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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Matt Schlarb *RPM International Inc - Senior Director - Investor Relations*

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

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

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

CONFERENCE CALL PARTICIPANTS

Mike Harrison *Seaport Global Holdings LLC - Analyst*

Kevin McCarthy *Vertical Research Partners - Analyst*

Frank Mitsch *Fermium Research LLC - Analyst*

John McNulty *BMO Capital Markets (US) - Analyst*

David Huang *Deutsche Bank - Analyst*

John Roberts *Mizuho Securities USA, LLC - Analyst*

Ghansham Panjabi *Robert W. Baird & Co Inc - Analyst*

Jeffrey Zekauskas *J.P. Morgan Securities LLC - Analyst*

Josh Spector *UBS Securities LLC - Analyst*

Steven Byrne *Bank of America Securities - Analyst*

Vincent Andrews *Morgan Stanley & Co. LLC - Analyst*

Mike Sison *Wells Fargo Securities, LLC - Analyst*

Aleksey Yefremov *KeyBanc Capital Markets Inc. - Analyst*

PRESENTATION

Operator

Good day, and welcome to the RPM International Fourth Quarter and Fiscal Year 2024 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to hand the call over to Matt Schlarb. Please go ahead.

Matt Schlarb - *RPM International Inc - Senior Director - Investor Relations*

Thank you, Andrea, and welcome to RPM International's conference call for the fiscal 2024 fourth quarter and full year. 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 Mike Laroche, Vice President, Controller and Chief Accounting Officer. This call is also being webcast and can be accessed live, 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 this 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 fourth quarter of fiscal 2023, unless otherwise indicated.

We have provided a supplemental slide presentation for our comments on this call. It can be accessed in the Presentations and Webcasts section of the RPM website at www.rpminc.com.

As a reminder, certain businesses in Asia Pacific that were previously part of the construction products group are now being managed and reported under the performance coatings group effective June 1, 2023. As a result, all references to CPG and PCG today reflect the updated structure. This change has no impact on consolidated results.

At this time, 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 good morning. I'll start our conference call with a high-level review of our results, then Mike Laroche will provide more details on our fourth quarter and full year financials. Matt Schlarb will then give a balance sheet update and discuss how we are using innovation to grow, after which Rusty Gordon will cover our outlook. Then we'll be pleased to answer your questions.

I'll begin on slide 3 with our fourth quarter results. Overall, we're pleased with how RPM's associates executed. Despite challenging end markets in several of our businesses, we leveraged MAP 2025 improvements to generate our tenth consecutive quarter of record adjusted EBIT.

For the year, sales were a record and adjusted EBIT increased approximately 12% to a record which was within the guidance we provided a year ago. This included approximately $160 million of MAP 2025 benefits on a run rate basis or roughly $100 million through the P&L in fiscal '24, although a portion of these are being temporarily masked by lower fixed cost utilization from reduced volumes.

In addition to margin expansion, MAP 2025 has played a critical role in our ability to structurally improve working capital throughout the entire year. This resulted in record cash flow from operating activities of $1.12 billion during fiscal '24, an improvement of over $545 million from fiscal 2023 and $356 million or 46% more than our previous annual record cash flow. We used a portion of this cash to reduce debt by approximately $557 million during the year and the resulting lower interest expense helped us grow adjusted EPS by 14.7% to a fourth quarter record and by 14.9% for the full year to a record $4.94 per share.

Moving to slide 4, our construction products group led growth during the quarter with broad-based strength in most of their businesses, with roofing and its differentiated turnkey offerings demonstrating particular strength. Consumer also executed well during the quarter as they achieved market share gains, upgraded product mix and realized MAP25 benefits to generate record adjusted EBIT despite a sales decline due to continued DIY softness.

After multiple years achieving record results, our performance coatings group declined in the fourth quarter as they faced challenging comparisons to the prior year and experienced negative headwinds from the timing of project completions, something we highlighted on our prior earnings call. In the specialty products group, some end markets showed signs of bottoming out, but we continue to remain challenged in this segment. The economic situation remains very challenging. However, we did a good job managing what we can control with a focus on MAP25 and margin improvements to generate record adjusted EBIT and record levels of cash flow.

Turning to geographies on slide 5, north America, Africa and the Middle East grew. And while sales declined in other regions, we're still executing well in these areas. European sales declined 4% due to FX headwinds and divestitures in the performance coatings group. However, their profitability improved meaningfully as targeted MAP25 initiatives in the region gained momentum, including those focused on generating favorable product mix.

Excluding FX, sales in Latin America grew mid-single digits as we continue to benefit from product-serving infrastructure projects. Asia Pacific is performing well under our new management structure. However, fourth quarter sales declined due to challenging comparisons as a large project was completed in the prior year period.

To summarize our performance, in the face of several end market and economic challenges, we have realized good improvements in gross margins as a result of our MAP25 initiatives. In addition to gross profit benefits, MAP25 is allowing us to better leverage the power of RPM to create a more efficient and streamlined SG&A structure. We took several SG&A reduction initiatives in the fourth quarter, which will benefit us as we work our way through fiscal 2025.

As economic headwinds persist, it's important to remember that the improvements we are making are structural. While they are helping us navigate near-term challenges, their benefits will be even more apparent as end markets eventually recover and we begin to generate better organic growth.

I'd now like to turn the call over to Mike Laroche to cover our financial results in more detail.

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

Thanks, Frank. Starting on slide 6, consolidated organic sales increased 0.4% as pricing was slightly higher, and volumes overall were flat. FX was 0.7% headwind to revenue and divestitures net of acquisitions decreased sales by 0.1%, resulting in a modest decline in sales for the quarter. EBIT margins expanded 90 basis points, which was driven by MAP 2025 benefits, improved fixed cost leverage at the construction products group and favorable mix at the consumer group.

SG&A increased during the quarter driven by incentives to sell higher-margin products, long-term growth investments and compensation and benefits. As Frank mentioned, we implemented MAP 2025's enabled initiatives to streamline our SG&A structure in the fourth quarter, and those benefits will be realized in fiscal year 2025. Adjusted EPS increased 14.7% to $1.56, which was a record, driven by the adjusted EBIT growth and lower interest expense as strong cash flow allowed us to repay debt during the quarter.

Next, moving to the construction products group results on slide 7. The segment experienced broad-based strength with roofing and wall systems performing particularly well. The growth came from both new building construction and renovation, and we gained market share in construction chemicals. They also generated growth in product serving infrastructure projects, including those that reduce both the cost and carbon footprint of their construction.

Some of these, including driving gains, which reduced the amount of energy needed to produce cement and synthetic fibers that serve as a substitute for steel rebar and produce significantly lower CO_2 emissions and require less labor to install. The rise in adjusted EBIT was led by improved fixed cost leverage from volume growth, MAP 2025 benefits and driving a favorable product mix.

On slide 8, the performance coatings group sales declined as they faced challenging comparisons to the prior year period when sales grew 10.8% and the unfavorable timing of project completions as some were pulled forward into the third quarter while other projects are experiencing delays.

Additionally, Europe had pockets of weakness. FX and the prior divestiture of the noncore European service business also pressured sales. Adjusted EBIT declined as a result of lower sales and reduced fixed cost leverage from volume declines. This was partially offset by MAP 2025 benefits.

Moving to slide 9, specialty products group sales declined primarily due to challenging comparisons to the prior year period for the disaster restoration business. In the prior year, customers were rebuilding inventories that have been depleted as a result of increased storm activity and bursting pipes from freezing weather in prior quarters.

Overall, specialty OEM markets, particularly those related to residential remained soft. The reduction in adjusted EBIT was driven by the sales and volume declines, which resulted in unfavorable fixed cost absorption.

On slide 10, the consumer group gained share with the help of new products and grew in markets outside the US, which helped to offset continued softness in the DIY space. The rationalization of lower-margin products also contributed to the sales declines. MAP 2025 initiatives and an improved mix resulted in record EBIT, which is partially offset by under absorption associated with lower volumes and higher expenses from wages and benefits.

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

Matt Schlarb - *RPM International Inc - Senior Director - Investor Relations*

Thank you, Mike. Moving to slide 11, cash flow from operations totaled $1.12 billion for the year, an increase of $545 million from the prior year and $356 million more than our previous annual record. Over the past two years, operating cash flow has improved by $944 million. MAP 2025 initiatives that resulted in improved profitability and working capital drove the increase.

In Q4, working capital as a percentage of sales fell by 350 basis points from the prior year period to 23.5%. The significant portion of this cash flow was used to repay debt, which declined by $557 million during the year. This has resulted in lower interest expense and increased flexibility to invest in future organic and M&A growth opportunities.

During fiscal 2024, we returned $287 million to shareholders through dividends and share repurchases, which both increased during the year. As we enter fiscal year 2025, the quarter remained strong at $1.36 billion.

On the next slide, I'd like to highlight an example of how we are using innovation to help grow a business we acquired a few years ago. In September 2020, we acquired Ali Industries, a leading manufacturer of sand paper and other abrasives that goes to market under the Gator brand. Like many of these businesses, they experienced supply chain disruptions over the past several years. But as those challenges have been resolved, they are back on offense and bringing new products to market and gaining share.

One we'd like to highlight today is their new Reptilion product line. These innovative products use a proprietary design in coating that helps channel away dust while sanding, which prevents buildup and improves efficiency for the user. The Reptilion product line also lasts 4x longer than traditional power tool sanding accessories. Reptilion products are on the shelf now and build on Gator's legacy of providing high-performance abrasives to both pro and DIY customers alike.

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

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

Thanks, Matt. Our first quarter outlook is on the next page, slide 13. On a consolidated level, first quarter sales are expected to be approximately flat compared to a record prior year period with many market trends from the fourth quarter continuing. By segment, CPG is expected to generate low single-digit revenue growth on top of the nearly 11% growth they generated in the first quarter of 2024 as they benefit from their focus on restoration, selling, building envelope systems and unique turnkey offerings.

In PCG, sales are expected to be flat due to yet challenging comparisons as a few larger projects were completed in the prior year period and others are being delayed beyond the first quarter of 2025. In SPG, overall demand is expected to remain soft. However, the segment is facing easier comparisons, which should result in sales declining in the low single-digit range. In consumer group, sales are expected to be down low single digits. Trends are expected to remain similar to the fourth quarter with market share gains and strength in international markets being offset by continued DIY softness.

Consolidated first 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. As part of MAP 2025, we are in the process of consolidating or have recently consolidated 12 facilities, which demonstrates our continued momentum in generating efficiencies.

Our fiscal 2025 full year guidance is on the following slide, slide number 14. We expect sales growth will be up low single digits and adjusted EBIT will increase mid-single digits to low double digits. On the top line, volume growth is uncertain as the visibility on the global economic outlook is limited, which includes the unknown impact of elections in the US and other markets.

Our strategic balance and focus on repair and maintenance should be beneficial as we navigate the mixed economy. We expect 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.

By segment, CPG should outgrow its markets with its differentiated product and service offerings and should continue to benefit from spending on infrastructure and restoration projects. After a year of strong growth, CPG will face more challenging prior year comparisons in fiscal 2025, while commercial construction remains sluggish.

Moving to PCG, they continue to benefit from increased spending on infrastructure projects as well as their more collaborative strategy in emerging markets, which is generating profitable growth. After years of strong growth, the growth in spending on reshoring projects appears to be moderating. And PCG will also experience a temporary headwind from the under-absorption impact of opening of new plants in India and Malaysia that we highlighted on the last call on the last quarter, although these plans will be a longer-term tailwind of PCG results.

At SPG, the current expectation is that several key end markets will remain sluggish. As a result, SPG has pruned certain products and their associated SG&A cost structure. These actions, along with easier comparisons will help SPG get back to growth particularly if end markets recover.

At consumer, we will continue benefiting from new products and market share gains as well as driving an improved product mix which is expected to more than offset near-term softness in DIY. When end markets ultimately recover, consumer is poised for strong profitability growth as a result of the MAP 2025 initiatives put in place.

On a consolidated level, the key driver of EBIT growth is expected to be our MAP 2025 benefits, including manufacturing and commercial excellence improvements as well as the actions we have taken to make our SG&A structure more streamlined. This includes leveraging the power of RPM to generate efficiencies in areas like automation, digital selling tools and centralizing more back-office functions. These efficiencies will be more apparent over time as we overcome the negative short-term under-absorption impact of MAP-enabled plant consolidation. Finally, because of the strong cash flow and debt reductions made throughout fiscal year 2024, we will benefit from lower interest expense in fiscal year 2025.

This concludes our prepared remarks. We will now be pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Harrison, Seaport Research Partners.

Mike Harrison - *Seaport Global Holdings LLC - Analyst*

Congrats on a nice finish to the year here. I'm just curious on the performance coatings business. It looks like the revenue number came in maybe a little bit worse than you had anticipated. And I know you guys indicated that there were some delays going on in projects. But can you talk about some of the broader trends that you're seeing in terms of project activity and what kind of visibility you have in that business? I'm particularly intrigued by this comment in here that you're expecting maybe some moderating growth from reshoring impacting that business this year.

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

Sure. I think the biggest impact in the quarter for our performance coatings group was project timing, and we talked about that on our last call. We had a number of projects that ended up being accelerated into Q3, which negatively impacted the fourth quarter. We anticipate continued growth, although at a more modest level in the performance coatings group for the balance of fiscal '25. And so there's still solid results there.

The other thing that I think is worth noting in fiscal '24, was the divestiture of a number of European UK-based service businesses in our performance coatings group, which hampered our results year-over-year. But it was the right thing to do. It's improving profitability. And so we'll annualize that pretty quickly. And I think those are reasons to believe that we'll see positive momentum but at a more modest rate than what we experienced in the past year.

Mike Harrison - *Seaport Global Holdings LLC - Analyst*

And then I was also curious, you mentioned that there is some MAP 2025 initiatives to streamline SG&A that you implemented during Q4. Can you elaborate on those actions and maybe the timing and magnitude of potential benefits from those changes?

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

Sure. They really fall in two categories. One was a necessary rip across a number of our business units that impacted about 170 RPM associates. And the benefits of that on an annualized basis will be in the $25 million range. And then the other area is as we've talked about investments in a number of significant growth areas, and so we are continuing those where they are providing good momentum. And we are paring back on some of those that have not met our expectations as we go into fiscal '25.

Operator

Kevin McCarthy, Vertical Research Partners.

Kevin McCarthy - *Vertical Research Partners - Analyst*

Frank, I wanted to follow up on a comment that you made in the prepared remarks, whereby, I think you indicated that some lower operating rates and associated fixed cost absorption was masking some of the MAP program restructuring benefits. Can you quantify that? And what is your expectation for that dynamic going into fiscal 2025? Will there be less masking perhaps?

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

So let me have -- Rusty can provide some details. But in general, as we've talked in the past, and you could see it in the improvement for over the last two years in gross profitability, it's the hardest thing to move. And our MAP initiatives have been focused on that, consolidating production facilities. We are in the midst of, in MAP25, another dozen opportunities to consolidate versus the 30 or so that we completed in the original 2020 NAFTA growth program as well as a very effective, systemized way of introducing lean manufacturing and continuous improvement initiatives in our plants.

So we are reducing our plant footprint, and we are increasing conversion cost productivity. All of that shows up when you sell something. And so the only real solid, almost 7% organic growth in the fourth quarter was from our construction products group. The others all were either modestly down.

And so that's the big picture. In terms of specifics, let me have Rusty address that.

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

Yes. Kevin, in fiscal '24, there was a little over $50 million of unfavorable impact from unfavorable absorption conversion costs. In the fourth quarter, it was a little over $15 million. We expect more of that in this low volume growth environment. As you could see in specialty and consumer and now in performance coatings, they are experiencing volume challenges.

And as Frank mentioned, as we go through a lot of these plant consolidation projects, we are building new plants, for example, in India and Malaysia. We are closing certain plants and relocating production to other plants with increased capital spending and some capacity expansions at certain sites. So as that transition goes on, we will have some start-up inefficiencies that will eventually work their way over time and generate efficiencies overall for RPM.

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

So Kevin, I would add that your question really gets at the heart of our outlook in what's a pretty wide range for fiscal '25. We are operating currently in a low, no-growth environment in general. And if and when volumes pick up, and I would expect in the second half of the year, that the economic circumstances don't deteriorate, that we'll see that. We'll be certainly annualizing easier comps in our specialty products group and consumer.

Any volume growth will accrete to very nice leverage on our bottom line. And so that's why we have come out with kind of a wide range. In terms of our EBIT forecast, our MAP25 initiatives will continue to deliver solid results. But volume growth can hit our bottom line very nicely when it shows up.

Kevin McCarthy - *Vertical Research Partners - Analyst*

That's very helpful. Maybe just to follow up on that notion, Frank. If volume growth does pick up, how would you characterize the contribution margins in your businesses based on the new asset and cost footprint that RPM has?

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

Without getting into specific details, I think the two biggest points of reference that people should focus on throughout the year is, a, the improvement that we generated in our gross profit margins, and you've seen that; and then, b, this $50 million of unabsorbed overhead cost that Rusty talked about.

The gross margin is going to deliver more profitability per dollar of sales. And there's a point at which we're going to have some favorable comparisons to these under absorption hits, which will benefit our product line -- or I'm sorry, our profitability.

Operator

Frank Mitsch, Fermium Research.

Frank Mitsch - *Fermium Research LLC - Analyst*

I guess congrats to you for calling fiscal 2024 in terms of your initial guidance. And let me offer my congrats to Matt on his recent promotion. Given your solid forecasting skills, Frank, you indicated that you expect volume growth perhaps in the back half of fiscal 2025. So I guess as you're looking at your order books, fiscal -- I'm sorry, calendar 2024, the back half, we shouldn't be baking in any DIY sort of improvement. Is that fair to say?

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

I think that's fair to say. I actually think both for the fiscal year and in the fourth quarter, we're executing at a really high level in our consumer group. We've been through what's now 15 months, maybe more, 18 months of negative consumer takeaway across the DIY paint space.

Some of that, 18 months ago, it was, I think, still continued fallout from the COVID bump, which was huge. But as we sit here today, it's really driven by housing turnover. We are at a 30-year low in terms of housing turnover, and housing turnover is one critical element that drives consumer takeaway.

But having said all that, for the year and in the quarter, you're looking at negative units of about 1% and -- versus our identifiable peers, it's a pretty strong result in terms of how we're performing. And it's a lot of the things that Matt talked about, some market share gains, some new product introductions, some strength in some new product introductions in the UK and Europe.

And so I think our consumer group is performing at a pretty good level in this environment. And I would expect that to continue. We don't have a better crystal ball than anyone else in terms of where the economy is going.

Frank Mitsch - *Fermium Research LLC - Analyst*

Got you. Understood. And I think you had indicated, obviously, your balance sheet has been improving and you've been generating a lot of cash. So that begs the question, what to do with cash. And I think you'd indicated prior that the valuations have been a bit of a hindrance in terms of M&A. I'm not going to ask specifically about PPG and what's going on there. But was wondering if you might be able to offer thoughts on potential M&A opportunities to think about in fiscal 2025.

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

Sure. So as we've talked about, we have structurally improved our cash generation capabilities, so we're at new levels of cash flow, which we expect to maintain and marginally improve because there's still some more work to do in working capital improvement. Our balance sheet is in the best shape it's been in 30 years. And so we have plenty of opportunities for acquisition activity.

I would expect that to pick up versus what's been a pretty modest acquisition period, particularly relative to RPM's history. Our focus continues to be on the small and medium-sized acquisitions that are highly strategic to our businesses, and that's where you'll see us focus.

Operator

John McNulty, BMO.

John McNulty - *BMO Capital Markets (US) - Analyst*

So can you help us to think about what the cost savings would be tied to the 12 facilities that you're rationalizing? I understand some of it's tied to efficiency at other plants and that means to get the full benefit, it may take volumes. But is there just a flat cost benefit on the plant rationalization that we should be thinking about?

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

I don't have those details. I don't know if Rusty has a swag at that. But I don't have a good sense of that, good enough to give you a number that I could stand behind. Rusty, do you have any more insights?

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

Yes, it will be, John, very meaningful in fiscal '25. As you might have seen a few times before, we are projecting $185 million of annualized MAP savings in wave three of our MAP program in fiscal '25. That's the highest year for savings, and these planned consolidations are a big part of that.

John McNulty - *BMO Capital Markets (US) - Analyst*

Okay. Fair enough. So I guess, Frank, when I think about your guide for '25, you've got the benefit of SG&A costs that you spoke to, about $25 million. You've got what sounds like some pretty significant benefits on the plant rationalization. And it seems like you can get to kind of something in the whatever low to mid-14% margin range as you look out to 2025 without much in the way of volume growth. Is that the right way to think about it? And then the volume growth is kind of the additional kicker that may push you closer and closer to that 16% kind of longer-term target? Is that the right way to think about it?

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

Sure. I think we are on track to achieve in terms of delivered results, our goals for fiscal '26. And our program is on an annualized run rate. So we will not experience all of those benefits that Rusty talked about in fiscal '25. But by the end of '25, we will be benefiting fully from plant consolidation and other MAP initiatives. So I think we're in good shape there. It just depends on volume.

And it's a broken record here, but we're in a low-growth, no-growth environment. And given our MAP25 success with flat results, we should be able to deliver solid EBIT growth. And again, referencing the wide range in EBIT expectations, on the downside, I think we'll be able to deliver mid-single-digit EBIT growth. And when we get some pickup in volume, you're going to see good growth in the teens.

And so I don't have much more to add there because of the crystal ball and kind of the dynamics, particularly in our core North American market. I think we're going to be in this low, no-growth environment in Q1. And it's our expectation that by the time we get to the second half, you're going to see some positive results even assuming there's no further deterioration just because we're going to be rounding easier comps, particularly in consumer and specialty products.

Operator

David Huang, Deutsche Bank.

David Huang - *Deutsche Bank - Analyst*

I guess first, regarding the FY25 guidance, I guess you noted positive pricing. How should we think about that in terms of your project-based construction pricing and consumer pricing? And then I guess, which business or segment are you seeing the highest year-over-year price increases today?

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

So in general, both pricing and raw materials for the time being are relatively stable. Obviously, there are some exceptions up and down in different categories. Price in the quarter was marginally higher, so I think the way to think about price for fiscal '25 will be in the 1% range, maybe slightly higher.

The areas where we continue to see inflation are in wages, benefits, insurance costs, similar to other companies and not specific even to our industry. They have moderated in every case from where they were a few years ago. So it's going to be -- unless there is a meaningful change in inflation one way or another, I think a very modest impact on results.

David Huang - *Deutsche Bank - Analyst*

Okay. Got it. Maybe I'll try PPG one more time. I guess has your interest level or scope changed versus a few months ago? And I guess, absent of any acquisitions, how should we think about capital allocation for FY25?

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

Sure. So our capital allocation will remain what it has been. I would expect $50 million or more. Depending on circumstances of share repurchases, I would expect our Board to raise our dividend for its 51st consecutive year when they meet in October. With our payout ratio, 20 years ago, we consistently had a payout ratio at or above 50%. Now we're in the mid-30s. So our ability to increase our cash dividend at a rate more consistent with earnings growth exists today.

And from an M&A perspective, I would expect us to do more M&A in the coming years versus a modest period of M&A growth in the last couple of years, primarily focused on small- and medium-sized businesses or product lines.

David Huang - *Deutsche Bank - Analyst*

And I guess no update on the PPG acquisition?

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

Beyond those comments, no update.

Operator

John Roberts, Mizuho.

John Roberts - *Mizuho Securities USA, LLC - Analyst*

On slide 14, under the full year 2025 guidance, Rusty mentioned that PCG had moderating growth from reshoring. Is that expected continued delays on project completions? Or are you seeing declining new project start activity? Or both?

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

Some of it is both in our construction products group and PCG, some slowing down of projects that we have already won. And then it's just anticipation of a low, no-growth environment as we round in PCG and CPG, pretty challenging comps. So the opposite of our consumer and specialty. We expect positive growth both in performance coatings and infrastructure products, but they'll be rounding some pretty healthy comps in each quarter of fiscal '25.

John Roberts - *Mizuho Securities USA, LLC - Analyst*

Okay. And can you remind us if there were tariffs on tin plate under the prior administration and how you're thinking about any risk around that?

Matt Schlarb - *RPM International Inc - Senior Director - Investor Relations*

There were tariffs on tinplate, and that's kept our packaging, which primarily impact -- or most impacts our consumer segment that -- those prices went up with the inflation, and they never came back down. So they've been sticky near the top, and those tariffs have been a contributing factor.

Operator

Ghansham Panjabi, Baird.

Ghansham Panjabi - *Robert W. Baird & Co Inc - Analyst*

I guess going back to the consumer segment, can you just give us a bit more color as to what exactly you're embedding for volume growth for that segment in fiscal year '25? I know you called out some share gains, but do-it-yourself still seems a little bit weak.

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

It is. So I would expect Q1 in consumer to look like Q4. We still see some consumer takeaways not terrific. The new product introductions and some of the market share gains that we have and expanding presence of the 5-in-1, the patent 5-in-1 spray can. Some exciting new product categories and introductions in DAP are going well.

So as we get into the back half, I think you'll see low to mid-single-digit growth, in part just based upon easier comps. But in the first quarter, we're living in the same no-growth environment or modestly negative consumer takeaway that we experienced in the spring.

Ghansham Panjabi - *Robert W. Baird & Co Inc - Analyst*

And for CPG and PCG, obviously, comparisons are difficult in CPG. And PCG, you called out some moderation just based on project completions, et cetera. Do you sort of see that as multi-quarter sort of dynamics that occur? I'm just trying to get a sense as to the cycles for those particular segments versus maybe consumer that you can ascribe to, maybe a change in interest rates, et cetera, more directly.

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

Sure. I think the timing issue most impacted Q4 and will continue a little bit into the early part of Q1. But there are still many, many hundreds of billions of dollars through the infrastructure bill and other things that will be spent as the years unfold.

A lot of these CHIPS Acts are a good example. We're well positioned in a number of those projects. But some of them have now been slowed down such that the spending is spread out over a couple-of-year-longer period of time than originally envisioned. The dollars are still coming. Concrete is being poured with Euclid admixtures and Euclid fibers. And we would expect to get a reasonable share of the floor and fireproofing coatings and those. So those are just some examples. But if you look just at the Intel project here in Ohio, it's moving forward, but at a slightly slower pace than originally envisioned.

Otherwise, I think the dynamics that are driving those businesses continue. We have added salespeople. We've introduced new initiatives in the construction products group in particular. We have had a multiyear shift from selling components to selling systems. And that seems to be paying off as our construction products group outperforms what's a pretty punky new construction and commercial construction environment right now.

Operator

Jeffrey Zekauskas, JPMorgan.

Jeffrey Zekauskas - *J.P. Morgan Securities LLC - Analyst*

This year, you took $30 million in restructuring charges. Will you take more next year or less?

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

I think that's probably a pretty good run rate considering some of the plant consolidations that we spoke about previously going forward.

Jeffrey Zekauskas - *J.P. Morgan Securities LLC - Analyst*

And are the plant consolidations new in that through the first nine months, you spent $0.5 million, $500,000 on plant consolidation. So was there a real step-up this quarter in your cash spending? Or do you expect one for next year?

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

Yes. We had a couple of larger plant announcements happening in the fourth quarter this year, which really drove the increased spending in Q4. More broadly, David Dennsteadt, who is the leader of our performance coatings group in support of all of RPM operations in Europe, relocated to Europe a little more than a year ago to help coordinate our MAP activities there.

As you'll recall, we were focused mostly in North America and the initiation of our plant initiatives. And then COVID hit, which really slowed down our ability to do what's pretty hands-on on the plant floor process. And so with Dave's leadership and the support of our associates and our operations in Europe, we're catching up, if you will. And so a meaningful portion of these MAP 2025 plant consolidations are happening and will continue to happen in our European operations.

Operator

Josh Spector, UBS.

Josh Spector - *UBS Securities LLC - Analyst*

So I wanted to ask on -- if I think about the low end of your guidance, so I mean, basically, I assume that's pretty minimal sales growth. You're saying mid-single-digit EBIT growth. I mean that maybe gets to up, I don't know, $50 million, $60 million or so on the EBIT line. Is the way to think about what that is, is pricing may be slightly up, it offsets rise, and that, call it $50 million or so ends up being the MAP savings you think you can achieve ex volumes? Or is there anything else you would put into that math?

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

I think that's pretty much it. A price will be modestly positive, but not really meaningful unless dynamics change out there. So the way to think about it is the continuing benefits of the MAP initiatives that we'll be building throughout fiscal '25, offset by the volume or lack of volume under absorption that Rusty referenced.

And when you net all those, I think we're still in a position to show positive momentum on the EBIT line, both in terms of dollars and margin in a low, no-growth environment. And so Q1 feels a lot like Q4 in terms of where we sit today halfway through the quarter. So I think your thoughts on the fiscal year are correct. And you'll hear me say multiple times that our wide range is based upon what happens with volume as we progress throughout the year.

Josh Spector - *UBS Securities LLC - Analyst*

Understood. Appreciate that. I guess if I build on that and think about the under absorption you sized earlier, $50 million of last year, you're not getting the benefit of that without volumes. You have residual MAP savings with volumes. I guess the question goes into is, how much volume improvement do you need to really realize all the MAP plans? I mean, are we talking 3% to 5%? Or are we talking a couple of years of growth catch up until you get that to really realize that 16% or so margin structure?

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

Sure. It will play out over a couple of years, but 3%-to-4% unit volume growth would sing on our bottom line really nicely.

Operator

Steven Byrne, Bank of America Securities.

Steven Byrne - *Bank of America Securities - Analyst*

Your cost of goods were down 5% year-over-year in the quarter. Can you comment on how much of that 5% was raw material cost deflation versus perhaps your facility consolidations? Volumes were flat, so it would seem it would be these other categories. Any comments on that?

Matt Schlarb - *RPM International Inc - Senior Director - Investor Relations*

Yes, Steve. So almost all of that lower COGS was related to raw material deflation. So we had about mid-single-digit deflation in Q4. We started that process of consolidating the plants in Q4, but we'll really see those benefits as we progress through 2025.

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

We also had MAP benefits in terms of procurement and manufacturing work streams. And those MAP savings were north of $20 million impacting cost of goods in the quarter.

Steven Byrne - *Bank of America Securities - Analyst*

Okay. And then maybe just drilling in a little bit more in your longer-term outlook for SG&A. Does as a percent of sales in the high 20s seem right to you? Or would you consider consolidating offices and sales forces and things like that beyond manufacturing facilities?

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

Sure. So I think structurally, there is more opportunities for us, particularly in the G&A area over time. We have a goal of getting our SG&A over time down to about 26%. I will tell you that the most important asset of RPM does not show up on our balance sheet, and it's more than 2,000 individual sales reps. We have more people in marketing. And so given the nature of who we are and the entrepreneurial approach to customers in terms of sales, marketing, tech service, I do not envision consolidating sales forces.

Going back to my grandfather 70-some years ago, the more feet on the street, the better. Some of the growth initiatives that has been driving our SG&A up, it's been the addition of salespeople. And where that's not paying off, we'll adjust in a business like our Stonhard flooring business. The addition of new sales reps has meaningfully improved their business in the top line, so of our performance coatings group, they're generating solid organic growth. And so that's how we think about SG&A going forward.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

Could I ask on consumer, with the bifurcation of performance in pro versus DIY over the past couple of years, could you first just give us an update on what you think your business mix is now, pro versus DIY and consumer? Maybe we'll just start there.

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

Sure. I would guess we're probably about 70% DIY and about 30% pro. Our two primary consumer broad segments would be DAP, it would -- coats, sealants, patch and repair products and they're adding new products, and then Rust-Oleum in various small-project paint, primers, things like that. We tend to be more consumer in Rust-Oleum small-project paint. And in the Zinsser primer and DAP products, I think we're more 50-50 between consumer and pro.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

And as a follow up, you mentioned a few times that you're waiting for existing home sales to come back. And so I'm just kind of curious, is your portfolio more levered to the work that's done post home sale versus the prep work that might be done before the home goes on the market? Or are you indifferent?

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

We're getting double whammy, because in a sale, we get both. And so when you think about a home sale, people take time to fix up, patch and repair, paint and plays very much into our hands because of the nature of our products, particularly patch and repair and the small-project paint versus somebody hiring a paint contractor to paint their whole house, which is not the space that we're in today.

And then when somebody shows up into a new house, they redecorate rooms and do lots improvements. And again, that benefits us. So we benefit both on the sell and the actions taken to prepare the house for sale and on the buy and the actions that new homebuyers take. And we are not seeing that to the extent that we have in the past because we're at literally a 30-year low in housing turnover because people stuck in homes of interest rates and other factors.

It's also a significant driver of the underperformance in our specialty products group. Our industrial coatings business, which is the largest segment, almost half of our specialty products group revenues serve efficient cabinets and all kinds of wood cabinets and woodwork and doors and windows. So we are still tied into a meaningful part of what's still manufactured in the United States. It goes into housing. And that's been a challenge as well, both on the new construction side as well as on the housing turnover side as it relates to furniture or major home improvements.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

So the increase we've seen in homes for sale so far, I guess the answer would be it's just not material enough to really move the needle for you yet. Is that fair?

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

That's correct. Again, we're at a 30-year low. And unfortunately, Wall Street Journal reported just this week that housing prices hit a new high. And so the value of homes in light of the inflation that we've experienced in North America, the significant increase in interest rates, its impact on mortgages, all those are factors that are underlying dynamics that aren't great.

That's why I comment on the performance of our consumer group in light of those, with unit volume down about 1% in the quarter is really outstanding. And it shows positively in comparison to our identifiable peers. And I think we're performing well given the dynamics that are out there.

And further proof that when worm turns, we'll see some nice volume pickups, particularly related to new shelf placement for abrasives. So we're in the sand paper business and growing. It's not a category that existed for RPM three or four years ago. And we're moving in some cleaner product categories. And so there's a number of new initiatives that I think will help growth.

Operator

Mike Sison, Wells Fargo.

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

Nice end of the year. Hopefully, the Guardians can follow through. Frank, what if demand gets worse going forward? I certainly don't hope that's the case. But if things get a little bit weaker, can you accelerate some of the MAP savings to still sort of have a good year relative to your guidance?

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

Sure. So I think that our people are executing the MAP initiatives at a really high level. And I don't know that there's any accelerating those. I think it's a very methodical approach to addressing of both the continuous improvement, lean manufacturing disciplines more broadly across the globe.

Another initiative that is paying off for us, and it probably took us 20 years to figure this out is the platform approach to the developing world. We had stop-and-start efforts with our businesses as we either organically or through small acquisitions, would do acquisitions in Southeast Asia or in China or in India.

And we have a very high-performing leadership team that's based in South Africa. And given their success, because of the uniqueness of that market across our consumer brands and our construction products brands and our performance coatings brand, it was fundamentally, a Carboline business when we acquired the South African operation, so performance coatings business.

They now have sales -- they consolidated administration and production but have independent sales and market focus across almost all of RPM's brands. They are now responsible for the Middle East, Africa, India and Southeast Asia. And that's paying big dividends for us. And so that's a different approach for RPM. It's not a small base, but the growth percentages are pretty impressive, and there's a lot more to come there.

So those are the type of things, Michael, that, I think will allow us to generate positive momentum in a low-growth, no-growth environment. We don't see things deteriorating further. I think there's been a rolling recession, notwithstanding all the headlines in the manufacturing sector.

Anything that touched housing, you can see it, and that's been accretive to our supply chain supplier base that it had a challenging year. I can't speak to services or tech. But if you're in manufacturing, the last 12 or 18 months have been challenging, we don't see it getting worse.

Lastly, if it does get worse, unrelated to our MAP initiatives, there would be room, if necessary, on the SG&A area for additional expense reductions.

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

Got it. And then a quick follow-up in terms of innovation. I recall Nudura was one that had a lot of momentum, a lot in commercial areas. But have you seen any progress in moving that product into the residential applications?

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

We have and also, I think, more importantly, into commercial. And so we have a real significant effort to get Nudura specified, get it understood, communicate and educate about Nudura and get it specified into the new construction market for schools. We now have a specification throughout schools in Kentucky, for instance, following the terrible tornadoes they had a couple of years ago. We're moving it into other states, particularly states that are kind of in the Tornado Alley area.

Specification doesn't mean we'll get the work, but you've got to educate architects and engineers and builders. And then you need to build momentum, and we're starting to see that happen in the school market. So that's a nice area.

The last comment I'll make about Nudura is my wife and I had an unfortunate sewer flooding circumstance in our home in Cleveland, Ohio. And after working with our insurance company for a few months to remediate that, we made the decision to tear it down and build a new home.

And so we are in the midst of building a 5,000 square foot Nudura home, paying for it directly through the builder. New to the architect and new to the builder, and I am learning along with them, and the construction products group knows that I'm going to learn firsthand all the good things that they're talking about Nudura and what challenges there are through direct experience.

Operator

(Operator Instructions) Aleksey Yefremov, KeyBanc.

Aleksey Yefremov - *KeyBanc Capital Markets Inc. - Analyst*

Frank, what is your expectation for infrastructure sales for your business in fiscal '25 and beyond?

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

Sure. I think they're going to continue. You've got $1 trillion infrastructure bill that will impact a lot of the areas. You've got the CHIPS Act in terms of chip manufacturing in the US, and we're well positioned in our performance coatings group and construction products for some of that work. And so we would expect to see the benefits of that, I think, through 2026.

But again, you'll see a more modest sales growth than the past year just because we're rounding some very challenging comps. But nonetheless, we'll see positive growth there, and we're well positioned to benefit from it.

Aleksey Yefremov - *KeyBanc Capital Markets Inc. - Analyst*

Frank, you made some comments on reshoring, potentially slowing down this fiscal year. Is it mostly comps? Or in some of the slowdowns that you see, there could be other reasons like, I don't know, lack of resources or demand or anything like that? If you can give more color on the slowdowns that you already see.

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

Sure. It's a combination of the more challenging comparisons, but it is also a slowdown in some of the project completions. I think that whether it's -- interestingly, it's as much about labor and new facilities as it is in training up personnel to staff new chip plants or other things as it is about construction labor.

But the projects are not stopping, they're continuing. The dollars are there and committed. But I think the expectation of how they'll be spent is now going to be spread out over a longer period of time. So the impact in fiscal '26 will be -- I'm sorry, fiscal '25 will be pushed into '26 and maybe beyond versus what was a pretty good kick start in fiscal '25.

Operator

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

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

Thank you, Andrea. Well, I'd like to conclude by recognizing and thanking our more than 17,000 associates around the globe who are executing at a really high level on our MAP initiatives. It's making a huge difference for RPM and for our shareholders.

Thank you all for your participation in our conference call. And we look forward to talking to you about the development of fiscal '25 in October and to having you participate in our shareholder meeting as well that will happen at the same time. Thanks again for your interest in RPM and for your investment in research, and have a great rest of, let's say, very quickly happening summer of 2024. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.
