

## Stock Investing Made Easy

# The Years Keep Rolling By Preferred Procedure Simplified: Case Study – Part 2



Avi Horwitz

**November 30, 2020**

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# Objectives

- RPM International Inc., one year later (Dec. 26, 2017)
- RPM International Inc., another year later (Dec. 26, 2018)



# Stock Investing Made Easy



**RPM International Inc.**

*A world leader in specialty coatings and sealants*

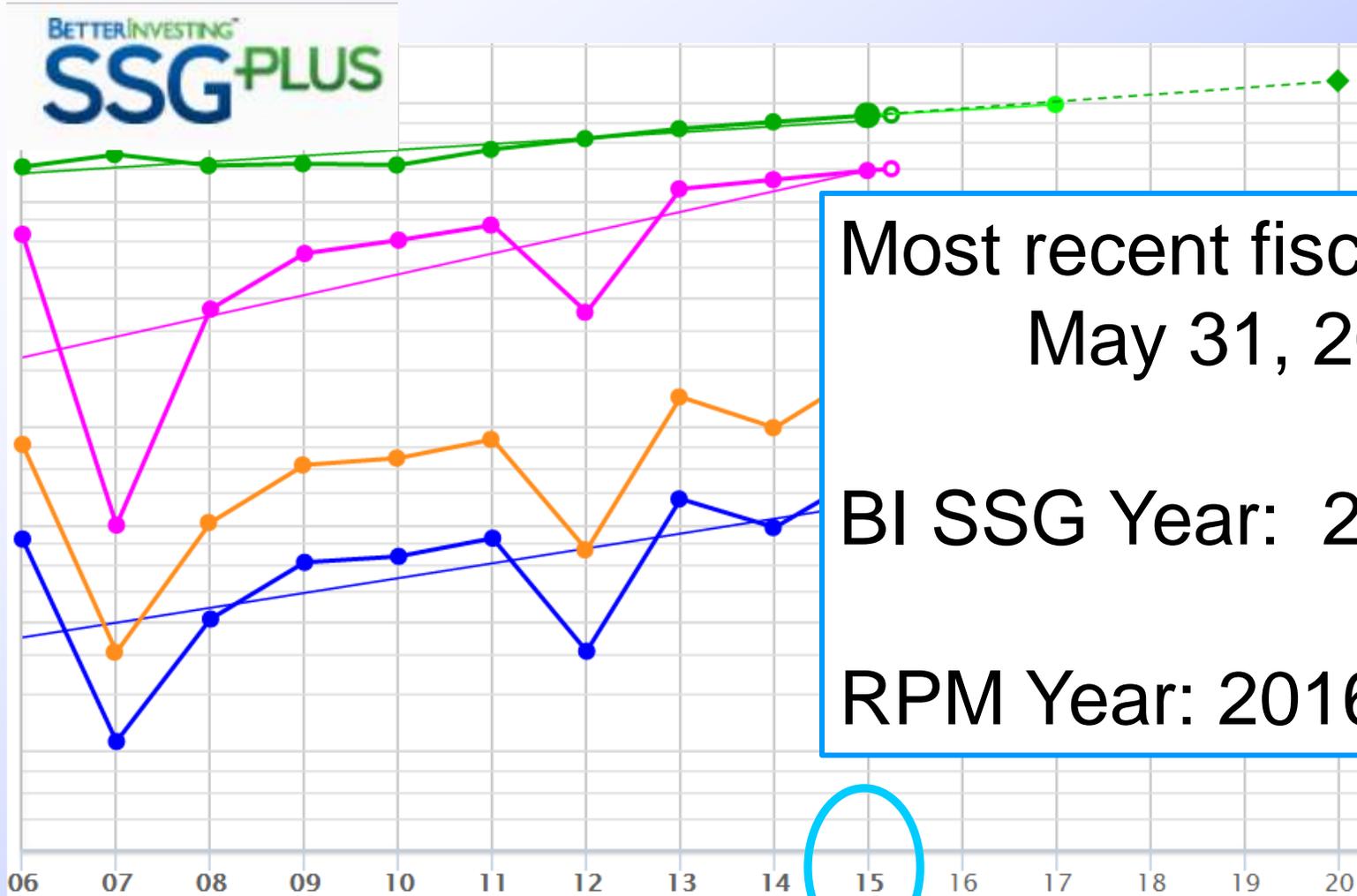
## Case Study

## RPM INTERNATIONAL INC.



# Stock Investing Made Easy

## Last Session – Dec. 26, 2016 SSG



Most recent fiscal year:  
May 31, 2016

BI SSG Year: 2015

RPM Year: 2016



## How We Use This

Our expected Income Statement  
**5** years in the future!

	Defaults	Judgments	Results
Projected 5 Year <b>Sales</b> Growth Rate (Your Forecast):	5.0%	<input type="text" value="5"/>	<b>6,144</b>
Less Expenses (5 Yr Avg. <b>% Pre-Tax Profit Margin</b> ):	8.5%	<input type="text" value="8.5"/>	- 5,621
Less <b>Taxes</b> (Last Yr. Tax Rate):	26.1%	<input type="text" value="30"/>	- 157
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text" value="0.0"/>	0
<b>Projected 5 Yr Total Earnings:</b>			<b>= 366</b>
Divided by <b>Shares Outs.</b> (Current Dil. Shares(M)):	135.2	<input type="text" value="136.7"/>	<b>= 2.67</b>
<b>5 Year Compound Annual EPS Growth Rate:</b>			<b>0.3%</b>

**It is a year later...  
Let's update our SSG**

**Dec. 26, 2017**

# Let's Ask Ourselves

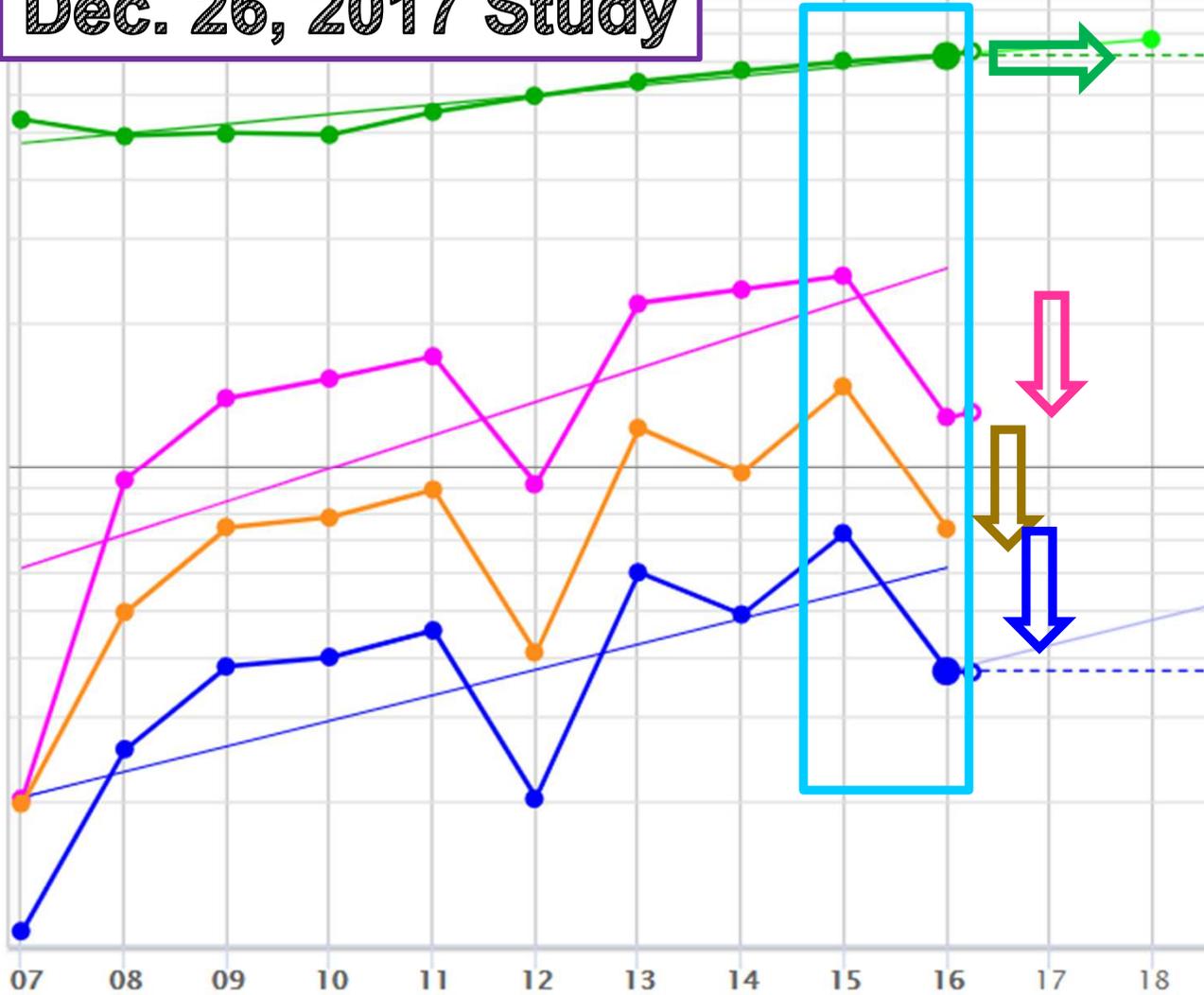
We have added a new Fiscal Year

- What did we think we were going to see?
- What do we actually see?

# Stock Investing Made Easy

Company: RPM International (RPM) Study Name: Jan Stock Up RPM 12/26/17

**Dec. 26, 2017 Study**



What has changed?

# Stock Investing Made Easy

## Last Year - 12/26/16 Study

Fundamental Company Data											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Growth(%)
Historical Sales (\$M)	3,339	3,644	3,368	3,413	3,382	3,777	4,079	4,376	4,595	4,814	4.3%
Historical EPS (\$)	1.64	0.39	0.93	1.39	1.45	1.65	0.74	2.18	1.78	2.63	11.1%
Pre-Tax Profit (\$M)	308	39	181	268	295	328	177	424	453	483	15.9%

## The New Year - 12/26/17 Study

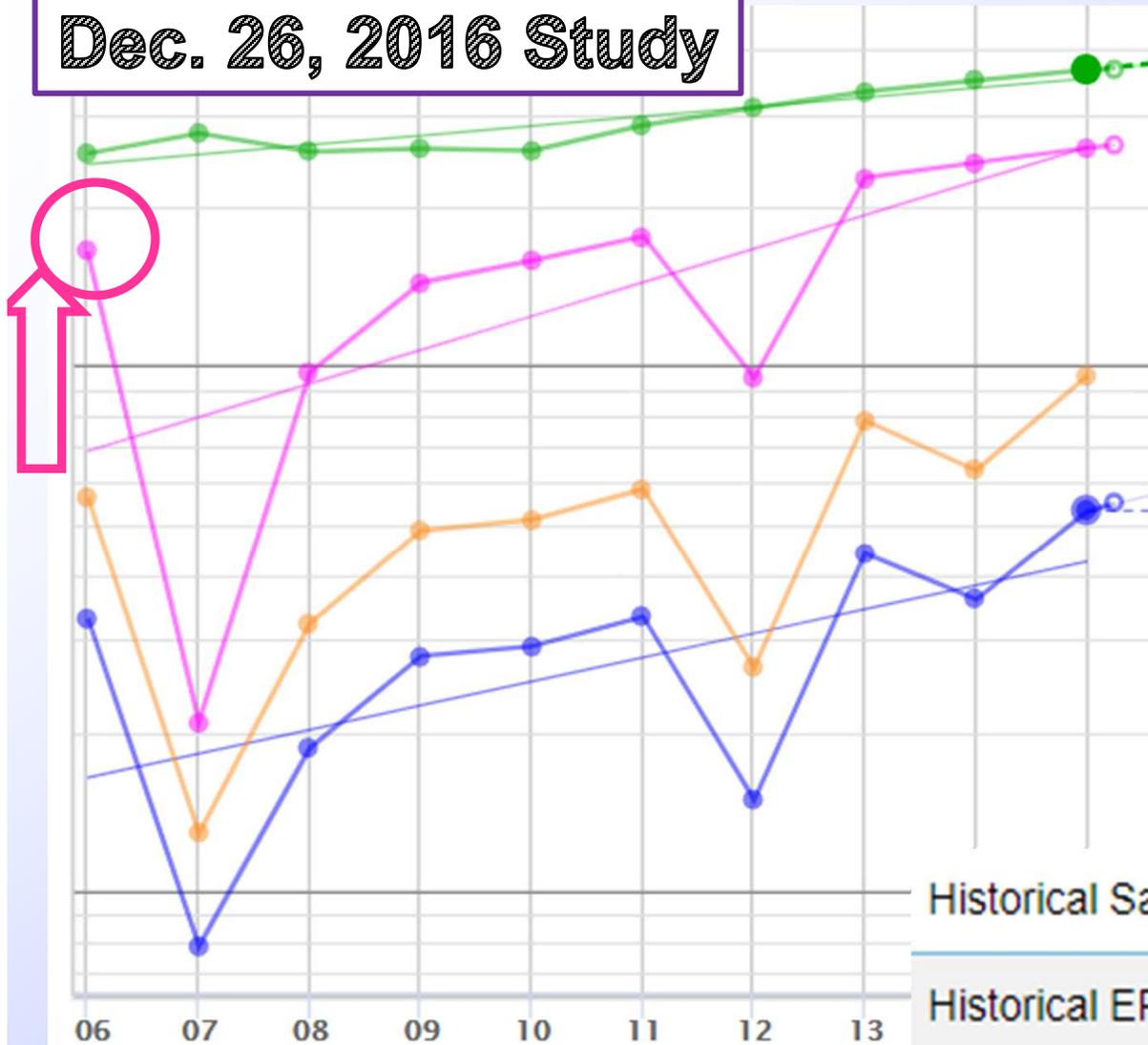
Fundamental Company Data											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Growth(%)
Historical Sales (\$M)	3,644	3,368	3,413	3,382	3,777	4,079	4,376	4,595	4,814	4,958	4.7%
Historical EPS (\$)	0.39	0.93	1.39	1.45	1.65	0.74	2.18	1.78	2.63	1.36	13.0%
Pre-Tax Profit (\$M)	39	181	268	295	328	177	424	453	483	244	17.4%

	2016	2017
Historical Sales (\$M)	4.3%	4.7%
Historical EPS (\$)	11.1%	13.0%
Pre-Tax Profit (\$M)	15.9%	17.4%

*It looks like everything improved????*

# Stock Investing Made Easy

**Dec. 26, 2016 Study**



Dec. 26, 2016 SSG

Oldest year raised the back end of the trend line...

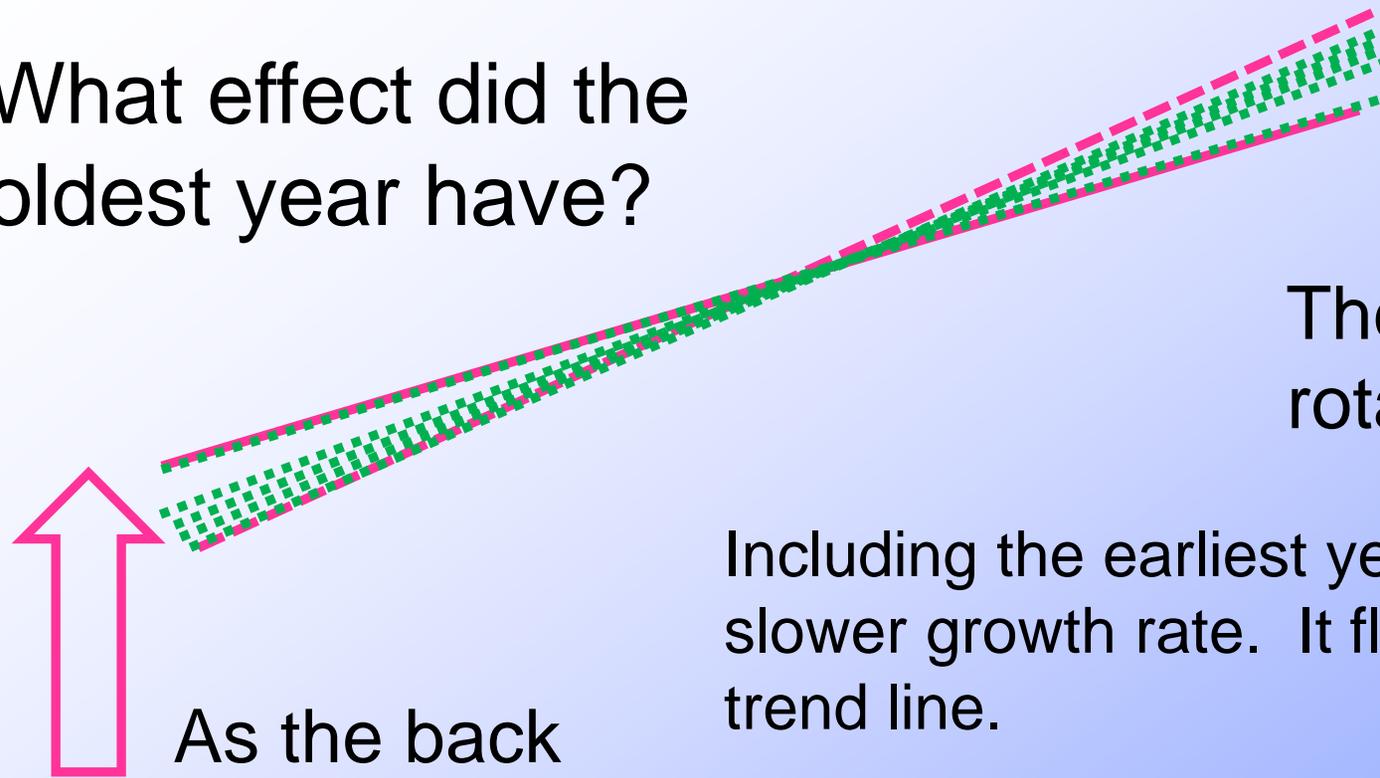
Flattening the slope and lowering the growth rate for the 10-year period

	2016	2017
Historical Sales (\$M)	4.3%	4.7%
Historical EPS (\$)	11.1%	13.0%
Pre-Tax Profit (\$M)	15.9%	17.4%

**We expected a decline!!!**

## Stock Investing Made Easy

What effect did the oldest year have?



As the back end gets pulled up...

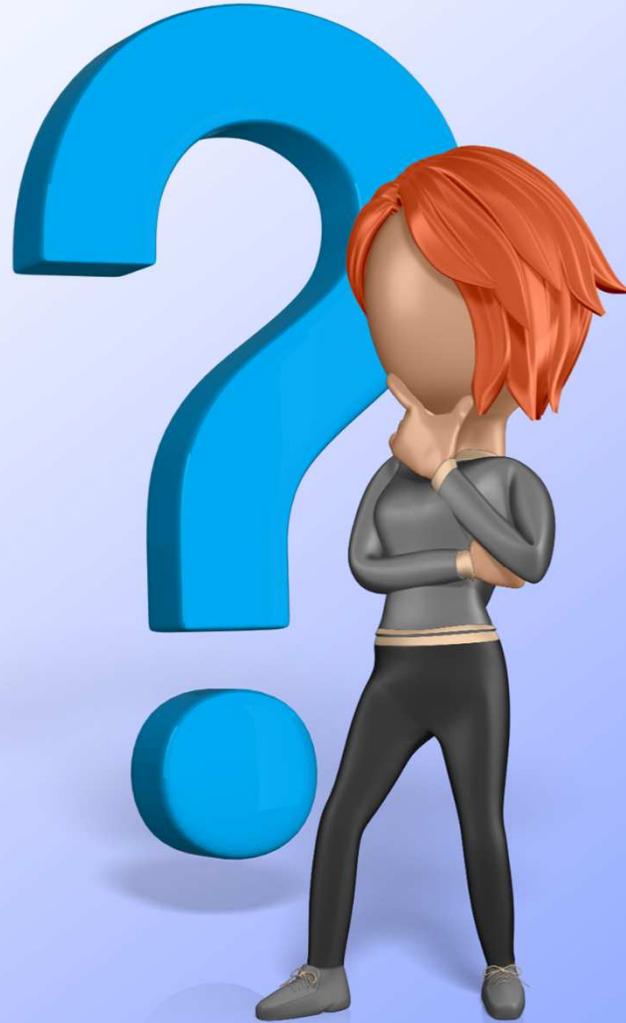
The front end rotates down

Including the earliest year gives us a slower growth rate. It flattened the trend line.

So if in December 2017 we compare, December 2016's growth looks worse and makes December 2017's growth rates look better.

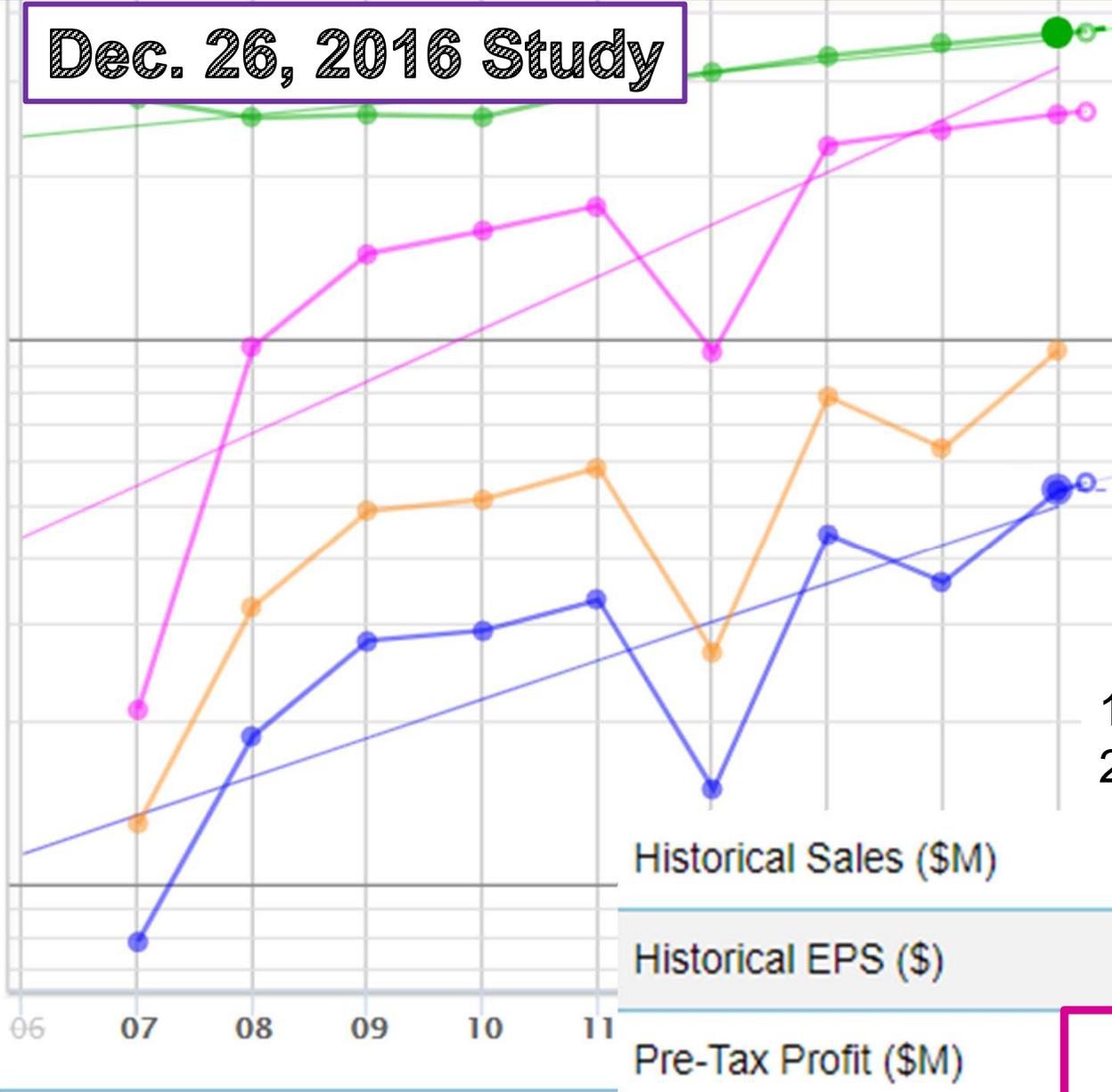
*Will the oldest year appear on next year's SSG???*

Questions?



# Stock Investing Made Easy

**Dec. 26, 2016 Study**



After eliminating the earliest year what happens to the slope?

What is the growth rate for the most recent 9 years?

Now, how does it compare to 2017?

	10-yr 2016	9-yr 2016	2017
Historical Sales (\$M)	<del>4.3%</del>	4.7%	4.7%
Historical EPS (\$)	<del>11.1%</del>	17.8%	13.0%
Pre-Tax Profit (\$M)	<del>15.9%</del>	24.7%	17.4%

- Let's move from talking about the 10-year growth rate trend,
- And talk about the most recent year, and most recent 5-year average for **Pre-Tax Profit** margin.

# % Pre-Tax Profit on Sales

**Dec. 26, 2016**

	2015	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	10.0%	8.5%	UP

– Most Recent: **10**

– Average: **8.5**

**Projection: 8.5**

**Dec. 26, 2017**

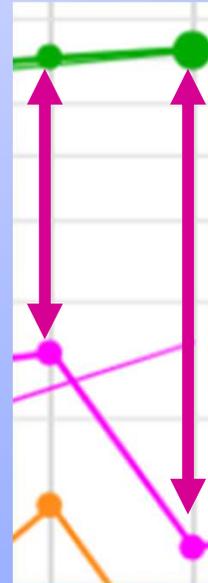
	2015	2016	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	10.0%	4.9%	7.8%	DOWN

- Big increase in expenses out of every dollar of sales!
  - 10 → 4.9 – It changed by 5.1% from 2015 to 2016
    - What does that mean??
    - Expenses were 5.1 cents higher on every dollar of sales made by the company!

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- Didn't we expect **Pre-Tax Profit** margins to decline?
- Last year we projected an average of 8.5% over the next 5 years.
  - I don't think we were planning on 4.9%

*What  
happened?*

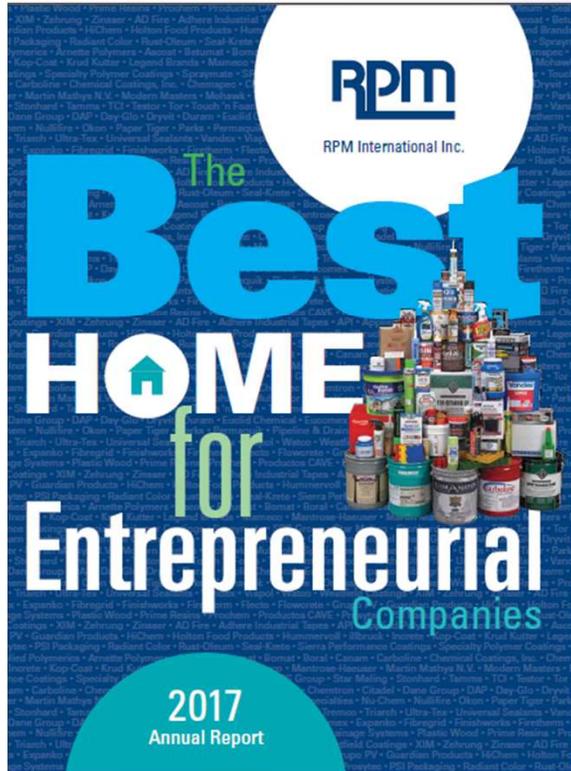


# Stock Investing Made Easy

So what happened to expenses in 2016?

Fiscal Year End: 5/31/17

2017 Annual Report



Management's Discussion and Analysis  
of Financial Condition and Results of Operations

Pg 24

**Gross Profit Margin** Our consolidated gross profit margin improved slightly to 43.7% of net sales for fiscal 2017 from a consolidated gross profit margin of 43.4% for fiscal 2016. Items favorably impacting our fiscal 2017 gross profit margin versus fiscal 2016 included overall lower manufacturing costs for 0.3% and an approximate impact of 0.4% from price increases recently implemented, particularly in certain international markets where margins had been unfavorably impacted by the strengthening U.S. dollar. Items unfavorably impacting our fiscal 2017 gross profit margin versus fiscal 2016 included the impact of recent acquisitions and associated inventory step-up expense for 0.3%, with the remaining 0.1% impact resulting from unfavorable foreign exchange.

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**Selling, General and Administrative Expenses ("SG&A")** Our consolidated SG&A expense increased by approximately \$122.6 million during fiscal 2017 versus fiscal 2016, and increased to 33.1% of net sales from 31.6% of net sales for fiscal 2016. The main source of the increase was the number of recently acquired companies during the last year, which added approximately \$36.2 million to SG&A expense during fiscal 2017. During the second quarter of fiscal 2017, we made the decision to exit the Flowcrete polymer flooring business located in the Middle East. In connection with the decision to exit that business, we determined it was appropriate to reassess the collectibility of accounts receivable, and accordingly, we incurred a loss of \$11.4 million for increased bad debt reserves. We also incurred higher severance expense versus the prior year for approximately \$23.1 million, which includes \$3.6 million in relation to the closing of a European manufacturing facility.



**1.5% !!**

- 1.5¢ of additional expenses out of EVERY dollar of sales the company made!!!

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Additionally, during fiscal 2017, SG&A increased due to higher compensation, commissions, distribution expense and professional services expense. Warranty expense for the year ended May 31, 2017 increased by approximately \$4.2 million from the amount recorded during fiscal 2016, and it is typical that warranty expense will fluctuate from period to period. Partially offsetting those increased expenses was the impact of approximately \$0.3 million of unfavorable transactional foreign exchange during fiscal 2017 versus approximately \$7.5 million of expense during fiscal 2016. Additionally, SG&A expense during fiscal 2016 was reduced by a \$14.5 million reversal of a contingent consideration obligation.

We expect that pension and postretirement expense will fluctuate on a year-to-year basis, depending primarily upon

***Goodwill and Other Intangible Asset Impairments*** As described in Note B, "Goodwill and Other Intangible Assets," to the

# Stock Investing Made Easy

## What about taxes and shares outstanding?



Space between the lines didn't change much

Most of the change was between **Sales** and **Pre-Tax Profit**

- Now that we have studied what happened over the past year...
- Let's revise our Preferred Procedure and our expectations for the next 5 years.

## Let's Start with Sales

Fundamental Company Data	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Growth(%)	Forecast (%)	5 yr Est
Historical Sales (\$M)	3,644	3,368	3,413	3,382	3,777	4,079	4,376	4,595	4,814	4,950	4.7%	<input type="text"/>	---
Historical EPS (\$)	0.39	0.93	1.39	1.45	1.65	0.74	2.18	1.78	2.63	1.36	13.0%	<input type="text" value="0"/>	1.36
Pre-Tax Profit (\$M)	39	181	268	295	328	177	424	453	483	240	17.4%		

Historical Sales (\$M)
Historical EPS (\$)
Pre-Tax Profit (\$M)

Growth(%)	Forecast (%)
4.7%	<input type="text"/>
13.0%	<input type="text" value="0"/>
17.4%	



# Stock Investing Made Easy

## ▶ Determine EPS 5 Year Forecast

Select 5 Year Forecast EPS Growth

Projection Start: [Year], Sales = 4,958]

- Your EPS Growth
- Analyst
- Preferred

Restore

Proj

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Divided by S

5 Year Compound A.

ult  
4,958

-4,958

0

0

0

0

5.2

-100.0%



▶ Sales Growth Trend

## Historical Data

### ▼ Sales



2007	3,644
2008	3,368
2009	3,413
2010	3,382
2011	3,777
2012	4,079
2013	4,376
2014	4,595
2015	4,814
2016	4,958
-----	
2017 Q1	5,052

▶ Pre-Tax Profit Margin

▶ Taxes

▶ Diluted Shares Outs

▶ Sales Growth Trend

▶ EPS Growth Trend

# Stock Investing Made Easy



2010-16 (6)	6.5%
2011-16 (5)	5.6%
2012-16 (4)	5.0%
2013-16 (3)	4.3%
2014-16 (2)	3.9%
2015-16 (1)	3.0%

**Sales** growth rate steadily declining over past 6 years!

Would you project 4.7% (the 10-year average)?

## Historical Data

- ▶ Sales
- ▶ Pre-Tax Profit Margin
- ▶ Taxes
- ▶ Diluted Shares Outs
- ▶ Sales Growth Trend



Range (yrs)	Growth
2007-16 (9)	4.7%
2008-16 (8)	5.7%
2009-16 (7)	6.2%
2010-16 (6)	6.5%
2011-16 (5)	5.6%
2012-16 (4)	5.0%
2013-16 (3)	4.3%
2014-16 (2)	3.9%
2015-16 (1)	3.0%

	QTR	TTM
Current	7.5%	4.7%

- ▶ EPS Growth Trend

# Stock Investing Made Easy

Preferred Procedure Calculation		
	Defaults	Judgments
Projected 5 Year Sales Growth Rate (Your Forecast):	0.0%	<input type="text" value="4"/>
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	7.8%	<input type="text"/>
Less Taxes (Last Yr. Tax Rate):	24.4%	<input type="text"/>
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>
Projected 5 Yr Total Earnings:		
Divided by Shares Outs. (Current Dil. Shares(M):	135.2	<input type="text"/>
5 Year Compound Annual EPS Growth Rate:		

I'm going to assume they can pick **Sales** up a little bit and go with 4% estimated future sales growth

What about **Pre-Tax Profit** margins?

*Let's take a look at expenses!*

### Full-Year Results

For our fiscal year that ended May 31, 2017, consolidated net sales increased 3.0 percent to \$4.96 billion from \$4.81 billion in fiscal 2016. Net income declined 48.7 percent to \$181.8 million from \$354.7 million reported in fiscal 2016. Diluted earnings per share of \$1.36 were down 48.3 percent from \$2.63 a year ago. Income before income taxes (IBT) was down 49.5 percent to \$244.3 million from \$483.5 million in fiscal 2016. Consolidated earnings before interest and taxes (EBIT) was down 42.0 percent to \$327.3 million from \$564.8 million last year.

A number of factors weighed on our results this fiscal year. As a result, we implemented a plan of \$27.3 million in expense reduction and restructuring actions across our businesses.

**T C B !**

Among them was the closure of underperforming businesses in the Middle East and Europe. We expect that these cost reduction measures will be one element in our return to solid top- and bottom-line growth in fiscal 2018.

Additionally, we took a goodwill impairment charge of \$188.3 million as a result of underperformance at our Kirker nail enamel business. After completing more than 170 successful acquisitions over the past 30 years, Kirker was a rare miss for us. We bought the company at the peak of its cycle and poor management decisions led to market share losses in a declining market. A new senior management team has been put in place, which stabilized the business and established a base from which it can resume growth.

## Stock Investing Made Easy

- **Pre-Tax Profit Margin:**
  - 5-year average - 7.8%
  - confidence in company
- No major change in taxes or shares, so will stay with prior assumptions

Preferred Procedure Calculation		
<a href="#">Restore Defaults</a>		
	Defaults	Judgments
Projected 5 Year Sales Growth Rate (Your Forecast):	0.0%	<input type="text" value="4"/>
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	7.8%	<input type="text" value="7.8"/>
Less Taxes (Last Yr. Tax Rate):	24.4%	<input type="text" value="30"/>
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>
Projected 5 Yr Total Earnings:		
Divided by Shares Outs. (Current Dil. Shares(M):	135.2	<input type="text" value="136.7"/>
5 Year Compound Annual EPS Growth Rate:		

**Questions?**



# Stock Investing Made Easy

Preferred Procedure Calculation			
	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	---	<input type="text" value="4"/>	 6,032
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	7.8%	<input type="text" value="7.8"/>	-5,562
Less Taxes (5 Yr. Tax Rate):	24.4%	<input type="text" value="30"/>	-141
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>	0
Projected 5 Yr Total Earnings:			 329
Divided by Shares Outs. (Current Dil. Shares(M):	135.2	<input type="text" value="136.7"/>	<b>2.41</b>
5 Year Compound Annual EPS Growth Rate:			<b>12.1%</b>

What???

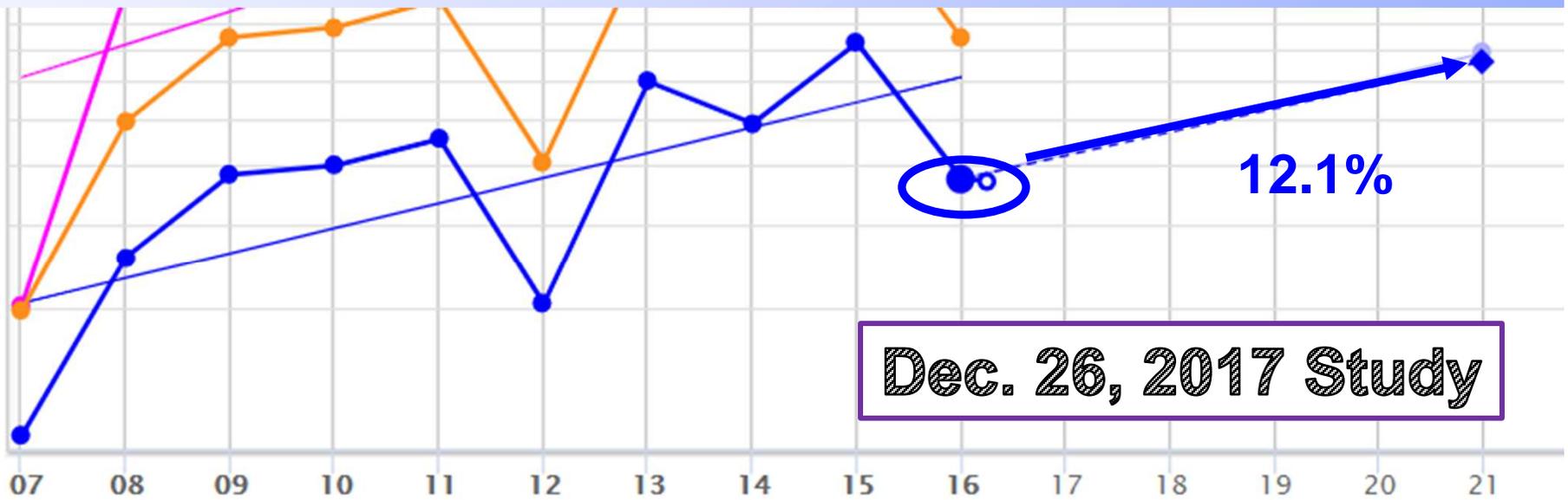
- We end up with expected **EPS** of \$2.41 in 5 years.
- That gives an **EPS** growth rate of 12.1?

# Stock Investing Made Easy

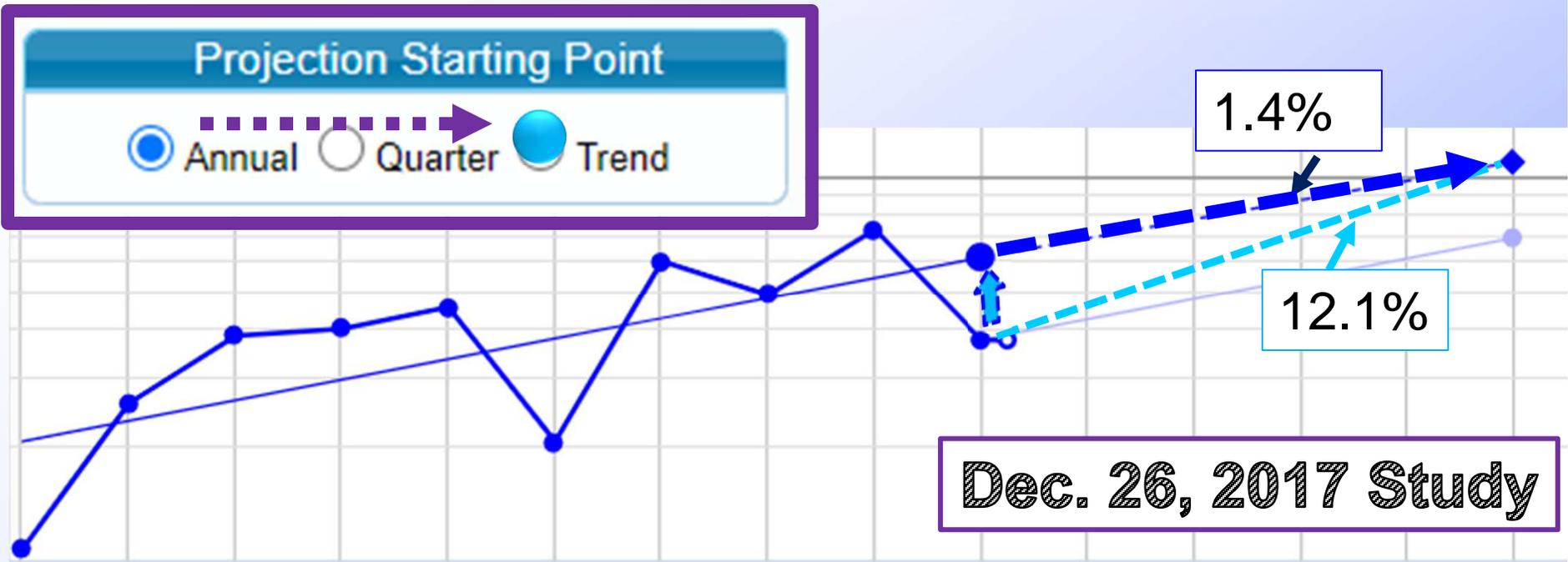
## Preferred Procedure Calculation

Restore Defaults

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	4.0%	<input type="text" value="4"/>	6,032
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	7.8%	<input type="text" value="7.8"/>	-5,562
Less Taxes (Last Yr. Tax Rate):	24.4%	<input type="text" value="30"/>	-141
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text" value=""/>	0
Projected 5 Yr Total Earnings:			329
Divided by Shares Outs. (Current Dil. Shares(M)):	135.2	<input type="text" value="136.7"/>	2.41
5 Year Compound Annual EPS Growth Rate:			12.1%



# Stock Investing Made Easy



	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	4.0%	<input type="text" value="4"/>	<b>5,988</b>
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	7.8%	<input type="text" value="7.8"/>	-5,521
Less Taxes (Last Yr. Tax Rate):	24.4%	<input type="text" value="30"/>	-140
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>	0
Projected 5 Yr Total Earnings:			327
Divided by Shares Outs. (Current Dil. Shares(M):	135.2	<input type="text" value="136.7"/>	<b>2.39</b>
5 Year Compound Annual EPS Growth Rate:			<b>1.4%</b>

# Stock Investing Made Easy

Dec. 26, 2016

Preferred Procedure Calculation			
<a href="#">Restore Defaults</a>			
	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	5.0%	<input type="text" value="5"/>	6,144
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	8.5%	<input type="text" value="8.5"/>	-5,621
Less Taxes (Last Yr. Tax Rate):	26.1%	<input type="text" value="30"/>	-157
Less Preferred Dividends (Current Pref'd Div):	0.0%	<input type="text" value="0.0"/>	0
Divided by Shares Outs. (Current Dil. Shares(M):	135.2	<input type="text" value="136.7"/>	2.67
5 Year Compound Annual EPS Growth Rate:		<b>4.2%</b>	0.3%

Dec. 26, 2017

Preferred Procedure Calculation			
<a href="#">Restore Defaults</a>			
	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	4.0%	<input type="text" value="4"/>	5,988
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	7.8%	<input type="text" value="7.8"/>	-5,521
Less Taxes (Last Yr. Tax Rate):	24.4%	<input type="text" value="30"/>	-140
Less Preferred Dividends (Current Pref'd Div):	0.0%	<input type="text" value="0.0"/>	0
Divided by Shares Outs. (Current Dil. Shares(M):	135.2	<input type="text" value="136.7"/>	2.39
5 Year Compound Annual EPS Growth Rate:			1.4%

## Stock Investing Made Easy

Update Study

	Forecast (%)
Historical Sales (\$M)	<input type="text" value="4"/>
Historical EPS (\$)	<input type="text" value="1.4"/>

# Trouble



- We do a careful study and carefully consider our judgment when we buy.
- We often update the data, but don't carefully consider and update our judgment.
- The company goes off the rails and we are blindsided because we didn't really think about things after the initial study.
- Every year really think about your judgment, especially if the pictures show something is changing!

*Forget the original judgment and look at the company as if you are looking to buy it for the first time.*

**Questions?**

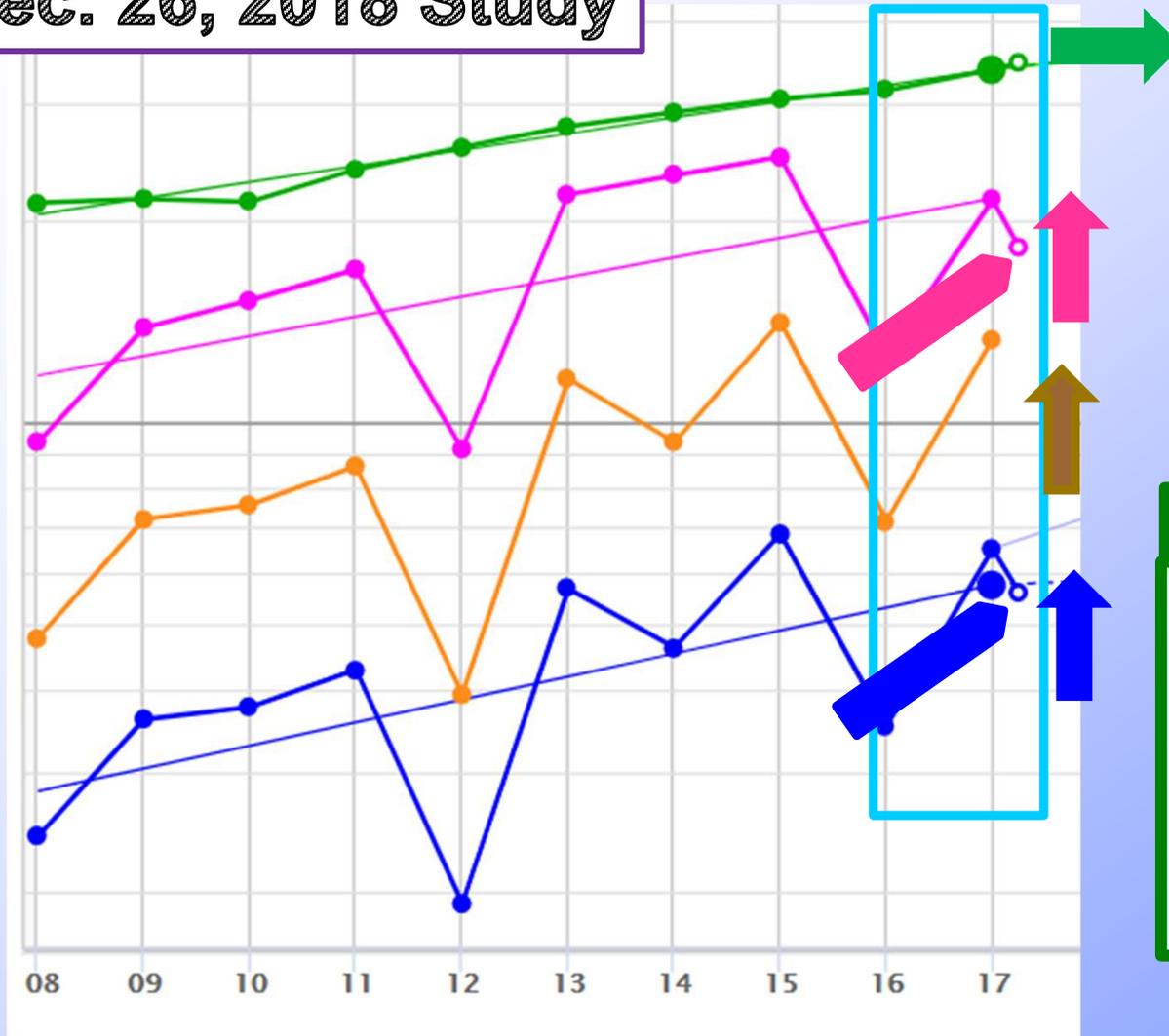


**Another Year Passes By...  
Let's update our SSG**

**Dec. 26, 2018**

# Stock Investing Made Easy

Dec. 26, 2018 Study

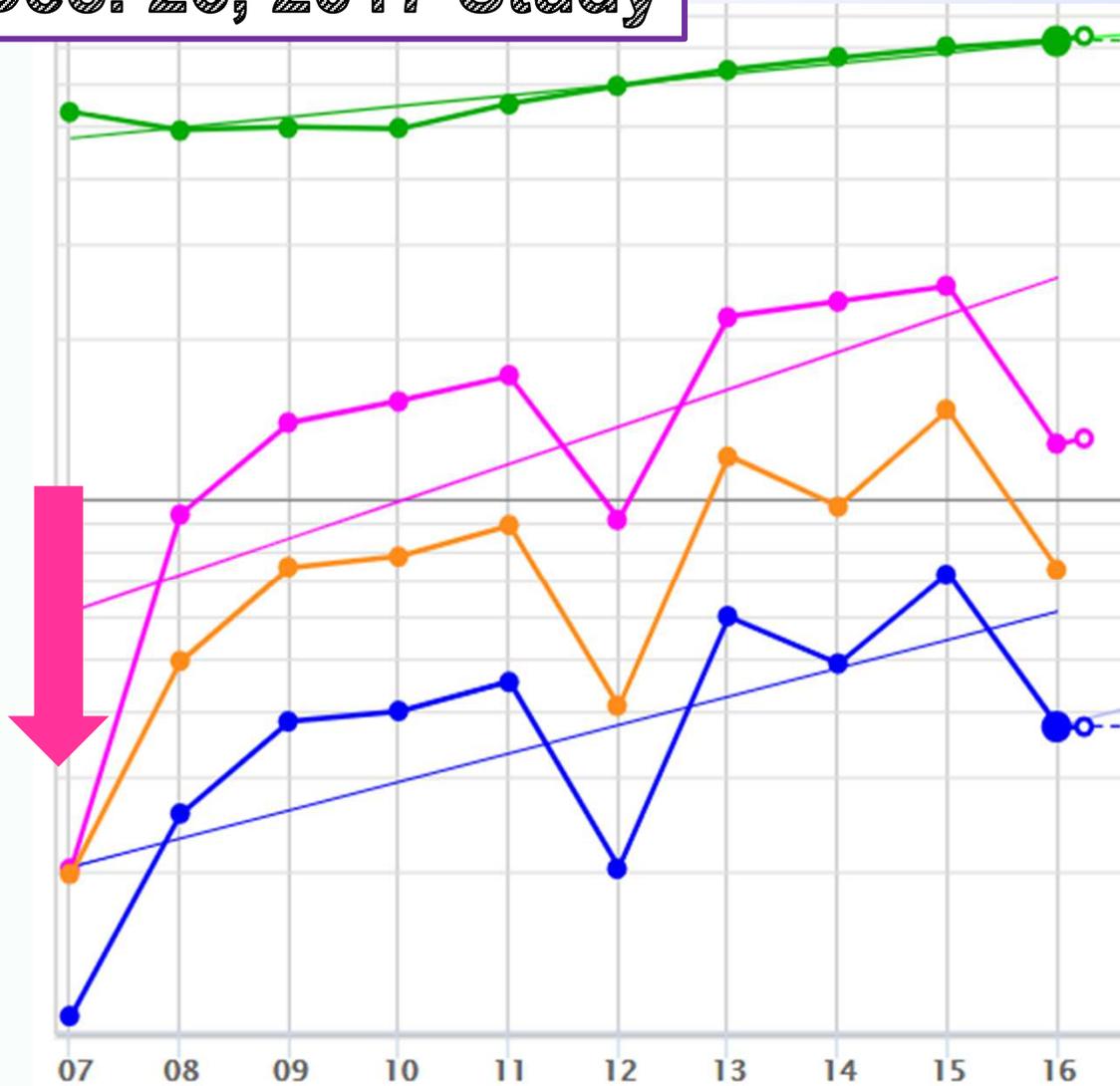


What has changed?

Sales Growth Trend	
2012-17 (5)	5.1%
2013-17 (4)	4.8%
2014-17 (3)	4.8%
2015-17 (2)	5.1%
2016-17 (1)	7.3%
-----	
Current	QTR 8.5%
	TTM 7.6%

# Stock Investing Made Easy

Dec. 26, 2017 Study



Oldest year lowered the back end of the trend line...

Steepening the slope and raising the growth rate for the 10-year period

# Stock Investing Made Easy

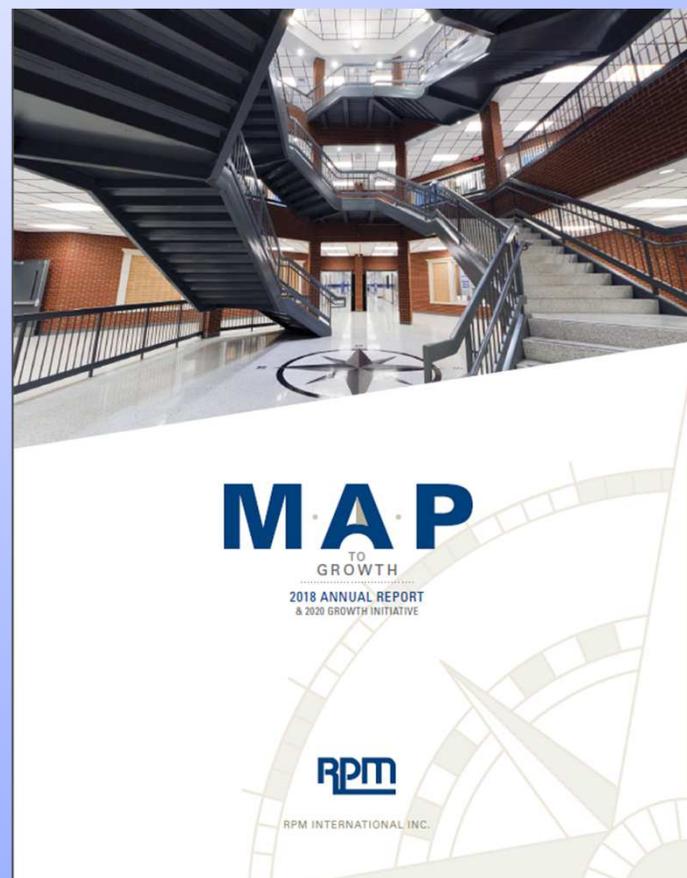
Dec. 26, 2017  
Adjusted

Dec. 26, 2018

	Growth(%)	Growth(%)
Historical Sales (\$M)	5.7%	5.7%
Historical EPS (\$)	7.1%	8.2%
Pre-Tax Profit (\$M)	7.0%	7.0%

# Fiscal Year: May 31, 2018

- SSG year: 2017
- RPM's year: 2018



# Gross Profit Margin

**Gross Profit Margin** Our consolidated gross profit margin of 41.0% of net sales for fiscal 2018 compares to a consolidated gross profit margin of 43.7% for the comparable period a year ago. This gross profit decline of approximately 2.7% of net sales primarily reflects current-year margins that were burdened by the impact of overall higher raw material costs for approximately 150 basis points (“bps”). Additionally, in relation to our restructuring initiatives undertaken during the fourth quarter of fiscal 2018, as further described in Note B, “Restructuring,” inventory-related charges totaling 70 bps impacted the current-year gross profit margin, which included product line and SKU rationalization and related obsolete inventory identification at our consumer segment and inventory write-offs in connection with restructuring activities at our industrial segment. The remainder of the decline in gross profit margin resulted from an unfavorable mix of product sold this year versus last year. We anticipate that rising raw material prices will continue to trend upward due to higher petrochemical costs and rising global demand.

# SG&A

***Selling, General and Administrative ("SG&A") Expense*** Our consolidated SG&A expense increased by approximately \$19.6 million during fiscal 2018 versus fiscal 2017, but improved to 31.3% of net sales for fiscal 2018 from 33.1% of net sales for fiscal 2017, resulting primarily from the 7.3% increase in net sales during fiscal 2018, combined with tighter cost controls during fiscal 2018 and the benefit from severance actions taken during fiscal 2017 across each of our segments. During fiscal 2017, we made a decision to exit our Flowcrete polymer flooring business located in the Middle East and, in connection with that

# Stock Investing Made Easy

WHERE WE'RE GOING

Letter to shareholders

## **Streamline Operating Structure & Leadership:**

We will be realigning our businesses, which are currently organized under six operating groups (Performance Coatings, Tremco, illbruck, Rust-Oleum, DAP and Specialty Products) within three reportable segments (Industrial, Consumer and Specialty). By the end of calendar 2020, the new structure will be composed of four segments (Performance Coatings, Construction Products, Consumer Products and Specialty Products). The four segments will be led by four proven and capable operating presidents who will report directly to me. This reorganization will enable us to better manage our assets and improve synergies across the enterprise.

**Increase Operational Efficiency:** Thus far, we have implemented expense reductions, closed two consumer manufacturing facilities, closed two industrial locations and restructured our global legal team. We are also in the process of consolidating IT systems and related administration to four segment centers of excellence from what, in the past, has been numerous different systems and many business profit and loss centers. As for our manufacturing facilities, we have historically left the management of these fixed assets to our individual operating companies. Going forward, we will manage them as

RPM assets and, in the process, we will institute manufacturing excellence and continuous improvement disciplines across the entire organization. Leading the charge in these efforts is Timothy Kinser, who was named RPM vice president of operations in April. Additionally, we will identify more opportunities to connect our various businesses so we can leverage their technologies and brands across our global network with greater impact.

**Maintain Entrepreneurial Growth Culture:** While we undertake these operating improvement initiatives, it is important to note that our past success was a result of RPM having the best and most consistent growth profile in our industry. Sustaining organic growth is the hardest thing to achieve in business. That is why companies that produce steady growth are rewarded by investors with high valuations. So, as we execute on the operating improvement initiatives in the 2020 MAP to Growth program, we will do so while maintaining the key elements of our growth-oriented, entrepreneurial culture. We will continue to keep customer-focused functions at the operating level, enabling us to remain responsive to customer needs, flexible to changing market conditions, innovative in product development, and passionate about competing and winning in the markets we serve.

three reportable segments (Industrial, Consumer and Specialty).

Additionally, we will identify more opportunities to connect our

## Stock Investing Made Easy

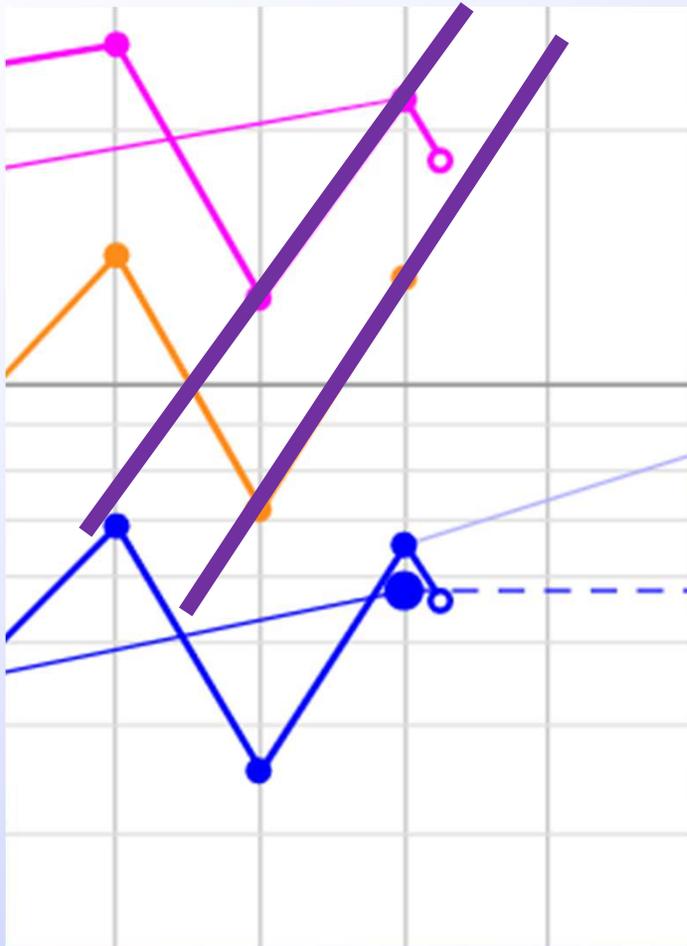
**Gross Profit Margin** Our consolidated gross profit margin of 41.0% of net sales for fiscal 2018 compares to a consolidated

### Fiscal 2019 Outlook

Looking ahead to fiscal 2019, we expect the challenging raw material environment to continue, perpetuating the stress on gross profit margins. In order to offset this, all of our businesses are aggressively pursuing price increases. We typically experience a lag in achieving these increases of four to six months in our industrial and specialty businesses and nine to 12 months in our consumer businesses.

year versus last year. We anticipate that rising raw material prices will continue to trend upward due to higher petrochemical costs and rising global demand.

## What About Taxes?



# What About Taxes? TCJA

**Income Tax Rate** On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Act"). The income tax effects of changes in tax laws are recognized in the period when enacted. The Act provides for numerous significant tax law changes and

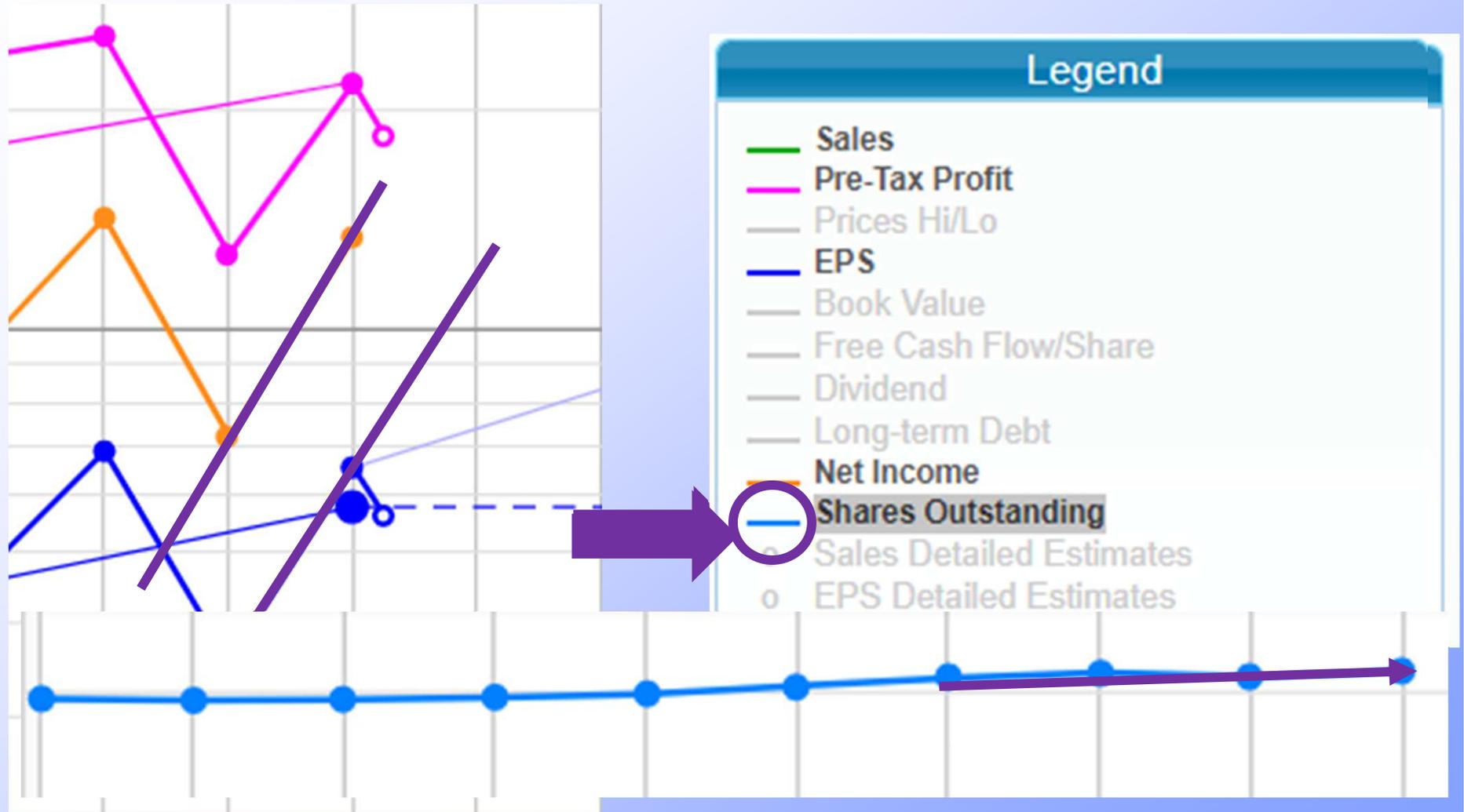
modifications to the tax code, including a one-time bonus depreciation provision allowing for immediate capital expensing of certain qualified property. The corporate tax rate reduction was effective for RPM as of January 1, 2018 and, accordingly, reduced our current fiscal year federal statutory rate to a blended rate of approximately 29.2%.

2016	24.4%
2017	18.6%

of the Act income tax rate system (with earnings of

# Stock Investing Made Easy

## Shares Outstanding



## Preferred Procedure

Preferred Procedure Calculation			
Restore Defaults			
	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	5.0%	<input type="text"/>	5,322
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	8.5%	<input type="text" value="8.5"/>	-4,869
Less Taxes (Last Yr. Tax Rate):	18.6%	<input type="text" value="18.6"/>	-84
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>	0
Projected 5 Yr Total Earnings:			368
Divided by Shares Outs. (Current Dil. Shares(M)):	135.2	<input type="text" value="135.2"/>	2.72
5 Year Compound Annual EPS Growth Rate:			1.7%

# Stock Investing Made Easy

## Sales Growth Trend



Range (yrs)	Growth
2008-17 (9)	5.7%
2009-17 (8)	6.1%
2010-17 (7)	6.2%
2011-17 (6)	5.6%
2012-17 (5)	5.1%
2013-17 (4)	4.8%
2014-17 (3)	4.8%
2015-17 (2)	5.1%
2016-17 (1)	7.3%

	QTR	TTM
Current	8.5%	7.6%

# Sales

## Procedure Calculation

	Defaults	Judgments	Result
Your Forecast):	5.0%	<input type="text" value="5"/>	5,322
Profit Margin):	8.5%	<input type="text" value="8.5"/>	-4,869
Yr. Tax Rate):	18.6%	<input type="text" value="18.6"/>	-84
ent Pref'd Div):	0.0	<input type="text"/>	0
Total Earnings:			368
Dil. Shares(M):	135.2	<input type="text" value="135.2"/>	2.72
Growth Rate:			1.7%

## Expenses

Preferred Procedure Calculation			
	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	5.0%	<input type="text" value="5"/>	5,322
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	8.5%	<input type="text" value="8"/>	-4,869
Less Taxes (Last Yr. Tax Rate):	18.6%	<input type="text" value="18.6"/>	-84
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>	0
Projected 5 Yr Total Earnings:			368
Divided by Shares Outs. (Current Dil. Shares(M)):	135.2	<input type="text" value="135.2"/>	2.72
5 Year Compound Annual EPS Growth Rate:			1.7%

## Taxes

Preferred Procedure Calculation			
	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	5.0%	<input type="text" value="5"/>	5,322
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	8.5%	<input type="text" value="8"/>	-4,869
Less Taxes (Last Yr. Tax Rate):	18.6%	<input type="text" value="24"/>	-84
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>	0
Projected 5 Yr Total Earnings:			368
Divided by Shares Outs. (Current Dil. Shares(M)):	135.2	<input type="text" value="135.2"/>	2.72
5 Year Compound Annual EPS Growth Rate:			1.7%

## Shares Outstanding

**Preferred Procedure Calculation**

[Restore Defaults](#)

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	5.0%	<input type="text" value="5"/>	5,322
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	8.5%	<input type="text" value="8"/>	-4,869
Less Taxes (Last Yr. Tax Rate):	18.6%	<input type="text" value="24"/>	-84
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>	0
Projected 5 Yr Total Earnings:			368
Divided by Shares Outs. (Current Dil. Shares(M)):	135.2	<input type="text" value="137.2"/>	2.72
5 Year Compound Annual EPS Growth Rate:			1.7%

2017	<input type="text" value="137.2"/>
2018 Q1	---

# Stock Investing Made Easy

## Preferred Procedure Calculation

Restore Defaults

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	5.0%	<input type="text" value="5"/>	<input type="text" value="6,792"/>
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	8.5%	<input type="text" value="8"/>	<input type="text" value="-6,249"/>
Less Taxes (Last Yr. Tax Rate):	18.6%	<input type="text" value="24"/>	<input type="text" value="-130"/>
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text" value=""/>	<input type="text" value="0"/>
Projected 5 Yr Total Earnings:			<input type="text" value="413"/>
Divided by Shares Outs. (Current Dil. Shares(M)):	13 <sup>2</sup> <sub>0.2</sub>	<input type="text" value="137.2"/>	<input type="text" value="3.01"/>
5 Year Compound Annual EPS Growth Rate:			<input type="text" value="3.8%"/>

543

# Stock Investing Made Easy

## Projection Starting Point



## Preferred Procedure Calculation

Restore Defaults

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	5.0%	<input type="text" value="5"/>	6,805
Less Expenses (5 Yr Avg % Pre-Tax Profit Margin):	8.5%	<input type="text" value="8"/>	-6,261
Less Taxes (Last Yr. Tax Rate):	18.6%	<input type="text" value="24"/>	-131
Less Preferred Dividends (Current Pref'd Div):	0.0	<input type="text"/>	0
Projected 5 Yr Total Earnings:			414
Divided by Shares Outs. (Current Dil. Shares(M):	135.2	<input type="text" value="137.2"/>	3.02
5 Year Compound Annual EPS Growth Rate:			<input type="text" value="6.4%"/>

Questions?



**So What Next ?**

# Lessons Learned

## REASONS WE GET INTO TROUBLE



1. We use the computer's numbers for our SSG
  - *If we do our judgements right, we are going to get a good SSG!*
  - *Do the numbers make sense and match what the pictures tell us?*
2. Know what you are looking at! When the graph looks worse than the numbers, or vice versa, which do you believe?
  - You need to think about why they do not match up
3. The numbers can mislead you, if you follow them blindly.
  - RPM is a great example! We saw some numbers that made no sense.
4. We think only in terms of the numbers because that is what is taught. The numbers can fool you!

# Summary

In this hour we've touched on:

- Updating our SSG annually with a new set of eyes.
- Making sure that the numbers and the pictures tell the same story.
- Some ways to check whether your judgment is in the ballpark.

# **Special Thanks**

*Ron Bruyn, Director, Orange County Chapter*

*Linda Glein, Director, Puget Sound Chapter*

*Claire Struthers, Director, Heartland Chapter*

*Joe Smith, New Jersey*

*Allen Holdsworth, Heart of Illinois*

**THANK  
YOU**

*These are all special people whose work contributed to this session and who passed their knowledge of BetterInvesting methodology to me.*



# Make A Difference In Someone's Life

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# Questions or Comments?

