



First Quarter Results Fiscal Year 2019



Consolidated Statements of Income: Fiscal Year 2018

(As Reported)

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

	Fiscal Year Ended May 31,				% Change
	2018	%	2017	%	
Net Sales	\$ 5,321,643		\$ 4,958,175		7.3
Cost of Sales	3,140,431	59.0	2,792,487	56.3	
Gross Profit	2,181,212	41.0	2,165,688	43.7	
SG&A	1,663,143	31.3	1,643,520	33.1	
Restructuring Expense	17,514	0.3	-	0.0	
Goodwill & Other Intangible Impairments	-	0.0	193,198	3.9	
Other Expense, Net	(598)	0.0	1,667	0.1	
EBIT*	501,153	9.4	327,303	6.6	53.1
Interest Expense	104,547	2.0	96,954	1.9	
Investment (Income), Net	(20,442)	(0.4)	(13,984)	(0.3)	
Income Before Income Taxes	417,048	7.8	244,333	5.0	
Provision for Income Taxes	77,791	1.5	59,662	1.2	
Net Income	339,257	6.3	184,671	3.8	83.7
Less: Net Income Attributable to Noncontrolling Interests	1,487	0.0	2,848	0.1	
Net Income Attributable to RPM Stockholders	\$ 337,770	6.3	\$ 181,823	3.7	85.8
Diluted Earnings Per Share	\$ 2.50		\$ 1.36		83.8

*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,				
	2018	%	2017	%	% Change
Net Sales	\$ 1,459,989		\$ 1,345,394		8.5
Cost of Sales	865,947	59.3	773,386	57.5	
Gross Profit	594,042	40.7	572,008	42.5	
SG&A	459,742	31.5	394,409	29.3	
Restructuring Expense	20,076	1.4	-	0.0	
Other Income, Net	313	0.0	(5)	0.0	
EBIT*	113,911	7.8	177,604	13.2	(35.9)
Interest Expense	24,406	1.7	26,773	2.0	
Investment (Income), Net	(2,433)	(0.2)	(4,453)	(0.3)	
Income Before Taxes	91,938	6.3	155,284	11.5	
Provision for Income Taxes	21,752	1.5	38,381	2.8	
Net Income	70,186	4.8	116,903	8.7	(40.0)
Less: Net Income Attributable to Noncontrolling Interests	422	0.0	487	0.0	
Net Income Attributable to RPM Stockholders	\$ 69,764	4.8	\$ 116,416	8.7	(40.1)
Diluted EPS	\$ 0.52		\$ 0.86		(39.5)

*Non-GAAP measure



Free Cash Flow Generation

(\$ in millions)

	Fiscal Year Ended May 31,			
	2018	2017	2016	2015
Net Income	\$ 339	\$ 185	\$ 185	\$ 185
Depreciation & Amortization	128	117	111	99
Working Capital & Other Operating Activities	(77)	84	6	3
Cash Flow From Operations	390	386	474	330
Less: Capital Expenditures	(115)	(126)	(117)	(85)
Less: Dividends Paid	(167)	(157)	(144)	(136)
Free Cash Flow*	\$ 108	\$ 103	\$ 213	\$ 109

*Non-GAAP measure



Reconciliations of Non-GAAP Measures to GAAP Measures



Free Cash Flow Generation (Non-GAAP Measure)

(\$ in thousands)

	Fiscal Year Ended May 31,				
	2018	2017	2016	2015	2014
<u>Cash Flows from Operating Activities:</u>					
Net income	\$ 339,257	\$ 184,671	\$ 357,458	\$ 228,328	\$ 305,984
Depreciation and amortization	128,499	116,773	111,039	99,176	90,069
Working capital and all other operating activities	(77,373)	84,683	6,209	2,944	(117,904)
Cash Flow from Operations (GAAP)	390,383	386,127	474,706	330,448	278,149
<u>Cash Flows from Investing Activities:</u>					
Capital expenditures	(114,619)	(126,109)	(117,183)	(85,363)	(93,792)
<u>Cash Flows from Financing Activities:</u>					
Dividends	(167,476)	(156,752)	(144,350)	(136,179)	(125,743)
Free Cash Flow (non-GAAP measure)	108,288	103,266	213,173	108,906	58,614
All other investing activities	(146,574)	(213,556)	(48,683)	(474,090)	(55,919)
All other financing activities	(71,900)	192,723	(61,755)	246,372	(11,500)
Effect of exchange rate changes on cash and short-term investments	4,111	2,912	(12,294)	(39,345)	(1,881)
Net increase (decrease) in cash and short-term investments (GAAP)	\$ (106,075)	\$ 85,345	\$ 90,441	\$ (158,157)	\$ (10,686)

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,	
	2018	2017
Income Before Income Taxes	\$ 91,938	\$ 155,284
Add: Interest Expense, Net	(21,973)	22,320
EBIT* (non-GAAP measure)	113,911	177,604
<i>Inventory-related charges (a)</i>	4,324	-
<i>Restructuring expense (b)</i>	20,076	-
<i>Facility closure expense - other (c)</i>	2,455	-
<i>Receivable write-offs (d)</i>	8,020	-
<i>ERP consolidation plan (e)</i>	659	-
<i>Professional fees for negotiation of cooperation agreement (f)</i>	4,297	-
Adjusted EBIT	153,742	177,604
Net Sales	1,459,989	1,345,394
EBIT* as % of Net Sales (non-GAAP measure)	7.8%	13.2%
Adjusted EBIT* as % of Net Sales (non-GAAP measure)	10.5%	13.2%

* 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.

(a) Inventory-related charges reflect a true-up of prior inventory write-offs at our Consumer Segment and current period inventory write-offs and disposals at our Industrial Segment, all of which have been recorded in cost of goods sold during the first quarter of fiscal 2019 in connection with our restructuring activities.

(b) Reflects restructuring charges, including headcount reductions, closures of facilities and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan initiatives.

(c) Includes accelerated depreciation expense related to the shortened useful lives of facilities currently operating, but are in the process of being prepared for closure.

(d) Reflects the increase in our allowance for doubtful accounts as a result of change in market and leadership strategy.

(e) Includes implementation costs associated with the current phase of our ERP consolidation plan.

(f) Comprises professional fees incurred in connection with the negotiation of a cooperation agreement. Refer to Form 8-K as filed on June 28, 2018.



Reconciliation of "Reported" to "Adjusted" Net Income

	First Quarter Ended August 31,	
	2018	2017
Net Income, As Reported	\$ 70,186	\$ 116,903
Adjustments, pre-tax (a)	39,831	
Tax impact of adjustments	(6,630)	
Net Income, As Adjusted	\$ 103,387	\$ 116,903

(a) Refer to slide 7 for all adjustment detail



Reconciliation of "Reported" to "Adjusted" EPS

	Three Months Ended	
	August 31,	
	2018	2017
<u>Reconciliation of Reported Earnings per Diluted Share to Adjusted Earnings per Diluted Share (All amounts presented after-tax):</u>		
Reported Earnings per Diluted Share	\$ 0.52	\$ 0.86
<i>Inventory-related charges (a)</i>	0.03	
<i>Restructuring expense (b)</i>	0.11	
<i>Facility closure expense - other (c)</i>	0.01	
<i>Receivable write-offs (d)</i>	0.06	
<i>ERP consolidation plan (e)</i>	0.01	
<i>Professional fees for negotiation of cooperation agreement (f)</i>	0.02	
Adjusted Earnings per Diluted Share (g)	\$ 0.76	\$ 0.86

* 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.

(a) Inventory-related charges reflect a true-up of prior inventory write-offs at our Consumer Segment and current period inventory write-offs and disposals at our Industrial Segment, all of which have been recorded in cost of goods sold during the first quarter of fiscal 2019 in connection with our restructuring activities.

(b) Reflects restructuring charges, including headcount reductions, closures of facilities and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan initiatives.

(c) Includes accelerated depreciation expense related to the shortened useful lives of facilities currently operating, but are in the process of being prepared for closure.

(d) Reflects the increase in our allowance for doubtful accounts as a result of change in market and leadership strategy.

(e) Includes implementation costs associated with the current phase of our ERP consolidation plan.

(f) Comprises professional fees incurred in connection with the negotiation of a cooperation agreement. Refer to Form 8-K as filed on June 28, 2018.

(g) Adjusted EPS is provided for the purpose of adjusting diluted earnings per share for one-off items impacting revenues and/or expenses that are not considered by management to be indicative of ongoing operations.



EBIT* (Non-GAAP Measure): Industrial Segment

(As Reported)

Unaudited (\$ in thousands, except percent data)

	First Quarter Ended August 31,	
	2018	2017
Income Before Income Taxes**	\$ 69,057	\$ 88,902
Add: Interest Expense, Net	2,393	2,554
EBIT* (non-GAAP measure)	71,450	91,456
<i>Inventory-related charges (a)</i>	4,477	-
<i>Restructuring expense (b)</i>	7,379	-
<i>Facility closure expense - other (c)</i>	2,440	-
<i>Receivable write-offs (d)</i>	8,020	-
Adjusted EBIT	93,766	91,456
Net Sales	781,973	729,768
EBIT* as % of Net Sales (non-GAAP measure)	9.1%	12.5%
Adjusted EBIT* as % of Net Sales (non-GAAP measure)	12.0%	12.5%

* 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.

**Prior Period information has been recast to reflect the current period change in reportable segment.

(a) Reflects the current period inventory write-offs and disposals at our Industrial Segment, all of which have been recorded in cost of goods sold during the first quarter of fiscal 2019 in connection with our restructuring activities.

(b) Reflects restructuring charges, including headcount reductions, closures of facilities and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan initiatives.

(c) Includes accelerated depreciation expense related to the shortened useful lives of facilities currently operating, but are in the process of being prepared for closure.

(d) Reflects the increase in our allowance for doubtful accounts as a result of change in market and leadership strategy.



EBIT* (Non-GAAP Measure): Consumer Segment

(As Reported)

Unaudited (\$ in thousands, except percent data)

	First Quarter Ended August 31,	
	2018	2017
Income Before Income Taxes	\$ 51,296	\$ 72,368
Add: Interest Expense, Net	165	196
EBIT* (non-GAAP measure)	51,461	72,564
<i>Inventory-related charges (a)</i>	(153)	-
<i>Restructuring expense (b)</i>	1,551	-
<i>Facility closure expense - other (c)</i>	11	-
Adjusted EBIT	52,870	72,564
Net Sales	485,196	427,144
EBIT* as % of Net Sales (non-GAAP measure)	10.6%	17.0%
Adjusted EBIT* as % of Net Sales (non-GAAP measure)	10.9%	17.0%

* 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.

(a) Inventory-related charges reflect a true-up of prior inventory write-offs at our Consumer Segment, all of which have been recorded in cost of goods sold during the first quarter of fiscal 2019 in connection with our restructuring activities.

(b) Reflects restructuring charges, including headcount reductions, closures of facilities and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan initiatives.

(c) Includes accelerated depreciation expense related to the shortened useful lives of facilities currently operating, but are in the process of being prepared for closure.



EBIT* (Non-GAAP Measure): Specialty Segment

(As Reported)

Unaudited (\$ in thousands, except percent data)

	First Quarter Ended August 31,	
	2018	2017
Income Before Income Taxes	\$ 27,801	\$ 33,167
Add: Interest Expense, Net	(69)	(120)
EBIT* (non-GAAP measure)	27,732	33,047
<i>Restructuring expense (a)</i>	2,147	-
<i>Facility closure expense - other (b)</i>	4	-
<i>ERP consolidation plan (c)</i>	659	-
Adjusted EBIT	30,542	33,047
Net Sales	192,820	188,482
EBIT* as % of Net Sales (non-GAAP measure)	14.4%	17.5%
Adjusted EBIT* as % of Net Sales (non-GAAP measure)	15.9%	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.

(a) Reflects restructuring charges, including headcount reductions, closures of facilities and accelerated vesting of equity awards in connection with key executives, all in relation to our 2020 Margin Acceleration Plan initiatives.

(b) Includes accelerated depreciation expense related to the shortened useful lives of facilities currently operating, but are in the process of being prepared for closure.

(c) Includes implementation costs associated with the current phase of our ERP consolidation plan.



EBIT* & EBITDA (Non-GAAP Measures)

(In thousands)

	2014	2015 ⁽²⁾	2016	2017	2018
Net income	\$ 305,984	\$ 228,328	\$ 357,458	\$ 184,671	\$ 339,257
Add: Restructuring charges					17,514
Add: Provision (benefit) for income taxes	118,503	224,925	126,008	59,662	77,791
Add: Interest expense	80,951	87,615	91,683	96,954	104,547
Add: Investment expense (income), net	(15,715)	(18,577)	(10,365)	(13,984)	(20,442)
Add: Inventory-related charges					37,683
Add: ERP consolidation plan					1,416
Add: Corporate Governance professional fees					1,467
Add: Charge to exit Flowcrete China					4,164
Add: Charge to exit Flowcrete Middle East				12,275	
Add: Goodwill and other intangible asset impairments				188,298	
Add: Severance expense				15,001	
EBIT * (non-GAAP measure)	489,723	522,291	564,784	542,877	563,397
Add: Amortization	31,526	36,988	44,307	44,903	46,527
EBITA * (non-GAAP measure)	521,249	559,279	609,091	587,780	609,924
Add: Depreciation	58,543	62,188	66,732	71,870	81,976
EBITDA * (non-GAAP measure)	579,792	621,467	675,823	659,650	691,900
Deduct: Interest expense	(80,951)	(87,615)	(91,683)	(96,954)	(104,547)
Deduct: Investment expense (income), net	15,715	18,577	10,365	13,984	20,442
Deduct: Provision (benefit) for income taxes	(118,503)	(224,925)	126,008	(59,662)	(77,791)
Add: Changes in operating assets, liabilities and other	(117,904)	2,944	6,209	(130,891)	(139,621)
Cash from operating activities	\$ 278,149	\$ 330,448	\$ 474,706	\$ 386,127	\$ 390,383
Net sales	\$4,376,353	\$4,594,550	\$4,813,649	\$4,958,175	\$5,321,643
EBITA * as % of net sales (non-GAAP measure)	11.9%	12.2%	12.7%	11.9%	11.5%
EBITDA * as % of net sales (non-GAAP measure)	13.2%	13.5%	14.0%	13.3%	13.0%

*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 ASC 740-30 tax liability for the potential repatriation of foreign earnings and related impact on NCI Net Income.