on Synta and on Kirker. Those are performance-related, and it just depends on the performance of the businesses. We would comment as we have in the past on those to the extent that they hit and are material. We will call any of those out. Again, they'd be fourth quarter or perhaps into next year. Both of those earn-outs would be completed between now and the end of FY16.

Christopher Perrella - *Bloomberg - Analyst*

Okay, thank you very much.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Thank you.

Operator

Our next question comes from Jason Rodgers from Great Lakes Review.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning.

Jason Rodgers - *Great Lakes Review - Analyst*

Good morning. Most of my questions have been answered. I was wondering about the share count, and why it fell about 5 million sequentially? Does it have to do with the convertible, or what the issue is there?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

It has to do with the convert. Go ahead, Barry.

Barry Slifstein - *RPM International, Inc. - VP, IR & Planning*

Yes. We're showing that basic and diluted shares of roughly 129 million for the quarter, versus what would normally be about 134.8 million shares. The reason is that the as-reported results were negative, so if you use the higher share count, it actually makes the reported loss lower, being that it would be anti-dilutive. In that situation, you would go back to your basic share count. In the fourth quarter with an income quarter, you would see a share count in the 134.5 million to 135 million range.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I will comment, relative to a capital allocation question earlier, our preference is to fund growth, especially good value, continue our dividend program and then look at shareholder buy-backs or stock buy-backs. Certainly we will be more consistent in sopping up dilution going forward than we have in the past, given the resolution of the SPHC situation.

Jason Rodgers - *Great Lakes Review - Analyst*

All right, sounds good. Is it too early to give estimate for CapEx for FY16, or the tax rate?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Yes, I think it's too early. Historically we've provided guidance for our new fiscal year in our July year-end earnings release. We got a little ahead of ourselves this year just because we felt it was important to provide some detail on the SPHC transaction this fall, once it seemed apparent that we were moving in the right direction on that. We will provide those details in July.

Jason Rodgers - *Great Lakes Review - Analyst*

Thanks.

Operator

Our next question comes from Kevin Hocevar from Northcoast Research.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning.

Kevin Hocevar - *Northcoast Research - Analyst*

Good morning, everybody. Frank, you mentioned that raws, you might see those declining here, hitting the P&L in the fourth quarter. I'm wondering if you have any benefits baked into your guidance from price raws, or would that represent up side to your assumptions?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I think we have some benefits assumed in there, but there's a possibility that we could do better than that. I think time will tell, and it's a function of being on FIFO accounting, and also, as I commented earlier, just a relatively small revenue base of the third quarter. We do have some baked into the fourth quarter. I think it will be interesting to see whether we realize that or more, and it will be interesting to get a sense of what that means for 2016.

Kevin Hocevar - *Northcoast Research - Analyst*

Okay, great. One quick follow-up to that. How has the pricing been with customers? Is the organic growth that you've been reporting largely volume and pricing's been relatively flattish, or have you noticed some pricing declines associated with the raw material declines?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

In most of our businesses, in both across the consumer and industrial segment, those organic growth numbers, which I think are good indicators of the underlying strength of our business -- they were 9.1% consumer and 5.5% in industrial -- are basically unit volume, not price.

Kevin Hocevar - *Northcoast Research - Analyst*

Got you. Okay, thank you very much.

Operator

Our next question comes from Jeffrey Zekauskas from JPMorgan.

Silke Kueck - *JPMorgan - Analyst*

Yes, I was wondering whether I could try a final tax question.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Rusty, you're on.

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Okay, I'm ready.

Silke Kueck - *JPMorgan - Analyst*

Great. If you had to -- I know you're not giving FY16 guidance, but if you had to throw a dart and get close like a tax rate, do you think your tax rate is going to be below 20% next year or even lower? Because what people are trying to figure out, which is what all the questions are, is if you save 30% on $450 million that you fund, that's $135 million. If you get that all back in one year that means your taxes would be -- I guess maybe it's just like US taxes, but it means your tax rate would be, I don't know, very low. Is that how you think about it, or is that just the wrong way to think about it?

Rusty Gordon - *RPM International, Inc. - VP and CFO*

Yes, what we're talking about is something that would not hit the P&L on the income tax line. When we're talking about getting a tax benefit on the $797 million SPHC settlement, that tax benefit would not flow through. You should think about that instead as a tax receivable, where we would get a cash benefit, but it would not impact the P&L.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

As part of the opening balance sheet, if you will -- and again, it's been an interesting accounting because it's reconsolidation accounting, it feels like purchase accounting. As part of the opening balance sheet, there is a tax item where this would flow through, Silke, and not through the P&L.

Silke Kueck - *JPMorgan - Analyst*

Okay, I understand, but what you hope to do is to recover something like $130 million next year?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

We are hoping to recover a significant amount of cash flow through this tax shield, which all things being equal would be used to reduce debt and bring our debt cap ratio down. That's correct.

Silke Kueck - *JPMorgan - Analyst*

Okay, thanks for clarifying.

Operator

The next question comes from Richard O'Reilly, Revere Associates.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Good morning.

Richard O'Reilly - *Revere Associates - Analyst*

Good morning, and thank you, guys. Two quick questions -- the first on the consumer business, the organic growth of 9%. That compares with a slight decline a year ago. Do you think the 9% is real, or is it something in between the two numbers? What should we be thinking about the consumer segment?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I think the 9% is in part in relationship to the very difficult winter we had last year, and some strong quarter-end sales into our major accounts. I think we're seeing good results, but I would be more than pleasantly surprised if we were that strong in organic growth in the fourth quarter. We're going to have good results, but I think your question's a fair one. Between not growing last year and plus 9%, we'll be somewhere between those numbers, it's hard to say which. But I think your question is -- your assumption is correct.

Richard O'Reilly - *Revere Associates - Analyst*

Second one, the third quarter had a lot of one-time items and noise in it, and you came up $0.20. Do you have a feel for what normalized earnings should have been? Because if we just add back the $8.8 million, it would imply like $0.30 a share; but then that tax benefit would probably become an expense. Had you guys thought about that?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Well the best way that I think about it as RPM's CEO, and the way that investors should think about it (I had commented on earlier), is I think you need to look at our consolidated and our segment EBIT, because there is so much noise below the line with all these tax issues and the anti-dilutive impact on earnings per share that Rusty -- that Barry talked about. Again, if you adjust out the $8.8 million of one-time expenses for SPHC and reconsolidation -- $5 million of that was in industrial gross profit, and $3.8 million was in corporate other expense -- you come out with a 9.6% sales growth on the quarter driving an adjusted for those items, 15.6% EBIT.

The consumer EBIT is as it's been reported. Again, you would adjust out $5 million of a gross margin hit on industrial EBIT. That's where you'll see the biggest negative. You've got a decent sales growth in industrial, 5.5% of which is organic. That really only levered EBIT growth up about 2%, 2.5% on an adjusted basis. That's because of what's happening to us in Europe and what's happening with foreign exchange, both of which are much more pronounced in our industrial segment than in consumer.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Then if we just assume a tax rate of something in the low 30%s to go with those numbers, to work out something on our own, right?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I think that would be right. Again, it's our expectation that on a full-year basis, our tax rate will approximate around 28%, which is about where we were last year.

Richard O'Reilly - *Revere Associates - Analyst*

Okay, good. Thanks a lot for those answers.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Thank you.

Operator

Our final question from John McNulty from Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

Yes, good morning. Sorry, just two quick items. On the part of your business that's exposed to energy and industrial, I think you had said it was 10% to 15%. Is that total energy, or just up-stream, oil drilling type energy?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I believe that's total energy as we think about it. It's offshore, it's petrochemical, and it's fracking. The other areas that we're in are certainly energy, but not as impactful as those areas I mentioned. That includes coatings for windmill blades and a few other energy areas, but it's really petrochemical, cracking, refining, offshore exploration and fracking.

John McNulty - *Credit Suisse - Analyst*

Got it, okay. One last question. On the potential to repatriate the cash to the US, it looks like you've got enough US EBITDA to cover any interest expense you've got and then some. I guess I'm wondering what would drive you to do that? Is it opportunistic, whether it's M&A or buy-back opportunities? Why do you feel the need to necessarily repatriate the cash back to the US?

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

I believe it provides us flexibility in how we would meet these future payments. I commented on the flexibility in our balance sheet. We've got plenty of it. We've got the convert that's part of those fully diluted EPS numbers. We actually have the ability to meet these future payments with stock instead of cash. It's my understanding -- I am not a tax expert -- but it's my understanding that if we met those future payments with stock, any portion of them, then that would be considered US, it wouldn't be repatriated. It just provides us flexibility as we think about the future in funding. I think Rusty covered the technical reason is to having come to that conclusion why we had to take that charge now.

John McNulty - *Credit Suisse - Analyst*

Okay, fair enough. Thanks very much.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Excellent.

Operator

We have no further questions at this time.

Frank Sullivan - *RPM International, Inc. - Chairman & CEO*

Sylvia, thank you very much. Thank you to everybody for being on our call this morning. As I said back in January, from the long-term perspective we cannot be more excited about RPM's future. The return of the SPHC businesses bring a number of well-run, strong, US-based businesses back into the fold of RPM, and marks the permanent resolution of the Bondex asbestos liability drain on cash flow, and Management's time and attention over the last decade. Obviously, this leaves us very excited about an opportunity in the coming years to supplement our growth investments, and to more aggressively return capital to shareholders when appropriate.

We look forward to providing you the results of our fourth quarter and our FY15 full year when we release those in July, and also to commenting about our FY16. Thank you for your participation on the call today, and have a great day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.