



First Quarter Results Fiscal Year 2018



Consolidated Statements of Income: Fiscal Year 2017

	Fiscal Year Ended May 31,				
	2017	%	2016	%	% Change
Net Sales	\$ 4,958,175		\$ 4,813,649		3.0
Cost of Sales	2,792,487	56.3	2,726,601	56.6	
Gross Profit	2,165,688	43.7	2,087,048	43.4	
SG&A	1,643,520	33.1	1,520,977	31.6	
Goodwill & Other Intangible Impairments	193,198	3.9			
Other Expense, Net	1,667	0.1	1,287	0.1	
EBIT*	327,303	6.6	564,784	11.7	(42.0)
Interest Expense	96,954	1.9	91,683	1.8	
Investment (Income), Net	(13,984)	(0.3)	(10,365)	(0.2)	
Income Before Income Taxes	244,333	5.0	483,466	10.1	
Provision for Income Taxes	59,662	1.2	126,008	2.6	
Net Income	184,671	3.8	357,458	7.5	(48.3)
Less: Net Income Attributable to Noncontrolling Interests	2,848	0.1	2,733	0.1	
Net Income Attributable to RPM Stockholders	\$ 181,823	3.7	\$ 354,725	7.4	(48.7)
Diluted Earnings Per Share	\$ 1.36		\$ 2.63		(48.3)

*Non-GAAP measure



Consolidated Statements of Income: First Quarter

(As Reported)

(\$ in thousands, except per share and percent data)

Unaudited

First Quarter Ended August 31,

	2017	%	2016	%	%
Net Sales	\$ 1,345,394		\$ 1,252,063		7.5
Cost of Sales	773,386	57.5	700,021	55.9	
Gross Profit	572,008	42.5	552,042	44.1	
SG&A	394,409	29.3	384,085	30.7	
Other (Income) Expense, Net	(5)	0.0	542	0.0	
EBIT*	177,604	13.2	167,415	13.4	6.1
Interest Expense	26,773	2.0	22,778	1.8	
Investment (Income), Net	(4,453)	(0.3)	(3,838)	(0.3)	
Income Before Income Taxes	155,284	11.5	148,475	11.9	
Provision for Income Taxes	38,381	2.8	35,081	2.8	
Net Income	116,903	8.7	113,394	9.1	3.1
Less: Net Income Attributable to Noncontrolling Interests	487	0.0	625	0.1	
Net Income Attributable to RPM Stockholders	\$ 116,416	8.7	\$ 112,769	9.0	3.2
Diluted EPS	\$ 0.86		\$ 0.83		3.6

*Non-GAAP measure



Free Cash Flow Generation

(\$ in millions)

	Fiscal Year Ended May 31,			
	2017	2016	2015	2014
Net Income	\$ 185	\$ 357	\$ 228	\$ 306
Depreciation & Amortization	117	111	99	90
Working Capital & Other Operating Activities	84	6	3	(118)
Cash Flow From Operations	386	474	330	278
Less: Capital Expenditures	(126)	(117)	(85)	(94)
Less: Dividends Paid	(157)	(144)	(136)	(126)
Free Cash Flow**	\$ 103	\$ 213	\$ 109	\$ 58

**Non-GAAP measure



Reconciliations of Non-GAAP Measures to GAAP Measures



Free Cash Flow (Non-GAAP Measure)

(\$ in thousands)

	Fiscal Year Ended May 31,				
	2017	2016	2015	2014	2013
<u>Cash Flows From Operating Activities:</u>					
Net income	\$ 184,671	\$ 357,458	\$ 228,328	\$ 305,984	\$ 109,851
Depreciation and amortization	116,773	111,039	99,176	90,069	86,336
Working capital and all other operating activities	84,683	6,209	2,944	(117,904)	172,267
Cash Flow from Operations (GAAP)	386,127	474,706	330,448	278,149	368,454
<u>Cash Flows From Investing Activities:</u>					
Capital expenditures	(126,109)	(117,183)	(85,363)	(93,792)	(91,367)
<u>Cash Flows From Financing Activities:</u>					
Dividends	(156,752)	(144,350)	(136,179)	(125,743)	(117,647)
Free Cash Flow (non-GAAP measure)	103,266	213,173	108,906	58,614	159,440
All other investing activities	(213,556)	(48,683)	(474,090)	(55,919)	(386,037)
All other financing activities	192,723	(61,755)	246,372	(11,500)	255,797
Effect of exchange rate changes on cash and short-term investments	2,912	(12,294)	(39,345)	(1,881)	(1,614)
Net increase (decrease) in cash and short-term investments (GAAP)	\$ 85,345	\$ 90,441	\$ (158,157)	\$ (10,686)	\$ 27,586

Management views Free Cash Flow, a non-GAAP measure, as an excellent reflection of RPM's remaining cash flow to be used to acquire complementary businesses, reduce debt levels, or a combination thereof, **after** supporting the organic growth needs of its businesses, including their working capital and capital expenditure needs, and after supporting RPM's dividend program.



EBIT* (Non-GAAP Measure): RPM Consolidated

(As Reported)

Unaudited

(\$ In thousands, except percent data)

	First Quarter Ended August 31,	
	2017	2016
Income Before Income Taxes	\$ 155,284	\$ 148,475
Add: Interest Expense, Net	22,320	18,940
EBIT* (non-GAAP measure)	\$ 177,604	\$ 167,415
Net Sales	\$ 1,345,394	\$ 1,252,063
EBIT* as % of Net Sales (non-GAAP measure)	13.2%	13.4%

* EBIT is defined as earnings (loss) before interest and taxes.

Management uses EBIT, as defined, as a measure of operating performance, since interest expense, net, essentially relates to corporate functions, as opposed to segment operations.



EBIT* (Non-GAAP Measure): Industrial Segment

(As Reported)

Unaudited

(\$ In thousands, except percent data)

	First Quarter Ended August 31,	
	2017	2016
Income Before Income Taxes	\$ 88,902	\$ 89,266
Add: Interest Expense, Net	2,554	1,837
EBIT* (non-GAAP measure)	\$ 91,456	\$ 91,103
Net Sales	\$ 729,768	\$ 675,840
EBIT* as % of Net Sales (non-GAAP measure)	12.5%	13.5%

* EBIT is defined as earnings (loss) before interest and taxes.

Management uses EBIT, as defined, as a measure of operating performance, since interest expense, net, essentially relates to corporate functions, as opposed to segment operations.



EBIT* (Non-GAAP Measure): Consumer Segment

(As Reported)

Unaudited

(\$ In thousands, except percent data)

	First Quarter Ended August 31,	
	2017	2016
Income Before Income Taxes	\$ 72,368	\$ 70,088
Add: Interest Expense, Net	196	3
EBIT* (non-GAAP measure)	\$ 72,564	\$ 70,091
Net Sales	\$ 427,144	\$ 399,887
EBIT* as % of Net Sales (non-GAAP measure)	17.0%	17.5%

* EBIT is defined as earnings (loss) before interest and taxes.

Management uses EBIT, as defined, as a measure of operating performance, since interest expense, net, essentially relates to corporate functions, as opposed to segment operations.



EBIT* (Non-GAAP Measure): Specialty Segment

(As Reported)

Unaudited

(\$ In thousands, except percent data)

	First Quarter Ended August 31,	
	2017	2016
Income Before Income Taxes	\$ 33,167	\$ 30,504
Add: Interest Expense, Net	(120)	(153)
EBIT* (non-GAAP measure)	\$ 33,047	\$ 30,351
Net Sales	\$ 188,482	\$ 176,336
EBIT* as % of Net Sales (non-GAAP measure)	17.5%	17.2%

* EBIT is defined as earnings (loss) before interest and taxes.

Management uses EBIT, as defined, as a measure of operating performance, since interest expense, net, essentially relates to corporate functions, as opposed to segment operations.



EBIT* & EBITDA (Non-GAAP Measures)

(In thousands)

	For the Years Ended May 31,				
	2013 ⁽¹⁾	2014	2015 ⁽²⁾	2016	2017
Net income	\$ 109,851	\$ 305,984	\$ 228,328	\$ 357,458	\$ 184,671
Add: Roofing division revised cost estimate for unprofitable contracts outside the US	5,419				
Add: Roofing exit costs	5,588				
Add: Write-downs of Kemrock Investments and respective CTA	69,562				
Add: U.S. General Services Administration (GSA) settlement costs and legal fees	65,134				
Add: CTA impact of loss on repositioning of Industrial segment subsidiaries in Brazil	6,087				
Add: Inventory write-downs in conjunction with restructuring	3,867				
Add: Restructuring charges	20,072				
Add: Bad debt write-off for past due receivable from Kemrock	9,043				
Add: Provision (benefit) for income taxes	67,040	118,503	224,925	126,008	59,662
Add: Interest expense	79,846	80,951	87,615	91,683	96,954
Add: Investment expense (income), net	(6,178)	(15,715)	(18,577)	(10,365)	(13,984)
	(13,670)				
EBIT* (non-GAAP measure)	421,661	489,723	522,291	564,784	327,303
Add: Amortization	30,621	31,526	36,988	44,307	44,903
EBITA* (non-GAAP measure)	452,282	521,249	559,279	609,091	372,206
Add: Depreciation	55,715	58,543	62,188	66,732	71,870
EBITDA* (non-GAAP measure)	507,997	579,792	621,467	675,823	444,076
Deduct: Interest expense	(79,846)	(80,951)	(87,615)	(91,683)	(96,954)
Deduct: Investment expense (income), net	6,178	15,715	18,577	10,365	13,984
Deduct: Provision (benefit) for income taxes	(67,040)	(118,503)	(224,925)	126,008	(59,662)
Add: Changes in operating assets, liabilities and other	3,757	(117,904)	2,944	6,209	84,683
Cash from operating activities	\$ 368,454	\$ 278,149	\$ 330,448	\$ 474,706	\$ 386,127
Net sales	\$ 4,081,533	\$ 4,376,353	\$ 4,594,550	\$ 4,813,649	\$ 4,958,175
EBITA* as % of net sales (non-GAAP measure)	11.1%	11.9%	12.2%	12.7%	7.5%
EBITDA* as % of net sales (non-GAAP measure)	12.4%	13.2%	13.5%	14.0%	9.0%

*EBIT is defined as earnings before interest and taxes, while EBITDA is defined as earnings before interest, taxes, depreciation and amortization. We evaluate the profit performance of our segments based on income before income taxes, but also look to EBIT as a performance evaluation measure because interest expense is essentially related to acquisitions, as opposed to segment operations. We believe EBIT is useful to investors for this purpose as well, using EBIT as a metric in their investment decisions. EBIT should not be considered an alternative to, or more meaningful than, income before income taxes as determined in accordance with GAAP, since it omits the impact of interest and taxes in determining operating performance, which represent items necessary to our continued operations, given our level of indebtedness and ongoing tax obligations. We evaluate our liquidity based on cash flows from operating, investing and financing activities, as defined by GAAP, but also look to EBITDA as a supplemental liquidity measure, because we find it useful to understand and evaluate our capacity, excluding the impact of interest, taxes, and non-cash depreciation and amortization charges, for servicing our debt and otherwise meeting our cash needs, prior to our consideration of the impacts of other potential sources and uses of cash such as working capital items. We believe that EBITDA is useful to investors for these purposes as well. EBITDA should not be considered an alternative to, or more meaningful than, cash flows from operating activities, as determined in accordance with GAAP, since it omits the impact of interest, taxes and changes in working capital that use/provide cash (such as receivables, payables, and inventories) as well as the sources/uses of cash associated with changes in other balance sheet items (such as long-term loss accruals and deferred items). Since EBITDA excludes depreciation and amortization, EBITDA does not reflect any cash requirements for the replacement of the assets being depreciated and amortized, which assets will often have to be replaced in the future. Further, EBITDA, since it also does not reflect the impact of debt service, cash dividends or capital expenditures, does not represent how much discretionary cash we have available for other purposes. Nonetheless, EBIT and EBITDA are key measures expected by and useful to our fixed income investors, rating agencies and the banking community of all of whom believe, and we concur that these measures are critical to the capital markets' analysis of (i) our segments core operating performance, and (ii) our ability to service debt, fund capital expenditures and otherwise meet cash needs, respectively. We also evaluate EBIT and EBITDA because it is clear that movements in these non-GAAP measures impact our ability to attract financing. Our underwriters and bankers consistently require inclusion of these two measures in offering memoranda in conjunction with any debt underwriting or bank financing.

1. Proforma, excluding one time charges detailed in noted additions above.
2. Reflects adjustments related to the recognition of an ASC 740-30 tax liability for the potential repatriation of foreign earnings and related impact on NCI Net Income.