RPM INTERNATIONAL INC/DE/
Form 10-Q
January 09, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2016,

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File No. 1-14187

RPM International Inc.

(Exact name of Registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	02-0642224 (IRS Employer Identification No.)
P.O. BOX 777; 2628 PEARL ROAD; MEDINA, OHIO	44258 (Zip Code)

(Address of principal executive offices)

(330) 273-5090

(Registrant's telephone number including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company.)	Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of January 3, 2017 133,575,814 Shares of RPM International Inc. Common Stock were outstanding.

RPM INTERNATIONAL INC. AND SUBSIDIARIES*

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* As used herein, the terms "RPM" and the "Company" refer to RPM International Inc. and its subsidiaries, unless the context indicates otherwise.

PART I. – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	November 30, 2016	May 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 205,907	$ 265,152
Trade accounts receivable (less allowances of $40,909 and $24,600, respectively)	840,814	963,092
Inventories	762,167	685,818
Prepaid expenses and other current assets	232,217	221,286
Total current assets	2,041,105	2,135,348
Property, Plant and Equipment, at Cost	1,353,282	1,344,830
Allowance for depreciation	(714,353)	(715,377)
Property, plant and equipment, net	638,929	629,453
Other Assets		
Goodwill	1,085,763	1,219,630
Other intangible assets, net of amortization	521,198	575,401
Deferred income taxes	59,619	19,771
Other	200,847	185,366
Total other assets	1,867,427	2,000,168
Total Assets	$ 4,547,461	$ 4,764,969
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 429,941	$ 500,506
Current portion of long-term debt	3,880	4,713
Accrued compensation and benefits	126,097	183,768
Accrued losses	33,846	35,290
Other accrued liabilities	292,849	277,914
Total current liabilities	886,613	1,002,191
Long-Term Liabilities		
Long-term debt, less current maturities	1,634,967	1,635,260
Other long-term liabilities	701,091	702,979
Deferred income taxes	41,456	49,791
Total long-term liabilities	2,377,514	2,388,030
Commitments and contingencies (Note 13)		
Stockholders' Equity		

Preferred stock, par value $0.01; authorized 50,000 shares; none issued	-	-
Common stock, par value $0.01; authorized 300,000 shares; issued 141,205 and outstanding 133,576 as of November 30, 2016; issued 140,195 and outstanding 132,944 as of May 31, 2016	1,336	1,329
Paid-in capital	938,963	921,956
Treasury stock, at cost	(215,936)	(196,274)
Accumulated other comprehensive (loss)	(555,541)	(502,047)
Retained earnings	1,112,610	1,147,371
Total RPM International Inc. stockholders' equity	1,281,432	1,372,335
Noncontrolling Interest	1,902	2,413
Total equity	1,283,334	1,374,748
Total Liabilities and Stockholders' Equity	$ 4,547,461	$ 4,764,969

The accompanying notes to consolidated financial statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2016	2015	2016	2015
Net Sales	$1,190,770	$1,155,984	$2,442,833	$2,398,510
Cost of Sales	669,089	662,050	1,369,110	1,371,618
Gross Profit	521,681	493,934	1,073,723	1,026,892
Selling, General and Administrative Expenses	419,494	352,594	803,579	725,448
Goodwill and Other Intangible Asset Impairments	188,298		188,298	
Interest Expense	22,905	22,478	45,683	44,938
Investment (Income), Net	(2,416)	(1,100)	(6,254)	(5,168)
Other Expense (Income), Net	257	(299)	799	(788)
(Loss) Income Before Income Taxes	(106,857)	120,261	41,618	262,462
(Benefit) Provision for Income Taxes	(36,601)	36,112	(1,520)	77,951
Net (Loss) Income	(70,256)	84,149	43,138	184,511
Less: Net Income Attributable to Noncontrolling Interests	670	716	1,295	1,263
Net (Loss) Income Attributable to RPM International Inc. Stockholders	$(70,926)	$83,433	$41,843	$183,248
Average Number of Shares of Common Stock Outstanding:				
Basic	130,695	129,398	130,647	129,723
Diluted	130,695	136,734	130,647	137,072
(Loss) Earnings per Share of Common Stock Attributable to RPM International Inc. Stockholders:				
Basic	$(0.54)	$0.63	$0.32	$1.39
Diluted	$(0.54)	$0.62	$0.32	$1.36
Cash Dividends Declared per Share of Common Stock	$0.300	$0.275	$0.575	$0.535

The accompanying notes to consolidated financial statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2016	2015	2016	2015
Net (Loss) Income	$(70,256)	$84,149	$43,138	$184,511
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(51,984)	(53,814)	(63,495)	(84,420)
Pension and other postretirement benefit liability adjustments (net of tax of $1,963; $1,803; $4,762; $3,817, respectively)	3,590	3,640	9,294	7,800
Unrealized gain (loss) on securities (net of tax of $(320); $632; $776; $(2,595), respectively)	(895)	369	709	(6,715)
Total other comprehensive (loss)	(49,289)	(49,805)	(53,492)	(83,335)
Total Comprehensive (Loss) Income	(119,545)	34,344	(10,354)	101,176
Less: Comprehensive Income Attributable to Noncontrolling Interests	670	716	1,295	1,263
Comprehensive (Loss) Income Attributable to RPM International Inc. Stockholders	$(120,215)	$33,628	$(11,649)	$99,913

The accompanying notes to consolidated financial statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended November 30, 2016	Six Months Ended November 30, 2015
Cash Flows From Operating Activities:		
Net income	$43,138	$184,511
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	35,568	33,509
Amortization	22,111	22,144
Goodwill and other intangible asset impairments	188,298	-
Reversal of contingent earnout obligations	-	(14,500)
Deferred income taxes	(59,363)	(680)
Stock-based compensation expense	17,013	15,524
Other non-cash interest expense	4,964	4,862
Realized (gains) on sales of marketable securities	(3,698)	(4,418)
Other	(47)	1,441
Changes in assets and liabilities, net of effect from purchases and sales of businesses:		
Decrease in receivables	110,871	117,358
(Increase) in inventory	(81,586)	(49,781)
(Increase) decrease in prepaid expenses and other current and long-term assets	(20,876)	4,617
(Decrease) in accounts payable	(69,518)	(105,841)
(Decrease) in accrued compensation and benefits	(55,662)	(45,649)
(Decrease) increase in accrued losses	(899)	715
Increase in other accrued liabilities	28,057	7,375
Other	361	(4,114)
Cash Provided By Operating Activities	158,732	167,073
Cash Flows From Investing Activities:		
Capital expenditures	(48,049)	(31,295)
Acquisition of businesses, net of cash acquired	(65,201)	(12,006)
Purchase of marketable securities	(25,142)	(14,213)
Proceeds from sales of marketable securities	24,588	11,737
Other	956	5,355
Cash (Used For) Investing Activities	(112,848)	(40,422)
Cash Flows From Financing Activities:		
Additions to long-term and short-term debt	76,369	38,765
Reductions of long-term and short-term debt	(73,588)	(18,774)
Cash dividends	(76,604)	(71,276)
Shares repurchased and returned for taxes	(19,663)	(45,292)

Payments of acquisition-related contingent consideration	(4,130)	(1,631)
Other	(1,365)	270
Cash (Used For) Financing Activities	(98,981)	(97,938)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6,148)	(12,815)
Net Change in Cash and Cash Equivalents	(59,245)	15,898
Cash and Cash Equivalents at Beginning of Period	265,152	174,711
Cash and Cash Equivalents at End of Period	$205,907	$190,609

The accompanying notes to consolidated financial statements are an integral part of these statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — CONSOLIDATION, NONCONTROLLING INTERESTS AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the U.S. (“GAAP”) for interim financial information and the instructions to Form 10-Q. In our opinion, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included for the three and six month periods ended November 30, 2016 and 2015. For further information, refer to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended May 31, 2016.

Our financial statements include all of our majority-owned subsidiaries. We account for our investments in less-than-majority-owned joint ventures, for which we have the ability to exercise significant influence, under the equity method. Effects of transactions between related companies are eliminated in consolidation.

Noncontrolling interests are presented in our consolidated financial statements as if parent company investors (controlling interests) and other minority investors (noncontrolling interests) in partially-owned subsidiaries have similar economic interests in a single entity. As a result, investments in noncontrolling interests are reported as equity in our consolidated financial statements. Additionally, our consolidated financial statements include 100% of a controlled subsidiary’s earnings, rather than only our share. Transactions between the parent company and noncontrolling interests are reported in equity as transactions between stockholders, provided that these transactions do not create a change in control.

Our business is dependent on external weather factors. Historically, we have experienced strong sales and net income in our first, second and fourth fiscal quarters comprising the three month periods ending August 31, November 30 and May 31, respectively, with weaker performance in our third fiscal quarter (December through February).

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which establishes a comprehensive revenue recognition standard for virtually all industries in GAAP. Under the original issuance, the new standard would have applied to annual periods beginning after December 15, 2016, including interim periods therein. However, in August 2015, the FASB issued ASU 2015-14, which extends the standard effective date by one year and includes an option to apply the standard on the original effective date. We are currently reviewing the revised guidance and assessing the potential impacts on each of our different business units’ revenue streams and on our overall Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest," which changes the presentation of debt issuance costs in financial statements and specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of the note. The guidance does not change the current requirements surrounding the recognition and measurement of debt issuance costs, and the amortization of debt issuance costs will continue to be reported as interest expense. The guidance is effective for years and interim periods within those fiscal years beginning after December 15, 2015. Early adoption is allowed for all entities and the new guidance shall be applied to all prior periods retrospectively. We adopted ASU 2015-03 on June 1, 2016. As a result, net deferred debt costs are presented as offsets to the carrying amount of the respective debt on our Consolidated Balance Sheets for each period presented. The net deferred debt costs previously reported in our May 31, 2016 Consolidated Balance Sheet in prepaid expenses and other current assets of $3.0 million and other long-term assets of $8.2 million were reclassified as offsets to long-term debt, less current maturities. There was no impact on our results of operations as a result of our adoption of ASU 2015-03.

In September 2015, the FASB issued ASU No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments,” which simplifies the treatment of adjustments to provisional amounts recognized in the period for items in a business combination for which the accounting is incomplete at the end of the reporting period. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015 and for interim periods therein. Our adoption of the provisions of ASU 2015-16 beginning on June 1, 2016 did not have a material impact on our Consolidated Financial Statements.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which increases lease transparency and comparability among organizations. Under the new standard, lessees will be required to recognize all assets and liabilities arising from leases on the balance sheet, with the exception of leases with a term of 12 months or less, which permits a lessee to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The new standard requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. We are currently evaluating the impact this guidance will have on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which makes a number of changes meant to simplify and improve accounting for share-based payments. The new guidance includes amendments to share based accounting for income taxes, the related classification in the statement of cash flows and share award forfeiture accounting. ASU 2016-09 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those reporting periods. Early adoption is permitted. We have elected to early adopt ASU 2016-09 in the first quarter of fiscal 2017. The primary impact of our adoption was the recognition of excess tax benefits related to equity compensation in our provision for income taxes rather than paid-in capital, which is a change required to be applied on a prospective basis in accordance with the new guidance. Accordingly, we recorded a discrete income tax benefit of $10.4 million for excess tax benefits generated during the three months ended August 31, 2016 and $0.9 million during the three months ended November 30, 2016 in the consolidated statements of income. The corresponding cash flows are reflected in cash provided by operating activities instead of financing activities, as was previously required.

Additionally, under ASU 2016-09, we have elected to continue to estimate equity award forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact on our results of operations. The presentation requirements for cash flows related to employee taxes paid for withheld shares also had no impact to any of the periods presented in our consolidated statements of cash flows since such cash flows have historically been presented as a financing activity.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” which makes a number of changes meant to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. Upon adoption, entities must apply the guidance retrospectively to all periods presented. We are currently evaluating the impact this guidance will have on our Consolidated Financial Statements.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill, by reportable segment, for the six months ended November 30, 2016 follows:

(In thousands)	Industrial Segment	Specialty Segment	Consumer Segment	Total
Balance as of June 1, 2016	$475,355	$171,768	$572,507	$1,219,630
Acquisitions	31,434			31,434
Impairment			(140,686)	(140,686)
Translation adjustments	(12,631)	(1,766)	(10,218)	(24,615)
Balance as of November 30, 2016	$494,158	$170,002	$421,603	$1,085,763

The gross amount of accumulated impairment losses at June 1, 2016 totaled $14.9 million, all of which was recorded during the fiscal year ended May 31, 2009 by our industrial reportable segment. For the three and six months ended November 30, 2016, we recognized $140.7 million of preliminary goodwill impairment losses, which was recorded by our consumer reportable segment. At November 30, 2016, accumulated impairment losses totaled $155.6 million.

RPM INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Other intangible assets as of November 30, 2016 consist of the following major classes: