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RPM - Q1 2020 RPM International Inc Earnings Call

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OVERVIEW:

Co. reported 1Q20 consolidated net sales of $1.47b and adjusted diluted EPS of $0.95. Expects 2Q20 consolidated sales growth to be 2-3%. Expects FY20 adjusted diluted EPS to be $3.30-3.42.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the RPM International Conference Call for the Fiscal 2020 First 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, 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. Please go ahead, sir.

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

Thank you, Hilda. Good morning and welcome to the RPM International Inc. investor call for our fiscal 2020 first quarter ended August 31, 2019. On the 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, who is leading our Investor Relations function. I'll provide some high-level commentary in our first quarter results and an update on our 2020 MAP to Growth operating improvement plan, then Matt will review the first quarter numbers in more detail. Rusty will wrap up our prepared remarks with our outlook for the remainder of fiscal 2020, after which we'll be happy to answer your questions.

The benefits of our 2020 MAP to Growth operating improvement plan, which really began to take hold during the fourth quarter of last year, carried over into the first quarter of fiscal 2020 and generated significant earnings leverage. Initiatives that proved particularly beneficial included actions to rationalize our manufacturing and distribution footprint, improve production processes and strengthen our supplier relationships through center-led procurement. In particular, during the first quarter, we announced the closure of three additional plants, which brings our total to 15 out of 31, which are targeted for the total program. Additionally, we continue to streamline our workforce with approximately 80 additional reductions, which brings our total over the course of our restructuring to slightly more than 600.

On a consolidated basis, we realized 2020 MAP to Growth savings in the first quarter to total $26 million, $7 million from manufacturing and operations, $7 million from procurement and $12 million from G&A, all of which flowed through our P&L. These efforts resulted in an increase to adjusted EBIT of 25.3% and adjusted diluted earnings per share of 25% over the prior year quarter, which exceeds our guidance despite modest sales growth in the quarter, which we had anticipated. This was the direct result of three factors: number one, the decision to exit low-margin product lines and businesses as we pursue a value-over-volume strategy in certain businesses. For the fiscal 2020 year, this will reduce revenues by approximately $40 million in total. Also, we had an extremely wet June that slowed painting and construction activity, which particularly impacted our Consumer segment and our Construction Products Group; and sluggish international markets, particularly in Europe, coupled with unfavorable foreign exchange impact on a transactional and translational basis. I should note that the improvement in EBIT margin were not just contained to one or two segments but were spread across the entire enterprise, which demonstrates the breadth and effectiveness of our 2020 MAP to Growth operating improvement program across RPM.

We continue to have a positive outlook on the outcomes of our restructuring program, and as a result, repurchased approximately $100 million of our common shares during the quarter. This was in addition to the $200 million we repurchased during fiscal 2019. When combined with the $200 million cash redemption of our convertible notes in November of 2018, we are approximately halfway through our 2020 MAP to Growth goal of repurchasing $1 billion of our stock.

I'll now turn the call over to Matt Ratajczak for a more detailed review of our financial results in the quarter.

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

Thanks, Frank, and good morning, everyone. Before walking through our financial review, I'd like to remind you of two changes that we communicated on our last earnings release on July 22. First, beginning this quarter, there is a change in classification of shipping costs paid to third-party shippers. We recast these costs from SG&A into cost of goods sold. This change puts us in line with how our peers and most other manufacturers classify shipping costs and provides investors with a better point of comparison. It does not impact EBIT. And second, we realigned the business into four reportable operating segments from our previous three operating segments. The new operating segments are the Construction Products Group, Performance Coatings Group, Consumer Group and Specialty Products Group. The goals of this change are twofold: to position the business for accelerated growth and to also provide our investors with greater visibility into the company while providing better comparability among our peers. Starting with this first quarter, we're reporting our results under this four-segment structure. We are providing comparable fiscal 2019 financials that have been recast to reflect both the change in classification of shipping costs and the effect of the segment realignment.

Next, I'll walk through our financial results for the quarter. Please note that my comments will be on an as adjusted basis. During the quarter, we achieved record consolidated net sales of $1.47 billion compared to the $1.46 billion reported during the first quarter of fiscal 2019. Organic sales growth was nearly flat. Acquisitions contributed 2.3% to sales or $34.1 million, while foreign exchange was once again a headwind that reduced sales by 1.3% or $19.5 million. As Frank indicated, our strong bottom line performance was primarily driven by our operating improvement initiatives, which generated significant earnings leverage. Also contributing to the bottom line was a margin recovery resulting from last year's price increases.

Raw material costs were up slightly, and we experienced increased costs for labor. First quarter EBIT increased 25.3% to $192.6 million, and diluted EPS increased 25% to $0.95 per diluted share from $0.76 per diluted share a year ago. The combination of our share repurchases and last year's convertible bond retirements resulted in a $0.05 per diluted share accretion for the quarter.

Now turning to our segments. Sales in our Construction Products Group increased 3.6% to $536.1 million during this year's first quarter, primarily driven by acquisition growth of 4.4% resulting from the Nudura and Schul transactions. Organic growth added 0.7%, while foreign exchange reduced sales by 1.5%. This segment also benefited from strong performance of our basement waterproofing solutions business as well as recovery in our Brazilian operation, which generated significant sales growth.

Impacting our North American businesses in the segment were labor shortages and June weather conditions that delayed construction activity. Additionally, sales were discontinued in certain product lines and geographies as a result of strategic decisions to exit low-margin, high-risk working capital operations.

Segment EBIT increased 23.1% or $16.3 million to $86.9 million. The improvement in EBIT was substantially driven by savings from our restructuring program, including management delayering, plant rationalization and improved manufacturing disciplines.

Sales in our Performance Coatings Group were $297.2 million. Organic growth was 0.4%. Acquisitions added 1.8%, while foreign exchange reduced sales by 1.9%. Despite modest sales growth, savings from our 2020 MAP to Growth plan provided significant earnings leverage in this segment. EBIT increased 31% to $36.9 million during the first quarter of fiscal 2020. The Performance Coatings Group generated the highest earnings growth out of all of our segments during this quarter driven by reduction in its operating footprint and strategic decisions to exit low-margin businesses. The segment also benefited from management delayering as it executes a reorganization towards a global brand management structure.

In the Consumer Group, sales were $479.3 million during the first quarter of fiscal 2020. Organic sales increased 0.1%, while acquisition growth contributed 1.3%. Foreign currency translation reduced sales by 1%. Segment sales were dampened by four factors: first, a difficult comparison in the prior year due to load-ins; second, a soft economy in the U.K. related to Brexit; third, rainy weather in June; and fourth, deferred promotional activity by big box retailers.

EBIT was $61.7 million, an increase of 18.6% over the prior year. Consumer Group's improvement in EBIT was largely due to a favorable year-over-year comparison resulting from $10 million in associated costs from legal settlements during the first quarter of fiscal 2019. Additionally, segment results in the first quarter were impacted by confluence of factors. As part of our MAP to Growth program, which we kicked off over 1 year ago, we reduced headcount and rationalized our manufacturing footprint. These initiatives led to bottom line savings. However, greater-than-expected market share gains at the end of FY '19 led to elevated costs incurred by outsourcing production in order to service this increased demand. As a result, we are investing in new equipment, improving production methods and leveraging our internal manufacturing network to provide increased capacity and produce more efficiently.

The Specialty Products Group experienced sluggish demand in the OEM, manufacturing and international markets it serves, which impacted the top line. Segment sales were $160.1 million in the first quarter of fiscal 2020. Organic sales decreased 4.3%, and foreign currency translation reduced sales by 0.8%. However, on the bottom line, EBIT margin improved by 230 basis points during the quarter and EBIT increased by $2.2 million or 8.5% to $28.6 million. This was due to good cost discipline, manufacturing yield improvements and restructuring activities from our 2020 MAP to Growth program.

Next, a few comments on cash flow and our effective income tax rate. During the fiscal 2020 first quarter, cash generated from operations was $145.1 million compared to cash used for operations of $7.1 million a year ago. This increase was due to improved earnings and margin improvement initiatives as well as a carryover impact from the prior year removal of certain early cash payment discounts, which effectively shifted approximately $100 million in receipts from the fourth quarter of fiscal 2019 to the first quarter of fiscal 2020, which we discussed in our previous earnings release.

Lastly, as expected, our effective income tax rate for the quarter was higher this year versus in the prior year's first quarter, which was impacted by more favorable discrete tax benefits. The higher effective tax rate resulted in lower diluted EPS of $0.05 as compared to last year's first quarter.

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. As we look ahead to the second quarter of fiscal 2020, we expect to generate consolidated sales growth of 2% to 3%. We expect to leverage the sales growth to the bottom line for an estimated 20% to 24% adjusted EBIT growth, resulting in adjusted diluted EPS in the low to mid-$0.70 range.

Looking ahead to our fiscal 2020 third and fourth quarters, it is important to note the seasonality in our business. Historically, our third quarter provides our most modest results each year because it falls during the winter months of December through February when painting and construction activity slows due to cold and snowy weather. Our fourth quarter results are generally stronger as work begins to accelerate on painting and construction projects.

Given our first quarter results and our expectations for the remainder of the fiscal year, we affirm the fiscal 2020 full year guidance we provided on July 22, 2019. Revenue growth is anticipated to be at the low end of our previously disclosed range of 2.5% to 4%.

Despite the timing of our revenue growth assumption, we expect to leverage the positive momentum of the 2020 MAP to Growth operating improvement plan to our bottom-line results. Therefore, we are maintaining our adjusted EBIT growth guidance in the 20% to 24% range as previously reported in July. We expect this to result in adjusted diluted EPS between $3.30 a share and $3.42 a share for the full year of fiscal 2020.

This concludes our formal comments. At this point, we will be pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have a question from John McNulty from BMO.

John Patrick McNulty - BMO Capital Markets Equity Research - Analyst

Congratulations on solid results. I guess a couple of questions. The first one would be in the consumer business; it sounds like some of the new business that you had won has been big enough where you've actually had to outsource some of the production for that at least. I guess how long do you expect that to last before you kind of rightsize the business to the growth that you've won? And how should we think about the cost pressures that you're seeing and when they start to subside there?

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

Sure. You'll start to see a meaningful improvement in the second quarter, and we're seeing it as we speak. The first quarter results for Consumer are not indicative of what they are doing now or what they'll be doing for the balance of the year. We had two issues. Number one was significant market share gains throughout the year starting in the first quarter of last year with the wood stains and finishes pickup. And then the second issue quite candidly was some self-inflicted wounds that resulted in some manufacturing issues. When you are closing plants and you are, as we are across RPM, instituting common manufacturing measurements and disciplines pretty aggressively across your businesses, and you've got a business, in this case Rust-Oleum, that was operating near capacity, we caused some hiccups. So that resulted in outsourcing at significantly higher costs. Most of that is behind us, and we will be spending this year and into early next somewhere around $30 million in additional paint making and filling capacity to continue to meet the demands in the marketplace.

So those are issues that negatively impacted our first quarter that really had a good story underneath them, and you will see somewhat higher sales growth and leverage to the bottom line on the EBIT line in Consumer that's more consistent with the leverage you're seeing across RPM on a consolidated basis starting in Q2.

John Patrick McNulty - BMO Capital Markets Equity Research - Analyst

Got it. That's helpful. And then with regard to Michael Sullivan, I know he started with you, I guess now, a few months ago. I guess any first impressions or thoughts on new opportunities around the MAP to Growth program from him?

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

Sure. So, Mike Sullivan is off to a great start. Just to remind folks, he started officially in June. We have regularly scheduled Board meetings starting this afternoon and tomorrow. In our Annual Meeting of Stockholders, he'll be presenting to our Board and he'll be present in our Stockholders Meeting. And he's identifying some different areas and also completing the buildout of the internal team that we need to continue the operating improvement and continuous improvement initiatives that we've undertaken at RPM. So, I would expect us to see a phaseout of what has been a significant month-by-month and quarter-by-quarter third-party consulting costs as we get into calendar 2020. He's off to a great start.

John Patrick McNulty - BMO Capital Markets Equity Research - Analyst

Great. And then maybe just one last question. It sounds like on the raw material front, it was maybe a little bit more benign than it had been in the prior couple of quarters but not necessarily a surge in improvement. I guess how are you thinking about raw materials as we look out through the rest of the year given that it looks like a lot of commodity prices really have rolled over recently?

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

Sure. We are seeing some relief in major categories, and that's partly reflected in our numbers. But we have continued to see some tariffs and metal can impact. Those things should ease. Again, I would remind people that we're on a FIFO basis, so you're looking at raw material issues that we were dealing with 60 or 90 days ago that are showing up in our results today. So, it is a much more benign environment than it's been over the past two years. The biggest part of the gross margin improvement and raw material improvement have been from the centralized procurement effort that we have undertaken in earnest.

Operator

Our next question comes from Frank Mitsch from Fermium Research.

Aziza Gazieva - Fermium Research, LLC - VP of Equity Research

It's Aziza on for Frank. First question, I was hoping that you get to some of the underlying expectations of the construction markets that underpin the EBIT and EPS forecasts.

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

So the Construction Products Group as a newly configured group over the past year under the leadership of Paul Hoogenboom and his team are off to a great start. And I think the results and the top line, which were up 3.6%, will reflect well when other similar companies publish their September 30 results. But we are exiting product lines and businesses that are lower margin, so that's having a negative effect. The flip side is the integration of Dryvit and Nudura into the Construction Products Group of Euclid and Tremco is kickstarting some growth and efficiency there. And Paul has assembled a really good team, and we're really excited about what we're seeing there.

I think when you look at Q1, and you're going to see more of the same in Q2, the former industrial segment of RPM, which was our lowest-margin business, is now reporting as our Performance Coatings Group and our Construction Products Group. And you're seeing significant margin improvement in both. The opportunities in both of those segments to consolidate some former independent businesses save some costs and take a more global approach to their markets is pretty exciting.

Aziza Gazieva - Fermium Research, LLC - VP of Equity Research

Okay. And you elaborated on some of the trends you saw through the months in this past quarter. Can you give some details by region or just demand trends you're seeing -- you saw through September?

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

I guess the only comment I would make about our start to the second quarter is the geographic trends aren't changing. Europe is not any better. The U.K. Brexit situation, if anything, is worse. Latin America is a mixed bag. Brazil is recovering nicely after nearly three years of challenges. On the flip side, Argentina, which is smaller for us but still an area where we have business in both industrial and consumer markets, is a mess. So that's a mixed bag.

The last comment I'll make is if June was September, we would have had a better first quarter. The sun shining, and if you're in our Consumer business or our Construction Products business, that's a good thing. It's only one month out of the quarter, but it certainly helped us. It's part of the reason why we feel like in our forecast, you'll see some slightly better sales numbers year-over-year in Q2 than we saw in Q1.

Operator

We have a question from Rosemarie Morbelli from G. Research.

Rosemarie Jeanne Pitras-Morbelli - G. Research, LLC - Research Analyst

Frank, I was wondering if you could give us some details on the different underlying markets. You usually make comments generally on that particular subject but today you didn't. So if you could, that would be helpful.

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

Sure. I just commented a little bit geographically to Aziza. But in general, the geographic situation has not changed. The solid growth that we've been experiencing in North America for the last couple of years is still positive but slowing down. So, we're seeing a little bit slowdown in the construction markets, especially big projects. It impacts our Construction Products business somewhat less than some of our competitors because we tend to have a broader focus on distribution that serves small to medium-sized projects. Industrial capital spending seems to be slowing a little bit. And then the other comment I would make is with the strength of the dollar, foreign exchange, both transactional and translational, were a headwind in Q1 and we anticipate that in Q2 as well.

Rosemarie Jeanne Pitras-Morbelli - G. Research, LLC - Research Analyst

So while the large construction projects are slowing, your main focus is on maintenance. So, could you touch on the maintenance environment in terms of roofing, for example, et cetera? This is what I meant, not geography but markets, end markets.

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

Absolutely. And as I said, the Construction Products Group had revenues up in the first quarter 3.6%, and that was despite the rainiest June in recent memory, which negatively impacted Tremco Roofing, Dryvit, some pretty sizable businesses in our Construction Products Group. You'll see, I think, some better growth numbers in the fall in part related to weather. And I think there's good excitement there. We're taking some market share in certain places, and the consolidation of Dryvit and Nudura into the Construction Products Group is opening up those product line and businesses to the broader sales force and distribution of Tremco Sealants and Tremco Roofing. So, there's some good synergy, market synergy, with this combination as well that I think will benefit us for the balance of fiscal '20.

Rosemarie Jeanne Pitras-Morbelli - G. Research, LLC - Research Analyst

And then if I may, two questions on the anticipated savings of $290 million. You were ahead in 2019, ahead of your expectations. Are you seeing additional savings now that you are behind -- I mean, not behind, but you are done with 2019? And then as you are just about to have your Board meetings, should we expect additional dividend increase? And can you remind us of your dividend policy?

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

Sure. To answer both those questions, the -- first, the dividend policy, we've increased our dividend for 45 consecutive years. And in our Board meeting tomorrow, it is highly likely that we will increase our cash dividend to shareholders for our 46th consecutive year. I think it will be somewhat more modest than what we've done over the last 3 or 4 years where our dividend increase has been in the 7% or 8% range, in part reflecting the significant return of capital to our shareholders over the last 9 months with our share repurchase program. And so -- but I think it's highly likely that we will continue our dividend -- consecutive dividend increases. It's a hallmark of RPM that we would hope to continue for a long time. And your second question, Rosemarie?

Rosemarie Jeanne Pitras-Morbelli - G. Research, LLC - Research Analyst

Any change in the target of $290 million in savings now that the year of 2019 was ahead of schedule?

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

No. We're highly confident in achieving the $290 million of savings that we projected for our MAP to Growth program and disclosed publicly in November 28 of last year, and we remain ahead of that curve. But as we communicated in the last quarter, it's likely that our absolute goals will be achieved 12 months or so later than we anticipated because of the lower growth levels that we and everybody around us are experiencing. But the MAP to Growth program is continuing to build. We're building in our -- what's called the PMO, so building new projects. And we have good momentum, and one of our challenges is to keep that momentum up for the next 18 months.

Operator

We have a question from Steve Byrne from Bank of America.

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

You had put out a 16% EBIT margin target as part of this MAP to Growth program. At this point, how would you assess your level of confidence on hitting that and maybe the timing of that? And whether you've gained any confidence in the last couple of quarters about potentially some new initiatives that you might engage in restructuring.

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

Sure. So, as I commented on an earlier question, our absolute goals, the $1 billion in EBIT and the related EBIT margin goal are probably 12 months out in terms of where we originally projected mostly because of the slower growth. But the MAP to Growth initiatives themselves are ahead of schedule. We have a firm -- just as one example, a different firm in looking at our indirect spend. And we're hopeful that, that effort will add maybe somewhere in the $10 million to $20 million range. That's relatively new, but we are chasing from a procurement perspective not only our significant raw materials but paper cups and pencils if we can save money on it. We're continuing to find things that we can add to the pipeline and maintain the momentum of savings.

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

And then just a couple of high-level questions on your consumer segment versus where you were 1.5 years ago before the Sherwin-Lowe's exclusivity deal went through. How would you assess your business with each of those two big box retailers now? And how much of your Consumer business is sold through e-commerce?

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

A couple of questions. Number one, I think that our Consumer business, really good leadership, and we're continuing to do really well across all our customers and channels in caulks and sealants, patch and repair products. The wood stains and finishes program is going well and our relationships are strong. As I commented earlier, we had some self-inflicted hiccups in manufacturing. When you are aggressively pursuing the things that we're pursuing, we're going to stub our toe here and there, and it's for the right reasons. And so, we have corrected that. That caused us to do some outsourcing, which hurt our margins.

In terms of customers, I think we're solid with all our customers. The only specific comment I'll make is a year ago or 1.5 years ago, we had commented in the big strategic issue of a competitor that resulted in about a $22 million loss of business at Lowe's. As of the beginning of the summer, we picked up $16 million to $18 million of that lost business back at Rust-Oleum. So, we're continuing to focus on serving our customers in the primary areas that are our expertise and strength, which is small project paint, spray paint, wood stains and finishes, patch and repair, caulks and sealants.

I mentioned that, you know that. But those are our focus. We wake up every day and think about innovation and how to serve customers in those markets while we're competing with some major players who are principally architectural paint folks, which is not a space that we're much involved in.

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

And e-commerce for you, Frank?

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

Yes. E-commerce, I would tell you, in our Consumer segment, it's probably $15 million or $20 million, and it's our largest pieces with our largest customer. We do some through some online retailers. Interestingly enough, for instance, we actually sell some spray paint online. The nature of spray paint in terms of unit costs, in terms of shipping of a flammable good would not suggest that that's going to be a big category. But if there are orders at major customers or through some e-commerce folks, we'll fill them.

Operator

The next question comes from Vincent Andrews from Morgan Stanley.

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

This is Steve Haynes on for Vincent. Quick question on maybe cash generation. Can you maybe just lay out how you're thinking about the cash generation in 2020? I know there's $100 million kind of timing issue last year, but how do we think about the year-over-year kind of growth in free cash generation?

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

Sure. As you saw, we had a different fourth quarter cash generation at the end of fiscal '19 than we had in prior year. We had changed some of our approach and terms with suppliers, as well as internally. What we ended up with was just a function of timing, and you saw that in our first quarter where we had a greater and strong cash generation in Q1. Some of that was just good strong execution, and a big chunk of that was timing difference between fourth quarter and first quarter.

Over the life of the MAP to Growth program, we expect to see $230 million and I think more of reductions in working capital versus the original base. And you'll see stronger cash generation, both as we become more efficient on the plant floor, more efficient in working capital and have higher margins. And so we're on track for that. The hiccups to that in fiscal '20 are the significant cash costs of outside consulting firms, which will start to wind down after January 1, and an extraordinary amount between ERP implementations and some PP&E. I would guess about $70 million or $80 million of extra CapEx that as we get through MAP to Growth will not be repeating. Those are temporary. Other than that, our projections for improved cash flow are on target.

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

Okay. And then maybe just a quick follow-up. There was a comment about deferred promotional activity at some of the big boxes. I guess if you could just maybe give a little bit more color on that and what was behind that, if there's just maybe a timing thing or...

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

Just a timing issue between Q4 and Q1 and Q2. And some of that relates to weather issues, some of that relates to some of the manufacturing hiccups we had and our ability to pursue maybe some more aggressive sell-ins that we deferred because of those issues which are now behind us.

Operator

The next question comes from Kevin McCarthy from Vertical Research.

Kevin William McCarthy - Vertical Research Partners, LLC - Partner

Frank, I think you alluded to $30 million of spending on capacity. And in your answer to the prior question, it sounded like there's going to be some temporarily elevated CapEx. I guess my simple question will be what is your capital budget for fiscal 2020? And to the extent that you have visibility, how do you see that evolving going forward?

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

Sure, Kevin. This is Rusty here. In terms of fiscal '20, we're expecting CapEx to be about $180 million, and about half of that is related to MAP to Growth. So, there's probably about $90 million of baked CapEx. And of the $90 million related to MAP to Growth, probably nearly half of that, maybe $40 million or so, is related to ERP consolidations that we're doing as we go down from 75 instances to four. The rest is production-related as we consolidate production, and we have other cost reduction projects going on and capital investment as well.

Kevin William McCarthy - Vertical Research Partners, LLC - Partner

Okay. So that level does not seem dramatically different than what you had previously contemplated. Is that correct? So these spends that you're referencing are essentially part of the plan. Is that a fair takeaway?

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

Yes. That's right. Yes. It should be exactly what we said in July.

Kevin William McCarthy - Vertical Research Partners, LLC - Partner

Very good. And then my second question, I guess to come back to Consumer, in the prepared remarks, I think you referenced four headwinds there, load-ins, the United Kingdom, June weather and some promotional activity related to the big boxes. Obviously, June weather is behind you. Can you flesh out the other 3 issues and maybe help clarify for us whether all of those are behind you or whether there any lingering effects into the current quarter, if any?

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

I will tell you, you should see better sales results, modestly better in the current quarter. The weather issue is not a problem in September, and that's good. We can see it in consumer takeaway. We can see it in our Construction Products Group. The European issue and the Brexit issue were not changing. There's not as much foreign exchange impact in Consumer as there is in our Performance Coatings Group or Construction Products Group, but it exists. That's not changing. And the hiccups that we had from a manufacturing perspective are mostly behind us. So, from a cost perspective, we won't be incurring the same challenges that we had in Q1.

Operator

The next question comes from Jeff Zekauskas from JPMorgan.

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

Were your average prices up between 1% and 1.5% in the quarter?

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

More like 2% across RPM.

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

2%. And U.S. interest rates have come down. Do you think that that's going to make a difference to the construction sector? That is, do you think even though you've got a little bit of slowing, you expect that to lift in its growth pattern? Or, do you think because we're at such a low level of interest rates to begin with, it doesn't really make much difference?

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

I am -- we're not economists here, but I think from our perspective, the upside to us in the next year that we're not counting on, and this will be true for a lot of businesses, would be the elimination of a lot of the distractions around trade wars and tariffs. And there are things that could be corrected politically. If they're corrected, when you look at our first quarter, and I think you'll see similar results in Q2, the leverage that we're putting on our bottom line to modest sales growth is pretty solid. If we can find a way, and economic health would certainly be welcome, to generate another 2% or 3% of sales growth, you'd really see that bottom line the same. That's not in our forecast. We're not counting on it. But there is a scenario in which some of the economic disruptions out there globally get resolved or get better. And that can certainly pick up the housing market and the construction markets. And I'm -- we're hopeful that, that will happen but it's not in our forecast for the year.

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

I realize that you had all kinds of weather events in the quarter, but was there organic volume growth in any of your businesses this quarter?

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

I think the area where we had the best organic growth was in our Construction Products Group when you carve out the revenues that they are eliminating. On a consolidated basis, we are going to shed about $40 million of revenues this year, but our growth in control coatings business is having a rock-solid year. We just picked up a contract for the Eiffel Tower, which will be a nice piece of business for maybe as much as 9 months. We are taking market share in a lot of places there. The TBS business of our Construction Products Group, which is a below grade, and in many instances, residential-level waterproofing is having high single-digit revenue growth. There's a number of areas where we're doing well. The caulks, sealants, patch and repair products business had organic growth of nearly 10%, really good business there. And some of it's market share, some of it is a combination of kind of small contractor as well as DIY. So, there's a lot of patches of good growth.

The flip side is our Specialty Products Group. You're not going to see in the rest of the year a lot of leverage in the bottom line. With nearly 18% EBIT margins, we don't have an EBIT margin problem there. We have a growth problem, and we're addressing that with some select investments and, in some cases, some leadership changes.

Operator

We have a question from Mike Sison from Wells Fargo.

Michael Joseph Sison - Wells Fargo Securities, LLC, Research Division - Research Analyst

Nice start to the year. Frank, when you look at your outlook for sales in 2020, given the environment still doesn't seem easy, but if you do that, the low end, 2.5%, pretty good achievement there. But can you maybe walk through some of the components? I know you'll have some pricing there, you'll have some acquisitions, FX will be a negative. And just want to get a clearer feel for what your volume outlook will be this year.

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

So, I think you'll see some better volume growth in Consumer versus what we reflected in the first quarter. As I commented earlier, we're seeing some nice pickups in some of the now being integrated Construction Products Group companies like Nudura and Dryvit. And so, I think for the balance of this year, we can pick up some revenue growth just by expanding the specification and sales and distribution more broadly for those businesses. That doesn't last forever, but that's still going on. And then we'll have pockets in our Performance Coatings Group like our Carboline business that continue to put up solid numbers.

And so those are the things that make us feel like we'll hit the bottom end of that. The other thing that's worth noting is most of the acquisition activity that we reported in Q1 and that will impact Q2 starts to be annualized. At this stage, there isn't much in the way of acquisition activity planned for the second half of the year.

Michael Joseph Sison - Wells Fargo Securities, LLC, Research Division - Research Analyst

Got it. And then when you think about acquisitions going forward in this environment, can you maybe talk about the backlog or the project acquisition pipeline? It might be challenging in this environment to understand what you're buying in terms of earnings power, but just give me your thoughts on what you think -- how you think about acquisitions going forward.

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

Our small to medium-sized acquisition program is generally alive and well. I will tell you that our pipeline is a little thinner than it's been for a while in part because we've got most of the leaders of RPM focused on executing on our MAP to Growth program. And so we're working on that. I think that will continue to be an important part of adding revenues and leveraging it to our bottom line in the coming years. But as I commented a minute ago, the second half of this year will likely not have much acquisition impact because of how we're annualizing transactions that were done last year. And I think a small low-end acquisition activity that we hope to see pickup.

Operator

The next question comes from Kevin Hocevar from Northcoast Research.

Kevin William Hocevar - Northcoast Research Partners, LLC - VP & Equity Research Analyst

Frank, I think you mentioned that MAP to Growth added $26 million to EBIT in the first quarter. But looks like EBIT grew $39 million in total. So, what would you say that other $13 million of EBIT growth is? Because organic growth is pretty flat, but you mentioned price was positive. So, is that price/raws? Is it you had some acquisitions? Is the acquisitions adding? What would you say drove the balance of that EBIT growth?

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

Sure. If you carve out our MAP to Growth savings, EBIT would have been up -- this is rough because you can't be exact, but EBIT would have been up in the 8% to 10% range on basically a 1% gain in revenues, so pretty solid. And that's a combination of price/cost mix, which has been negative for two years and is now finally moving in the right direction on the gross margin line. The impact of acquisitions is small but they certainly contribute some.

And then the reason it's not exactly a precise number is our businesses have demonstrated really good SG&A discipline and leverage. Measuring how much of that would have happened without MAP to Growth per se or how much of it is MAP to Growth is a judgment call. So, I think the way I would look at it internally, the way I do look at it internally is that EBIT would have been up in the 8% to 10% range, excluding the MAP to Growth, and the balance of that is the MAP to Growth range. Pretty good leverage still on what's very modest revenue growth, and we'll keep plowing away.

Kevin William Hocevar - Northcoast Research Partners, LLC - VP & Equity Research Analyst

Yes. Perfect. And then on the -- last quarter, you gave some sales guidance by segment with mid-single digit growth expected in Construction and Consumer and low single digit in Performance and Specialty. Curious if there's any updates given your lower -- I guess move to the low end of the sales expectation range for the year and just what you're seeing last several months. Does that change at all? Or are those still good expectations for the year?

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

Sure. Kevin, this is Rusty. I would say one major change has been the impact of Brexit and the strengthening U.S. dollar. U.S. dollar I read yesterday is at a two-year high against foreign currencies, including the euro for that matter. And the FX impact on sales definitely looks like more of a headwind than we anticipated as we started off the year.

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

Let me answer that by segment a little bit. I think you'll see -- as we highlighted, I think you'll see somewhat better sales results in Consumer, not only for Q2 but for the balance of the year versus Q1. I think you'll see better sales results in our Construction Products Group, so both of those kind-of low to mid-sales growth. Our Performance Coatings Group is going to be kind of flat-to-low for the balance of the year. Some of that is a result of very deliberate decisions to exit or discontinue product lines or businesses. Most of those are kind of faraway, relatively small overseas businesses that don't have the margins that we'd like to see.

And then the most challenged segment we have for the balance of the year will be our Specialty Products Group. And in that case, I think we're seeing flat to slightly down revenues. For the reasons Rusty mentioned, foreign exchange will be a hit. They're annualizing tougher comps. But we've got some growth issues and some of those businesses, high-margin, really solid businesses. We have a new leadership team at Day-Glo, a new leadership at our TCI business. I could go down the list and some selected investments. So, you're going to see the much-challenged revenue segment for us to be Specialty Products. All great businesses, all high margin. And hopefully, you'll begin to see the benefits of the changes that we're making in the fourth quarter and in fiscal '21.

Operator

We have no further questions at this time. I would like to turn the call back to Mr. Sullivan for final remarks.

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

Thanks, Hilda. I'd like to remind everybody that tomorrow afternoon at 2:00 at the Crowne Plaza in Middleburg Heights is RPM's Annual Meeting of Stockholders. We regularly welcome 800 to 1,000 individual shareholders and a handful of institutional shareholders to our Annual Meeting. And lastly, I'd like to close by recognizing the RPM associates around the world who are doing a great job on executing on our MAP to Growth program. And when we get through this program, the entrepreneurial spirit and culture of RPM, combined with the operational excellence and continuous improvement culture that we are instituting, is going to be hugely successful both in the marketplace and for our shareholders. Thank you very much for your time in the call today. We look forward to providing you our second quarter results in early January of 2021. Have a great day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. We thank you for participating. You may now disconnect.
