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RPM - Q3 2019 RPM International Inc Earnings Call

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OVERVIEW:

Co. reported 3Q19 consolidated net sales of $1.14b. Expects 4Q19 adjusted diluted EPS to be $1.12-1.16.

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PRESENTATION

Operator

Welcome to RPM International's conference call for the fiscal 2019 third 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. Please go ahead, sir.

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

Thank you, Richard, and good morning. Welcome to the RPM International Inc. investor call for our fiscal 2019 third quarter ended February 28, 2019. On the call with me today are Rusty Gordon, RPM's Vice President and Chief Financial Officer; and Kristine Schulze, our Senior Director of Financial Reporting.

I'll begin by providing broad perspective on our third-quarter results, after which Kristine will run through our numbers in more detail. She'll be followed by Rusty Gordon, who will provide a progress update on our MAP to Growth operating improvement plan and share our outlook for the balance of the year.

Note that during our comments, we will walk through some slides that we have posted on the Investor Information section of our website, which can be found at www.rpminc.com, which illustrate progress on our MAP to Growth operating improvement plan. After this, we'll take your questions.

During the fiscal 2019 third quarter, we generated consolidated sales of $1.140 billion, which was an increase of 3.4% over the same period in fiscal 2018. This was a solid performance during what is our seasonally slowest quarter due to winter weather conditions across many of the countries and markets we serve. Organic growth was 4.3%. Acquisitions contributed 2.1%, while foreign exchange was a significant headwind, mostly in our industrial segment, which reduced sales by 3%.

From a geographic perspective, our companies in North America, and particularly in the United States, performed well. While international operations, particularly those in Europe and Latin America, were challenged, reflecting challenging macroeconomic conditions in those regions. Price increases helped to offset higher costs for freight, labor, energy and raw materials, which were higher for the seventh straight quarter. Current-quarter EBIT finished behind last year's third quarter, when EBIT was up an extraordinary 53% over the prior year due to a number of nonrecurring items. However, we see this quarter's adjusted EBIT of $46.9 million, which is our second best third quarter ever, as still strong as it was well ahead of our third-quarter average EBIT of $37.8 million during the 3-year period from fiscal 2015 through fiscal 2017.

Our current quarter gross profit margin was 60 basis points behind the 2018 third-quarter results, which was less deterioration than prior quarters. While our MAP to Growth savings initiatives are taking root, the fiscal 2019 third-quarter gross profit margin reflects a combination of moderating inflation, MAP to Growth improvements and an unfavorable product mix.

In looking at our SG&A on a comparative basis, last year's third-quarter SG&A was favorably impacted by an incentive reversal of $3.4 million, something we mentioned on our January conference call, while this year's SG&A includes additional expense from recent acquisitions and continuing higher advertising and distribution costs. Implementation of our MAP to Growth operating improvement plan has moved rapidly, and we are making significant progress towards our goals. While we are starting to experience some benefits from our MAP to Growth operating improvement plan, due to FIFO accounting, many of the MAP to Growth initiatives we have executed in manufacturing and procurement areas will start to show up in our income statement in the coming quarters.

I'll now turn the call over to Kristine Schulze, who will walk you through our results in more detail

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Kristine Schulze

Thanks, Frank, and good morning, everyone. During our fiscal 2019 third quarter, we reported restructuring charges of $8.7 million and other related expenses of $11.9 million. As I walk through our results of operations for the quarter, my comments will be on an as-adjusted basis, which excludes these charges.

As Frank mentioned, our consolidated net sales were $1.14 billion, which was an increase of 3.4% over the $1.1 billion reported during the third quarter of fiscal 2018. Organic growth was 4.3%, or $47.5 million. Acquisitions contributed 2.1%, or $23.3 million, while foreign exchange was a significant headwind that reduced sales by 3%, or $32.9 million. Impacting earnings were higher costs for raw materials, freight, labor and energy, as well as unfavorable foreign exchange resulting from the strengthening of the U.S. dollar.

While some raw materials are moderating, others continue to increase, including packaging. We have been successfully implementing selling price increases to close the gap on our margins and are starting to see the benefits. Our margin recovery tends to lag because we utilize the FIFO method of accounting for our inventory, so the impact of easing raw material costs should be more fully realized in the coming quarters.

Industrial segment net sales increased by $11.7 million or 2.1% in the third quarter of fiscal 2019 versus the same period last year. This increase was comprised of organic volume growth of $27.2 million or 4.8% and acquisitions of $7.6 million or 1.3%. This sales growth was offset by a 4% headwind from translational foreign exchange.

Top-line growth in the segment was led by our North American businesses providing corrosion control coating, fiberglass grating, commercial sealants and concrete admixture and repair products. Businesses in this segment also continued to benefit from the energy market recovery. This was partially offset by foreign exchange and international weakness in the segment, which has our greatest international exposure. Adjusted EBIT was $19.5 million during this year's third quarter.

In our consumer segment, fiscal 2019 third quarter net sales increased by $21.6 million, or 6%, versus the same period last year. This quarter sales were comprised of organic growth of $19.3 million, or 5.3%, and acquisitions of $9.9 million, or 2.7%. Partially offsetting sales growth was a 2% headwind from translational foreign exchange. Raw material costs were still a headwind but began to moderate. Again, because we use the FIFO method of accounting for our inventory, our margin recovery can still lag our peers on LIFO.

During the quarter, we gained market share from our competitors in the small project paints category, continuing the favorable trend that started last spring at major retailers. Earnings would have been ahead of the prior year except for higher distribution and advertising expenses. Adjusted EBIT was $27.1 million during this year's third quarter.

Specialty segment net sales increased $4.6 million or 2.7% in the fiscal 2019 third quarter versus last year's third quarter. Organic growth was relatively flat with an increase of $1 million, or 0.6%. Sales growth was primarily the result of our acquisition of insulated concrete forms manufacturer, Nudura, which contributed $5.8 million, or 3.4% to sales. Foreign exchange had an adverse impact of $2.2 million, or 1.3%. Contributing to organic growth were our businesses providing fluorescent colorants, marine coatings and exterior cladding systems.

Sales at our restoration equipment business were behind the prior year, which was extraordinarily strong due to a large sales backlog that resulted from Hurricane Harvey. Substantially all of the segment's third-quarter EBIT decline versus the prior year was due to start-up investments for our NewBrick exterior cladding product and Nudura, which has pronounced seasonality in the third quarter. Adjusted EBIT for the fiscal '19 third quarter was $18.8 million.

Also during the quarter, we issued $350 million in bonds and used the proceeds to pay down a portion of outstanding borrowings on our revolving credit facility and for general corporate purposes. Additionally, as of today, we've effectively repurchased approximately $400 million of our common stock, half of which was accomplished through the redemption of our convertible bonds last November. The share repurchases support our MAP to Growth objective to return $1.5 billion in capital to our stockholders by May 31, 2021, through a combination of dividends and share repurchases.

I'll now turn the call over to Rusty, who will provide an update on our MAP to Growth initiative and also share our outlook for the remainder of fiscal 2019.

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

Thanks, Kristine. In regard to our MAP to Growth operating improvement initiative, we have moved with great urgency and are making excellent progress toward the objectives we laid out at our Investor Day last November. Since the initiation of the plan, we have closed, or are in the process of closing, 12 manufacturing plants and have announced the reduction of 502 positions. We have also taken great strides to upgrade our manufacturing processes, optimize assets, reduce inventory and improve our supply chain.

If you take a look at the second slide in the deck on our website, you'll see the progress we have made in procurement. Our center-led purchasing team has changed our approach since they are authorized to speak for all RPM volume. As a result, we have narrowed our supplier base and changed our strategies to enable better pricing and terms than our historic norms.

Another example is manufacturing, which you'll find on slide #3, where we are implementing a culture of continuous improvement. We continue to reduce our plant footprint and optimize existing assets. We are working individually on a plant-by-plant basis to reduce yield losses and improve equipment uptimes.

On the SG&A front, which you'll see on slide #4, we have delayered top management. As a result, we have simplified our organizational structure and better aligned with our strategy to create global brands. The resulting cost savings from our first wave, which you'll see on slide #5, will conclude at the end of this fiscal year and are projected to meet our original target.

As you may have noticed on the slide, manufacturing appears to be running slightly behind the wave 1 target, while SG&A is running a bit ahead. This is simply due to a reallocation of distribution expenses between these 2 expense categories. Based on the success of the MAP to Growth so far, we expect to meet the long-term margin improvement objectives that we laid out at our November 28, 2018 Investor Day.

I'll now turn to our fiscal 2019 outlook. Our outlook for this year's fourth quarter, which is seasonally our strongest, is positive. In the quarter, we expect to generate low-single-digit consolidated sales growth and double-digit EBIT growth, resulting from recently implemented price increases taking hold, our MAP to Growth savings being realized and moderating raw material cost.

Industrial segment sales in the fourth quarter are expected to be flat to slightly down as the segment will be impacted by tough comparisons to last fiscal year as well as its exposure to weakening international markets and unfavorable foreign exchange. This should be offset by savings from our MAP to Growth operating improvement plan and moderating raw material expenses. For our consumer segment, we anticipate high-single-digit sales growth due to easier comparisons to last fiscal year as well as margin recovery beginning to take hold. In the specialty segment, which comprises about 15% of consolidated sales, the sales growth should be modest.

We expect a normal effective tax rate of 26% to 27% in the fourth quarter, which will be higher than last year's rate due to adjustments related to tax reform. Based on our expectations for solid top-line sales growth and double-digit EBIT growth, our fiscal 2019 fourth-quarter adjusted earnings guidance is a range of $1.12 to $1.16 per diluted share, which includes accretion of $0.03 to $0.04 a share as a result of share repurchases completed this year versus the adjusted $1.05 during last year's fourth quarter.

Now I'll turn the call back over to Frank.

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

Thanks, Rusty. Before we open up the call to questions, I want to take a moment to thank our associates around the world for their dedication to continuing to grow the RPM businesses while also implementing our MAP to Growth operating improvement plan.

One more note on our MAP to Growth program, many of you met our colleague and friend, Steve Knoop, at our Investor Day in Baltimore on November 28 of last year. In addition to heading up our Specialty Products Group, Steve had made significant contributions to the planning for our MAP to Growth initiative. Unfortunately, Steve has been on medical leave since January. In his absence, I have taken on Steve's duties related to our MAP to Growth initiative, and as you can see, based on his strong efforts, we're off to a great start.

Lastly, I'd like to mention that we recently concluded our annual growth and strategy conference, which we hold each year in March. This year, I challenged our company leaders to think big about growth and innovation. They delivered ambitious plans to accelerate growth from innovative new products and service offerings. While we were together, I reminded them that, although the marketplace values growth over efficiency, we will be able to deliver both through our MAP to Growth program. We will continue to be world-class when it comes to sales, marketing and top-line growth, and we are becoming world-class in our operations. This one-two punch will make us very difficult to beat in the markets we serve.

We're now pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question on the line comes from Mr. John McNulty from BMO Capital Markets.

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

So I guess a couple of things. It sounds like on the procurement front, you're starting to make some headway. Maybe we haven't seen it because of FIFO. But I guess when you're looking out over, say, the next 12 months, I assume there's some improvement on the working capital side of this. So, can you give us some color as to how we should be thinking about the potential for improvement in terms of working capital as we're kind of looking out over the next 12 months or so?

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

Sure. And we did not provide slides on working capital improvement. We will in the future. It's our anticipation that most of the working capital improvement will occur in wave 2 and wave 3 because the most significant benefits that are sustainable will come out of both the asset optimization as well as the operating improvement initiatives that we are taking through our businesses plant by plant, starting with our largest operations. And so while -- if you look at our balance sheet, you'll see a year-over-year decline in inventory, which is a good step in the right direction. Part of that is a result of a write-offs in our consumer segment in last year's fourth quarter, and part of that is the beginning of the benefits of these operating improvement initiatives on lower investment in working capital. But the most meaningful benefits will come in waves 2 and 3 as they follow the operating improvement activities we're undertaking.

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

Got it. That's helpful. And then I guess a question -- Rusty had made a comment, I guess, regarding, on the manufacturing front, things were maybe a little bit lighter, or I wouldn't say behind schedule but were maybe coming a little slow, and SG&A was a little bit ahead. What was the driver for that again? Because I didn't quite catch what you were getting at.

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

There's two issues there. The first is I think -- we thought and I communicated that the timing of a plant closure announcement and the actual cessation of operations and our beginning to benefit from those savings was 90 days. And that was, in hindsight, incorrect and a little bit naïve. I think the timing from announcement to closure is more like five months. And so, while we have announced these plant closures and we're in the process of doing it, it's taking a little bit longer in some instances than we thought. The second and more meaningful area is when we laid out the MAP to Growth initiative in November, we assumed, in the manufacturing pieces, all facility closures. And while we have announced the closure of 12 manufacturing facilities, we've also closed, and this was part of the manufacturing piece on our Investor Day, November 28, more than a dozen warehouses and other offices. And all of those are properly reflected in SG&A, not in cost of sales. And so that's just a reallocation between what we originally communicated during our Investor Day in manufacturing that is actually an improvement in SG&A.

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

Got it. That's helpful. And then maybe just one last question on a different angle. So can you speak to kind of what you're seeing with regard to the M&A environment and pipeline? It looked like it helped you, obviously, this quarter with some sales lift. How does the environment look going forward? And also, I guess, maybe can you speak to your appetite for M&A just given that you've got so much going on with the restructuring?

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

Sure. That's a great question. The pipeline for the typical small- to medium-sized acquisitions that we're looking at is pretty good. We are focused on executing the MAP improvement program -- the MAP to Growth program. There's a lot of acquisition activity in our space. And as we look at it, we are dedicated to, first, executing on the operating improvement initiative and, in any event, maintaining an investment-grade rating as it relates to acquisition activity combined with some of our return of capital commitments.

Operator

Our next question on the line comes from Mr. Frank Mitsch from Fermium Research.

Frank Joseph Mitsch - *Fermium Research - Senior MD*

Frank, can you talk about what you're seeing on the ground in Europe in terms of demand? What are your expectations in terms of volume growth there?

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

Sure. Europe's weak, and Europe's been relatively flat for most of the year. In some areas, we're seeing year-over-year declines. I think when you look at our total growth, we had, regionally, 5%-plus growth in North America and minus 3% in Europe. A big part of that minus 3% was foreign exchange. So, excluding foreign exchange, real modest to flat growth in Europe. And there's not a lot that suggests that that's going to get better, and we're not planning for it to get better as we think about our new fiscal year.

Frank Joseph Mitsch - *Fermium Research - Senior MD*

And as you look at the MAP to Growth program, how much of that is tied or geared towards Europe?

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

There are meaningful opportunities for us in Europe, and we certainly are focused there in terms of some opportunities to consolidate various aspects of G&A, manufacturing and distribution. And I think that's as far as we would go in terms of detail.

Frank Joseph Mitsch - *Fermium Research - Senior MD*

All right. I was trying to get how many plants out of the 12. But last question. You folks mentioned a couple of times that FIFO is restraining the savings that you're seeing in MAP to Growth and also restraining the ability to recoup the decline in raw materials or at least the moderation in raw materials. With that said, what sort of a tailwind are you entering fiscal fourth quarter just based on FIFO accounting on those opportunities?

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

Yes. I can't answer that specifically, and it's not really restraining. All it is, is an accounting difference versus some of our largest industry peers who report on LIFO. And so, to the extent that we are seeing benefits of operating improvements or price increases or moderating raw material costs capitalized in inventory, it shows up in our results typically 90 days later than it would in somebody who's reporting on LIFO. But I think as you can see, and we hope in the future to be able to add some detail to the MAP to Growth slides that Rusty referred to this morning, we believe there's $34 million of improved raw material cost as a result of our ability to consolidate raw material purchases and really be a more strategic partner to a smaller and larger, in terms of size and impact, supplier base. And so those are dollars that we're confident we're achieving on the ground, and they will begin to show up in our financial results in Q4 and Q1.

Operator

Our next question on the line comes from Ms. Rosemarie Morbelli from G. Research.

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

We are hearing a lot about international being weak, and you mentioned Europe and Latin America. So, looking at Europe, you don't see any improvement. But what I was wondering is if you could talk about whether the trend during the quarter. Are you actually seeing it declining some more, worsening? And if you could touch on the different markets you serve and the trends in those.

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

Sure. I think the as-reported results have actually deteriorated a little bit as a result of flat organic growth in those markets and then the negative impact of FX, which certainly hit us in the third quarter. And it's our expectation that we'll see more of the same in Q4. It just seems to be kind of a stagnant environment, and there continues to be, amongst our customer base and even ourselves as we think about opportunities for improvement in Europe, some decision-making stalling around Brexit and where assets should be and what businesses, including our customers, should be doing in relationship to their thinking about the EU and the U.K. and Europe. So, we don't see it getting better.

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

And any particular market that is especially weak versus a flat -- if we exclude FX -- a flat demand?

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

No. As you'll recall in our January quarter, the weakness that we have is regional, not necessarily a product or markets. And so, we've got a pretty good quarter in the third quarter, and it's continuing in Q4 across all of our businesses in North America and particularly the U.S. And we are pretty weak -- flat to weak across all our businesses and product categories in Europe, so I wouldn't point to any particular industry. It's more of a regional issue.

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

Okay. And then moving on to the consumer, you're continuing to gain share. Can you talk about the share gain you are seeing, if any, when you exclude the benefit from the switch at Home Depot, for example, out of Sherwin-Williams?

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

Sure. That's certainly one, and that's going quite well. And we've also had some small project paint pickup in the hardware store chain channels, and we've also had some recovery in some lost share at Lowe's as a result of some of the strategic alignments and changes last year in the spring. And as folks know, we lost some business there, and we are recovering some of what was lost business. And so our consumer segment team is doing a great job. And they're picking up market share in small project paint because that's where they live. Whether it's new colors, new products, new textures, in some cases, new packaging and new delivery, they're doing a really nice job. To that, as we enter the spring, we're seeing some solid POS, so point-of-sale, takeaway by consumers. It's better than it's been for the last four or five quarters, and hopefully, that will continue. But it seems like we're finally seeing some good consumer takeaway in those categories after what's been a relatively weak four or five quarters of POS.

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

And lastly, if I may, following up on the M&A pipeline. Do you have any appetite for a large acquisition and one that you could fit into one of your industrial product lines?

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

So our acquisition pipeline is pretty good as it always has been, particularly in the small- to medium-size acquisitions. And as it relates to all the acquisition activity in our industry, whatever we would do, we would seek to maintain an investment-grade rating between our acquisition activity and our commitments on returning capital to shareholders.

Operator

Our next question on the line comes from Mr. Vincent Andrews from Morgan Stanley.

Steven Kyle Haynes

This is actually Steve on for Vincent. So, a quick question on SG&A. Last quarter, you guys broke out a reconciliation for SG&A to adjusted SG&A. And I was curious if you could maybe bucket this quarter where some of your MAP to Growth initiatives stood in COGS versus SG&A?

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

Sure. Just broadly, first of all, third quarter, and we highlighted that given its seasonality, is all over the place. So, this quarter was down meaningfully from last year. There were a lot of onetime items. We are up 25% at the EBIT line from our FY '17 third quarter EBIT. And so that gives you a sense of why we think it's a pretty good third quarter and also the volatility given the seasonal low. In SG&A, we mentioned in January about the long-term incentive reversal last year in the third quarter. We had a number of incentive comp reversals last year in Q3 as it became apparent that we were not going to hit any of our near-term or long-term targets. On a year-over-year basis, looking at comp this year versus comp last year, there is a hit to earnings in the high single digits in terms of millions of dollars. We have communicated throughout the year that we were going to have a higher level of advertising in our consumer segment as we picked up market share and picked up new categories, and that has been true and it was true again in the third quarter and it will be true in the fourth quarter. And then the last comment I would make is that all of these -- and this isn't unique to RPM. We're seeing higher freight and distribution expense, which -- unique to RPM, the freight out and distribution expenses reflected in SG&A versus most of our competitors that reflect that in cost of goods sold. And we're seeing higher labor costs pretty much everywhere, whether it's in our core staff or in our plants. And so those are what reflect the big swings in SG&A in what is a seasonally low quarter anyways.

Steven Kyle Haynes

Okay. So, just in regard to the restructuring charges specifically, though, is it possible you could break that out between COGS and SG&A or...

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

Yes. I don't know that we've done that. We highlighted the restructuring charges. The two categories are all restructuring-related. The first category, which Rusty reminded me, is about $9 million.

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

Yes, for the (inaudible)...

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

And so that's really...

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

That's a charge on the income statement.

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

Yes. What you can formally quantify or quantify is, for accounting purposes, restructuring. And then the other charges were principally professional fees. We have significant fees with the consultants, AlixPartners is the largest one, but other consultants in IT areas. They're a part of our implementation. Beyond that, we haven't really quantified it between cost of goods sold and SG&A.

Kristine Schulze

And that's true. I would refer you to our website to take a look at our non-GAAP slides, where we have further detail on each item.

Operator

Our next question on the line comes from Ghansham Panjabi from Baird.

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

I guess first off, on the 4.3% organic growth, can you sort of break that out between volume and maybe price/mix? And then related to that, Frank, I mean, a lot of companies have called out unfavorable weather, particularly in January and February. Just curious as to what sort of impact you saw and then, maybe related to that, what you're seeing so far in March.

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

Sure. Across RPM, our net organic growth on a consolidated basis, it's about 2% price, and the weather was a negative impact. Our industrial segment, in particular, our Tremco Roofing business, those are challenged businesses when you have a very wet period of time. I think one of our peer competitors highlighted the rain and snow, and this is supposedly one of the wettest years since 1983. Weather happens every year and weather happens every quarter, and we don't like hearing about it from our operations any more than our investors like hearing about it from us. But it was certainly an impact in the year. We're off to a good start in the spring. And as long as we don't end up with a very wet end of May and

June like we had last year, I think we'll have a pretty solid performance in our industrial businesses that are weather-related and also in consumer. As I said, the early signs for spring POS are good, but that is most definitely impacted by weather.

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

Terrific. That's very helpful. And then just in terms of guidance specific to the fourth quarter low-single-digit top line growth and double-digit EBIT growth, can you just give us a bit more detail on how that breaks out across the various buckets, pricing, cost savings, low raw material cost, whatever way you want us to sort of think about that from a stack rank perspective?

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

Yes. I would expect us to see the first quarter in about 6 or so, 7 quarters where gross margins are flat to slightly up. And that's a combination of mix of business. It's a combination of our company's price efforts and what we see as moderating raw material costs. In our third quarter, raw material costs, again, sequentially were improved by a couple percentage points, but we were still, year-over-year, up by mid- to high-single-digit rates. And so, as we get into the fourth quarter, we'll start to annualize the significant increases that started last year -- started before last year in the fourth quarter, but really were pronounced in the fourth quarter. And you will also see the benefits, as I said, of the MAP to Growth initiatives that have already been completed, but really show up in our cost of sales and our gross margin as we sell the inventory in which overhead and raw material costs are capitalized.

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

And then just one final one on fiscal year '20, if I could. I mean understanding it's early, but at this point, what's reasonable for us as we kind of tighten up our models too soon for core volume growth or core sales growth for fiscal year '20? And then just as a clarification on slide 5, towards the end, the waves plant summary in your slide deck, you called out an annualized run rate to benefit 2020 of $104 million. Is that fiscal year '20 or calendar year '20?

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

Sure. So, the annualized run rate is fiscal year '20. And again, I think the factors that have impeded our ability to get the head start we had hoped for in fiscal '19 are also impacting all industry and our peers. It's inflation, not only in raw materials, but freight, labor and a lot of other factors. Slowing growth in Europe is going to be an issue for everybody, and so those issues will impact us. And so, we've got to make sure that we continue to push our operating improvement initiatives so that we can overcome as much of these headwinds as possible. I think if we're looking at 13% to 15% EBIT growth in our fourth quarter, we would expect to see something in the neighborhood of 20% or maybe slightly higher EBIT growth in Q1 and that you should see that hopefully accelerate. But we don't finalize our 2020 planning until the end of May. And we will provide more specific details, both on our expectations for 2020 and the impact of MAP to Growth, when we release fourth-quarter earnings on July 22.

Operator

Our next question on line comes from Jason Rodgers from Great Lakes Review.

Jason Andrew Rodgers - *Great Lakes Review - VP*

I do want to ask about the ERP consolidations that have begun and maybe just discuss the timeline there?

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

All right, sure. We would expect to have the lion's share of our ERP implementations done by December 31, 2020. And what is left to be done at that point would be small, kind of, far away international sites. We're about 50% done across RPM. Some of that is because we're already pretty heavily consolidated into SAP, for instance, in our Construction Products Group and our Specialty Products Group, under Steve Knoop's leadership had started ERP implementation consolidation into Microsoft D 365 probably 15 months ago. So we're two-thirds of the way through there. And it's something that our IT people are pretty adept at because, in the last 5 or 6 years, we have regularly completely integrated acquisitions into the base system of whoever the core RPM acquiring company was.

Jason Andrew Rodgers - *Great Lakes Review - VP*

All right. And maybe just a few for Rusty. Do you have the number of shares bought in the quarter? And the total spend? And the share count that you're assuming for the fourth quarter?

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

Sure, yes. So far this year, we have, through February 28, bought back about 2.8 million shares. And in addition to that, we retired a convertible for mostly cash. So that's up about 3.3 million shares off the table. So, so far, 6 million shares were down between repurchase and the convertible redemption. So, you should see in our fourth quarter that magnitude of a decline in our diluted share count, and that's offset by stock vesting and awards, which will be a small offset to that.

Jason Andrew Rodgers - *Great Lakes Review - VP*

And then just to follow up earlier on the SG&A question. Do you have an adjusted SG&A number for the quarter? Because that was in the slide last quarter, but I didn't see it this quarter.

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

Yes. No, we did not. And again, it's in relationship to all of the moving parts in the quarter and given the seasonality of the third quarter. The other thing that negatively impacted us in the third quarter, which Rusty commented on, but we can quantify a little bit better. In our Specialty Products Group, the Nudura business, which is off to a great start. We're really excited about it. It's really the wave of the future for construction. Seasonally, they lose money in our third quarter. And so, they are accentuating our quarterly seasonality. I think their revenues, we disclosed at about $50 million when we acquired them. And then the other element in specialty that particularly impacted our third quarter is we're accelerating our investment in Dryvit NewBrick, and that's an exciting new product. Year-to-date, we have about $2 million in sales and $5 million of operating losses. Almost half of that is in the third quarter. We have plans to automate most of their production, and that's going to be a blockbuster product line. At some point, that's our plan. But if it does not turn out that way, those are operating losses that can easily be eliminated.

Operator

Our next question on the line comes from Mr. Kevin McCarthy from Vertical Research.

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

With regards to your slide #5, how much of the $104 million in run rate savings would you expect to actually hit the income statement in fiscal '19?

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

I think we'll have a better sense of that, Kevin, in July, and we'll communicate that to folks. And I think, it really depends on also how much of that run rate is experienced in our fourth quarter. And so that's an annualized run rate that we expect to be at as of May 31. There'll be portions of that, that will benefit our fourth quarter. And then, of course, there'll be portions of wave 2 that should benefit the second half of the 2020 fiscal year. And we'll have a much better sense of how to break that out, both, by category and by July, we hope, by segment so you can understand that.

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

Okay. Appreciate that. Second, I was wondering if you can elaborate on your raw material cost trends? As we look at some of the building blocks that tend to go into your industry. Propylene is coming down hard over the last six months. Some of the upstream silicon products seem to have as well. So, what are you seeing in your basket in terms of sequential trends? And do you have an early read on how fiscal 2020 could trend in that regard?

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

Sure. The macro picture is pretty volatile. Oil has come down a lot and propylene follow that. Those core building blocks don't translate into raw material savings or the products we buy immediately. Interestingly, since January 1, oil prices are up 30%. And so -- but as I mentioned earlier, sequentially, the third quarter was the second quarter in row where we've seen sequential improvement in our base top raw materials. But we're still, year-over-year, up high single digits. And so, we're gaining on margin through price mix and what feels like moderation across our core largest raw materials. The biggest impact to that in our fourth quarter, like we believe, will be the strategic change in approach on procurement as we have consolidated purchasing. I think it took a while for us to hit our stride. But we've had a number of categories where we might have been buying from different vendors, and we consolidated down to two or three. And it's moved significant volume to strategic partners, and it's moving volume away from either smaller or less-inclined-to-cooperate suppliers. And so, it's been an interesting process for us that's having good results.

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

Okay. And then lastly, if I may, in your prior quarter, you had discussed some mark-to-market impact related to the captive insurance business. Just wondering if you saw any impact from that in the fiscal third quarter or would expect any in the fourth quarter.

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

Yes, Kevin, on investment income line, you'll see we were down about $700,000 from last year. So, the performance was not as good as the year ago. Obviously, a lot happened within our quarter because December markets took a nosedive and recovered in January and February. As far as the fourth quarter goes, I think based on the trend of the last three months, it's probably anybody's guess. But we are on the new accounting standard, which will require us to mark-to-market our equity securities and run it through the income statement. So, to the extent that's an issue, we will certainly highlight that after the fourth quarter.

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

Sure. And we'll work -- we're working with our audit committee and our auditors on whether or not it's appropriate to carve that out every quarter because it's a nonoperating item. And as I mentioned in January, the equity portfolio of our captive insurance companies as this applies to is about $100 million. And so, we'll have and communicate the consistent manner in which we'll address it in the future in terms of either carving it out or just highlighting it to questions like this.

Operator

Our next question on line comes from Mr. Mike Harrison from Seaport Global.

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

Frank, you noted in the press release that energy was a positive in the North America industrial business. I was wondering if you can give maybe a little bit more detail on that, what specific product lines it's driving and how sustainable do you think that strength could be?

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

Sure. In particular, our Carboline business, which serves energy markets pretty broadly, oil and gas, and pipelines, refineries, windmill -- windmill blades. And so, they have various product lines that are focused on either pipelines, which is in-ground or associated with chemical facilities. Our Fibergrate business, which provides FRP grading, which is corrosion- and weather-resistant has had a good result in the energy markets as well. So those are the principal product lines.

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

And looking pretty sustainable going out through the next couple of quarters?

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

Yes, we think so. I mean, obviously, raw materials -- not raw materials, oil prices have been volatile. But as the folks on this call know, there was a period of time when the oil industry and the energy markets cut back meaningfully not only on expansion but on maintenance. And it feels like we're back to a normal maintenance spend period of time.

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

Okay. And then, I wanted to also ask about the consumer business. You alluded in the past to some contracts that were keeping you from raising price and that those had run their course and expected to get some price traction. Did we start to see that? Or is that trickling in? Maybe just an update there.

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

Sure. We had some commitments associated with line reviews and other commitments that inhibit our ability to get price while we were seeing significant raw material cost increases. And the last areas of RPM to get some price increases have been in our consumer businesses at the end of our third quarter. And so that will help our fourth quarter, and it's much needed and trailed the rest of RPM.

Operator

Our next question on line come from Silke Kueck from JPMorgan.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

The first question I have is a cash flow question. So, in your press release, it says, like, year-to-date, your MAP-related initiatives was, like, a $0.50 headwind to sort of like a -- booked it like a nonrecurring item, and so maybe that's like $80 million or $90 million pretax. What do you expect in the fourth quarter in terms of charges? And what are the cash outflows related to that, that may still have to come? Like, if you already spent all of it? Or what are the outflows that may come in the fourth quarter or next year?

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

Yes. There -- you should expect continuing outflows in terms of consulting and professional fees, which is categorized by Rusty in this other category, and that's running $6 million or $8 million a quarter. In some quarters it will be more, in some quarters it'll be less, and that will be ongoing for a period of time. And then the charges that we will continue to incur, particularly in fiscal '20, will be related to plant closures and/or distribution consolidation. And a portion of that will be noncash asset write-offs, and a big portion of that will be severance associated with those plant closures and related terminations. So, we would expect to see those costs continue in '20. In July, we will provide more detail by category of our expected closures -- closure costs and what of those will be cash, and what are noncash. The other category is ERP implementations, and we'll have to get our head around that one because there are some debate as to how much of that ERP money we would have spent anyways versus what is being spent because of -- or accelerated because of our MAP to Growth initiatives. I think, previously, we've talked about a total program cost in the $120 million to $140 million range and the cash cost being in the $80 million to $90 million range. And we'll provide details in July of how much of that has been spent and an estimate of what's to come.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

Okay, that's helpful. The second question I have is related to the Rust-Oleum and True Value initiative. That was just like put in place. So, it's something that's new, especially to understand, and True Value has, I don't know, 4,500 stores, something like that. And what's the sell-through that you expect? Is it something like $10,000 a store, and the opportunity is like $45 million or that's way too optimistic or it's way too low? Or it's -- like any additional color that you may have?

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

Yes, not really. I mean, without being disrespectful, it's kind of way too in the weeds and for obvious reasons, we have avoided talking as much as possible about specific customers. A year ago, that was hard to do with some of the strategic changes, supply-wise in our marketplace. But I had commented earlier that we had picked up market share in the hardware store chain, in small project paints with our consumer segment. And that's been true, and that should benefit our fourth quarter and that we've also regained some big box share that was lost last spring, and some of that's coming back to us. So, the consumer businesses are doing a nice job in managing their categories, which we lead in. And we have formidable competitors. Their focus tends to be more on gallon goods and retail paint stores as opposed to the specialty products that we focus on. And that's allowed us to gain share in hardware and regain some lost share in big box.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

If I may ask the question, in one other way. So, if I look at your fourth quarter guidance and I look at the guidance for the consumer growth for the fourth quarter. Do you think the underlying demand is something like 2%? If you like strip out the business wins maybe and what the pricing is, sort of, like 2%? Or do you think it's better than that or worse than that?

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

Our forecast for the fourth quarter consumer is in the mid- to high single digits, that will all be organic.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

It will be organic. It includes the price and business wins?

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

That's correct. And so, it should be a solid fourth quarter for our consumer segment.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

I think the last question...

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

I mean in terms of the quarter, it will offset what we anticipate to be a challenging comp and some regional challenges in our largest segment, which is industrial.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

That sounds fair. The last question I have is on the specialty segment. Nudura is like in annual sales, it's like maybe $50 million, and it's seasonally slow in the February quarter and then it's probably a more normal quarter in -- for the May quarter. And so, if you were to get -- I don't know, like, $10 million or $12 million Nudura-related sales, like, that would be like 5% growth in the specialty segment. So why is your outlook so conservative in terms of modest growth? It's just that the initial benefit would be 5%?

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

No. I mean, we built that up from our businesses. And in our specialty segment, it's a real cross-current of fluorescent pigment -- I mean, you know all the different product lines. So, I think they're expecting a modest single-digit growth. And I can't answer that specifically right now. I don't know maybe Rusty does, if it's versus a tough comp last year. Rusty?

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

Yes. I think another factor you should consider is FX will actually be going against us. So that will impact the sales growth. And with the momentum, this year has been low organic growth. They were the first to get price out of the box, so we'll start lapping the anniversary of price increases so that impact may tail-off a bit too.

Operator

Our next question on line comes from Steve Byrne from Bank of America.

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

Frank, when you rolled out the MAP to Growth initiative last fall, you put out some margin targets. Were you anticipating some slippage in margins in this fiscal year? And what's your level of conviction on hitting, say, that 16% EBIT margin looking out two years?

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

Sure. I think that's a great question, and I think we and our all industry experienced some challenges this year that we did not fully anticipate. So, when we get to the end of our current fiscal year, May 31, I think people are seeing and will start to believe the good momentum that we're building, but we'll be a little bit behind the curve in terms of our margin targets. We'll have a better sense of that in July. And the element of that is not a function of if we get there, it would really be a function of timing. So, are we going to get there on exactly the timing that we've talked about? And then the other element is giving the pluses and minuses of building an operating improvement plan, can we find additional savings that would will compensate for what is a slower start relative to the fiscal '19 margins that we anticipated when we put this plan together on October and November versus where we're going to end up the year.

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

And just to expand on that Frank, when you say the potential additional savings, are you looking at different areas to potentially integrate? I don't know whether it's facility headquarters or distribution, or commercial. Are you looking at some other levers to pull?

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

Not necessarily. We do have some opportunities in G&A that we're looking at. I think the other area that we're excited about, and this is not going to happen, as of the December 31, 2020, or even May 31, 2021 time frame. But the manufacturing improvements and continuous improvement initiatives that we're rolling out are having a really good effect. And when the MAP to Growth timeline stops relative to the communicated, kind of, target finish line that we have, our continuous improvement programs will not. And there's some growing enthusiasm about our ability to add to that $75 million manufacturing and operations target. It's outside of our MAP to Growth timeline, but it's real. And so, there's a lot of enthusiasm there. And a lot of the things that we're doing, when they're effective, will not only impact margins relative to financial targets but will change our culture in some fundamental ways, particularly, in how we allocate capital to fixed assets and how we measure performance and efficiency on the plant floor and that will continue beyond this program.

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

And just one last one for you, Frank. You've got a lot of on your plate right now. Would you consider bringing in any new resources to help drive this restructuring program, given Steve's challenges right now?

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

Well, we would expect Steve to be back in the saddle, hopefully, sometime mid- to late summer. And as it relates to new resources, Gordy Hyde, leading our manufacturing and operations efforts. We have added four process engineers under corporate staff that work directly for him. We have, on the procurement side, taken four or five of our top procurement people out of our operations, put them on the corporate payroll. And we've added an additional resource there. And so, we are adding some really good talent in the procurement and the manufacturing continuous improvement areas to, again, not only help us achieve our goals as they'd been laid out but really help us fundamentally change our procurement process and our manufacturing and operations focus on an ongoing basis.

Operator

Our next question on line comes from Arun Viswanathan from RBC Capital Markets.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

I guess, first off, it's just on price real quickly. Given your comments earlier, as far as crude goes back up, but maybe the raw is still kind of settling down. Is that a fair, guess assessment? And would you think that you need to go out with further pricing as the year goes on? So, should we expect, kind of, an increasing contribution from price in future quarters? Or how should we think about that?

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

Sure. That's a great question. And so here is how we think about it. As I mentioned earlier, sequentially, we're seeing a second quarter where raw materials quarter-over-quarter are going down by low single digits. Year-over-year, we're still up. Hopefully, that will even out in Q4, certainly that's our expectation. Much of the price increase that we've experienced was developed throughout the fiscal year. And the last pieces, as I mentioned earlier, were in consumer. So, I think we'll get the full benefit of price for sure in the first half of the new fiscal year, and then we'll start to annualize price increases as we go through the year across RPM. The area that would drive additional price increases is what's happening in not only raw materials but freight, labor. There is a higher level of inflation across every business, at least in United States, relative to employment and labor costs. And it will be interesting to see how that plays out as well.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And in the consumer business, I think you've noted some weakness in the small project category over the last couple of years at different times. Possibly some of it due to competitive pressures. Have you seen either, kind of, moderation in those competitive pressures, any benefits to you guys? Have you been be able to place greater volume with Varathane? And then as a second part, if it's not a -- if competitive pressures haven't subsided, do you think that the DIY channel itself is going to continue to be weak just given low unemployment? Or how should we think about how the DIY channel and consumer segment, kind of, trends from a volume perspective over the next couple of quarters?

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

Sure. First of all, it's an intensely competitive area. There's some strong regional players and a lot of big and bigger than us industry players that we compete with every day. The other thing that we suffered through last year, in particular, in Q4 and end of June, was extraordinarily wet weather, which tamped down POS. I mentioned earlier on the call, the early read on consumer takeaway is pretty good. So, the first couple weeks of our fourth quarter, we're seeing a real strong POS in small project paint. And combined with market share gains, we should have a nice recovery in our consumer business that would remind folks that we also took out a significant chunk of SG&A in consumer in the fourth quarter of last year. And two of the plant closures that we have announced and have been completed were in our consumer segment. So, we've done a lot of work there on the cost side, and we picked up market share. And we're seeing better POS, at least, at the start of the first -- fourth quarter than we've seen in four or five quarters. And so, it's all pointing in the right direction. Weather could impact that in the fourth quarter. I think that's the only element that would negate what feels like good momentum.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And then just lastly, if I may. You mentioned some continued softness in Europe. Any chance that that could turn around, I guess, later as we go through the year? And then maybe if you can just give us a one line or two in industrial in North America and Brazil and if you're doing any encouragement by those markets or outside by those markets?

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

Sure. We don't anticipate things improving in Europe. And if there was a Brexit deal that made everybody happy, that might buoy spirits across Europe and help things move in the right direction, but we're not planning on that. As it relates to Latin America, I think that we're seeing some spikiness from one month to the next. And in this case, I think it's good, particularly in Brazil, at where we have our Viapol business, our largest presence in Latin America. As the economy turned down in Brazil and geopolitical issues hit, we saw some spikiness that ultimately was a volatility indicator of a significant downward trend. Now we're seeing some spikiness not only in Brazil but in other parts of Latin America, which I'm hopeful is like a volatility indicator of a significant movement in the right direction. And so, the feeling on the ground there is more positive than it's been in a couple years. We're not consistently seeing it in our results yet although we're hopeful.

Operator

Our next question on line comes from Mr. Kevin Hocevar from Northcoast Research.

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

Just wanted some clarification on the slide 5, the new year-to-date estimate run rate of $104 million up from the initial targeted $83 million. Is that -- and you maintain that $290 million. Is that implying that you're realizing savings faster and perhaps pulling some savings forwards from future waves, and that's the reason for the raise? Or are these -- are you generating more savings than you initially expected, which could be incremental?

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

That's a great question that we struggle with here, and that's why we have not changed our long-term target. I think it's way too early to decide that after being at this for essentially four months, five months, that we're not only ahead of the curve in terms of timing in the first phase but that we're actually adding to the whole program. So, I think on the manufacturing piece, we're a little bit ahead of the curve. On the procurement piece, we're a little bit ahead of where we thought we were. As we get into next year, we will -- we hope to provide more detail, and I think we'll have a better answer to that question because it is one that we are struggling with internally in terms of what is being off to good start but feeling like maybe we're accelerating some of the early benefits. In procurement, in particular, I think there'll be a point at which we will have achieved what is possible with a new approach, and the rest of it will be really a function of what happens in the commodity cycle.

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

Okay. And then in the guidance, you give an expectation for consumer segment margin recovery starting in the fourth quarter but didn't mention that any similar verbiage in the other segments. So, the expectation that those other segments have, flattish or something like that margins, where consumer is really the one that's going to see the nice improvements there?

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

No, I would expect to see margin recovery in all three of our segments in the fourth quarter. It will be a function of mix in part. So the elements that are impacting our gross margins are really three things. The raw material cost headwinds which year-over-year continuing that should start to mitigate as we get into the fourth quarter and the rest of 2020, the impact of our price increases and the positive impacts of our MAP to Growth initiatives. So I would expect margin improvement in each of our three segments in the fourth quarter. It will be most pronounced in consumer because our consumer segment was the first to execute on SG&A, cost cutting, and then our first plant closures out of the box were in consumer as well. And we'll also be annualizing an easier comp both in the fourth quarter and the first quarter.

Operator

Our final question comes from Mr. Mike Sisson from KeyBanc.

Brandon Thomas Bleile - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Brandon on for Mike. So, I know you guys have talked about international weakness, specifically in Europe. I was hoping you could talk a little bit more about the positive momentum in North America, specifically the U.S. What are your expectations for demand in the fourth quarter and maybe how that moves into fiscal year 2020?

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

Sure. As we had commented earlier, the energy markets that we serve seem to be pretty solid, more back to a normal level of maintenance spending. The activity in construction markets has been a little bit volatile, but I think recent communications or information around housing starts and commercial construction suggest that that's going to continue to be positive. And just like in our consumer segment, we've talked about, we've got some new product areas. There's an opportunity to leverage some of the Nudura business growth in cooperation with our Tremco businesses. The AlphaGuard roof restoration product is continuing to grow at double digits. And so, some of it is market-related, and some of it is a continuation of some of the new product introductions and new innovation that is coming out of our industrial segment. So, we see that as positive. And most of the new product introductions that we're talking about happened, also be North America because those are our biggest markets and where we have our largest sales and distribution effort.

Operator

We have no further questions. At this time, I'd like to turn the call over to Mr. Sullivan for closing remarks.

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

Thank you very much for joining us on today's call. We appreciate all the questions around our MAP to Growth program and hope to provide you with even more details when we release our fourth quarter results and provide outlook for our 2020 fiscal year on July 22. We plan to renew our tradition of releasing the earnings in New York, most likely at the New York Stock Exchange, with an investor luncheon where we will also have our segment presidents to talk in more detail about their expectations for growth in their segment and the impact of MAP to Growth, not only in RPM but in consolidated basis but also by each of our segments as well. Thank you very much for your interest in RPM and your investment in RPM. And have a great day.

Operator

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