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PRESENTATION

Operator

Good morning, and welcome to RPM International's conference call for the fiscal 2020 second quarter. Today's call is being recorded. 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 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. (Operator Instructions) Please note that only financial analysts will be permitted to ask questions.

At this time, I would like to turn the call over to RPM's Chairman and CEO, Mr. Frank Sullivan, for opening remarks. You may begin, sir.

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Thank you, Brandon. Happy New Year, and welcome to the RPM International Inc. investor call for our fiscal 2020 second quarter ended November 30, 2019.

On today's call with me today are Rusty Gordon, RPM's Vice President and Chief Financial Officer; and Matt Ratajczak, our Vice President of Global Tax and Treasury and is also in charge of our Investor Relations.

I'll kick off the call with some comments on our second-quarter results and an update on our 2020 MAP to Growth operating improvement plan. Then Matt will review the second-quarter numbers in more detail. Rusty will conclude our formal comments with our outlook for the remainder of fiscal 2020 and then we'll take your questions.

For the third consecutive quarter, our earnings were up significantly over the prior year and ahead of expectations. Our strong bottom-line growth in the quarter was primarily driven by our 2020 MAP to Growth program, which is enabling us to grow earnings at a faster rate than our peers. Last year's selling price increases coupled with moderating raw material inflation have also positively impacted results. Revenue was up 2.8% during the quarter. Organic sales growth was up 3.5% due to market share gains and some pricing activity. We are pleased with this organic growth given the aggressive product line rationalization taking place at RPM along with the current macro environment in which we are operating.

In regard to our 2020 MAP to Growth operating improvement plan, the specific actions we have taken during the quarter included continuing to delayer management at different groups, consolidating manufacturing and shedding low-margin product lines to free up resources for more value-added, EBIT-accretive volume.

So far through the 2020 MAP to Growth program, we have discontinued product lines on an annualized basis with revenues of approximately $60 million to $70 million. We also announced the closure of three plants in the second quarter along with one more plant completed so far in the early part of the third quarter. This brings our total to 19 out of a planned MAP to Growth program 31 plant consolidations.

On a consolidated basis, we realized 2020 MAP to Growth savings in the second quarter totaling about $31 million, $9 million of which came from manufacturing, $10 million from procurement and $12 million from G&A.

As you may recall, we realized savings during the fourth quarter of fiscal 2019 and the first quarter of fiscal 2020 of $21 million and $26 million, respectively. I point this out because these successive quarterly increases in 2020 MAP to Growth operating improvement plan total savings demonstrate the strong momentum of earnings improvement that the program is generating.

In terms of our operating improvement plan, we continue to make progress in our central-led procurement function as we better leverage our spending through a consolidation of material spending across operating companies. Our strategic suppliers are finding opportunities as well so they can grow their business with RPM by capitalizing on this recent change in our approach.

Also, on the procurement side, we continue to negotiate improved payment terms with the supplier base and have added some significant supplier financing programs that provide advantages for both RPM and our suppliers.

In manufacturing, we are increasing productivity by closing underutilized plants while improving efficiency in the plants that we continue to operate, allowing us to reduce costs and improve service to our customers.

We continue to invest in training our workforce in continuous improvement disciplines, and we are seeing good progress in our plants through our focused improvement team efforts.

We are in the early innings of our accounting consolidation and expect to see the additional savings that it generates as well as savings from ERP consolidations in Wave 3 of our 2020 MAP to Growth program.

I'll now turn the call over to Matt Ratajczak to review our results for the quarter.

Matthew T. Ratajczak ***RPM International Inc. - VP of Global Tax & Treasurer***

Thanks, Frank, and good morning, everyone. Please note that my comments will be about our financial results for this year's second quarter and will be on an as-adjusted basis. We achieved record consolidated net sales of $1.4 billion, up 2.8% compared to the $1.36 billion reported during the second quarter of fiscal 2019. As Frank stated, organic sales growth was 3.5% or $47.7 million. Acquisitions contributed 0.6% to sales or $8.5 million, while foreign exchange continued to be a headwind that reduced sales by 1.3% or $17.5 million.

As Frank also mentioned, our 2020 MAP to Growth program generated significant earnings leverage to the bottom line. Also contributing to the bottom line was the margin improvement resulting from pricing and some moderating raw material costs.

EBIT increased 22% to $153.7 million for an EBIT margin of 11% versus last year's EBIT margin of 9.2%. Diluted EPS increased 31% to $0.76 per diluted share from $0.58 per diluted share a year ago. Share repurchases in the prior year's convertible bond retirement resulted in $0.02 per diluted share accretion for the quarter.

Now looking at our performance on a segment basis. Sales in our Construction Products Group was very strong and increased 6.9% to $499.5 million. Growth was largely organic at 7.4% or $34.5 million, aided by a backlog from last quarter that resulted from exceptionally rainy weather that had slowed construction activity. In addition, we picked up market share in a somewhat lukewarm North

American commercial construction market.

Acquisitions contributed 1.2% or $5.8 million primarily from the recent Nudura and Schul transactions. Organic growth was offset by foreign currency translation, which reduced sales by 1.7% or $8.1 million and also by product rationalization, through which we are discontinuing product offerings that did not meet our more stringent margin or working capital standards.

From a geographic perspective, European markets remain soft. We're combating this by reducing overhead and proactively managing our product mix to simultaneously improve earnings and margins.

Our Latin American businesses generated good growth in constant currencies. Segment EBIT increased 43.3% or $18.7 million to $61.9 million. This improvement was largely attributed to volume growth, 2020 MAP to Growth savings, pricing and the contribution from acquisitions.

Sales in our Performance Coatings Group were $292.7 million, up a modest 0.3% from last year. Organic growth was $1.7 million or $4.8 million, driven by our businesses providing corrosion control and fireproofing coatings. As we noted last quarter, the segment was reorganized under a global brand management structure, which is beginning to bear fruit. It's enabling us to pick up market share in Europe and we experienced continued growth in North America, particularly in our Carboline product line.

Impacting organic sales were strategic actions to exit soft international markets and low-margin product lines. Acquisitions added 0.1% to sales, while foreign exchange was $4.3 million or a 1.5% headwind. Segment EBIT increased 12.6% to $37 million. Much like last quarter, 2020 MAP to Growth savings provided this segment with strong earnings leverage despite essentially flat sales growth.

Operating improvement initiatives included workforce reductions and the exit from two margin-dilutive businesses. Also contributing to the bottom line was pricing and improved product mix.

In the Consumer Group, sales were strong, increasing 6% to $450.9 million. Organic sales increased 6.4% or $27.1 million, driven by new sealant and adhesive products that generated new accounts and market share gains. This segment also benefited from pent-up North American demand for exterior, small-project paints and coatings that was caused by the exceptionally wet weather during the spring and early summer.

Sales in Europe, a large percentage of which are in the U.K., were soft due to the weak macroeconomic conditions in Europe and also uncertainty surrounding Brexit. Acquisitions contributed 0.6% or $2.5 million to sales, while foreign currency translation reduced sales by 1%.

EBIT in the Consumer Group was $54.7 million, an increase of 26.8% over the prior year. This improvement was a result of actions taken, including the 2020 MAP to Growth initiatives, such as enhanced manufacturing disciplines and two plant closures, plus the price increases from last year. These programs are helping margins recover and trend higher towards historical levels.

The Specialty Products Group's top line was impacted by a difficult comparison to the prior year when demand was elevated due to natural disasters. These included hurricane activity that boosted demand for our restoration equipment and more rampant wildfires that drove demand for our fluorescent pigments, which are used in fire retardant tracer dies.

In order to accelerate growth in the segment's top line, we have made recent management changes. Segment sales were $158.2 million. Organic sales decreased 10.5%, and foreign currency translation reduced sales by 0.6%. There was no impact from acquisitions.

EBIT was $23.2 million during the quarter, which was lower than the $28.8 million of EBIT in the prior year. We continue to implement operational improvements to reduce costs in this segment, including the consolidation of the ERP system to one platform, and we also continue to invest in selective initiatives to revive growth going into fiscal 2021. We expect that the segment will see the benefits of these actions in the coming quarters.

Lastly, a comment on cash flow. For the first half of fiscal 2020, cash from operations grew by 102.4% to $300.2 million compared to $148.3 million a year ago. This increase of $151.9 million was due to initiatives to reduce working capital and improve margins.

I'll now turn the call over to Rusty for details on our outlook for the remainder of fiscal 2020.

Russell L. Gordon ***RPM International Inc. - VP & CFO***

Thanks, Matt. Looking forward to our 2020 third quarter, we expect to generate consolidated sales growth of 2.5% to 4%. We anticipate leveraging this sales growth to the bottom line for an estimated 25% to 30% adjusted EBIT growth, resulting in adjusted diluted EPS in the high teens to low $0.20 range.

Historically, our third quarter generates our most modest results each year because it falls during the winter months of December through February, when painting and construction activity is slow due to cold and snowy weather. Additionally, I should point out that based on history, we expect roughly 20% of our annual consolidated sales to be generated during the third quarter, and a proportionate amount of this fiscal year's 2020 MAP to Growth savings will result during the period as well. Our fourth-quarter results are typically the strongest as weather improves and work begins to accelerate on painting and construction projects.

Based on our results for the first half and our expectations for the remainder of the fiscal year, we are reaffirming the full year fiscal 2020 guidance we provided on July 22, 2019 and maintained in our last earnings release in October.

Our full-year sales growth is anticipated to be on the low end of our previously disclosed range of 2.5% to 4%. As previously disclosed, we expect to leverage the positive momentum of the 2020 MAP to Growth operating improvement plan to our bottom line and are maintaining our projected adjusted EBIT growth in the 20% to 24% range. We expect this will result in adjusted diluted EPS between $3.30 and $3.42 for our full 2020 fiscal year.

This concludes our formal comments, and we will now be pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from BMO Capital Markets, we have John McNulty.

John McNulty ***BMO Capital Markets Equity Research - Analyst***

Congratulations. With regard to the construction business and the pickup that you saw there and the strong volumes, I guess, when you look at the backlog of projects, I guess, how should we think about how much of that pent-up demand from the wet weather has already worked itself through? And how much may still remain for kind of the -- especially, I guess, the fourth-quarter levels as they roll through the rest of the year?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. In our roofing and waterproofing businesses, our backlog remains pretty robust. In the construction sealant business, we have seen some slowing, mostly around major projects. Our real strength is in broad distribution. So that continues to be pretty good there.

And the last comment I'll make is whether it's admixtures or roofing or waterproofing, we seem to be taking some market share because I think the growth that we're experiencing in North America is somewhat larger than what the market is delivering.

John McNulty ***BMO Capital Markets Equity Research - Analyst***

Got it. And then in the Consumer business, is there a way to figure out how much of the growth was tied to some of the channel filling that you may be doing at Lowe's and Ace versus just normal demand and some of that, again, weather-related pent-up demand? Or is it tough to figure that one out?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

No. John, it's the latter. It was really good, solid performance and good growth. No channel filling in this quarter. Clearly, we were the beneficiary of, and the flip side has hurt in the first quarter, of what was a really rainy and kind of bad weather start to the summer, which not only impacted us but impacted others. So some of the strength in the second quarter in Consumer, I think, was projects that were delayed from the early part of the summer because of the weather into the back end of the summer and into the fall, which impacted positively our first -- or our second quarter.

John McNulty ***BMO Capital Markets Equity Research - Analyst***

Got it. And then maybe just one last question. Just with regard to cash flow, you're running at a pretty high level this year given some of the work that you've done on the working capital front. I guess, as we think about the back half of the year and the uses for that cash going forward, I guess, how should we be thinking about that? It looks like you took down the $450 million note. I guess, I'm wondering how much may go toward buybacks as you're looking toward the back half.

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. As we communicated in the last couple of quarters, we expected to execute our share repurchase program a little more slowly and deliberately than the fast start we got out. As you'll recall, on our $1 billion repurchase commitment, we completed half of that inside of nine months. And so, I think the balance of it will play out over the next couple of years. You should expect to see a balance of free cash flow between share repurchases and debt repayment.

Operator

From G Research, we have Rosemarie Morbelli.

Rosemarie Pitras-Morbelli ***Morgan Group Holding Co. - Research Analyst***

Could you, Frank, could you talk about what Matt Sullivan (sic) [Mike Sullivan] has found since he joined the firm in terms of new opportunities and potentially any change in the focus from MAP and the expectation, or early expectation, of $290 million of savings?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. I think Mike Sullivan has been instrumental in helping to take over and really run the manufacturing and procurement side of our MAP to Growth program in partnership with Tim Kinser and Gordy Hyde, who are both part of RPM for a long time and really part of the team that architected the MAP to Growth program with Steve Knoop. We have exited the AlixPartners relationship entirely and are utilizing some regional consultants such that our annualized spend in the early parts of the MAP to Growth program were in the $25 million range, and now we're in the $5 million or $6 million range. So, I mentioned that as that gives you some sense of how we are internalizing some of the learnings that have come out of MAP to Growth. The work on the factory floor by our people is going really well and it's a real tribute to them.

And I think that the challenge that we face, at the board level even, is in the next 12 months, figuring out what elements of MAP to Growth are completed, such that we wave the victory flag on plant consolidation and other elements and then when elements of our MAP to Growth operating improvement initiative become permanent parts of how we operate.

Rosemarie Pitras-Morbelli ***Morgan Group Holding Co. - Research Analyst***

And no change in the $290 million worth of savings over the period?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

No. I think that, as I've commented before, there are two assumptions we made up front that in hindsight were a little bit incorrect. We assumed SG&A savings equally across the three waves. In fact, our biggest part of SG&A savings were in Wave 1, and as we get into the third and fourth quarter, we'll be annualizing those. And then the second part of SG&A savings, for all practical purposes, has been or will be deferred to the point that we complete the ERP implementations and some of the accounting consolidation that we're working on.

The other piece of it is the working capital. There's more to come there. Again, our original assumptions that we would get some of that early proved to be incorrect because, by necessity, we needed to get to plant consolidation and the continuous improvement elements initiated and completed, such that we will really start to benefit. So, you'll see, I think, more in the next fiscal year and beyond in terms of working capital conversion to cash, which we're excited about.

And as it relates to $290 million, we are on target. And I think post the original date of December 31, 2020, we will see ultimately more than $290 million as we benefit from some of these new initiatives in subsequent years.

Rosemarie Pitras-Morbelli ***Morgan Group Holding Co. - Research Analyst***

And if I may ask one more question about -- you mentioned that acquisitions were doing well. Could you give us a little more detail on Nudura, Schul and whoever else is doing better maybe than expected?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. Without getting into too much in the way of specifics, in each case, these were product lines, particularly the Nudura and Schul acquisitions, that we could integrate into our Construction Products Group and bring the marketing and sales and distribution resources of our Construction Products Group to bear on those good businesses. And so, the organic growth rates in those businesses are teens, mid- to high teens, and it's pretty exciting. I will tell you, historically, it was our 50% of revenue industrial segment that was the laggard at RPM in terms of margin performance and improvement. Having separated that into the Construction Products Group and the Performance Coatings Group, we've got two exceptional leadership teams. They're very strategic about the reorganization that we've affected, and we are seeing that in our results, and that's going to continue.

Operator

From Bank of America, we have Steve Byrne.

Steve Byrne ***BofA Merrill Lynch, Research Division - Director of Equity Research***

It sounds like you see some potential upside to that $290 million cost target -- cost savings target. When you rolled out that MAP to Growth program, you had also targeted an EBIT margin of 16% or something around 500 basis points higher than where you were at the end of this quarter. Does that still seem realistic to you? And do you see this 200-basis-point year-over-year increases that you've had these last couple of quarters, is that likely to continue based on projects you have underway?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. As we've communicated the last couple of quarters, principally related to growth, the achievement of our absolute goals are probably 12 to 18 months further out than we had originally planned. And the principal reason there is that, as you'll recall, in our November 2018 investor communication and based on our historic growth rates over the prior five and 20 years, we assume the combination of organic growth and acquisition growth of about 5.6% compounded over that three-year period.

The first half of this year, consolidated [net sales] (added by company after the call) results are up 1.8%. And so it's that growth element that's not unique to us that has caused us to communicate in the last couple of quarters that our achievement of absolute goals both in terms of $1 billion of EBIT and the margin goals are going to be pushed out a little bit. But we are still making great progress, and I think when you look at our results versus the prior year and what we hope will continue to be outperformance to many of our peers. The MAP to Growth program is working well and on track.

Steve Byrne ***BofA Merrill Lynch, Research Division - Director of Equity Research***

And Frank, you indicated you're pulling in a lot of the resources internally to run this program. Has this -- have you revisited the scope of this restructuring program to determine whether there's any other levers to pull that you hadn't previously developed?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

We are continuing to look to add elements to our pipeline. And I don't know that I would add much more to that but it's an ongoing process. Obviously, the bigger opportunities get done first. But there continues to be opportunities in plant improvement areas that we continue to add. It's why we're very comfortable in the years following the December 31, 2020 end date that we originally communicated, we would expect to see MAP to Growth savings that exceed the $290 million in total.

Steve Byrne ***BofA Merrill Lynch, Research Division - Director of Equity Research***

And then just one quick one. Wanted to ask whether your fireproof coatings and/or your fire-retardant tracer dyes are fluorinated compounds? And if so, do you see any potential human exposure pathways where you could get sucked into the PFAS issues?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. No, that's a great question, and the answer to that is no. We did pursue an acquisition for many years of a private company that would have been a good part of RPM, but they had some exposure there, and that was the principal reason that we did not acquire that business. It was subsequently acquired by a competitor. And so, as you might imagine given our past tort experience, we're highly sensitive to those issues.

Operator

From Fermium Research, we have Frank Mitsch.

Frank Mitsch ***Fermium Research, LLC - Senior MD***

In the -- looking at the 180 bps of margin improvement, I imagine most of that is MAP to Growth. Can you expand upon the pricing versus raw materials interplay in terms of margin improvement? And what your expectations are in the back half of your fiscal 2020.

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. Of that organic growth, I think, on a consolidated basis, the way to think about it is an even split between unit volume and price. Obviously, that varies differently between our segments and our business units. We have greater challenges in our Consumer segment relative to some of their unique raw materials, metal cans and packaging, seedlac, a few other items. And so, there's been some more challenges there than there have been in our industrial businesses, for instance. And we begin to annualize the largest effect of our price increases at the end of the third quarter and into the fourth quarter. And so, you'll see the benefits of pure MAP to Growth savings and what volume we can generate hit our bottom line as we annualize that price activity in the spring.

Frank Mitsch ***Fermium Research, LLC - Senior MD***

All right. So that will start to moderate in the fiscal fourth quarter. And you talked a little bit about some of the market share gains in admixtures, et cetera. How do we think about that into the back half of the year and in '21?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

It's hard to say. I -- the economic activity is -- has been weak for a couple of years in Europe and that continues. I think there's been some slowing in certain areas in North America. The good news is it seems like there is a decision on Brexit. And in our opinion, almost regardless of the near-term impact on the U.K., eliminating that uncertainty will be helpful. It appears as if the USMCA NAFTA revisited is going to get passed, that will be helpful. And so, I think that we've got really good momentum in terms of growth and market share gains in our Construction Products Group, in general. We continue to have some real strong performance in our Performance Coatings Group, specifically our Carboline corrosion control and fire proofing coatings and our Stonhard flooring businesses.

We have the manufacturing challenges in Consumer that we believe will be overcome by the fourth quarter or into the summer. And then the biggest challenge that we have and we're tackling pretty hard, is in our Specialty Products Group where the, I think, underinvestment in some of these higher-margin businesses has been a problem. We've had some leadership changes, as Matt alluded to, and are investing selectively in some new initiatives. And we would expect to see them return to positive sales and earnings growth in the new fiscal year.

Frank Mitsch ***Fermium Research, LLC - Senior MD***

That's very helpful. Can you just expand upon the manufacturing challenges in Consumer?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. We picked up a bunch of market share, I think, as folks know in certain areas, interior wood stains and finishes. We picked up some share gains in our primary small-project paint area. We had lost some share at one of our major home center customers and we've regained all that back. And we had some manufacturing issues that were of our own making. We had some environmental equipment that shut us down in one plant for a couple of weeks, that was a problem. We are investing in a significant new aerosol capacity, the installation of which caused some disruption in another major plant. And so, it's a cacophony of those types of items, including capacity issues that we're now addressing, that caused some disruptions for us. And I wouldn't -- that's probably more information than you need to know, but we worked hard to make sure that we could service our customers in light of those issues. And now we're working hard to make sure that we get those efficiencies that will hit our bottom line.

Operator

From Baird, we have Ghansham Panjabi.

Ghansham Panjabi ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

I guess, just going back to the 3.5% core sales growth for the second quarter. Can you just give us a sense, Frank, as to how it played out on a monthly basis? You touched on some of the pent-up demand, et cetera. How did that actually play out through the course of the quarter? And then just give us an early read on what you saw in December as well, if you don't mind?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. I would tell you that we had a big September, which was a -- and that was both in our Construction Products Group and our Consumer Group, and we feel that, that was a little bit outsized in relationship to some of the weather impact in the first quarter. And while not wanting to get into details month-by-month in the future, when you look at things, they're choppy. We didn't have a particularly great October and we had a really strong November. December looks good. And I think we're on track for the forecast for the third quarter, which is going to be another strong quarter with great leverage to the bottom line. As I say that, I'm looking out my window and it's snowing in Cleveland, Ohio. And so, our third quarter is always subject to weather impacts and other items given its relatively low seasonality.

Ghansham Panjabi ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay. That's helpful. And then Matt made a comment on, I think, a lukewarm North American commercial construction market. Can you just expand on that? What do you see going into this year on a calendar year basis specific to North American commercial construction?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. I think we see more of the same, and I think we're hopeful that maybe some of the uncertainty around trade will revive industrial production activity in construction markets. The biggest area of softness that we see are in big projects, things like the Apple headquarters. We had a lot of success in Canada around a very rapid build-out on cannabis -- in the cannabis industry in terms of warehousing and production. We had significant specification in the Mexico, the new Mexico City airport, which was canceled. And so, the -- if there's any disappointment or weakness, it's in that area. Our broad distribution, which really serves kind of the maintenance and repair and/or low commercial construction continues to be pretty solid.

Ghansham Panjabi ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay. Just one final one. I mean you gave us some of the cadence of MAP to Growth. 4Q, I think, was $21 million; 1Q, $26 million; and $31 million for 2Q. How should we think about that same element for the back half of the year on a quarterly basis?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. Well, yes, there are two elements there. Number one, we've annualized most of our SG&A savings and the next bank for SG&A savings will come in Wave 3. I commented on that earlier. And so, the manufacturing improvements, the plant consolidation, those flow through our P&L with sales. And so, you'll see a lower impact in Q3 because we have lower sales. That's -- the flip side is you'll see the same or more leverage to the EBIT line than we've done in the past, but it will be in relationship to the sales in the quarter. And then you'll see that pick back up again in Q4 because we have a higher sales volume typically in our fourth quarter. And so, it will follow that. And we still have pretty good momentum and we'll be in a position to talk more about what we see for fiscal '21 in April and certainly in July. But the next couple of quarters look solid and the MAP to Growth program is on track. And on the margin, we're continuing to add items to it.

Operator

From RBC. We have Arun Viswanathan.

Arun Viswanathan ***RBC Capital Markets, Research Division - Senior Equity Analyst***

Congratulations on the results and the continued progress on MAP. I guess, the first question is just on the top line. When you think about the Consumer business, you mentioned some of the manufacturing issues. Would you be able to kind of size what that maybe costs to you? And if you see that coming back in the coming quarters?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. I don't know that we would get into the detail on the manufacturing issues there, it was beyond the detail I provided on an earlier question. It was a number of challenges around capacity and our efforts to address that with a few hiccups in the process, and we would expect to begin to see that. You'll see the better impact of that in Q4 and then into the next fiscal year, as Q3, again, given the seasonal low nature of it isn't going to show up very well there.

Arun Viswanathan ***RBC Capital Markets, Research Division - Senior Equity Analyst***

And just to, I guess, dig a little deeper, when you think about the Consumer business, I know that in the past, you've mentioned that there's been some headwind from low unemployment and weakness in the small project category. Is that continuing? And how would you expect that to play out if we do see continued improvement on some of the building products and homebuilding numbers that we're seeing right now?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. The last four months for us, I guess, kind of August through this quarter, have been pretty solid in terms of consumer takeaway and project work. And we don't see any particular weakness there. A lot of the weakness that we had over the last 12 months, we believe, is weather related, going back to last spring and the early parts of the summer. And our -- for instance, our performance in the wood stains and finishes category that we picked up at a major home center, customers met or exceeded expectations in terms of what that would do. So, the performance there is very solid. The manufacturing issues that you had asked about were part self-inflicted and we've addressed those.

Arun Viswanathan ***RBC Capital Markets, Research Division - Senior Equity Analyst***

And then on Construction Products and Performance Coatings, you had mentioned some weakness in Europe. Last quarter, I think that that was definitely called out. I think you're continuing to see that. I guess, I just wanted to get your thoughts and you mentioned Brexit as well. Is it your sense that Europe, I guess, deteriorated incrementally through fiscal second quarter? And would you expect that to continue in the next couple of months? I'm just curious just given maybe an easier comp at this part of the year.

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. The -- I think the results that we've been seeing from a market perspective in Europe in the primary markets we serve there have been weak for two years. And in particular, as it relates to MAP to Growth, we have taken a very deliberate approach to looking to exit lower-margin business and in some cases, discontinue lower-margin or in a few instances, no-margin product lines. And so, we've had a better earnings performance in the European market for our Construction Products and Performance Coatings business than we've had sales performance. And it's a very deliberate process of strategically engineering a higher-margin business profile. I'd like to think with the Brexit decision and a focus on Europe that we'll see some activity in Europe improving but we don't see that as we sit here today.

Arun Viswanathan ***RBC Capital Markets, Research Division - Senior Equity Analyst***

And then just lastly, if I may, on price/cost. Looks like your price gains have been in the kind of 100 to 200 basis point range for a little while. Assuming that continues for the next couple of quarters. Or do you expect that to continue, I guess, just given raw materials are potentially entering a period maybe over the next two quarters of raw material deflation? Are we thinking about that the right way —- that is raws should continue to kind of trend lower over the next couple of quarters, but you still hold on to price? Is that a fair characterization?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

I think that's a fair characterization. In a lot of categories, the deflation that's happened in the last 12 or 18 months is ending. We annualize our price increases depending on the business unit and the segment, starting in February and through the spring. So, we won't have as much year-over-year price impact in Q3, and we will have a little or none in Q4. In a number of our businesses, our margins are still not where they were five or six years ago, so we've got work to do.

Operator

From Vertical Research, we have Kevin McCarthy.

Kevin McCarthy ***Vertical Research Partners, LLC - Partner***

Frank, you spoke to market share gains at some length, but I wanted to ask you to elaborate there in terms of where you're gaining share, why that's happening and how sustainable you think that will be. Do you think, for example, you could grow at 1% to 2% above market over the next year or perhaps longer? What sort of framework might we apply to that dynamic?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. Particularly in our Construction Products Group, I think that is about the right way to think of it and I think that's sustainable. We have been the leader in roof restoration coatings and continue to pursue both better-performing and, from a raw material perspective, more environmentally friendly bio-based resin products. And so that's going really well. We've had some significant market share gains in our Carboline product lines, our DAP product lines. And I think this spring, we'll see a couple of other market share moves in our Consumer segment that we can talk about once they've happened. So there's -- I think the thing that we're most pleased with and again, it's a great credit to the associates of RPM, the ability to keep our sales and marketing and businesses focused on their customers. At the same time, we're going through a significant change on the factory floor and across organizations. That was our goal. And so far, knock wood, that's working and we're excited about it.

I also think we've been the beneficiary in the Construction Products Group of some major competitors who have been for sale, reorganizing and we've been very focused on growth and that's helped us.

Kevin McCarthy ***Vertical Research Partners, LLC - Partner***

Okay. And then with regard to raw materials, obviously, the energy complex has become more volatile and uncertain in recent weeks. But maybe you could talk a little bit about how you see the basket trending? And also what you're doing on a company-specific basis? In your prepared remarks, I think you mentioned your procurement folks are negotiating some improved terms. So, would you expect to benefit beyond what is transpiring at the market level in terms of raw material costs?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. And I think our gross margin improvement has demonstrated that. We have had gross margin expansion in excess of many of our peers. And we've had a combination of some impact of cost/price mix between price and raw material costs, but a significant portion of it has come through centralizing our procurement activities. And we have gone in a number of categories where we've not been very well-organized to two or three suppliers from eight or 10. And with some outside consulting help, which is still involved, we've taken categories that are $50 million annual spend all the way down to $0.5 million annual spend, and we're starting to see the benefits of that consolidation. I think about half of our gross margin improvement, if we were to disclose a prime margin, and I say prime margin, a big chunk of our gross margin improvement is on the factory floor in terms of plant consolidation and continuous improvement. At the prime margin level, I would think the rough way to think about it is 50% is from a cost/price mix benefit that the whole industry is experiencing and 50% is from the benefits of centralizing our procurement activity and consolidating our supplier base.

Operator

From UBS, we have Josh Spector.

Joshua Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

Just on the EBIT bridge year-over-year, I mean, you highlighted earlier $31 million in cost savings from the MAP to Growth plan. I mean if I exclude Specialty and then look at the organic growth maybe in the low mid-single digits, it seems like there was a little bit less leverage to the bottom line than expected on that basis. Can you help maybe bridge what some of the factors would be to drive that year-over-year?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

I'm not sure I understand the question. I mean if you exclude Specialty relative to our consolidated results, then I think you would come to the conclusion that we have higher leverage in some of the other businesses. But I'm not -- maybe you could repeat that?

Joshua Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

Sure. So, I guess what I'm looking at is your adjusted EBIT for the quarter was $154 million. It was $126 million a year ago. The cost savings was $31 million. So that bridges to around $159 million. You've lost $6 million in Specialty. So, I'm looking at kind of that bridge as being roughly flat despite organic growth being 3.5% plus. And I understand some of the manufacturing issues, which might have been a factor. Just wondering if there's any other things that you would call out that might have led to like a lower year-over-year growth as a result of that?

Russell L. Gordon ***RPM International Inc. - VP & CFO***

Sure. Josh, it's Rusty here. In terms of the MAP savings we disclosed of $31 million. That's really total savings. That is not an incremental year-over-year savings. So that's maybe part of the confusion. And when I look at Specialty, just to focus on that, I see the sales were down $20 million and the EBIT in Specialty was down about a little more than $5 million. So, I think that's the normal drop down we'd see from a revenue loss. So, did that help? Or can I answer some...

Joshua Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

Yes. No, that helps. Yes, I didn't realize it was cumulative versus just what was realized in the quarter. So that's helpful.

Russell L. Gordon ***RPM International Inc. - VP & CFO***

Yes. That would be the Wave 1 and the small portion of Wave 2 savings, which we talked about last summer in our year-end earnings release. And as we discussed, much of Wave 2 is deferred to the back half of this fiscal year.

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

And you would have to net that $31 million against the disclosed MAP savings this time last year in the quarter.

Russell L. Gordon ***RPM International Inc. - VP & CFO***

Yes. And what we disclosed last year with that in year-end. The first three quarters, we disclosed $32 million savings.

Joshua Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

Okay. Great. No, that's helpful. And then secondly, just on the Performance Coatings business, I was wondering if you can give some color on perhaps the backlog within the different parts of that business. So, you noted strength in energy. Curious how you're seeing that kind of pan out with some lower CapEx potential for next year. And then maybe on the flooring side as well?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Sure. We don't see any change in the market outlook for either of those. The deferment or cutting of kind of the capital spending budgets in the energy markets of a couple of years ago when oil prices plunged, have stabilized, and those that spend seems to be back to a normal level. Our energy activity is pretty broad as well. It's everything from pipelines to windmill blades, to transmission to different refineries. One of the areas that used to be strong for us and it's been overcome by other parts of the market was offshore oil. Not a lot of activity there. But it's been a real strong area of growth for us. And quite candidly, it's been like the one exception in the European marketplace where those product lines, both through the normal spends and some market share gains, have actually shown year-over-year solid growth in the European marketplace, about the only business unit or product lines that we've seen some solid growth in Europe.

Operator

From Morgan Stanley, we have Vincent Andrews.

Steven Haynes ***Morgan Stanley, Research Division - Research Associate***

This is actually Steve on for Vincent. I guess, just two kind of quick ones. On the third quarter EBIT growth, it was a bit lower maybe than expectations. So, considering that it is a smaller quarter for you guys, but is there anything in there that is like notable to call out that could be maybe bridging that gap?

Russell L. Gordon ***RPM International Inc. - VP & CFO***

Yes. In terms of some confusion, I think you're talking, Steve, about the third quarter and not the second quarter, right?

Steven Haynes ***Morgan Stanley, Research Division - Research Associate***

Correct. Yes, the 3Q guidance.

Russell L. Gordon ***RPM International Inc. - VP & CFO***

Yes. As we tried to convey through our outlook, it's a seasonally low quarter. So, we typically do roughly 20% of our sales in the third quarter. And if you're looking at MAP savings, and I'll make this up, let's say, there's $100 million of MAP savings, we would expect evenly throughout the year, you would not get 25% of those savings in the third quarter because sales volume is down, our cost of sales is down as a percent of the total year. So that might be some of the confusion in terms of the third quarter outlook.

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. As I mentioned in my prepared remarks, the SG&A savings have been annualized, so there's no year-over-year MAP savings in SG&A. The next wave for us will be Wave 3. What has been continuing to grow is the plant consolidation and continuous improvement activity and the procurement activity. All of that gets capitalized into inventory, and then it gets realized as we sell products. And on a lower-revenue month, you're going to have lower income and a lower impact.

Having said that, a 25% to 30% EBIT growth year-over-year is actually an improvement over the EBIT growth that we just experienced in 2Q. And so, we're well on track in terms of where we are. And we're on track in terms of our internal forecast relative to what we expect in the third quarter. And it continues to be solid EBIT growth on what appears to be continuing relatively modest sales growth somewhere in the 2% to 4% range.

Steven Haynes ***Morgan Stanley, Research Division - Research Associate***

Okay. That's helpful. And then just a follow-up on Specialty. I think maybe last quarter, you mentioned that you'd kind of see some of the initiatives underway starting to kind of work its way through by the fourth quarter and kind of starting in the beginning of fiscal 2021. Is that still the timeline? Or are things maybe a bit pushed out? Like how long should we expect weakness to kind of last?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

No. That's the timeline. I think that's correct and that's what we see. You'll see them being a positive contributor to sales and earnings growth towards the back half of this fiscal year and into fiscal '21. So, I think that's exactly the timeline that we see.

Operator

From Seaport Research, we have Mike Harrison.

Michael Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

I also had a quick one on the Specialty segment. You had guided last quarter that the full-year fiscal '20 would be -- see sales flat to down slightly and now this quarter is coming in down 10.5% organically. Can you just help us frame up whether that was worse or better than you had expected? And should we still be using flat to down slightly number for the full-year sales assumption?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. I think that the performance in the second quarter was slightly below our expectations in the Specialty segment, and it's principally around some major product categories. The Legend Brands business had the impact of weather-related events for that business was very modest. And then with our Day-Glo business, I think Rusty commented on this, a major product category for them in the past has been dyes and pigments used in fire spotting chemicals, retardants, and it was a very moderate fire season compared to the past seasons, notwithstanding the publicity of the fires around Los Angeles. And so that was a slower area. Both of those are high-margin businesses that had lower-than-expected revenues and that negatively impacted the segment.

For the balance of the year, I think they'll be back on track, but they will not recover the somewhat lower-than-expected sales results in Q2.

Michael Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

Are the fluorescent tracer dyes for fire retardants; are those being used in Australia right now? Or is that not a market that you sell into?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. I don't believe so but I actually don't know the answer to that question. We can certainly find out and get back to you offline.

Michael Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

Okay. And then last question is more on the Consumer side of the business. Can you talk about what you're seeing in terms sell-through and point of sales data at your big box retail customers? Any sense of where those customers stand on inventory levels as we start to move into this slower seasonal period? Is that relatively normal inventory levels? Or are they running a little bit high?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

No. We're -- I think consumer takeaway has been pretty solid. It was choppy, as we commented earlier, relative to slow in the summer or slower-than-expected and pretty solid in the fall. We were negatively impacted by some significant inventory adjustments by some of our major customers last year. I think inventory levels are lower, and we don't expect the same impact this year that we had last year from some significant inventory adjustments by our big box customers. So that, I think, year-over-year will be a positive.

Operator

From JPMorgan, we have Jeff Zekauskas.

Jeffrey Zekauskas ***JP Morgan Chase & Co, Research Division - Senior Analyst***

At the beginning of the call, Frank, you characterized a lot of the operating profit progress is coming from the MAP to Growth program. But I was a little bit puzzled by the results because if your prices were up, I don't know, 1.7%, that would be about $24 million. And if your raw materials were down 1%, that would be another $8 million or $9 million. And so, the combination of raw materials and price increases would account for all of the operating profit growth. So, what's wrong with that analysis? In other words, how is the MAP to Growth program really influencing things given those two considerations?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. A couple of things, Jeff. Number one, I would look at our margin expansion versus our peers. And for the last couple of quarters, we have had some meaningful margin points of expansion better than a number of our peers. So that should be one touch-point because we're all benefiting from cost/price mix.

Secondly, across RPM, your assumption on raw material savings is mixed. So that's been true in our Construction Products Group and in our Performance Coatings Group, the old Industrial segment. It has not been true yet in our Consumer segment because of some of the categories that I talked about, principally packaging, and the fact that we're on FIFO accounting. So, some of the benefits that you see, finally some breaks. Some final breaks in packaging that hit this fall will show up in our results in the coming quarters. And we are, like everybody, suffering some meaningful increases in labor costs and other items. And so, I think that the simplest way to compare our results and whether MAP to Growth is working is to continue to look at our gross margin and our EBIT margin expansion versus our peers. And if it's equal to or less than, than I would suggest that your comments are correct. But if we continue to put up some pretty good numbers, you're seeing the benefits here.

The last thing I can tell you is we're closing plants. Our headcount is down by 600 or 700 people. And we are instituting successfully lean manufacturing disciplines in plants where it didn't exist before and it's hitting our bottom line.

Jeffrey Zekauskas ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. Maybe a final quick question for Rusty. What's the adjusted cost of goods sold in the quarter?

Russell L. Gordon ***RPM International Inc. - VP & CFO***

Yes. We don't disclose that. If you go to our website, you'll see that we do have some reconciliation slides that give you...

Jeffrey Zekauskas ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Right. But that doesn't reconcile to the cost of goods sold number because you don't break out the individual items and how...

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Correct. And I don't think for any number of competitive reasons that we or any of our competitors break out specifics of their cost of goods sold.

Operator

From Wells Fargo, we have Michael Sison.

Unidentified Analyst

This is Richard on for Mike. Just a quick question on M&A. How much are you assuming for your 2.5% to 4% revenue growth range? And have you seen any change to the environment right now? How does the pipeline look? And which segments do you think you'll have opportunities?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

So I don't think you'll see much in the way of impact in Q3 from M&A. And we did announce Profile Foods, which is part of our Specialty Products Group, a relatively small business. I think there's some good manufacturing synergies there. But the M&A pipeline has been a little skinny for us. And I do think, as I commented earlier, I think we're really pleased with the focus of our businesses on their customers and on the marketplace, and you can see that in our results.

If there's one area through MAP to Growth that's been a little bit disappointing, it's the revenue from acquisitions. And it's a combination, I think, of two things. Number one, price expectations on sizable deals are such that we can put that capital to better use with better returns on share repurchases and other investments. And I do think that separately, the organization has been focused on executing MAP to Growth to a certain extent in a way that has negatively impacted our focus on acquisition activity and we're working to change that.

Unidentified Analyst

Great. And just on CapEx. I know last quarter you guided $180 million of the year. Looks a little light so far in the first half. Do you expect that to step up in the second half? Or...

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

Yes. I think that's our current target. We could fall short of that just because of the ability to execute on the things that we have planned but that's still the target for the year.

Operator

And from Bloomberg, we have Christopher Perrella.

Christopher Perrella ***Bloomberg Intelligence - Research Analyst***

A question, I guess, on the pull forward from the first quarter into the second quarter and touching on the backlog. Do you expect any of that backlog or the backlogs discussed earlier to continue into the third quarter? Or you're caught up at this point with your customers?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

I think that we're at kind of normal rates. We did see a bump, let's say, between our first quarter and the beginning of our second quarter in Consumer and Construction Products. But the backlog, as I mentioned earlier, in our roofing and waterproofing businesses is very solid. And the revenue growth we're experiencing in corrosion control coatings and industrial flooring seem to be pretty good. And as long as we don't get whipsawed by weather from one quarter or another, I think we've got some pretty solid expectations for growth for the second half of the year in our Consumer segment.

Christopher Perrella ***Bloomberg Intelligence - Research Analyst***

All right. And a follow-up. So, you should see a larger working capital release with the seasonally strong fourth quarter compared to last year?

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

No. In fact, you'll see a little bit of the opposite. I think the biggest working capital improvement you'll start to see in fiscal '21. Of the $150 million of improvement year-over-year in cash flow and the impact of working capital on that, I think about $70 million to $80 million of that is a timing difference year-over-year as we have negotiated new payment terms with major suppliers and, quite candidly, focused businesses on cash flow every day as opposed to cash flow at quarter end. And so, we did have some timing differences, particularly in Consumer. And so about $150 million of year-over-year cash flow improvement from our operations, really solid number. $70 million to $80 million of that was timing, the balance of it was higher earnings and better working capital performance that's more permanent.

So, the fourth quarter -- back to your question, I think the fourth-quarter cash flow will not show much improvement, if any, because of that timing difference triggered last year. But then as we get into fiscal '21, you'll see continued strength in our cash flow generation.

Operator

We'll now turn it back to Frank Sullivan for closing comments.

Frank C. Sullivan ***RPM International Inc. - Chairman, President & CEO***

I'd like to commend our associates worldwide for their continued hard work and dedication as they simultaneously focus on growing their business and execute on our 2020 MAP to Growth operating improvement plan. By combining our entrepreneurial growth-oriented culture with the continuous improvement in operational excellence that is resulting from our operating improvement programs, we are positioning RPM for sustained growth that will provide tremendous value for our customers, employees and shareholders in the coming quarters and the coming years to come.

Thank you very much for joining us on today's call. We look forward to updating you on our fiscal 2020 third quarter results in April. Happy New Year.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.