THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RPM - Q2 2016 RPM International Inc Earnings Call

EVENT DATE/TIME: JANUARY 06, 2016 / 3:00PM GMT

OVERVIEW:

RPM reported 2Q16 consolidated net sales of $1.16b, net income of $83.4m, and diluted EPS of $0.62. Expects FY16 EPS to be $2.50.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Frank Sullivan *RPM International Inc. - Chairman and CEO*

Barry Slifstein *RPM International Inc. - VP of IR*

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

CONFERENCE CALL PARTICIPANTS

Rory Blake *Wells Fargo Securities, LLC - Analyst*

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

Matt Gingrich *Morgan Stanley - Analyst*

Arun Viswanathan *RBC Capital Markets - Analyst*

Mike Harrison *Seaport Global Securities - Analyst*

Rosemarie Morbelli *Gabelli & Company - Analyst*

Mike Ritzenthaler *Piper Jaffray & Company - Analyst*

Ivan Marcuse *KeyBanc Capital Markets - Analyst*

David Stratton *Great Lakes Review - Analyst*

PRESENTATION

Operator

Good morning, and welcome to RPM International's conference call for the FY16 second quarter. Today's call is being recorded. This call is also being webcast, and can be accessed live or replayed on the RPM 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 to 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 and CEO*

Thank you, Brandon. Good morning. Welcome to the RPM investor call for our FY16 second quarter ended November 30, 2015. On the call with me are Rusty Gordon, RPM's Vice President and Chief Financial Officer, and Barry Slifstein, our Vice President Investor Relations.

Today's call will be split into two sections. During the first portion, we will discuss our second-quarter results, including some detail by Barry Slifstein and comments on the outlook for the balance of our FY16, after which we will take some questions. During the second portion of the call, I will walk everyone through a brief presentation, including some longer-term goals through 2020, after which we will open the call for more questions. The presentation will include slides that can be followed on RPM's website at www.RPMInc.com.

During our second quarter, we continued to be challenged by the strength of the US dollar relative to other major currencies, principally the euro, Canadian dollar, British pound, Brazilian real, and South African rand. Several of these currencies saw further deterioration against the US dollar during the quarter. Translational foreign currency reduced sales on a consolidated basis by approximately $68 million, or roughly 6.3% in the quarter; and foreign exchange in total, including transactional FX, reduced EPS in the quarter by $0.06 per share.

Sales in our consumer segment rebounded nicely on a sequential basis from the first quarter, with sales in US consumer up 4.4%. Several of our product rollouts, resulting from favorable line reviews during the spring and early summer, were delayed until after the new year when our major customers began stocking for the spring selling season.

We are pleased that the economic fundamentals that drive our consumer segment continue to progress in a positive direction, and have been for several years now. During the quarter, we reversed the final Kirker earn-out accrual of $14.5 million, representing approximately $0.07 per share, compared to last year's Kirker earn-out accrual reversal of $17 million, representing approximately $0.09 per share in the prior-year second quarter. The earn-out accruals were reversed when it became apparent that Kirker would not meet its aggressive earn-out objectives.

The industrial segment's results continued to be a mixed bag during the quarter. Our US-based industrial companies serving the commercial construction markets performed well, with mid-single-digit growth. Sales into the energy sector for RPM are down approximately 10% year over year.

Virtually all of our industrial segment sales outside of the US translate to negative year-over-year performance in actual US dollars. Our industrial segment businesses in Europe were up in constant dollars or local currency by 2.2% year over year, but down when translated into US dollars by 9.6%.

Our businesses in Brazil are beginning to feel the impact of the rapidly deteriorating economic environment. Even so, sales in local currencies were up about 2% year over year, but when translated into US dollars at actual exchange rates, down 35%. We anticipate that the back half of this fiscal year will also experience continuing FX headwinds, but to a slightly less degree than the first half of last year; still a little bit more than we anticipated at the beginning of 2016.

In the specialty segment, most of the growth over the last year comes from the acquisition-like impact of reconsolidating SPHC, comprised mostly of US-based businesses. Excluding acquisitions, the dominant share of business in this segment is fairly balanced between the US and Europe, with sales in the US up in the low- to mid-single-digit range, and in Europe, up in the low single-digit range on a constant, local currency basis.

All in all, we're encouraged by the performance to our FY16 plan, and that many of our international businesses across Europe and Latin America, even though the results don't translate well into the US dollars, are continuing to grow. And we expect sales acceleration in the back half of this fiscal year in our consumer segment, as some of the line review wins from earlier this year begin shipping.

I'd now like to turn the call over to Barry Slifstein to provide you more detail on our second-quarter results.

Barry Slifstein - *RPM International Inc. - VP of IR*

Thanks, Frank, and good morning, everyone. I will review the results of operations of our FY16 second quarter, then cover some November 30, 2015, balance sheet and cash flow items, and then turn the call over to Rusty, who will discuss the outlook for FY16.

Second-quarter consolidated net sales of $1.16 billion increased 7.9% from last year. Organic sales increased 2.6%, acquisition growth added an additional 11.6%, and foreign currency translation reduced sales by 6.3%.

Industrial segment sales decreased 5.8% year over year to $610.2 million. Organic sales increased 1.9%, acquisition growth added an additional 0.7%, and foreign currency translation reduced sales by 8.4%.

Consumer segment sales increased 1.8% to $359.1 million. Organic sales increased 3.6%, acquisition growth added 0.7%, and foreign currency translation reduced sales by 2.5%.

Specialty segment sales increased 164.8% to $186.7 million from $70.5 million, principally due to the reconsolidation of SPHC effective January 1, 2015, and the Morrells acquisition by SPHC in March 2015. Organic sales increased 3.8%, acquisition growth -- SPHC and Morrells -- added 167.1%, and foreign currency translation reduced sales by 6.1%.

Our consolidated gross profit increased 8.8% to $493.9 million, from $453.9 million last year. As a percent of net sales, gross profit increased from 42.4% last year to 42.7% this year, representing a 30-basis-point improvement. Contributing to the improvement was lower manufacturing costs, partially offset by unfavorable transactional foreign currency.

Consolidated SG&A increased 5.3% to $352.6 million from $334.9 million last year. All of the increase was due to the reconsolidation of SPHC, partially offset by lower warranty and freight costs.

Consolidated earnings before interest and taxes increased 17.9% to $141.6 million from $120.1 million last year, largely driven by the reconsolidation of SPHC in January 2015, better operating leverage on positive sales growth, and good cost controls.

At the industrial segment, EBIT was relatively flat year over year on lower sales, as a result of deliberate cost-reduction measures, in addition to lower compensation and benefits, warranty and freight expenses.

Consumer segment EBIT increased 6.2% to $65.4 million, compared to $61.6 million last year, due primarily to better operating leverage on positive sales. During the quarter, the final Kirker earn-out accrual of $14.5 million was reversed into income. During the second quarter last year, RPM reversed a $17 million earn-out relating to Kirker.

Specialty segment EBIT increased 104.8% to $29.1 million, principally due to the reconsolidation of SPHC. The reduction in EBIT margin reflects the overall lower margin contribution from SPHC, compared to the core RPM2 industrial companies.

Corporate other expenses of $17.4 million were below last year's amount of $20.5 million, principally due to lower compensation benefits, and outside professional services expenses.

Interest expense increased from $19.4 million last year to $22.5 million this year, primarily due to higher interest relating 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, part of which was ultimately replaced with a 30-year bond issued in May 2015.

Investment income of $1.1 million for the quarter compares to last year's income of $5.1 million.

Income taxes for the second quarter were fairly flat to last year.

Net income increased 19.6% to $83.4 million from $69.8 million last year. Diluted EPS of $0.62 per share was 19.2% above last year's EPS of $0.52 per share.

And now, a quick look at the cash flows and capital structure: Cash provided by operating activities was $167.1 million for the first six months of FY16, compared to $55.3 million for the same period last year. The improvement is attributable to the change in working capital caused by faster collections.

As of November 30, 2015, total debt was $1.68 billion compared to last year at $1.43 billion. The increase was principally due to the $450 million trust payment made in December 2014.

During the first half of FY16, the company repurchased 400,000 shares of its stock in the open market, at an average price of $43.13 per share, for a total cost of $17.2 million.

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

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

Thank you, Barry. I'd like to cover our updated outlook for the FY16 year. And I'll start with the consumer segment, where we were encouraged in the second quarter with sequential improvement and sales growth versus our first quarter.

We had solid performance across our US DIY lines, and these positives were offset, to some degree, by continued struggles in the nail polish market at Kirker, as well as at some of our Canadian businesses where the Canadian economy is getting worse, and our results are worsened even further by translating weak Canadian dollars back to US dollars. So, in summary, for the second half of this fiscal year, we expect mid-single-digit growth in the second half from the consumer segment, due to strong US economic fundamentals, as well as some of the recent line review wins and product placements that we expect.

Moving now to the industrial segment, I'll break this out by region. In the United States, we expect to continue to have good mid-single-digit growth across our commercial construction businesses, and this will be offset, to some degree, by a slowdown in the oil and gas sector, which is affecting our industrial coatings products.

In Latin America, we've had good growth there, and we believe we're picking up share. Some of the economies in Brazil and Argentina are troublesome; and in spite of that, we expect mid-single-digit growth in local currency in that region.

In Europe, in the second quarter, we had our second quarter in a row of positive organic sales growth, and that's encouraging, especially compared to last year, when we had negative comps. So, in Europe, for the second half of the year, we're expecting low- to mid-single-digit growth, again, in local currency.

Now, I should note that the industrial segment has the largest international exposure of all three of our segments. So, unfortunately, as a result, a large portion of their organic growth is going to be offset by the unfavorable impact of the strengthening US dollar. So, in conclusion, in the industrial segment, in actual exchange rates, we expect to have flat to slightly positive sales growth in the second half.

Moving to the last segment -- our specialty segment -- in the second half, we'll be picking up an additional month this year from the reconsolidation of SPHC, which occurred on January 1, 2015. This portfolio and the SPHC businesses continue to meet our expectations, so we expect, in the second half, to see sales growth in the mid- to upper-single-digit range in the specialty segment.

Before I move to my summary comments on the consolidated second half and full year, let me give everybody a reminder. As we called out when we provided our initial guidance last July for FY16, we are expecting to lose $0.10 a share this year due to a higher tax rate versus the extraordinarily low tax rate that we reported last year.

Now, this $0.10 impact can be traced to last year's third quarter, when instead of reflecting income tax expense as we normally do, right above the net income line, we showed an income tax benefit in last year's third quarter. So, since we're not expecting this to repeat again this year, you should reduce last year's third-quarter EPS by $0.10 if you want to make an apples-to-apples comparison to this year's third quarter, when we expect, in April, to report a more normalized tax rate.

Looking at the back half of the year, as a result of the continued strengthening recently of the US dollar, we expect FX to cost us about $0.05 a share in the second half, versus our original expectations. However, and in spite of this, for the full year we are maintaining our guidance at $2.50 per share EPS for the full year.

With that, we are now pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

From Wells Fargo, we have Frank Mitsch on the line. Please go ahead.

Rory Blake - *Wells Fargo Securities, LLC - Analyst*

This is actually Rory Blake sitting in for Frank Mitsch. Just to kick it off, obviously, there's been more talk of M&A following the reconsolidation. Can you give us an update on how you are approaching the market, and what you're seeing in terms of deal flow?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Sure. It's pretty much the same as it has been. It ebbs and flows. But there's a pretty good pipeline of small and medium sized transactions that we're working, as is typical, and I would expect a number of those transactions to be completed before the end of this fiscal year, and some probably in terms of closing into next fiscal year. And they would be of the normal course of the types of things RPM has typically done.

Rory Blake - *Wells Fargo Securities, LLC - Analyst*

Okay. And then just following up on the guidance you have provided, obviously there's additional headwinds from FX and taxes, but there was a reversal in the quarter. You're maintaining guidance.

Can you help me understand what the real delta is, in terms of additional weakness but maintaining the guide? Is it really consumer performance, or maybe it's on the specialty side? What is really the offsetting factor?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

If you look at last year's second-half results and you adjust the third quarter which was $0.20 last year but $0.10 of it was tax income, so on a stand-up basis, I think the right number is $0.10 per share, we expect to get hit in the second half by another $0.05 of negative FX versus last year. I think you'll see, by maintaining guidance, we're expecting pretty solid results in both our third and fourth quarter.

And in particular, on the third quarter, I would pay attention to the EBIT results, which I know most of our analysts do versus the EPS because, again, $0.10 of the third-quarter EPS last year was totally tax-driven. I think a lot of it beyond that has to do with real solid performance in our industrial segment. I think our industrial businesses have adjusted to a very difficult market quite well and pretty quickly.

It's not often you see a 6% decline in revenues and flat EBIT, which is what our industrial businesses generated in the quarter. And unfortunately, as Rusty highlighted, I think the challenges we expect to show in constant currencies continued forward progress in most regions of the world, but it's going to be offset in our industrial segment by the rise of the dollar.

Rory Blake - *Wells Fargo Securities, LLC - Analyst*

Thank you very much.

Operator

From Robert W. Baird, we have Ghansham Panjabi on line. Please go ahead.

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

This is actually Mehul Dalia sitting in for Ghansham. How are you doing? Just along with the 2016 guidance, what is the earn-out reversal incorporated in your 2016 guidance previously? I'm just wondering how comparable the previous $2.50 guidance is to the current $2.50 guidance.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

No, I mean, it was an opportunity for earnings gains, one way or another. Kirker has been a great business for us, and they had some pretty aggressive earn-out performance expectations in relationship to the original transaction, and so that earn-out reversal is done. I would point out that if you reverse the Kirker earn-out from last year's second quarter and this year's second quarter to negate it, we'd be looking at 28% EPS increase year-over-year as opposed to the 19% EPS increase we reported.

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

Okay. Great. Thanks. And based on commentary from your last call, it seemed like consumer core sales were up about 7% halfway through the second fiscal quarter, but overall growth in the quarter came in much lower. So just wondering what happened in consumer. Was there a steep drop-off in sales halfway through the quarter?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

No, we had talked about mid-single digit growth and sequential quarter-by-quarter improvement, and we experienced that in the US. We had a very disappointing first quarter for reasons that we explained in October, and a lot of that had to do with some delays in line review wins, that are not going to be realized until after the first of the year, so as we speak.

But we had almost a 4.5% unit volume growth in the US, in consumer. That was offset by our business in Canada, both from a margin perspective, as well as from a reported sales perspective, as well as the consumer business that we do in the UK and Australia, again, versus the rise of the dollar. So we're seeing that sequential improvement, and people should expect to see that sequential improvement, quarter by quarter, continue.

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

Great. Thank you.

Operator

From Morgan Stanley we have Vincent Andrews on line. Please go ahead.

Matt Gingrich - *Morgan Stanley - Analyst*

This is Matt Gingrich on for Vincent. I'm just wondering what the size of the Canadian business is within consumer, and in orders of magnitude, how significant was the headwind in the quarter?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

I don't know that we disclose that generally. It's probably 10% or so of our consumer segment, and the impact in Canada for all of our businesses, consumer or industrial or specialty is really two-fold. Number one is the impact of translation, with the rise of the US dollar.

The other impact is probably two-thirds, it depends, it's probably more in consumer, closer to 90% of what we sell in Canada is produced in the United States, and with US dollar purchased raw materials, so the negative impact on margin is not inconsequential across RPM. So those are the challenges we face, particularly in Canada. It's less true in Europe, because most of what we sell in Europe or in the UK are produced in pounds or euros.

Matt Gingrich - *Morgan Stanley - Analyst*

Sure. And then would you say the performance of gross margins in this quarter is representative of a run rate going forward, or would you expect sequential benefits from the raw material environment?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

We're seeing some raw material benefits in certain areas, most certainly, and Tremco Roofing, without getting into the specific numbers, is a good example. That's as close as we get to a -- with a lot of asphalt and a couple steps away from oil derived products. And they have seen significant benefits in lower raw material costs in their closer-to-oil raw materials. And the majority of that has been offset by product mix, and also by their sales into Canada.

So it's an interesting mix. We have the same issue in Brazil, where a lot of our raw materials are purchased in US dollars, even though the real has dropped precipitously, just dramatically to the US dollar. So the transactional impact on margins on a consolidated basis has been a challenge. Having said that, I think we would expect to see incremental improvements in gross margin as the year progresses.

Matt Gingrich - *Morgan Stanley - Analyst*

Great. Thanks.

Operator

From RBC Capital Markets we have Arun Viswanathan on line. Please go ahead.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Great. Thanks for taking my question. Hope you're doing well. Happy new year.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Happy new year.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks. A couple questions here. So I'm just trying to understand the kind of organic top line view, just by segment. It looks like you were guiding to 5 to 7 in consumer, and now it's mid-singles.

Is there anything to read in that? If you look at the actual performance in the quarter, it's slightly below that range, so are you implicitly saying that Q3 and Q4 should accelerate from Q2? And is that due to the new product wins or --?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Yes. As I indicated earlier, we're happy with the sequential improvement from a disappointing first quarter to the second quarter, and you will see continued sequential improvement in the third and fourth quarter in our consumer business in terms of revenues.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Great. And just following up on that, maybe you can just describe, you said in the industrial segment that there's strength in non-res commercial construction. Can you just talk to us a little bit more about what you're seeing there, as well as maybe what you're seeing on the residential side? Is it somewhat weaker, or is it stronger, or how would you characterize it?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

We don't do a lot in residential, on new construction. I will tell you that in non-res in commercial construction, our sealant business, our fiber business, and the concrete admixture business all in North America are showing really nice growth. We expect that to continue. And the big challenge -- and to give you a sense with the organic growth that we disclosed in the industrial segment, the real challenge is, we're off in the oil and gas area, about 10%. I think we're picking up market share there, because those are really challenged markets, and that's a global market for us, particularly with our Carboline coatings. And so you're seeing some stronger results out of construction-related businesses, particularly in the US.

The one thing I'd comment on, and again, I think it's our belief in industrial, it's harder to track than it is in consumer, that we're picking up market share in a lot of areas, because if you are -- a big driver of our industrial business around the globe is industrial capital spending. And heavy industry from mining to oil and gas and steel and everything that touches it, is in a global recession. And so I think we're dodging and weaving in our industrial businesses really well, in terms of both figuring out how to keep the top line moving, and at the same time, being sharp on cost.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Thanks. And one more, if I may. Maybe you could just characterize -- I know you had some strong performance in Brazil, ex-FX last quarter. Maybe you can just describe, both in Latin America and Europe, how you would describe the environment as far as actual growth ex-FX? Thank you.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Sure. I think in Brazil -- and we've commented on this before, just to give folks a sense of this, we are slowing down. Organic growth for us in Brazil was plus 2%, which is down from the last quarter of I think plus 5% or so. And just to give you the impact of the continuing rising dollar versus developing countries like Brazil, we are plus 2% organic growth in constant dollars in Brazil, and minus 35% when translated back to the US dollar. And so we're going to continue to fight in Brazil to keep positive momentum in local currencies, but on a translated basis, we're getting walloped pretty good.

We'll talk in a few minutes about our longer-term plans. One of the base assumptions there is that the US dollar is not going to have any further dramatic increases versus other currencies, and we'll see how that goes.

Europe, we're continuing to see positive momentum on an organic basis, and we would expect to see that continue throughout the year, and because of the dollar/euro relationship, that's part of the $0.05 that Rusty talked about, in terms of, I guess, further negative impacts beyond what we anticipated when we first provided guidance in July. So that is baked into our comfort with our current guidance.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Got it. Thanks.

Operator

Thank you. At this time, I would like to turn the call back over to Frank Sullivan, who will give a brief presentation which includes the Company's long-term goals. Accompanying slides for the presentation will be webcast and can be accessed at www.RPMInc.com. After the presentation, he will take additional questions. Please go ahead, sir.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Thank you, Brandon. Starting when I became CEO in 2002, we have periodically provided our shareholders with our thinking on a long-term strategic plan. Our first five-year strategic plan in 2002 was a goal of increasing revenues from $1.9 billion to $3.3 billion, and we achieved that.

Our second publicly-communicated long-term strategic plan covered a three-year period from 2007 to 2009. Suffice it to say, we did not get the macroeconomic assumptions correct on that one, and we missed it. Our latest long-term strategic plan was publicly communicated in 2010 with a goal of achieving $5 billion in revenues for the fiscal year ended May 31, 2015.

We spent the last year with our business leaders and our Board developing a new long-term strategic plan, with a goal of achieving $7 billion in annual revenues by 2020, what we are calling our 2020 vision. To set the stage for that, I'd like to walk you through you some slides demonstrating how RPM has achieved our current results, while delivering superior total shareholder returns, and why we believe that will continue.

Over the last five to 10 years, aside from executing on our plan, we have focused on three primary goals. To grow globally, to reach $5 billion in revenues by 2015, and to solve a then-growing asbestos problem.

Slide 2 represents RPM's $4.6 billion in annual revenues for the fiscal year ended May 31, 2015, and our two reporting segment structure at that time. The key strategic drivers that have been a critical part of our success over the last 5 to 10 years are our entrepreneurial operating philosophy, the competitive advantage of leading brands, our balance between consumer and industrial markets, and a growth strategy balanced between internal investment and acquisitions. These will continue to serve us well in our new five-year strategic plan.

Slide 3 highlights our growing global presence from $2.5 billion in 2005 to $4.6 billion in 2015. In fact, we would have achieved our $5 billion 2015 goal except for the dramatic rise in the US dollar literally in the last six months of our five-year strategic plan period, and the fact that the SPHC asbestos liability resolution transaction took 4.5 years to finalize, instead of the original three years we anticipated.

Nonetheless, if you look at slide 4, you will see that in each of the last six years since the end of the recession, RPM has delivered record revenue and record income growth. Net income has increased double digits for each of those years, most importantly, allowing us to achieve our original five-year income goals.

Slide 5 highlights the $3.5 billion of capital we allocated over the last decade. We have increased our cash dividend for 42 consecutive years, a critical part of driving value for long-term shareholders. We have developed a good balance between acquisitions and internal investment, but unfortunately, we spent nearly $600 million of our after tax capital on a totally non-productive asbestos issue. Despite that diversion of capital, slide 6 highlights that RPM was able to outperform a very impressive peer group and nearly double the performance over the last decade of the S&P 500, as measured by total shareholder return.

I would like to provide more detail about the last decade to address some investor questions we've received about our strategy and our acquisition program. Slide 7 highlights RPM's organizational chart for the fiscal year that ended May 31, 2005. You will note that there are six groups, including three consumer segment groups.

Fast forward to our 2010 fiscal year, and in slide 8 you will note that we successfully streamlined into only two consumer groups. In fact, in the 2007-2008 time frame, we completely integrated Zinsser into Rust-Oleum, which included closing their New Jersey headquarters, and the elimination of more than 100 positions. In our industrial segment, you will note that the building solutions group replaced the Tremco group, as we had acquired a number of businesses, including the illbruck business in Europe.

Fast forward to today, slide 9 is our current organizational chart as of August 31, 2015. Post the Specialty Products Holding Corp reconsolidation, triggered by the achievement of that long-term goal of solving the Bondex asbestos problem, we now report in three segments: consumer, specialty and industrial.

You will note in the industrial segment, that the building solutions group no longer exists. In the summer of 2013, we dissolved the building solutions group, eliminating 48 positions, including a number of senior leader personnel, and now have a more streamlined direct reporting Tremco group, illbruck group in Europe, and we took the Euclid Chemical Company and teamed it up with the Flowcrete business, as part of our performance coatings group. We have teamed these businesses together to be able to leverage the strengths that each have in different parts of the globe, from a manufacturing and distribution standpoint, and we are off to a good start.

Aside from these changes that have impacted our organizational chart, we are constantly looking for opportunities to drive greater efficiency. Over the last five years at illbruck, we have closed two existing plants, one in the UK and one in Germany, and have been moving production to lower-cost plants in Turkey and Poland.

At our performance coatings group, we closed a Belgian facility in 2014, and closed three Stonhard distribution centers in the US, and relocated all distribution into one New Jersey central distribution location. In the last two years alone, Rust-Oleum has closed three manufacturing facilities: one in California, one in Illinois, and one in the Netherlands, integrating that production into existing Rust-Oleum plants.

Slide 10 is a slide we regularly use in our investor presentations to include examples of recent acquisitions. Over the last decade, RPM has completed 72 acquisitions. 18 of these have been freestanding businesses with a management team that has stayed on to run the business as part of RPM, continuing their growth with RPM's support. 54 of these, or 75% have been product lines or businesses that we have completely integrated into an existing RPM business.

Let me give you one example of what an integrated product line looks like. A little more than a year ago we acquired GBP10 million Firetherm, a producer of specialty fire stopping products in the UK, as part of illbruck. Within seven months we closed two of three existing Firetherm manufacturing facilities.

Acrylic mastics are now being produced in Turkey, their coatings products were moved to a UK plant, silicone production was moved to an existing illbruck plant in the Netherlands, and powder production was shifted to the Grupo PV plant in Spain, which is actually part of RPM's Performance Coatings Group. Furthermore, we are able to move our Nullifier Intumescent Coating product lines from a third party toll producer into the remaining Firetherm plant in the UK. All Firetherm back office activities were rationalized into illbruck's Cologne, Germany, headquarters, keeping only people in sales, technical service, and R&D.

While the majority of our acquisitions relate to product lines that are integrated, our ability to complete freestanding entrepreneurial acquisitions is truly the secret sauce that my father, Tom Sullivan, left us with - the ability to attract family-owned businesses to RPM with management teams that will stay and run them for many years.

What does this look like? Let me read to you a letter I received from Scott Drayton and Tony O'Connor, the owner-operators of Morrells Wood Finishes business that we acquired this past year in the UK.

Dear Frank, Following the global leadership meeting last week, we would like to pass on a huge vote of thanks to you and all of your teams for our invitation and involvement. As new members of the RPM family, we are a little apprehensive of what to expect in a significantly more corporate environment than what we have been used to at Morrells. Having now experienced last week's event, we can truly say what a refreshing, informative, and enjoyable few days it was, and that we were inspired by all the great news and positivity delivered by all the presenters, and all the people we met from across RPM.

We came away from the meeting with a much clearer appreciation of the RPM philosophy and how that radiates down to its business groups, its operating companies, and indeed, the individuals who work within them. It has given us great insight into how that can be encouraged and supported within our own business, and the comfort that there is a great network of people across RPM who we can interact with on all manner of issues. The whole event was a great advertisement for the RPM group and its business model, and reinforces our strong belief that RPM is the best possible home for our business. Very kind regards, Scott Drayton and Tony O'Connor.

This is the secret sauce that allows us to do M&A transactions in a manner that none of our competitors know how to do. So it brings me back to slide 11, to re-emphasize the fact that these results, particularly when almost $600 million of your after tax capital is diverted to a totally non-productive purpose, don't happen by accident. At RPM, we manage our portfolio much more aggressively than perhaps people realize.

Slide 12 highlights our goal of achieving $7 billion in annual revenues by 2020, and provides the key assumptions for this five-year strategic plan period. This goal will be accomplished by executing RPM's strategies much the same way we have in the past, with a few additions to what we call our key strategic drivers, highlighted on slide 13. Acquisitions will continue to be a key part of our growth strategy, and while we can acquire product lines and businesses and integrate them into an existing RPM company as well or better than anybody in our industry, we will continue to focus on being a great home for entrepreneurial companies, who want to bring their business to RPM, and continue to grow it with our support.

We are continuing to invest in new products as evidenced by the AlphaGuard, RoofTec, Tru-Core and Tuf-Strand product line examples that we have talked about over the last year. We are increasing our growth investments, particularly in the developing world, as evidenced by an almost 50% increase in capital spending over the next 12 months. Connections creating value has been something we've been talking about internally at RPM since 2010.

We went public with this concept as a theme of our 2013 annual report, and it has now become very much a part of the key strategic drivers of our growth and success, and you will see more of it in the coming years, whether it is leveraging a platform business in Brazil like Viapol, or leveraging technology shared between different RPM companies like Legend Brands and Tremco Roofing.

Slide 14 highlights our goal of building more $1 billion brands. Without getting into the specific numbers of our major operating units, Rust-Oleum, as most of you would guess, is in excess of $1 billion. We have a great opportunity over the next five years, through internal investment and acquisitions, to drive Tremco, Euclid, DAP and Carboline towards this $1 billion brand goal.

We will continue to focus our cash generation, with the goal of increasing RPM's cash dividend to shareholders in each and every year. As slide 15 shows, we have done so for 42 consecutive years, and this has been a critical part of our ability to consistently outperform the broader market, and meet or beat the performance of our peer group. To quote Albert Einstein, compounded interest is the eighth wonder of the world. Well, if you like compounded interest, you'll love a dividend that increases modestly every year in terms of the long-term value it creates over time.

So how will we attract -- how will we attain $7 billion in revenues by 2020, grow our cash dividend for five more consecutive years, and continue to deliver market beating shareholder returns? By focusing on sustainable global growth, driven by entrepreneurial leadership through The Value of 168. By executing on our key strategic drivers, four of which we've been talking about for more than a decade, and two newer ones which are driving closer cooperation between the RPM businesses, and lastly through the eight characteristics of what we call The Value of 168.

We'd now be happy to answer any of your questions about these long-term strategic plan comments, or about our second-quarter results, or outlook for the balance of FY16.

Operator

(Operator Instructions)

From Wells Fargo, we have Frank Mitsch on the line. Please go ahead.

Rory Blake - *Wells Fargo Securities, LLC - Analyst*

It's Rory once again. Just going back to the long-term targets, obviously exciting $7 billion 2020 target with a 5% organic target. What do you -- how do you approach it if you're thinking new products, and obviously a lot of innovation coming through. How should we ultimately think about how that breakdown plays out between just core growth and then new product introductions?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

That's a great question, and there's a slide that we have shown in investor presentations for the of last couple of years that breaks out our growth between organic growth and acquisitions. And with the exception of recession years, the organic growth we've shown has been anywhere from 5% to 6%, and in some cases, 8% or 9%. And I think there's three drivers of that organic growth. A third is market growth and hopefully market share gains. A third is new product introductions, which has been a big key for us and will continue to be a driver of our growth.

And then the other third is acquisitions. At least a third of our organic growth has been the follow-on years of the small to medium size acquisitions like Firetherm, and in every instance, we look at acquisitions from a growth perspective. So while the IRR in a GBP10 million Firetherm with the adjustments we made on its acquisition is terrific, it's relatively small.

The real bang is to be able to take that GBP10 million Firetherm through the distribution and sales force of an illbruck and turn it into a GBP15 million or GBP20 million business, and that's true of our goal of any of these small to medium sized acquisitions. So it's those three elements that we believe would allow us to meet or beat that 5% organic growth target over the next five years.

Rory Blake - *Wells Fargo Securities, LLC - Analyst*

Okay. And just following on that. With the acquisition goal in mind, and obviously the new segment specialty, is there any preference of where M&A should be spent, or is it really you just looking for good businesses across the three segments?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

I think it's good businesses across the three segments. M&A for us, or anybody, is really opportunistic. And as we've said in the past, we probably look at 40 to 60 deals a year. And through that process, you find the right strategic fits at the right prices that really help us, and we have a good track record of getting those done.

Rory Blake - *Wells Fargo Securities, LLC - Analyst*

Thank you very much.

Operator

From Seaport Global we have Mike Harrison on line. Please go ahead.

Mike Harrison - *Seaport Global Securities - Analyst*

Frank, you mentioned some of the streamlining that's taken place over time, and in some of the actions that you've taken with acquired companies, as you've integrated them. Can you give us some more detail on what exactly you're doing to control the cost structure for the company overall? And specifically in the industrial segment, I think you mentioned that was a source of margin improvement this quarter?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Sure. First of all, I think we wanted to highlight some of that activity, which is stuff that we haven't highlighted in the past. It's our job to find efficiencies every year.

We've never been a company that likes to tout closing plants or firing people, in part, that's a necessary part of the job. And I had an experience has a newly minted President and Chief Operating Officer in 1999 and 2000 where we closed 18 plants and reduced our headcount by more than 10% inside of 18 months. And we learned a lot in that. We improved a lot, but we also learned that when you do big public things like that, it's a distraction for those businesses that aren't impacted by it.

And so our goal is to do our job in terms of plant closures or consolidations effectively and quietly, so that the impact is only on those businesses where it's happening, and it's not a distraction for those businesses that are part of RPM, where there are no issues, other than getting out and selling something. Specifically to this year, I think all of our businesses, in light of very difficult industrial environments, have taken a hard look at costs. There have been some headcount reductions. There have been some deferred expenses.

I will also tell you some of it is involving our Tremco Roofing business, which for many that have followed us for a long time, we had a couple of years of challenges there. It is better managed after a couple years of declining revenues, a lot of which were as a result of self-inflicted wounds. Those businesses and Tremco Roofing, in particular, are growing nicely.

Some of the warranty issues that were a result of past problems are behind us. And so those are the main factors, I think, being sharp on expenses in the face of difficult industrial markets globally, and seeing some revenue improvements in businesses, is the reason that you're seeing good expense control on the SG&A side in our industrial segment.

Mike Harrison - *Seaport Global Securities - Analyst*

Then if I could, just one more. You've talked a little bit about the efforts you've made in Brazil and leveraging a foothold in order to drive organic growth over time. I know you're trying to replicate that in Malaysia. Can you talk just strategically, where you see the Malaysia, and Asia more broadly? How you see that playing out over the next five years, and how that fits into your strategic growth plans?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Sure. A lot of our growth globally has been by acquiring businesses and using them as a footprint, or if we're in an overseas market, acquiring businesses that can be add-ons, again like Firetherm with illbruck. And we have not been successful over the last 15-plus years in trying to do that in Asia. And so I think we have come to the conclusion that we're going to have to be more deliberate about an internal investment strategy to grow in Asia, which is the region of the world where we have our smallest presence.

It's really on the back of something I referenced earlier. Our Euclid Chemical Company, this is old news, but we acquired Euclid in 1984. It was $10 million. On a global basis it's approaching $400 million, most of that is in the Americas. So they have a very strong presence from Canada, through the US, in Mexico, in Colombia, in Chile, and in Brazil.

And our Flowcrete business, which goes to market through distribution, but with different products, more in flooring and polymer products, is based in the UK, and they've got a great presence in Europe. They've successfully organically grown their business in the Middle East, in India, and in Malaysia.

So when we reorganized the building solutions group, we married Euclid Chemical and their manufacturing and distribution strength in the Americas with Flowcrete, and their manufacturing and distribution strength in the UK, Europe, and parts of the developing world, and we are combining manufacturing. We're combining distribution. And using that as a start.

When we get that right in Malaysia, we're at the beginning stages of investing in Carboline protective coating manufacturing in that same plant site as well, which will be the second manufacturing site for Carboline in Asia. The first one is a joint venture we have in Dalian, China. So without going on further, that's the road map of what we're doing, by combining the resources in these businesses from a manufacturing and distribution perspective, similar to what we're doing in Brazil.

Mike Harrison - *Seaport Global Securities - Analyst*

All right. Thanks very much.

Operator

From Gabelli & Company, we have Rosemarie Morbelli. Please go ahead.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Good morning. Congratulations.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Thank you.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And happy new year, of course. I was wondering, Frank, if the new highway bill is going to help some of your industrial operations, and whether you have a guesstimate as to what the potential benefit could be?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

The answer to the first part of your question is yes, certainly freeing up spending, most of this will flow to the states on infrastructure, will positively impact our protective coatings that go on steel, and on concrete. But I do not have a -- I'm not sure I could even make a swag at this point in terms of what that impact might be, but it will certainly positive.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Is it mostly for Carboline product lines, or are other areas going to be helped?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

It's Carboline product lines. It would be certain of Tremco membrane, Tremco sealant membrane products, and certain of our Euclid Chemical products.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay. Thanks. And looking at Brazil and Argentina, could you give us a feel for the size? And as you are introducing more and more product lines into Brazil, even though the economy is slowing down, those introductions should really more than offset that particular decline. And yet you went from a 5% organic to a 2% organic, while you are continuously adding product lines into the region.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Sure. A couple things on that. Number one, I'll give you what we've disclosed in the past. Latin America, as a whole, is about 5% of RPM's consolidated revenues. It's been growing up until this year, and the FX hit at solid mid-teens, and it's most all organic growth.

Viapol, we disclosed was $100 million when we acquired it. It has continued to grow from that base. I think we acquired it about 3.5 years ago. So it's larger than that.

It's larger than it was, substantially, in real. Again, I don't know off the top of my head what the dollar impact is. And the challenges that we're seeing in Brazil, long-term we're excited about the market and we're positioning our businesses to serve the construction markets there, Petrobras, it's a great opportunity. But in the near term, it's a very depressed economy, and I think the fact that we're able to keep positive momentum on an organic basis is a real testament to good management down there.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And Argentina?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Our business in Argentina is relatively small. The management team in Argentina has done a brilliant job. And the sales and earnings aren't necessarily consequential to all of RPM, but we've got some owner/operators down there in Gaston Gerard, and his team and they have managed to continue to grow their sales and earnings, or in tough years at least keep them stable in what's been an extraordinarily crazy political and economic environment, and I think they're the epitome of owner/operators that are passionate about their business.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

With the new government in place, do you see any improvement in terms of the volatility of the region?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Certainly it will help. But again, that is not a significantly large business in Argentina for us to move the whole needle in RPM. But certainly every dollar of sales and earnings growth from all of our businesses helps.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And if I may, are there any plans of adding production in Canada, in order to eliminate the FX impact, on the transaction side as opposed to the translation?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Not at this time. I think we have all the capacity that we need, and quite candidly, our experience is if we really get on that, we'd probably have production up and running, just about the time the dollar starts shrinking, and the Canadian dollar starts growing.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Sure. And if I may ask one last one. Just clarifying your comments about the third quarter this year versus the third quarter next year. You do expect EBIT to grow year-over-year, right, because it will be --?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Absolutely.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay, thank you.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Absolutely. I would expect us to have a solid third quarter in terms of apples-to-apples sales and earnings growth, and you'll see that in the sales line and the EBIT line.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay. Great. Thank you.

Operator

From Piper Jaffray we have Mike Ritzenthaler on line. Please go ahead.

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

One quick question on the construction cycle. I guess it's mostly focused on the US construction cycle. In your prepared remarks, you highlighted the flat to slightly higher industrial sales and mid to high single digit in specialty. But I'm curious about your sense, as you're meeting with customers, about whether this cycle had has legs to get well into FY17, or whether in that time period, maybe you see things start to plateau? And if you wouldn't mind, maybe a similar question on the organic sales growth in Europe, that seems to have a little momentum as well.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Organic sales growth in Europe?

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

Yes, that was part two. Part one is on the US.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Sure. On the US, again, we're seeing I think good single digit, in some cases high single digit growth in a number of our commercial construction businesses -- sealants and admixtures and the fiber business -- are growing nicely, that's proprietary. Some of which is proprietary to Euclid. Some of it is a new product introduction and market share gains that are beyond just what the market is doing.

Our Tremco Roofing business is on the mend. Again, we would expect that to continue. Their AlphaGuard product lines, in terms of coatings, it's a new polyurethane coating system. They have a number of different resin systems that are proprietary.

There is a billion plus square feet of commercial single-ply roofs that are 20 or 30 years old, that are coming off warranty, and we're having a lot of success with the proprietary coatings system that can extend the life of those roofs for another 10 or 20 years, at a third of the cost of ripping them off and replacing them, and so we're really excited about that. And again, that's as much to do with correcting some self-inflicted wounds of a few years ago, and a Tremco Roofing business that's really got its swagger back, some new proprietary products that are working well. So for the foreseeable future, I think we'll see that continue.

Here's the big exception, and I commented on it earlier. Heavy industry is in a deep recession, globally. And that doesn't impact us immediately directly, but either that's going to start to correct itself, or it could infect other parts of industrial markets, which would be a macro problem for everybody.

I guess last comment is Europe. We continue to see Europe improving. Our two biggest markets there are Germany and the UK, and we're seeing solid low to mid-single digit growth in both of those markets, and unless something crazy geopolitical jumps in the way, we see that continuing.

Mike Ritzenthaler - *Piper Jaffray & Company - Analyst*

Thank you.

Operator

From KeyBanc, we have Ivan Marcuse on line. Please go ahead.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Good morning. Couple quick questions. First on your 2020, $7 billion in sales, was there any margin or return profile goal associated with those sales, or how to think about it from that perspective?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Yes, there is. And we haven't disclosed the margin or income goals, but it has been discussed with our Board, and there's compensation tied to it, and suffice it to say that it assumes, amongst other things, at the EBIT line, that we would see steady improvement at the EBIT margin over that five-year period.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Okay. Great. And then the next question, more of I guess modeling type of question. You had a benefit, similar to this quarter, in the fourth quarter last year, you had a benefit from I think Synta, of accrual reversal. Was that a one and done, or could that be a year two effect as well?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

That was a one and done. That was a one and done.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Okay.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

The Synta reversal in the fourth quarter last year impacted the fourth quarter. I think it was pretax $9 million, and that will not be repeated this year, and again, I think that's worth pointing out in terms of our expectations for maintaining our guidance, and some pretty solid results for the rest of the year. That was a non-operating income. We highlighted it as such. And I think we'll still have a decent fourth quarter, despite not having that repeat.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Great. Last question. I guess, is there any reason that the corporate expense line of, I don't know, $17 million, $18 million, does that change at all in the back half of the year, on a per-quarter basis?

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

Ivan, we've had good experience with healthcare cost but it's been something I don't think we should expect to repeat. And also, looking at some of the timing of our professional service expenses, I would expect that number to be closer to $20 million or a little higher on a more normalized basis for the third and fourth quarter.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Great. Thank you very much.

Operator

From Great Lakes Review we have David Stratton on line. Please go ahead.

David Stratton - *Great Lakes Review - Analyst*

Thanks for taking the call, and thanks for the long-term guidance. I'd like to circle back for a moment just to new products in the pipeline that we've talked before about Tuf-Strand and Tremco's RoofTec, how are those doing? And then also Rust-Oleum's new agreement with Wipe New, and where you see that directionally going?

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Sure. New products are critical for us. We are and have been for 10 years, believe it or not, really focused more aggressively on new product introduction. It took a few years to get rolling, and it's really paying off now.

The fiber business for Euclid has gone from virtually not much five or six years ago to $5 million, to what should be in excess of $30 million plus this year, and it's continuing to grow double digits. We're continuing to expand capacity.

The AlphaGuard and other roof coatings business at Tremco Roofing is growing over a two-year period from what was a little more than a year ago $35 million to what should be $70 million this year. You're continuing to see Tru-Core, which is a patented wood protective product that goes on at the lumber mill, and in particular relates to termites, very exciting product for us. That is part of the SPHC businesses, the Kop-Coat, industrial business there, that's growing well.

SpraySmart is a new product that Rust-Oleum is just introducing. It's a patented application device and wand, and pouch to paint, that is going to go into the line striping business. These are heavy, heavy users of spray cans, and this is easier to use for big users, more economically efficient, more environmentally friendly. That's coming out.

The Rust-Oleum Wipe product is a relatively new product that Rust-Oleum came out, not dissimilar to NeverWet in the sense that it was a -- it's a licensed technology, and so Rust-Oleum has not only been really good at developing their own products like 2X or Spray Smart or some of the other product lines, LeakSeal, but they've also been more aggressive at looking at interesting technologies that they can license and sell under the Rust-Oleum brand. That's relatively new, and I quite candidly don't have a sense of what the market is for that. But on future calls, we'll have a better sense of that. It was just introduced.

David Stratton - *Great Lakes Review - Analyst*

All right. Well, thank you very much.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Thank you.

Operator

Thank you. And we will now turn it back to Mr. Frank Sullivan for closing remarks.

Frank Sullivan - *RPM International Inc. - Chairman and CEO*

Thank you very much for your participation on our call today, and for bearing with the two formal pieces of our presentation. As you can tell, we're very excited about our future, both the second half of FY16, despite the big challenges globally and certainly the challenges in the industrial markets, and we're particularly excited about our long-term future, especially with 100% of the capital that our businesses generate available to invest in our growth and to return even more value to shareholders. We look forward to communicating to you throughout the year, and thank you for your interest and investment in RPM. Have a great day and happy new year.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.