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RPM.N - Q1 2025 RPM International Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and welcome to the RPM International fiscal first quarter 2025 earnings conference call. (Operator Instructions) Please note, today's event is being recorded. I would now like to turn the conference over to Matt Schlarb, Vice President, Investor Relations and Sustainability. Please go ahead.

Matthew Schlarb - RPM International Inc - Vice President - Investor Relations

Thank you, Rocco, and welcome to RPM International's conference call for the fiscal 2025 first quarter. Today's call is being recorded. Joining today's call are Frank Sullivan, RPM's Chair and CEO; Rusty Gordon, Vice President and Chief Financial Officer; and Michael Laroche, Vice President, Controller and Chief Accounting Officer. 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 the 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. Also, please note that our comments will be on an as-adjusted basis, and all comparisons are to the first quarter of fiscal 2024 unless otherwise indicated. We have provided a supplemental slide presentation to support our comments on this call. It can be accessed in the presentation and webcast section of the RPM website at www.rpminc.com.

Now I would like to turn the call over to Frank.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Thank you, Matt, and thank you to everyone for joining us today. We're hosting this call from our Innovation Center of Excellence in Greensboro, North Carolina. And I want to begin today by sending our sincere sympathy to all of the people in North Carolina and elsewhere who are impacted by Hurricane Helene. The devastation is heartbreaking, and our businesses are contributing to initial response efforts to help bring some sense of normalcy back to people's lives. This includes Legend Brands, which is supplying disaster restoration equipment and products to help people and businesses save and restore homes with water damage.

At our Tremco business, our teams are helping customers with roofing and other issues by providing tarps and generators. They're also supplying water and food to people in need, including RPM associates affected by the hurricane. We're all hoping for a fast recovery for the impacted region, and RPM businesses and associates are contributing to this effort.

Turning to our first quarter results, I'll begin with a high-level review, then turn the call over to Mike Laroche, who will go over the financials in more detail. Matt Schlarb will then give a balance sheet update and provide some insights into our ability to capture growth opportunities and Rusty Gordon will cover the outlook. After that, we'll be happy to answer your questions.

We'll begin on slide 3 with our first quarter results. Overall, our associates are doing an excellent job in controlling the things that we can in a mixed and uncertain economic environment. This includes continuing to execute our MAP 2025 initiatives and capturing growth opportunities where they exist. These self-help actions enabled us to achieve our 11th consecutive quarter of record adjusted EBIT.

Across RPM, our associates are adapting to challenging economic conditions to continue to drive growth. This includes pivoting to growing end markets, finding new efficiencies in our operations, and investing in targeted growth initiatives. The cash flow momentum we built in fiscal '24 was sustained in the first quarter where we leveraged our MAP 2025 to continue making structural improvements to working capital efficiency. This resulted in another quarter of strong cash flow generation, which enabled us to repay an additional \$75 million in debt. Over the prior 12 months, we have repaid \$453 million in debt, and the resulting lower interest expense combined with adjusted EBIT growth led to adjusted EPS increasing 12.2% to a record \$1.84.

Moving to slide 4, our construction products and performance coatings group led growth by focusing on the repair and maintenance businesses as well as growing in new construction markets. Aided by our entrepreneurial sales culture and broad portfolio of differentiated products and services for high-performance buildings, our teams have demonstrated their ability to capture growth opportunities where they exist.

Over the past several years, we have pivoted from distribution centers to EV manufacturing and battery plants to the now strong infrastructure and data center markets. Despite the current no-growth environment, both of these segments generated record EBIT margins, which demonstrates the impact of our MAP 2025 initiatives and how they can have tremendous impact with growing volume to fully leverage these operational improvements that we put in place and that are continuing.

In our consumer and specialty products group, which have the most exposure to residential end markets, demand remains challenged. Importantly, they remain focused on executing our MAP 2025 initiatives and were thus able to expand adjusted EBIT margins despite unabsorption headwinds from lower volumes. Our adjusted EBIT margin expansion matched our gross profit expansion and was aided by the SG&A streamlining actions we implemented at the end of fiscal 2024 such that our actual dollars of SG&A spend in this quarter were below the SG&A dollars in the prior year first quarter. Overall, I'm pleased with our associates' ability to navigate the mixed economic environment and achieved our 11th consecutive quarter of record adjusted EBIT. Through investments in our business and increased collaboration, we are working to generate volume growth and realize the full benefits of our MAP 2025 initiatives.

I'll now turn the call over to Mike Laroche to cover the financials in more detail.

Michael Laroche - RPM International Inc - Vice President, Controller, Chief Accounting Officer

Thanks, Frank. Turning to our consolidated results on slide 5. Sales declined 2.1%, driven by FX headwinds and a slight decline in organic revenue. Pricing was slightly positive during the quarter. Adjusted EBIT grew 6.3% to a first quarter record, driven by MAP 2025 benefits, including commodity cycle benefits and progress on plant consolidations. SG&A declined, aided by the streamlining actions we implemented at the end of fiscal 2024. Adjusted EPS increased 12.2% to \$1.84, which was a record, driven by the adjusted EBIT growth and lower interest expense due to debt repayments over the past year.

Moving to geographic results on slide 6. Sales declined in North America where business trends generally mirror the overall company. In Europe, FX headwinds and previously announced divestitures resulted in a sales decline, but we continue making progress with MAP 2025 in the region and generated profitability growth. In emerging markets, FX headwinds were particularly pronounced in Latin America and drove the sales decline there. Asia Pacific and Africa, Middle East grew as they benefited from spending on infrastructure and high-performance building projects.

Next, moving to the segment results and starting with the construction products group on slide 7. The segment's growth was driven by turnkey roofing systems and wall systems, which are being used in both new construction projects and renovations. This growth is in addition to double-digit growth CPG generated last year. CPG achieved record Q1 adjusted EBIT due to improved fixed cost leverage from higher volumes, MAP 2025 benefits and a focus on selling higher-margin products.

On Slide 8, performance coatings group had a positive organic growth driven by the flooring business. Emerging markets also contributed to organic growth, which was in addition to strong growth in the prior year. This was more than offset by FX headwinds and the previously announced European infrastructure service business divestiture in the prior year. Adjusted EBIT was a first quarter record and was driven by MAP 2025 benefits and improved fixed cost leverage from higher volumes.

Moving to slide 9. Specialty products group sales declined as demand in specialty OEM markets with housing exposure remain soft. Additionally, customers in the disaster restoration business entered the hurricane season with high inventories, which muted the impact of storm-related flooding during the quarter. The food group grew during the first quarter, aided by new business wins and a small acquisition. Adjusted EBIT grew during the quarter as MAP 2025 benefits more than offset the underabsorption from lower volumes.

On slide 10, the consumer group continued to face changing market conditions as DIY demand at retail stores remained weak and those retailers reduced inventory levels. The rationalization of lower-margin products also contributed to the sales declines. International markets grew during the quarter, primarily driven by targeted marketing initiatives directed toward end users that allowed us to outpace the broader market. Although adjusted EBIT declined due to lower sales and unfavorable fixed cost absorption, MAP 2025 initiatives and the rationalization of lower-margin products resulted in adjusted EBIT margin expansion during the quarter.

Now I'll turn the call over to Matt Schlarb, who will cover the balance sheet, cash flow and provide an update on innovation.

Matthew Schlarb - RPM International Inc - Vice President - Investor Relations

Thank you, Mike. Moving to slide 11. Cash flow from operations totaled \$248 million for the first quarter as operating working capital as a percentage of sales improved by 250 basis points from the prior year period, driven by MAP 2025 structural improvements in working capital. Over the past two years, this metric has improved by 540 basis points. During the quarter, we used a portion of this cash flow generation to repay debt, which declined by \$75 million in the quarter and \$453 million over the past year. We returned \$76 million to shareholders through dividends and share repurchases during the quarter. Additionally, we are making investments in a new production facility in Belgium that is expected to open by the end of the calendar year. This facility will be overseen by specialty products group but will supply resins to all four segments as well as external parties. The new Belgian facility represents the fourth RPM plant that is focused on intercompany sales, which are a key element of our procurement strategy to enhance resiliency in our supply chain. Earlier, Frank talked about how our businesses are pivoting to growing end markets, and I'd like to highlight one example on slide 12. Spending on data center construction is up significantly over the past year, and our businesses are playing an important role in the construction of these high-performance buildings. Our products and services meet the demanding requirements of these facilities, including having a waterproof structure, meeting fire safety standards, protecting the expensive equipment from electric discharges, and

allowing their facilities to continue operating through ongoing maintenance and repairs. Additionally, benefits from our suite of products and services include labor needs and faster -- reducing labor needs and faster construction. These are important not just in the data center construction but throughout the entire construction industry that is struggling with skilled labor availability. Combined with our entrepreneurial sales culture, these high-performance products, systems and services have allowed us to capture these growth opportunities and will allow us to pivot towards expanding markets in the future.

Now I'd like to turn the call over to Rusty Gordon to cover the outlook.

Russell Gordon - RPM International Inc - Vice President, Chief Financial Officer

Thanks, Matt. Our second quarter outlook is on the next page, slide 13. On a consolidated level, second quarter sales are expected to be approximately flat compared to a record prior year period, with the mixed economic backdrop continuing. Uncertainties surrounding the US elections may cause some customers to defer decisions on spending, and the impact of recent strikes at East Coast ports remains unknown.

By segment, CPG is expected to generate low single-digit revenue growth in addition to record results in the prior year period when revenue grew 8%. Growth is expected to be driven by high-performance roofing and wall systems serving restoration and new construction projects. In PCG, sales are expected to be approximately flat, which includes the positive impact of more effective sales management systems. In SPG, overall demand is expected to decline by low single digits as residential-focused OEM demand remains soft while other OEM businesses show signs of stabilization. In consumer group, sales are expected to be down low single digits. Continued DIY softness is expected to be partially offset by market share gains and growth in international markets. Rationalization of lower-margin products will be a headwind to sales but a benefit to margins. Consolidated second quarter adjusted EBIT is expected to increase in the mid-single-digit percentage range compared to a record prior year period, driven by MAP 2025 benefits and improved fixed cost utilization at some of our businesses. Our fiscal 2025 full year guidance is on the following slide. Our view on the overall economic environment remains similar, and our guidance is unchanged to what we previously communicated, with sales up low single digits and adjusted EBIT increasing in the mid-single digits to low double-digit range. We expect overall pricing to be slightly positive in response to continued inflation in areas like labor and benefits, and we expect moderate increases in raw material costs in the second half of the fiscal year. Thanks to the progress we have made in our center-led procurement teams and CS-168, we are better positioned to have our pricing reflect increases in raw material costs in a timely manner. By segment, CPG should outpace its markets with its differentiated product and service offerings and should continue to benefit from spending on infrastructure, high-performance building and restoration projects while office construction remains sluggish. At PCG, they continue to benefit from increased spending on infrastructure projects, high-performance buildings, and emerging market growth. We continue to expect spending on reshoring projects to moderate in some areas like battery plants and expand in others like data centers and pharmaceutical manufacturing.

At consumer and SPG, which are most closely tied to residential housing, we are encouraged to see interest rates declining, but it is too early to determine when this will translate into an increase in housing turnover. In the interim, we remain focused on operating improvements, so we are prepared to respond to a market rebound when it materializes. On a consolidated level, adjusted EBIT growth is expected to be driven by MAP 2025 benefits, with the timing and magnitude determined by how quickly and to what extent volume growth returns. We also anticipate that we will continue to improve our working capital efficiency, which will lead to another year of strong cash flow. This concludes our prepared remarks.

We are now pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John McNulty, BMO Capital Markets.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Good morning, John.

John McNulty - BMO Capital Markets - Analyst

Hey good morning, Frank. Thanks for taking my question and congrats on nice quarter in a difficult environment. And I guess to that, so the consumer margins are putting up some pretty solid numbers. I mean, I think it was 18.5% this quarter, which is nearly a record for the first quarter, and that's despite some really challenging volumes. So I guess, can you help us to think about the operating leverage in this business now that MAP is really kind of working its way through, and how we can think about kind of what the margin profile would look like for the business in a more normalized DIY type environment?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Sure. I'll comment to your question about consumer, but it really applies to all of our businesses. We have executed really well on our MAP to growth and our MAP 2025 follow-on operating improvement initiatives. We've gained efficiencies in our conversion costs, particularly true in consumer and at Rust-Oleum. And I've commented in the past, without additional dollars of capital, we have uncovered almost 80 million units of new capacity.

And that gives you a sense of the benefits that our operating improvement initiatives have uncovered. That doesn't do us much good unless we can sell it, and so we are really poised to lever growth to the bottom line. You can see that with a nice leverage in the construction products group and the performance coatings group, both of whom had positive unit volume growth in the quarter. And I think as you're referencing, you can see the operating leverage, and even in our consumer segment, when volumes will come back, which they will.

The last comment I'll make is across every segment of RPM, we have been very deliberate in focused SG&A spends on new product areas and on growth areas, as Rusty commented. We are moving our sales forces to the few pockets of where growth exists. But in each of our segments in Q1, our dollar spend in SG&A was below last year, so we are taking a pretty targeted and disciplined approach to SG&A, and you'll see that continue in Q2.

John McNulty - BMO Capital Markets - Analyst

Got it. Okay. No, that's helpful. And then I guess just the second question would just be on the Specialty segment. I think you mentioned in the release that there were some inventory issues around the Legends business.

I guess, how long do you expect it to take to kind of work through that? And should we see an uptick, just given some of the issues that we're seeing in the US now around some of the hurricane problems?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

For the first time in probably four or five quarters, you're seeing positive EBIT growth in our specialty segment. And it feels very much to me like their challenged environment has bottomed out. They are particularly exposed to residential new construction, indirectly with their wood finishes work that goes into doors and windows into manufactured housing. And so it was really, I think, good and comforting to see them to return to positive EBIT margin generation. And I think the sales challenges that they faced for the last, boy, four or six quarters have bottomed out. And you will see improved -- modest improved performance in the specialty products segment as we go throughout the rest of the year.

John McNulty - BMO Capital Markets - Analyst

Okay. Thanks very much for the color.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you.

Operator

Frank Mitsch, Fermium Research.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Morning, Frank.

Frank Mitsch - *Fermium Research - Analyst*

Hey, good morning to you as well and good luck in the playoffs. Obviously, I'm talking baseball, not football, sorry. You indicated, I think, in the last conference call that there was an expectation that maybe price would be up 1% in fiscal 2025. I believe Rusty said that the expectation is slightly positive. So I'm curious if that's kind of a good placeholder.

I think you indicated that you're going to offset raw materials. And given the wide range on EBIT for the balance of this year, what would be a reasonable range of volume expectations that you have as you sit here today for fiscal 2025?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. On price, we benefited by about 0.5% in the quarter. We are facing some modest raw material increases in propellants, certain solvents and resins. And so I think the number that Rusty cited still feels good for the balance of the year of about 1% price. That presumes we don't see any dramatic impacts in higher raw material costs, which at this point seems to be pretty stable.

In terms of growth, it's anybody's guess. But I would tell you that if we are starting on a path of interest rate decreases, that will be the period of time in which you're going to see a recovery in housing turnover, which remains at a 30-year low. Big driver of our consumer segment takeaway and also new home construction and turnover for specialty products group. It does not take a lot of positive volume growth to leverage nicely to our bottom line. So for instance, even in the second quarter, our outlook is flat. If things perk up here a little bit and we can provide a 1% or 2% positive growth, you'll see that leverage nicely and better than our guidance to the bottom line. That's speculative. But we don't need 4% or 5% growth to leverage really strong performance in the bottom line. We just need positive results and you see that in our two more industrial segments in this quarter.

Frank Mitsch - *Fermium Research - Analyst*

Understood and very helpful. Just curious, on the topic of the benefits of the rate cuts and the timing. What sort of indications are you getting from your customer base, particularly on the consumer side in terms of their expectations as to when we might see the benefits take place, 6 months, 9 months, 12 months, 15? Any sort of indications from your customer base on what their expectations are?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Not really. I will tell you the inventories are at exceedingly low levels, and so that's an area that -- where we'll see a rebound in growth, I think will also help us kick start at least temporarily filling inventories in some cases to more normal levels. But Rusty Gordon did a very nice job for our Board in the past year, 1.5 year of actually mapping what was extraordinarily solid organic growth.

My recollection is in the fall of '23 and tracking our unit volume growth by segment and SBU to the Fed rate hikes, interest rate increases. And it took about two or three quarters of the Fed increasing interest rates until we saw the negative impact, which was their intent, particularly in housing and again, affecting specialty and consumer. And then it went negative. And we've had those challenges for the last three or four quarters.

So with that, I would tell you it probably is going to take a couple of quarters of interest rate reductions before the benefits of those start flowing into the economy and our business. So I would guess the spring of this year. And if it starts to hit, there is not much in the way of meaningful volume improvement in our current guidance.

Frank Mitsch - *Fermium Research - Analyst*

Okay. Very helpful. Thank you.

Operator

Kevin McCarthy, Vertical Research Partners.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Kevin.

Kevin McCarthy - *Vertical Research Partners - Analyst*

Good morning, Frank. Would welcome your updated thoughts on capital deployment. I guess looking in the rearview, it seems as though you did a small deal in specialty products. But more importantly, just thinking about the deleveraging that you've done, and by my math, you're down about 1.4 times EBITDA in terms of the net debt balance. So what are you seeing in the private market? And how would you weigh that versus potential to accelerate repurchases or alternative uses of cash?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. We are committed to the capital allocation model that has been the hallmark of RPM, investing in internal growth, investing in acquisitions, raising our dividend. We have our annual meeting of stockholders tomorrow, and our Board will consider what would likely be our 51st consecutive increase in cash dividends. And we are committed on a regular basis now regardless of stock price to about \$50 million a year, maybe a little bit more of share repurchases. And beyond that, I think we'll be opportunistic. But our ability to repurchase shares on a more regular and more consistent and larger basis exists in ways it didn't. Our balance sheet is in the best shape that it's ever been in, in my 35-year career at RPM, and so that feels pretty good.

Specific to acquisitions, we are pursuing a lot of small product lines because we can get them done. The M&A market chilled through the kind of supply chain hiccups and the interest rate rises. It's starting to loosen up a little bit. And we will continue to pursue the small- to medium-sized acquisition strategy that's been so successful for us in the past. And our ability to leverage product lines or businesses because of our MAP initiatives are better today than they've ever been.

Kevin McCarthy - *Vertical Research Partners - Analyst*

Very helpful. And then second, if I may, Frank. Could you provide an update on your MAP program execution? Just kind of walk through where we are today in terms of asset consolidation, headcount, other cost savings. What's behind the company and what's still ahead in coming quarters?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. Great question. I would say we're in the fourth or fifth inning of our MAP programs that started in the fall of 2018. Our MS-168 approach, which is really a center-led operating efficiency and continuous improvement approach to our manufacturing and operations, has really done quite well. And we are taking that now to Europe.

Dave Dennsteadt, who runs our performance coatings group, and his family moved to Europe 1.5 year ago, really accelerating the MAP initiatives there that got stalled a little bit because of COVID. But we are on target for the original \$465 million of projected MAP 2025 savings. That would imply \$185 million of MAP benefits on a full run rate basis by May 31, 2025 for this fiscal year. And I think it's highly likely that we will meet or beat that \$465 million total program goal.

The challenge for us in our MAP initiative, and it's not unique to us, is growth. When you look at this quarter, I think that the 42% gross profit goal and the 16% EBIT margin goal on a consolidated basis are within reach, and that is without the benefit of the \$8.5 billion total revenues that we had targeted. We're going to fall short of that in all likelihood. And so it really gives you the sense of the strong execution we've had. Have we come anywhere close to the \$8.5 billion in revenues, we blow through those margin targets.

Kevin McCarthy - *Vertical Research Partners - Analyst*

Thank you so much. Very helpful.

Operator

David Huang, Deutsche Bank.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning.

David Huang - *Deutsche Bank - Analyst*

Good morning. In consumer, I guess, volume was worse than expected in August since you gave guidance in late July. And I think you talked about continued consumer -- I mean, customer destocking despite low inventory levels. Can you just talk about what has happened there? And I guess, how is that trend in September versus August?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So the performance in consumer was as expected. It was a combination of lower inventory levels, particularly at some of our big-box retailers and a continuing low to mid-single-digit consumer negative takeaway versus prior years. We see that bottoming out this fall in terms of consumer takeaway. And as I indicated in response to an earlier question, I think inventory levels across most of our customers are at a point where if there is -- and when there is, because there will be at some point, a pickup in consumer takeaway and positive volume, you'll also see some adjustments in inventory to meet that demand.

So we are where we expected to be. It's disappointing. We are in our 15th month of negative consumer takeaway. I've been at RPM 35 years and have never seen this period of kind of flat to negative results in our consumer segment. It's not unique to us. And I think when you compare it to the most directly comparable segments of some of our major peers, our consumer performance collectively is equal to or better than what we're seeing elsewhere. So we're managing it well and I think we're well positioned on the upturn.

Also, as Rusty and Matt talked about, we've got some new product introductions that we're pretty excited about, both in DAP and Rust-Oleum and we're seeing some solid growth. The only place we're seeing positive growth is in our mostly European, UK consumer business with some really nice upticks as they continue to improve their operations.

David Huang - *Deutsche Bank - Analyst*

Got it. On the positive side, you highlighted some data center opportunities on the slide. Can you maybe help us size and then think about the opportunity in your backlog and your ability to capture shares in the market?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. I can't size the data center or any market in particular. I can tell you, in our construction products group, with panelization, with the roofing opportunities that we see, particularly with the Tremco Roofing Supply and Apply model with the challenges of labor, and in the Stonhard, Performance Coatings Group's Stonhard space and flooring, again, the supply and apply model and where that's somewhat of an advantage with some challenged labor markets. Our backlogs are better today than they were a year ago. As we had commented in the last conference call, we have seen some of these big projects be pushed out. Intel is a good example. Some of their big new construction, new fab plants where we're specified have moved out in terms of timelines by a matter of 12 or 18 months. And so we have seen some big projects deferred, but backlogs are pretty strong in our more industrial segment businesses.

David Huang - *Deutsche Bank - Analyst*

Thank you.

Operator

Vincent Andrews, Morgan Stanley.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Morning, Vince.

Vincent Andrews - *Morgan Stanley - Analyst*

Morning. Thank you. Could you give a little more detail on the SKU rationalization you're doing in consumer group, both in terms of what the products are, maybe what that sort of negative weight is going to be on your volume going forward? And just how below segment average margins are those products?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. We have a branded and private label architectural paint plant and business in Europe that's part of our consumer segment, and we have announced the closure of that. And that is meaningfully below our segment and our RPM average gross margin and meaningfully below our EBIT margin. And so while it will take some time and money, we anticipate that, that will be completed by mid-calendar year '25. And that will, from a margin perspective, essentially be addition by subtraction.

We have also rationalized some small project paint product lines in the US relative to profitability and turnover. So we continue to use data better than we ever have. And our Rust-Oleum business is kind of the leader across RPM in that to take a hard look at where we're making money and

where we're not and how we would manage both our mix as well as where we, more in our industrial businesses, incentivize our sales force to drive the mix that we want.

Vincent Andrews - Morgan Stanley - Analyst

Okay. And then on -- you also mentioned in consumer group that you had some success with some new international marketing campaigns. Can you talk a little bit about what those are, I mean, which brands they're impacting?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Sure. So there's really two areas that are driving our growth there. One is Zinsser. We were the leader in specialty primers for a long, long time in North America. And certainly, the idea of priming paint jobs is pretty ubiquitous in the US now. Not so much so in the UK and Europe. And so we are seeing double-digit organic growth in the rollout in different markets of our Zinsser specialty primers, and that's pretty exciting to see. And it's good old education of the benefits of priming for paint jobs, and we seem to be the leader in a number of markets.

The other area is an Internet direct program in our Rust-Oleum business in the UK, where people can go online and actually buy small quantities of paint for specialty projects. And that has gone from single millions of pounds of business to tens millions of pounds of business and is growing at double-digit rates. Don't know where the top is on that, but it's been a pretty exciting growth initiative over the last three years.

Vincent Andrews - Morgan Stanley - Analyst

Okay. Thanks so much.

Operator

Gansham Panjabi, Robert W. Baird.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Morning, Gansham.

Unidentified Participant

Hi, good morning. This is Matt sitting in for Ghansham. So I guess I just wanted to dig in on pricing a bit here. Have you seen any pricing pressures across the various business units due to either competitive activity, promotional activity to boost volumes or from any index-related pass-through mechanisms?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

The comments here are pretty much what we provided in the July earnings call. We have seen some reductions in pricing on some of our products in the industrial sector and a little bit in DAP that are more related to broad chemicals, so you saw a huge spike in silicone prices and that came down. You saw a huge price in certain resins and those have come down. So in some instances, we have adjusted accordingly but have been able to maintain strong margin profitability in that. And then we have had some pricing in consumer really, and we talked about this in July as well, really related to price elasticity. In our highest-performing product line, the Universal paint, at one point, our prices got above \$10 a can, and the data we had suggested that consumers weren't buying it there, so we adjusted accordingly in a couple of our big accounts. So those are principally the pricing actions that we've taken. It's been relatively modest across all of RPM. And as I said, on average in the quarter across our consolidated

business, price was up about 0.5%. And we would anticipate about a 1% impact of price in the full fiscal year, in part because of some modest raw material price increases in certain categories particularly impacting consumer.

Unidentified Participant

Got it. That's very helpful. And then the execution on the MAP 2025 program has been impressive in context of a pretty choppy demand backdrop. How much price, cost benefit do you have baked into that cost savings number that you mentioned earlier for this year? And then what was the price, cost impact specific to the first fiscal quarter here?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Maybe, Rusty or Matt. I'm not sure I understand the question.

Russell Gordon - *RPM International Inc - Vice President, Chief Financial Officer*

Yes. So Matt, so with inflation, we would expect it to be pretty neutral in the second quarter, and then we would expect a little bit of inflation as we get in the back half of fiscal '25. And like Frank has talked about, we would expect pricing to be positive for both the second quarter and for the remainder of the year.

Unidentified Participant

Got it. So it sounds like there wasn't much of a headwind or tailwind or isn't much of a headwind or tailwind priced into the full year guide? That's helpful.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Correct. Yeah, we did have a little deflation in the first quarter for raw materials, low single-digit deflation. But like I mentioned, we expect that to be neutral in Q2.

Unidentified Participant

Okay that's helpful. Thanks.

Operator

John Roberts, Mizuho.

John Roberts - *Mizuho - Analyst*

Thank you. Maybe I'll ask just one here. Do you think we're plateauing in reshoring and infrastructure activity? And so quarter to quarter, we're going to sort of bounce up and down but along kind of atop, given the comps here are from a pretty high level? Or do you think there's another leg of growth here to come in those two drivers?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, it's a great question. I don't think we're plateauing, but I think it's going to play out over a longer period of time than people anticipated. There's still a big slug of the infrastructure build dollars that are unspent. And so it will play out more slowly but it will still be positive for the next couple of years. And then from a political front, I think what massively needs to be addressed is permitting. There's been a lot of talk about that but except in a few places, the permitting process is still long and arduous for big projects. And so if there was any permitting reform in a new Congress, I think that would reaccelerate some of these onshoring initiatives, particularly as it relates to energy and batteries, and you name it in terms of manufacturing. Those are the issues as we see them as we sit here today.

John Roberts - Mizuho - Analyst

And I know I said one question, but maybe put data centers, could you just maybe rank order that among just qualitatively what the most important drivers are of the growth? So is it in the top three or top five or --?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

No, I -- again, I don't have the data or numbers on that in particular. I'll tell you what's been impressive and sound self-congratulatory, but we have been able to hang on to the entrepreneurial culture of RPM in the customer-facing parts of our business. And so if you look at our Euclid Chemical Company or Tremco sealants and waterproofing, Stonhard, their ability over the last couple of years to shift from distribution centers to the growth in the cannabis industry that in terms of processing was looking at FDA-qualified facilities, to manufacturing and onshoring to data centers has been really impressive. And it's pleasantly surprised me that our sales forces is -- have been as agile as they've been because overall, particularly in our construction products group, the broad numbers on commercial construction in North America, our principal business, have not been good. But if you can go to where the growth is, you can still keep positive momentum, and I think that's a strength of RPM.

John Roberts - Mizuho - Analyst

All right. Thank you.

Operator

Mike Harrison, Seaport Research Partners.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Good morning, Mike.

Mike Harrison - Seaport Global Securities LLC - Analyst

Hi. Good morning. Congrats on a nice quarter here. You mentioned in a couple of different segments, some underabsorption related to plant startups and as some investments ramp up. So I was just hoping that you could talk a little bit about how we should think about that playing out during the course of the year. Is that underabsorption worse in Q2 and Q3 and then gets better in Q4? Maybe just talk a little bit about that timing. Thank you.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Sure. So first of all, it's underabsorption across many of our plants because of lower volume, and it's particularly acute in our consumer businesses. Secondly, we have had some major initiatives which will roll off, from a capital investment perspective, into our P&L, particularly in depreciation.

We're sitting in our first-ever RPM combined Innovation Center of Excellence so traditionally, our research and development has been by segment or by operating company. And this is a nearly \$20 million investment that's being absorbed in terms of operating costs and depreciation by our specialty products group. So that's part of the challenge to them in what's been a difficult volume environment over the last 12 or 18 months. We have this Resin Center of Excellence, another \$20 million investment in Europe. That's also part of the specialty products group, our DayGlo Color Group.

So we're making some strategic investments. We just ramped up and opened a new facility as part of our platform, developing country group. It reports in PCG in Malaysia, and we will be opening a new plant in India this fall, all adding to operating efficiency, all adding to capacity in places where we're growing but none of which will be fully utilized when they first hit our P&L. Those are just some examples.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

All right. That's very helpful. And then I'm kind of curious if you can talk a little bit about the construction business. I feel like last quarter, you guys sounded a little bit less confident on the timing of infrastructure spend. You talked just on this call about maybe that playing out over a little bit longer period. I'm curious, how much do you think that depends on who wins the election in the US? Or do you feel like these are committed dollars that will play out eventually regardless of who wins?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

I think they're committed dollars. It's anybody's guess as to what happens based on who wins. But I think the Biden administration will be committed to seeing through successfully their Inflation Reduction Act spending, a lot of which is going into particular, call it, industrial policy as well as the infrastructure bill permitting, as I mentioned earlier, improved permitting processes will have to be a part of that.

The Trump administration, if they follow through with what they're saying, it's going to double down on onshoring and supporting US manufacturing. So I don't see anything negative about that. The consequences of debt levels, the consequences of higher taxes on corporations, the consequences of tariffs, all of those will not be favorable to manufacturing. And so it depends on what the reality is post election.

Mike Harrison - *Seaport Global Securities LLC - Analyst*

All right, thanks very much.

Operator

Mike Sison, Wells Fargo.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Morning, Michael.

Mike Sison - *Wells Fargo Securities, LLC - Analyst*

Hey, guys. Hoping the Guardians can execute as well as you guys did. So yeah, I guess just one question. So for '26, what type of volume growth do you think you need to get to that 16%? And then if the Fed rate cuts work, let's hope, what type of volume growth do you think the RPM portfolio should generate over the next couple of years? And maybe if you have any thoughts between the segments.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. Well, I will tell you if, and this is a big if and very wishful thinking, but if somehow, we're able to turn the corner and generate 2% or 3% consolidated volume growth in the second half of this year, by our fourth quarter, we will be on an annualized run rate of 42% gross profit and 16% EBIT. That's how poised we are. And literally, whether we hit those on time or not is a function of growth. And we're not going to get to \$8.5 billion and we don't need to get to \$8.5 billion to realize those.

I don't know the answer to your follow-up question other than my earlier comment, which is if we were on a path to something closer to \$8 billion or \$8.5 billion for this year, which was our original target, we would be meaningfully ahead of our 42% gross margin and 16% EBIT margin goals.

Mike Sison - *Wells Fargo Securities, LLC - Analyst*

Got it. Thank you.

Operator

Steve Byrne, Bank of America.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Morning, Steve.

Steve Byrne - *BofA Global Research - Analyst*

Morning, Frank. I got a couple of questions actually in response to comments that you made, Matt. And that is the first one, just a few minutes ago, you made a comment about deflation was low single digit in the first quarter. You had cost of goods down roughly \$50 million. Can you comment on how much of that was raws deflation versus your MAP facility closure initiatives reducing fixed costs? Can you split that out of that \$50 million?

Matthew Schlarb - *RPM International Inc - Vice President - Investor Relations*

Yeah, I mean, so Steve, just to give you a sense, so about we had deflation of 2% in the second quarter. So the rest of it was a variety of different factors that related -- sorry, the first quarter, sorry. And so there are different factors, but certainly, the work that our procurement teams are doing to reduce costs played into that.

Steve Byrne - *BofA Global Research - Analyst*

So raw is still roughly 70% of cost of goods so your procurement guys are working okay. And then the other thing you mentioned was about this new facility in Belgium. And Frank, you mentioned just minutes ago about these new plants in India and Asia. To get your ex-US sales to represent more than 20% of the total, is that going to require building out manufacturing facilities globally so that you have more local supply? Or can you do it with more cross-selling or other initiatives that you might have in the works to drive that ex-US sales growth?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure, it's a great question. And so let me tell you what we've done differently. We did a report out to our Board maybe three years ago, looking back 10 years in M&A, and we have a pretty strong track record of successful acquisitions. But the one area that stood out for us as not meeting our goals was what we called small and far away. And so this was a, call it, the prior 10 years of planting a flag in a distant developed world country with the notion that, that small acquisition would be the catalyst for growth.

And in fact, too many of those small little acquisitions in places in Latin America or Southeast Asia or India or the Middle East were ignored and atrophied. So it's one area where we were destroying value single millions of dollars at a time with an exception, which is our South African and the African air business run by a gentleman named Grant Boonzaier and his team out of South Africa, where almost from the beginning because of the unique nature of that country, they manufacture Carboline and Tremco and Stonhard and then actually folded in a Rust-Oleum acquisition in spray paint in that market.

So they control all the manufacturing, they control all the administration, but they still go to market independently from a sales and marketing perspective. That was so successful that we, in conjunction with that report to our Board, have now put Grant Boonzaier and his team in charge of the Middle East, Africa, Southeast Asia and India. And we are confident that we now have an approach to profitably grow in the developed world in ways that we didn't in the past. And our last two years of growth and margin improvement there has proven that out.

I'm actually going to be in Johannesburg next week with Grant and his team. And so a combination of a recognition of what we were doing wrong on adjustment. And what's true for every business where you have good leaders and we have a collection of good leaders in our platform group, we're going to be successful. And the fact that I'm taking time to go there tells you that we're excited about what that can do for us in the coming years.

And so yes, we're going to build out some capacity. We don't have any plans at this point for new capacity beyond the plant in Mumbai and the plant in Malaysia along with existing facilities. But we're very excited about a path to profitable growth that, quite honestly, we really didn't have in the developing world until the last couple of years.

Steve Byrne - BofA Global Research - Analyst

Thank you.

Operator

Joshua Spector, UBS.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Morning, Josh.

Lucas Beaumont - UBS Equities - Analyst

Good morning. This is Lucas Beaumont on for Josh. I just want to go back to the kind of volume outlook for the balance of the year. So I mean, the first quarter was down about 2%. The flat to the second quarter sales guide sort of implies down kind of 1% to 2% as well. So I mean, to kind of hit your low single-digit growth for the year is implying that the volumes are going to pick up in the second half, and they need to be up probably at least 1% to 2% at a minimum to kind of get into that range.

So I was just wondering if you could please walk us through sort of where you see sort of the acceleration coming from in the portfolio. And what's giving you confidence in the outlook there, given that, I guess, the end market data has still been either soft or kind of weakening and just to set up where that place will be going? Thanks.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Sure. So I'll take that by segment. As we indicated, both our construction products group and performance coatings group had positive volume growth in the quarter, and that's on top of strong record growth in the prior quarter. And so we see that continuing, albeit at a very modest level.

I commented to an earlier question that it feels like our specialty products group, after a very difficult 15 or 18 months, has bottomed out. And we will start to see flat-ish or modest growth there. And so I really think that the optionality to your question is when the consumer segment will turn positive. And we certainly round significantly easier comps there in the second half of the year. And so that's how I think about growth.

We are managing well and finding pockets of growth in our more industrial segment operating units SPG turning the corner. Consumer is going to be facing easier comps in the second half. But what happens in consumer will be the variable in meeting or beating our guidance for the year.

Lucas Beaumont - *UBS Equities - Analyst*

Great. Thanks. And then just on the consumer side, so I'd preface this by saying that you guys have seemingly outgrown your end markets there for sort of quite a while. But just in terms of the broader markets, the DIY has now been weak for a number of years. We sort of had the high growth period in the pandemic that kind of masked the underlying growth trends there in the market.

But now most of the producers are sort of back below sort of what the pre-pandemic levels were. So it's sort of really sort of hidden what the underlying potential growth trends are, I think. So I was just curious to kind of get your thoughts on like what the medium-term sort of end market algorithm looks like they're now in consumer. Is that -- could that potentially be lower than what we thought it was like a few years ago? Or do you think this is like a longer cycle business? So this has just been quite a really long cycle with the interest rates.

And then as we get that to come down, we'll see sort of inflection later. So just wondering on your thoughts there. And then maybe if you could -- it would be helpful if you want to put it in the context of what happened in the last cycle in 2008, if that had helped, too, that would be great. Thanks.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So first of all, I think your assessment of that market through the COVID cycle is correct. There are big spikes and then people have found themselves back to kind of pre-COVID volumes and have added to adjust accordingly. The biggest driving factor, at least in our portion of DIY, is housing turnover. You went through the COVID challenges, the price -- massive inflation-driven price increases in housing, whether that's rental or -- and what we care about is homes and high interest rates and high mortgage rates.

And historically, they're not crazy high. If you're my age, you remember these as pretty reasonable. But for a period of 10 or 15 years, people could buy long-dated mortgages at very low interest rates. And so the mortgage costs, I think everybody on the call knows this, we are at 30-year low. And so I think the big driver here, there's nothing cyclically changing or structurally changing about our industry. But we get a double bang when someone sells a house. They use our patch and repair products and our small project, redecorating products to fix up their home to prepare it for sale.

And then a new person buys that home, and they redecorate a room. They do an addition. They redecorate a kitchen or a bathroom, again, whether it's our DAP caulk and sealant, patch repair products, the Rust-Oleum and/or Zinsser primer products get a benefit from that. We're at a 30-year low in housing turnover. As interest rates improve and as the housing turnover picks back up, which it will, you'll see those -- the dynamics that, that drives in our consumer segment pick back up as well.

So we don't think anything structurally has changed. We just find ourselves in a unique circumstance relative to housing prices and turnover, and your correct assessment of the big spike and then decline relative to what happened during COVID.

Lucas Beaumont - *UBS Equities - Analyst*

All right, thank you.

Operator

Silke Kueck, JPMorgan.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Morning, Silke.

Silke Kueck - JPMorgan - Analyst

Hi. How are you? I'm sitting in for Jeff today. Your second quarter outlook is for like flat sales and 5% EBIT growth. And like what that translates into is like \$1.8 billion in sales and like \$250 million in EBIT. And that really means that your EBIT margin is something like 14% in the second quarter. And does that seem the right number? Or does it seem low? Because if you hold your gross margin flat, I would imagine, I think your SG&A spending is going up. Or do you -- like it seems like a big -- like I understand at the margin -- there's always a margin deterioration in the smaller quarter, but unless you're beginning to spend on SG&A again, it seems -- it's a conservative outlook.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

So -- yes, I appreciate your comment about cyclicity. So our different quarters obviously have different margin profiles based on not cyclicity but the seasonality of our businesses. And so our second quarter is typically lower in volume seasonally than Q1 or Q4. But versus the prior year second quarter, I would anticipate us holding or marginally improving gross margins.

And the SG&A discipline that we initiated in Q4, we will certainly hold in Q2. So I don't think there's anything that's changing in terms of the margin dynamics or the SG&A spending or the gross margin improvement driven by MAP that you're seeing in Q1. It's really just a function of volume growth. And so the premise of your question is correct.

And no, we're not going to be sliding backwards on margins, and no, we're not going to be giving up SG&A discipline. So in many instances, and I think this is the guidance we provided feels today a little bit into our second quarter, that Q2 is going to look like Q1. Any additional volume growth than we're anticipating will make that improve.

Silke Kueck - JPMorgan - Analyst

Is your expectation that your SG&A spending in total will be down for the year?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

I don't know that. I don't have that in front of me. Our expectation is our SG&A as a percent of sales will be improved for the year. But I don't know, Silke, off the top of my head, actual dollars. I can tell you this, and again, the same will be true in the second quarter, and this is really a testament to the design and execution of our MAP initiatives, and it is across RPM.

We had \$20-some million in fiscal '24 of Green Belt-driven improvements. And that is a \$100,000 improvement here and a \$200,000 improvement there across our plants and across our businesses, and so those disciplines are continuing. And so our strength in these programs is a cultural change and then the real focus in many, many places on continuous improvement and operating excellence, in most cases, the dollar amounts of which aren't huge. But when you add them all up, they're meaningfully moving our conversion costs and adding to our bottom line.

In most of my career, in our industry, if you had a 2% decline in sales, you'd be giving credit to have managed your decremental impact quite well if your earnings only declined 4% or 6%. When we pump out another quarter of flat sales, it can show solid EBIT growth and teens EPS growth, I

think we're operating at a pretty good level. Our challenge is growth, and we are working on it intensely. And it's true across the whole industry, but we want to be the company that comes out of the box sooner and with a point or two of better growth than everyone else. And when that happens, we'll really reap the benefits of our MAP initiatives.

Silke Kueck - *JPMorgan - Analyst*

I also wanted to ask about the -- so like a MAP-related question on that matter. So there's about like \$25 million in charges that you took in the quarter between like restructuring charges, professional fees, ERP consolidation. And arguably, these are like all MAP initiatives. And so if that's the run rate for the year, there's sort of like \$100 million in spend that's tied to the \$125 million run rate in MAP savings, right? Is that like the right way to think about it?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. I don't have the cost in front of me, maybe Matt or Rusty can dig them up. It's our expectations that when we finish the year, we will have benefited fiscal '25 on a full run rate. You won't see it flow through our P&L. But when we achieve the remaining part of MAP '25, we will have improved our cost structure and efficiency across RPM by another \$180 million.

Not all of that will flow into fiscal '25. You'll see the full amount of that flow into fiscal '26. And the costs related to some plant consolidation in Europe through significant spends in the data area, so we're spending more dollars in the IT data area, which are onetime, to really marry up data which is helping us a lot.

Russell Gordon - *RPM International Inc - Vice President, Chief Financial Officer*

Yeah, and Silke, if you need more detail, we provide that in the earnings release. Behind the supplemental segment information, you'll see a footnote in there that breaks out the MAP add-backs in (technical difficulty) restructuring related to plant closures, ERP, and professional fees.

Silke Kueck - *JPMorgan - Analyst*

That's right. That's where I got the \$25 million from so I was just wondering if that's the right number to annualize to sort of think about the cost tied to that. Yeah, if I can ask a last question. So there's like this litigation between Rust-Oleum and NIC Industries. Is the resolution of that, that you'll have to take like a \$190 million accrual?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

No. So the range on that is \$0.5 million, which is our current accrual and the original verdict of \$190 million. We are sticking with the lower end of that range. To put that in context, this is about a \$2 million set of the Rust-Oleum Wipe New products. And it is a contractual IP litigation.

It is not product performance, not any other liability. And so I think just the simple fact that you're dealing with a \$2 million product line in light of the original verdict kind of puts in context many reasons why we feel strongly about the possibility of a significantly different outcome on appeal.

Operator

Aleksey Yefremov, KeyBanc Capital Markets.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Good morning.

Aleksey Yefremov - KeyBanc Capital Markets - Analyst

Thanks. Good morning, everyone. In PCG, you mentioned positive impact of more effective sales management systems. Could you just elaborate on that, please?

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Sure. We are using data to look at our different product lines, PCG, Consumer, CPG, almost all of our businesses. And we have moved from a company that, quite honestly, four or five years ago wasn't very good at analyzing mix on its prior financials like this quarter or the past year, to a company that is using data to try and manage mix on a prospective basis. So we are incentivizing with adjusted commission or bonus structures our sales forces to focus on the products that we have a competitive advantage on and typically higher margins. And it's having a positive effect.

And so it's just being more sophisticated with data. It's being more sophisticated with understanding the true profitability in real-time of different product lines or SKUs and then either adjusting through some product line rationalizations or adjusting through incentive programs where we're focusing our sales force's time and attention, and you're seeing that as a piece of the margin improvement.

It's interesting to note in the quarter when you look at our MAP savings, and again, this will highlight for those on the call why we're so focused on volume. 80% of our MAP savings were in the gross profit cost of sales line. And so that's where a lot of MAP '25 is focused. Whether it's driving better conversion cost or whether it's driving an improved product mix. It's great news. It's hard work. It's happening everywhere. And as I said earlier, it doesn't mean a damn thing unless you can sell another dollar of volume. And then that extra dollar of volume or that extra unit volume really hits your bottom line well because it fully reflects the benefits of all the work.

Aleksey Yefremov - KeyBanc Capital Markets - Analyst

Okay. Thanks a lot Frank.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Thank you.

Operator

(Operator Instructions) Arun Viswanathan, RBC Capital Markets.

Frank Sullivan - RPM International Inc - Chairman of the Board, President, Chief Executive Officer

Good morning, Arun.

Arun Viswanathan - RBC Capital Markets - Analyst

Good morning, Frank. Thanks for taking my question. I think you've answered most of them, but maybe I'll just get some of your elaborated thoughts on a comment you made earlier. So commercial, I guess, hasn't been that great but you've still been able to see some success in CPG and PCG. So

do you expect that to continue or is commercial kind of maybe regressing a little bit more? And do you expect any kind of benefit from lower rates there or is that more of a consumer phenomenon? Thanks.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So yes, in terms of lower rate impact, and I'll go back to my earlier comment and the work that Rusty did for our Board. Just like it took a couple of quarters and three or four of the interest rate increases to finally slow down manufacturing. And I can tell you, the broader economy apparently didn't get into a recession, but if you're in manufacturing or housing, the last 15 months have not been a lot of fun.

And so I think it will take the same couple -- two or three quarters or two or three interest rate cuts to start to flow into a pickup in broader commercial new construction and housing. In the interim, so I'll give you a couple of examples. Panelization is a big area of focus for our construction products group. It is the assembly of panels that are sent into commercial areas. It allows for less labor and a more rapid construction time cycle. And so that's an area we're focused and it's an area that's growing.

Nudura, which was principally residential and in the beginning of COVID boomed, so a \$40 million business that boomed up to \$100 million. And then when interest rates went up and the housing market slowed, we saw a decline in revenues of 30% or 40%. There is now a very concerted effort at Tremco with Nudura to focus on schools, to focus on facilities that house safety personnel, so think police departments, fire departments, EMS. And we are seeing specs grow and we are seeing real solid double-digit growth, albeit on a lower base.

But what's exciting about it is it's a much better balance between residential and commercial activity from what was previously mostly a residential product line. So there are real deliberate, thoughtful, strategic efforts across multiple product lines like the two examples I gave, again, to figure out how to get growth in a pretty low growth, no growth environment.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Thanks for that. And then just maybe another follow-up on capital allocation. So is it, I guess, your objectives to continue to grow inorganically maybe through bolt-ons? Or is there something a little bit more substantial that you could pursue? And similarly, are there any product lines that are potentially holding back your growth and maybe would be best in another company or -- and you're looking to dispose of? Or what's kind of the portfolio review kind of telling you these days?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So we constantly look at our portfolio and we pruned a couple of product lines over the last two years. We had what was a material chemical treatment for fabric and leather, our Guardian Protective Products business that, over time, turned into basically a consumer warranty business. It used to -- they call them dry warranties, that meant you were issuing warranties without selling product. And we did not see ourselves as being competitive in that space.

So a couple of years, we sold that. Very high margin, really good people, but the ability for us to compete with big players in the insurance industry was not in the cards so we sold it. We had some infrastructure service businesses in the UK. Unlike Tremco Roofing and Stonhard, which the majority of a supply and apply contract, 50% or more is material. In this case, it was a construction services business that was very lumpy and had high working capital requirements. So we divested that business through an MBO and then shut down another part of that business.

So the pruning we've been doing has been more akin to the portfolio reviews or kind of product rationalizations of looking at product lines, or in those two cases, smaller businesses that didn't fit the criteria that we're striving for. We'll continue to do that, but we don't have any large divestitures in mind today. And we will continue to pursue the small to medium bolt-on product line program that's been very effective for RPM for the last 20 or 30 years.

We are always open to the large transactions that are out there, we'll look at them. It would be irresponsible not to. And I can say this because it was very public. PPG hired Goldman Sachs to sell their \$2 billion North American architectural business. Of course, we looked at it. But we continue and will continue to apply the RPM discipline to value. We're not interested in getting bigger. We're interested in getting better.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Frank Sullivan for closing remarks.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Rocco, and thank you to all for your participation in our investor call today. We appreciate your interest and investment in RPM. Many thanks to our associates, some of whom are on the call for what's been a really remarkable combined effort of 17,000-plus associates around the globe who are executing in each in their way on our MAP initiatives. The cultural change that we've effected is more powerful than the simple act of closing plants or some of the cost reduction actions we've taken and it's paying off for us.

We have our virtual Annual Meeting of Stockholders tomorrow at 1:30 PM Eastern Time and would welcome any and all of you to participate in that as well. Thank you for your interest in RPM. Have a great day.

Operator

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

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