THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RPM - Q4 2019 RPM International Inc Earnings Call

EVENT DATE/TIME: JULY 22, 2019 / 2:00PM GMT

OVERVIEW:

Co. reported 4Q19 consolidated net sales of $1.6b and adjusted diluted EPS of $1.24. Expects FY20 revenue growth to be 2.5-4.0% and adjusted EPS to be $3.30-3.42.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

Kristine Schulze *RPM International Inc. - Senior Director of Financial Reporting*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Jason Andrew Rodgers *Great Lakes Review - VP*

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

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

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

Michael Joseph Sison *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Richard O'Reilly

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

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

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

Vincent Stephen Andrews *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Welcome to RPM International's Conference Call for the Fiscal 2019 Fourth Quarter and Year-end. Today's call is being recorded. This call is also being webcast and can be accessed live or replayed on 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 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, Paulette. Good morning, and welcome to the RPM International Inc. Investor Call for our Fiscal 2019 Fourth Quarter ended May 31, 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. Also on the call is Matt Ratajczak, our Vice President of Global Tax and Treasury, who is taking on a senior leadership responsibility for Investor Relations. He'll be working with Kristine, Kathie Rogers and, of course, with me and Rusty.

Matt joined RPM in 2004 as Director of Global Tax. He was promoted to Vice President of Global Tax in 2005 and became our Vice President of Global Tax and Treasury in 2012. He is getting up to speed on the Investor Relations functions, is well-versed in our financial matters and is an excellent communicator on RPM's businesses. Going forward, he will be our primary point of contact with the investment community.

It's my pleasure to introduce Matt Ratajczak.

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

Thanks, Frank, and good morning, everyone. Before discussing our results, I would like to take a few moments to further introduce myself. After 15 years with the company, I certainly have a good handle on the inner workings of RPM, which I intend to leverage on our investors' behalf as I ramp up from an investor relations perspective. My objectives include sharing your feedback internally with management on the one hand and communicating externally the workings of our businesses on the other.

In this new role, I have the pleasure to expand my existing working relationships with Kristine, Kathie, Rusty and Frank. Together, we have a solid IR team that will continue to ensure that you have the information needed to make sound investment decisions about RPM. It certainly is an exciting time to become involved in the IR functions here at RPM, and I look forward to meeting and working with you in my new role.

Next, I will provide a broad overview of our fourth quarter results and Kristine will then review the numbers in more detail. She'll be followed by Rusty, who'll provide a progress update on our 2020 MAP to Growth operating improvement plan and share our outlook for fiscal 2020. During his comments, Rusty will walk through some supplemental slides to illustrate progress on our operating improvement plan. You can find them on the Investor Information section of our website at www.rpminc.com. Frank will then have a few comments to wrap up our formal remarks, after which, we will conclude the call by taking your questions.

During the fiscal 2019 fourth quarter, we generated significant earnings leverage, which was largely driven by our 2020 MAP to Growth operating improvement plan, the benefits of which continue to be realized after being fully initiated in the fall of last year. Also contributing to the bottom line were recently implemented price increases and stabilizing raw material cost inflation. These gains were partially offset by increasing cost for distribution and labor.

On an adjusted basis, fourth quarter EBIT increased 22.4% to $241.4 million and diluted EPS increased 21.6% to $1.24 from $1.02 a year ago. Share repurchases and the early retirement of our 2.25% convertible senior notes due in 2020 resulted in $0.05 per diluted share accretion for the quarter.

On the top line, we generated fiscal 2019 fourth quarter consolidated sales of $1.6 billion, which was an increase of 2.8% or $43 million over the same period in fiscal 2018. Organic sales growth was 3.5%, acquisitions contributed 1.9%, while foreign exchange reduced sales by 2.6% or $41 million.

We were pleased with these top line results in the face of several challenges. Sales in our largest market, North America, were slowed by one of the wettest springs on record, which delayed painting and construction projects. Economic conditions remained weak in South America and in Europe, which is our second largest market. Translational foreign exchange continued to be a headwind. Despite these challenges, our businesses were able to drop -- drive top line growth and gain market share.

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

Kristine Schulze - *RPM International Inc. - Senior Director of Financial Reporting*

Thanks, Matt, and good morning, everyone. The fourth quarter results for fiscal 2019 and 2018 include restructuring and other charges totaling $36.8 million and $62.2 million, respectively. As I walk through our results of operations for the quarter, my comments will be on an as-adjusted basis, which excludes these charges.

Additionally, for both fiscal 2019 and 2018, we adjusted EPS for investment-related charges. First, due to changes in accounting standards during the current year, our adjusted EPS excludes the impact of unrealized net gains and losses for marketable equity securities. Additionally, our adjusted EPS further excludes the impact of realized net gains and losses on sales of all marketable securities. These investment-related items resulted in a net after-tax loss of $1.7 million for the fourth quarter of fiscal 2019 and an after-tax gain of $3.2 million during the same quarter last year.

As Matt mentioned, our consolidated net sales for the quarter were $1.6 billion, which was an increase of 2.8% over the $1.56 billion reported during the fourth quarter of fiscal 2018. Organic growth was 3.5% or $54.1 million. Acquisitions contributed 1.9% or $30.1 million, while foreign exchange was again a headwind that reduced sales by 2.6% or $41 million.

Higher costs for shipping, labor and energy impacted earnings as did unfavorable foreign exchange. We're seeing raw material cost inflation beginning to decelerate across a number of categories while some materials, including certain categories impacted by tariffs, such as packaging and chemicals sourced from China, continue to increase. The price increases we executed in prior months have been taking hold and have helped to offset cost increases and contribute to our margin recovery. We began to see our margins catch up in the fourth quarter, and we expect to see this continue.

Turning now to our segments. Net sales in the industrial segment were $809 million, which was a slight decrease of $3.9 million or 0.5% in the fourth quarter of fiscal 2019 versus the same period last year. The decrease was driven by translational foreign exchange, which negatively impacted the segment by 3.5% or $28.5 million. As you'll recall, the industrial segment has our largest exposure to international markets.

Organic growth in the segment was 2% or $16.1 million, and acquisitions contributed $8.5 million or 1%. Driving organic sales growth in the industrial segment were our businesses providing corrosion control coatings, fiberglass-reinforced gratings, commercial sealants and concrete admixtures.

Sales were impacted by the combination of extremely wet weather during the quarter that slowed construction projects as well as strategic decisions to exit several product offerings with low margins and high working capital requirements. Despite slightly lower sales, we were able to increase earnings by leveraging our 2020 MAP to Growth savings to the bottom line. This resulted in an increase in fourth quarter adjusted EBIT of $6.4 million or 5.9% to $115.7 million from $109.3 million a year ago.

In our consumer segment, fiscal 2019 fourth quarter net sales were $585 million, which was an increase of $36.6 million or 6.7% versus the same period last year. The current quarter sales reflect organic growth of $38.5 million or 7% and acquisitions of $8.3 million or 1.5%. Despite the wet weather, our Rust-Oleum and DAP businesses both generated strong sales growth in North America as a result of market share gains and price increases, while sales in Europe remained weak. Notably, Rust-Oleum landed significant customer wins by regaining business in the home center channel and a major market share win within the hardware channel as part of a small project paint line review.

The initial focus of our 2020 MAP to Growth program, which was initiated about a year ago, was directed toward our consumer segment and resulted in the elimination of 221 positions and the closure of 4 manufacturing facilities. The consumer segment is now beginning to realize the benefits of those difficult early actions. In addition, recent price increases have finally caught up with raw material cost escalation and have begun to restore margins in the segment to more normalized historical levels. Combined, these factors resulted in adjusted fourth quarter EBIT of $109.6 million, an increase of 50.6% or $36.8 million over the same period last year.

Specialty segment net sales in the fiscal 2019 fourth quarter were $207.4 million, an increase of $10.5 million or 5.3% over fiscal 2018. Organic growth was relatively flat, decreasing by $0.5 million or 0.2%. Sales growth was primarily the result of our acquisition of insulated concrete forms manufacturer, Nudura, which contributed $13.3 million or 6.7% to sales. Strong sales performers in this segment were our businesses providing diesel additives and edible coatings. Foreign exchange had an adverse impact on sales of $2.3 million or 1.2%.

Adjusted EBIT declined by $1.4 million primarily due to an intangible write-off, which was triggered by a change in certain international business regulations and additional startup investments for our NewBrick exterior cladding product. These costs were offset by savings from restructuring activities and cost control measures.

Lastly, for the 2019 fiscal year, cash from operations was $292.9 million compared to $390.4 million in fiscal 2018. The current year reduction in cash from operations resulted from certain 2020 MAP to Growth initiatives, including the enhancement of margins in our consumer segment by ending the practice of discounting early cash payments. This had the effect of delaying approximately $100 million in receipts from the fourth quarter of fiscal 2019 to the first quarter of fiscal 2020.

Additionally, we have centralized our procurement function and enter into new supply contracts. In some cases, payment terms have been shortened to achieve more favorable terms. These outcomes were expected and are in line with our longer-term approach to improving margins and effectively managing our working capital.

I'll now turn the call over to Rusty, who will provide an update on our 2020 MAP to Growth initiative and also share our outlook for fiscal 2020.

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

Thanks, Kristine, and good morning. Looking back on our 2020 MAP to Growth program over the past year, we have moved with great urgency and have made significant progress toward the cost saving and share repurchase targets we laid out on November 28 of last year.

As you will recall last quarter, I provided some insights into each of the 3 key areas where we are focusing our operating improvement activities: manufacturing, procurement and G&A. Those activities continued during the fourth quarter as well.

In manufacturing, we further reduced our footprint and are instituting process improvements. Thus far, we have closed 12 plants and intend to close approximately 19 more. Over the remaining course of the 2020 MAP to Growth -- excuse me, I'll refer now, excuse me, to the slides on our website, which Matt mentioned. As you can see on Slide #2 on the slides on RPM's website, you can see that we have realized annualized savings of $25 million for Wave 1 in manufacturing.

In procurement, next, we have further narrowed our supplier base and worked to secure improved pricing and terms, which positions us as a stronger strategic partner with major suppliers.

Turning to Slide #3, you'll see that the Wave 1 2020 MAP to Growth annualized savings in procurement are $36 million, which is ahead of our original target of $20 million.

So far, we have identified and executed on a significant portion of the total G&A savings in the 2020 MAP to Growth program. On Slide #4, you'll see that this has resulted in annualized savings of $41 million, which is ahead of our adjusted target of $38 million. We expect that the rest of the savings will come over the course of the next 2 years as we consolidate our ERP systems, which we're about 1/3 of the way through.

Slide #5 shows that the combined initiatives from Wave 1 of the 2020 MAP to Growth are resulting in annualized savings of $102 million. While this is ahead of our Wave 1 target of $83 million, it is still too early in the process to determine whether the gains from Wave 1 are pull-throughs from later waves or if they are cumulative to the entire 2020 MAP to Growth program. We will have more clarity on this as we continue to work through the process and will provide updates in the coming quarters.

Additionally, we are well ahead of schedule with one of the goals we laid out in November, which is to repurchase $1 billion of stock by May 31, 2021. As of today, with just 2 years remaining to achieve that target, we're halfway there related to our share repurchase goals.

Now before I shift gears to discuss our outlook for fiscal 2020, there are 2 important changes to the business which impact our financial reporting and I will need to explain. First, the realignment of 4 segments. As outlined in this morning's earnings release, for fiscal 2020, we will begin reporting in 4 operating segments instead of our 3 previous segments. See Slide #6 for reference. The 4 operating segments are the Consumer Group, Specialty Products Group, Construction Products Group and Performance Coatings Group. The latter 2 were essentially formed from our previous industrial segment.

The Consumer Group still houses our highly regarded Rust-Oleum and DAP businesses. The only minor change is that we have shifted our Kirker nail enamel business from the Consumer Group to our Specialty Products Group, which is a better fit for this niche business.

The Specialty Products Group gains Kirker, but loses our exterior cladding business, Dryvit, and recently acquired insulated concrete forms manufacturer, Nudura, to the new Construction Products Group.

The Construction Products Group combines our Tremco, tremco illbruck, Euclid Chemical, Viapol, Vandex and Flowcrete businesses while also adding Dryvit and Nudura from Specialty Products.

The Performance Coatings Group is unchanged with its core businesses including Stonhard, Carboline, USL, Fibergrate and others.

Had these reportable segments been in place during fiscal 2019, their pro forma sales would have been $1.9 billion in the Consumer Group; $0.7 billion in the Specialty Products Group; $1.9 billion in the Construction Products Group; and $1.1 billion in the Performance Coatings Group.

Under this new structure, our business segments and their leadership will be better aligned to RPM's overall strategy. This improved alignment is critical to our growth and success as it better positions our businesses to compete and win in the products they serve. In addition, it provides our investors with greater visibility into the business and better comparability among our peers.

We're particularly optimistic about the creation of the Construction Products Group, which was formed to create a cohesive portfolio of integrated construction systems that will deliver comprehensive building envelope solutions to our customers.

We are also excited about changes at the Performance Coatings Group, which is being realigned from a more geographic matrix type of management into global brands with leadership teams that are responsible for the entire world.

We expect that this realignment will result in improved market penetration and earnings leverage as we move forward. Fiscal 2020 will be an important year of the 2020 MAP to Growth savings and gained efficiencies in these previously reported RPM industrial segment businesses.

The second change is the reclassification of shipping costs. Beginning in fiscal 2020, we will classify charges for shipping cost to customers as part of cost of goods sold instead of SG&A. This change will not impact EBIT. It puts us in line with how our peers and other manufacturers classify shipping out to customers and will provide investors with a better point of comparison.

Turning to Slide #7, had this change been in effect for fiscal 2019, our cost of goods sold would have increased by $173.6 million to $3.48 billion, while our SG&A expenses would have decreased by the same amount to $1.6 billion. This change does not impact EBIT as the reduction of RPM's gross profit margins by 310 basis points to 37.5% is fully offset by an improvement in SG&A as a percent of sales by 310 basis points to 28.7%, which is more comparable to RPM's peers.

The last topic I'll cover is our outlook for fiscal 2020. On a consolidated basis, we expect to generate revenue growth in the low to mid-single-digit range. While sales growth is anticipated to be relatively modest, largely due to global macroeconomic factors, we view this growth rate to be above market. We expect the sales growth will drive strong leverage to the bottom line as our operating improvement initiatives continue to take hold and we benefit from fiscal 2019 price increases. Further, we expect raw material cost inflation that has been persistent in recent quarters to moderate.

In our Consumer Group, sales are anticipated to increase in the mid-single-digit range as a result of modest organic volume growth, the rollover impact of acquisitions and fiscal 2019 price increases along with market share gains.

Specialty Products Group sales are expected to grow in the low single-digit range due to projected geographic expansion and account penetration in our wood finishes businesses, which will be offset by flat growth in our edible coatings and restoration businesses.

Sales in the new Construction Products Group are anticipated to grow in the mid-single-digit range with higher growth expected in innovative technologies, such as roof coatings, insulated concrete forms as well as differentiated service offerings. Offsetting this growth will be lost revenues as we rationalize lower-margin international businesses and product lines while we refocus and reposition for future growth.

In the Performance Coatings Group, revenue is expected to increase in the low single-digit range driven by continued strength in corrosion control coatings, predominantly in North America, coupled with rollover impacts of price increases enacted in fiscal 2019. This is projected to be offset by general weakness in international markets and the impact of exiting certain businesses.

We will provide more detail on sales, EBIT and adjusted EBIT for each of these 4 segments as fiscal 2020 unfolds, quarter by quarter, starting with our fiscal 2020 first quarter results, which will reported on October 2, 2019.

For the fiscal 2020 fiscal year, we will continue to have a significant amount of restructuring activity related to our operating improvement plan. As we did in fiscal 2019, we will continue to adjust EBIT for restructuring and other related cost in an effort to provide a more transparent view into our operating performance.

For the first quarter of fiscal 2020 and relative to last year's first quarter, we project sales to be up 1% to 2% with solid leverage to the bottom line for more than 20% adjusted EBIT and adjusted diluted EPS growth on a year-over-year basis. As we look forward to fiscal 2020 for the full year, we project modest revenue growth in the range of 2.5% to 4%. With the impact of 2020 MAP to Growth, we expect to leverage these sales to adjusted EBIT growth in the 20% to 24% range. This will result in expected adjusted EPS between $3.30 to $3.42 per share in fiscal 2020.

Now I'll turn the call back to Frank.

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

Thank you, Rusty. Before we open up the call to questions, I'd like to note an important leadership change in our corporate headquarters.

Taking the reins from me on Wave 2 of our 2020 MAP to Growth program will be Mike Sullivan, who is our new Vice President of Operations and Chief Restructuring Officer. You most likely saw the announcement we issued at the end of June. While I certainly appreciate his last name, we are unrelated.

Mike replaces Steve Knoop, who passed away recently after a brief but courageous battle with cancer. Steve was the key architect of our operating improvement plan and the structural changes that Rusty just outlined. Moving forward, we will continue to execute the blueprint which Steve Knoop put in place for RPM's long-term operating improvement, which will allow us to reach new levels of growth and performance.

In regards to our ongoing 2020 MAP to Growth program, we're in very good hands with Mike Sullivan as he closed -- as he was closely involved with the analysis and development of the original operating improvement plan while working as a consultant with AlixPartners over the summer of 2018. I'm confident that through his leadership, we will successfully complete our 2020 MAP to Growth operating improvement plan and drive continuous improvements across RPM for years to come.

As a reminder, we are hosting a lunch meeting today at the New York Stock Exchange with financial analysts and other investors. As part of the meeting, our 4 group presidents will provide insights into their respective businesses. This will be webcast starting at 12:15 with supplemental slides. The webcast and additional slides can be accessed through the RPM website at www.rpminc.com.

Lastly, I'd like to thank our associates worldwide for their efforts to continue growing our business while also carrying out the details of our 2020 MAP to Growth initiatives. One of the hallmarks of our success has been our ability to grow the business with a world-class sales and marketing organization and a very entrepreneurial approach to the market and our customers.

Through the 2020 MAP to Growth program, we are also becoming world-class in our operations. This one-two punch will make us very difficult to beat in the markets we serve and will allow us to deliver even greater value to our shareholders in the years to come.

We'd now be pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

Frank, congratulations. So you went through the first kind of phase or phase 1 of the cost cutting and MAP to Growth program and it clearly moved the needle, I guess, the most when looking at the margin lift in the consumer segment as it's starting to flow through. I guess how should we be thinking about where the next round of impacts will be in terms of the margin lift as we're looking to 2020?

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

Sure. The -- just to provide a little history, we were initiating our own operating improvement plans and then took a step back, formed an operating improvement committee at the Board and engaged a consulting firm to kind of reassess and look across the whole organization. Before that assessment process, we had already initiated a restructuring and operating improvement program at our consumer segment. And so they were probably 9 months ahead of the rest of RPM in terms of initiating significant change. Most of the change across the other parts of RPM happened or were initiated in October or November, in conjunction with our Investor Day on November 28.

So with that in mind, there's 2 things to think about for fiscal '20. Number one, the procurement and manufacturing activities that have really taken hold with RPM being on a FIFO basis, products that we purchase today show up in our P&L 75 or 90 days from now. Manufacturing improvements get capitalized into inventory, and so you'll see those down the road. And so we would expect to see a significant improvement in the gross margin area in fiscal '20 as a result of the continuation of our MAP to Growth program and as inventory purchased on a FIFO basis flows through our P&L.

Secondly, you'll see a much more balanced delivery of earnings leverage to our bottom line on a quarter-by-quarter basis, particularly coming from our Performance Coatings Group and our Construction Products Group, which are the 2 new reportable segments that made up our industrial segment for quite some time.

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

Got it. Very helpful. And then just a follow-up on the cash flow side. It looks like in 2020, you've got kind of a lot of puts and takes and it seems like you get $100 million of the delayed receipts in, and it sounds like some other potential working capital improvement changes. And I guess -- I assume there's going to be some incremental costs around the MAP to Growth program as well. I guess can you give us some color as to how we should be thinking about cash flow in 2020 as we look forward?

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

Sure. Rusty is in a good position to answer that.

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

Sure. Yes, John. We just had a simple timing difference at year-end on the collection of receivables and payables as -- and that's a direct result of our MAP to Growth program. We did eliminate some discounts for early payments. We've renegotiated procurement contracts, which, in some cases, has led to earlier payments in exchange for other aspects of the contract. So we have a timing difference between the fourth quarter and first quarter on cash flow.

And we expect to continue to make progress in the main areas, being inventory and payable days, as we go throughout fiscal 2020. We're going to continue to have some cash outflows though as a result of restructuring, such as severance, some CapEx as we consolidate plans. We do have consultants for our operating improvement initiatives. So those will be some of the outflows. But we'll continue to make progress on the key working capital area.

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

Great. And maybe one last question. Just Frank, it looks like you were starting to really make some traction in terms of the price versus raw materials. I guess how should we be thinking about the pricing flowing in, in 2020 if things kind of stay where they are? What kind of price would we be looking at as we go through 2020?

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

So I think on average, across RPM, it'd be around 2%. We got early price increases in our industrial segments more than a year ago, but those price increases proved to be relatively low relative to -- or inadequate relative to where raw materials continue to go. I think a number of our industry peers have communicated that they saw raw materials continue to rise into the spring of this year and now they've started to moderate. We did have a meaningful impact in our fourth quarter on consumer price increases, in part, because those were the last price increases that we really achieved, given some contract issues and other issues. And so those hit in the late winter or early spring of this year. The combination of all of that across RPM will be around 2% for fiscal -- 1.5% to 2% for fiscal 2020.

Operator

Our next question comes from Frank Mitsch from Fermium Research.

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

And congrats on a nice end to the year. And welcome to IR, Matt, look forward to working with you.

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

Thank you.

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

As I look at the consumer segment, obviously, the biggest surprise in terms of growth. You referenced some wins in the home center area as well as in the hardware chain. And I was curious if you might be able to size in terms of a percentage increase perhaps in the fiscal fourth quarter or, more importantly, how we should think about some of these market share gains impacting 2020.

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

Sure. I'll provide as much color as we can, particularly in relationship to comments we made a year ago, recognizing that we tend not to provide much detail on customers.

But a year ago, there was a strategic partnership between one of our largest competitors and Lowe's. And as a result of that, we were able to pick up all of the interior wood stains and finishes business at Home Depot, which is the largest home center in the world. And we lost a little more than $20 million of small project paint -- spray paint business at Lowe's. This spring, we picked up more than half of that lost business while we have continued to really drive the interior wood stains category to levels that equal or exceed our original expectations a year ago.

Secondly, there was a significant strategic change at one of the major hardware co-ops, where we were able to pick up principally the sole supplier business in spray paint as of this spring versus one of our largest competitors. And that was, I think, a little bit in connection to but, obviously, separate because we're focused on small project paints and patch-in repair and cost and sealants. And really, the niche is where our time and energy is spent, but was also timed with a significant gallon good change in that same customer.

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

So I mean net-net, are we talking about 1%? We're talking more than 1% that we should think about 2020 coming from these wins, the market share gains?

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

I would think between the 2 of them, somewhere in the neighborhood of $40 million.

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

All right. Terrific. Terrific. And then, Rusty, you clearly mentioned -- look, it's too early to step up the targets on the $290 million MAP to Growth. But I was just curious on the procurement side because obviously, that was the biggest outlier in terms of what you're able to garner versus your original expectations. Is that -- as you look at just the procurement side of the MAP to Growth, are these gains business that you thought you would get over time and it just came early? Or are you uncovering new opportunities that you weren't even planning on when you rolled out the original targets?

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

So this is Frank, and I'll answer that. The comments that Rusty made in the supplemental slides were on an annualized run rate basis, which is how we've been talking about our MAP to Growth program. We can tell you specifically that in fiscal '19, we had $53 million of MAP to Growth savings flow through our P&L. $32 million of that flowed through our P&L in the first 9 months and was almost entirely eaten up by higher-than-anticipated raw material costs. And $21 million of that flowed through our P&L in the fourth quarter, and that hit our bottom line just about dollar for dollar.

I mentioned earlier, Frank, about FIFO. We are making great progress in procurement. We're continuing to add new things to the procurement pipeline, new categories in areas like indirect spend and logistics. And we're going to keep adding in every category where we can find new opportunities. But you will see that the -- both the procurement and manufacturing were relatively modest in fiscal '19, all related to FIFO. And so the inventory that we are selling in the fourth quarter was procured in the winter or early spring months of this year when raw materials were still relatively at peak levels. For all practical purposes, they remain at or close to peak levels. But their 2-year ascent has seemed to stabilize. So we feel pretty good about these activities and how they'll unfold in our P&L in fiscal 2020 quarter-by-quarter.

Operator

Our next question comes from Rosemarie Morbelli from G. Research.

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

Congratulations for a great end of the year. Frank, following up in the other Frank question. When we look at the benefit you had in the fourth quarter regarding the new business at Home Depot and at the hardware stores, when do we see an anniversary? Or is this -- when we look at 2020, it will be on an apples-to-apples basis or will there still be some benefit from the change?

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

I think you'll see a strong performance throughout fiscal '20. We are off to a slow start in the first quarter because June was a terrible weather month, and that negatively impacted our consumer businesses, negatively impacted our Construction Products Group, particularly our Tremco Roofing business. The backlog at Tremco Roofing is very strong. POS picked up nicely across most all of our consumer categories, from caulks and sealants and patch and repair, and small project paints for July. It's really just a question of whether we can make up what was a very difficult June.

I mention that because that difficult June will impact our first quarter results in consumer. But I don't think it will reflect the strong performance and the continuing MAP to Growth benefits that we'll be leveraging to our bottom line across all of our segments and, as I mentioned earlier, more evenly across all of our segments as we get into the new fiscal year.

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

But you will still have the benefit of the new gains from the change in -- well, from your gaining that particular new business?

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

We will. Through the first 9 months of fiscal '20.

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

Okay. And then if we look at construction, have you seen -- first, have you seen a pickup in demand, although I don't know what is going on with this heat, whether anyone is working out there? And could you give us a feel for the North America versus international size?

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

So that's a difficult question to answer in this sense. As Kristine commented, the spring, and we're not -- we're one of the last to comment on this, the spring was one of the wettest periods on record. That carried all the way through June. So that did hamper our growth in our Construction Products Group as well as consumer. While there are still positive aspects of North American construction activity, they seem to have slowed down from activity the last couple of years, so it's at a more modest growth level.

And international is still very punky. Europe has been flat to slightly down across every category that we operate in, and we don't see that changing. FX will have a negative impact on RPM year-over-year, we anticipate in Q1. And then hopefully, with the strong performance of the dollar over the last year, it will stabilize, if not back up, in part depending on interest rates. But we also anticipate a little bit of an FX headwind in Q1.

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

And the split between North America and the international on the construction piece?

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

We haven't provided that detail. And we may have some detail on that in our investor webcast for the lunch today. But our Performance Coatings Group at $1.1 billion is about 50% U.S. and 50% outside the U.S. Construction is more predominantly North America but would be the second largest international exposure for RPM of our 4 new segments.

Operator

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

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

Just thinking through the splitting up of the industrial segment into Performance and Construction. Do those 2 now segments sell to any of the same customers? Or is one primarily new construction and the other one aftermarket and renovation?

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

There's a little bit of overlap. I would tell you in terms of product categories that, by far and away, RPM is the larger producer in the world of polymer flooring. We sell polymer flooring to consumers in North America through our Consumer segment. We sell polymer flooring in our Construction Products Group, mostly through contractors and distributors.

And then in the Performance Coatings Group, we do polymer flooring but on a pretty unique supply and apply basis through our Stonhard business. We believe they're the largest producer and installer of polymer flooring in the world. And we'll have a couple of slides this afternoon that highlight the uniqueness of our Performance Coatings Group as, in polymer flooring and particularly in their infrastructure product categories, they have a pretty unique supply and apply model that is a different channel than some of the competitive products that are in our Construction Products Group. So there is some overlap there, but they tend to be the different channels as I just described them.

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

And where will the 4 segment presidents reside? And kind of along that same theme, any outlook for a reduction in the number of accounting locations? Rusty talked about it in the fall, of there being more than 100 of these tax or accounting locations. Any outlook for changing that structure?

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

Sure. I mentioned the savings in FY '19 from our MAP to Growth program. The largest chunk of that was in SG&A, and a large chunk of the SG&A savings came out of consumer because they started first.

As we look into fiscal '20, we anticipate roughly $30 million of Wave 2 of MAP to Growth to flow into our P&L on top of a continuation of the Wave 1 activities that'll be somewhere around $50 million, so roughly about $80 million of MAP to Growth hitting our P&L in fiscal 2020.

The predominant portion in Wave 2 will be from procurement and manufacturing as it really will take the finalization of our ERP consolidations, which are about 35% complete, to be done before, and Wave 3, we get to the next meaningful level of SG&A savings. And that has to do, in part, with reducing the number of accounting locations; and essentially centralizing a number of areas in administration either at the group level, so in 1 of 4 places, or at the RPM level on a consolidated, centralized basis.

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

And these group presidents, located near you?

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

No. They remain where they are. Paul Hoogenboom, who runs Construction Products, is headquartered on the east side of Cleveland at the Tremco headquarters. Terry Horan splits his time between DAP in Baltimore and Rust-Oleum in Chicago. Ronnie Holman runs our Specialty Products Group from Hickory, North Carolina, where he was previously the head of our OEM industrial wood group, which is the largest piece of the Specialty Products Group. And Dave Dennsteadt, who came up through RPM through Stonhard, is headquartered at the Maple Shade, New Jersey side of Stonhard, oversees all the Performance Coatings Group businesses.

Operator

Our next question comes from Vincent Andrews from Morgan Stanley.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

Just a couple of questions on the specialty segment in the quarter. Maybe you'd give a little bit more detail on why sales were flat there. And then you had the intangible write-down, if you'd quantify that. And then talk a little bit about the startup costs in NewBrick, and how much they were if they continue into future quarters as well?

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

Sure. I'll answer it generically and then let Rusty provide some of the detail. More on the earnings side, we had the impairment charge in New Zealand and we -- I think year -- I don't have the quarter detail, but year-over-year, we lost an additional $4 million on the operating line in development of NewBrick. And so if you adjust for those, we did have positive EBIT growth, albeit modest in the specialty segment.

And then the other comment on the revenue side, our specialty segment is our highest-margin, highest-performing niche businesses. Their EBIT margins in prior years, and they've been a reportable segment for the last 4 or 5 years, peaked around 17%. We intend to get back there, and I think we'll do so relatively quickly.

The challenge, in particular, in our specialty segment businesses is not margin, it's growth. And so it's the area where I think you'll see good performance but the least leverage to the bottom line as we figure out in these very unique specialty businesses how to drive that $700 million relatively small reportable segment to over $1 billion in the coming years.

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

I don't have much to add other than growth was pretty level across the board. There were not much in the way of standouts, either good or bad. We were, of course, hit with FX like in our other segments, but it does seem that OEM markets have cooled a bit for our wood coatings and Powdered Coatings business relative to earlier quarters.

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

And we were annualizing, and this is the last year of that, the patent expiration of the Mantrose-Haeuser NatureSeal product line, and then coming off a year prior, some significant weather-related sales for our Legend Brands business. And so there's some -- particularly in the Legend Brands business, some volatility there around weather. That's a business that has grown considerably as part of RPM and their core business is much higher. But around weather events, you could see revenue spikes in the $10 million to $15 million range that positively impact 1 year and then essentially disappear the next. Underlying business is doing phenomenal, but it's just a volatility around weather that is the nature of their business.

Operator

Our next question comes from Ghansham Panjabi from Baird.

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

I guess going back to your fiscal '20 guidance, Frank, we're talking about 2.5% to 4% core sales growth, 1.5% to 2% from pricing. You also talked about shedding some underperforming businesses, et cetera. Can you just sort of size the contribution of that aspect as it relates to your core sales guidance?

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

Yes. I don't have a good number. I don't know if Rusty does in terms of the revenues that we'll be shedding.

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

Yes. We're probably in our industrial segment looking at this year coming up shedding about $20 million in the revenues. That's identified today and we'll identify more.

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

So about $20 million and they tend to be product lines or some small startups in the developing world that just have not performed over the last couple of years to our expectations. And so in the MAP to Growth program, not only are we looking at the category areas that we're talking about, but we're looking across each of our segments and their portfolios and pruning non-operating entities and either product lines or small operating entities that have not delivered the earnings growth that we anticipated. And they tend to be smaller, developing country operations that will just be closed. And we had completed a fair amount of that in fiscal '19 as well.

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

Okay. That's helpful. And then going back to your EBIT guidance, you had 20% to 24% year-over-year growth. So that implies a midpoint of about $125 million. Is it sort of fair to think about half of that coming from the margin acceleration program and then the rest coming from just operating leverage, the flow-through of pricing and then just your assumption on raw material costs? Is that fair?

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

I think about 2/3 is going to come out of the operating improvement program, and then the balance will come out of leverage to the bottom line. I think the disappointing element of our forecast for 2020 is sales growth estimate of 2.5% to 4%. That's a couple of points below where we had hoped sales would be when we originally provided our investor MAP to Growth program on November 28.

As you heard Matt comment today, and I think as some of our peers have recently reported, if we're generating 2% or 3%, hopefully 4% revenue growth, it seems to be outperforming the broader market, although we don't have a big exposure in China or Asia, so that's helpful.

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

Okay. And then just one final one, on the annual guidance for fiscal year '20. Anything in particular we should keep in mind in terms of the distribution of earnings between the various quarters? Any specific callouts, et cetera?

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

Sure. And to that question, I'll repeat what I said earlier. I think we'll have some more modest leverage in performance in our first quarter, particularly around consumer and our Construction Products Group because of what was a very wet June. So we got off to a rough start.

The good news is our performance in July seems to be pretty solid. It's just a function of what we can get out the door shipping-wise and how demand continues to evolve in August and into the fall as to whether or not we make up that shortfall in June. And -- but we're seeing P&Ls that when sales are up 2% or 3%, with the MAP to Growth program initiatives that we've already undertaken, the leverage to the bottom line is pretty good. And so I'd be more modest in Q1, and then you'll see Q2, Q3 and Q4 pretty strong. Also on consumer, I think you should plan for a more modest Q4, given the strong Q4 performance that they just generated.

Operator

Our next question comes from Kevin McCarthy from Vertical Research Partners.

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

Congratulations again on impressive results. A question for you on the resegmentation. As an outsider looking in, as I survey Performance Coatings, it seems to me that you've still got quite a few products in there that one could argue are construction linked, such as concrete admixtures, Fibergrate and you mentioned flooring earlier. And so, I guess, my question is why not go further and transfer some of those lines into the new Construction Products Segment? Maybe you could elaborate a little bit on the thinking there.

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

Sure. I think segment reporting is both a function of products and markets, similar P&L makeups and also how a company is organized. And we're organized in 4 groups. That's how we operate. That's how we measure performance within RPM today at the Board level.

And I think we've fixed what's been a little bit of an anomaly on our part, which is our fault, which is an industrial segment that for the last -- given acquisition activity and market dynamics, and also the Specialty Products Group formation following the SPHC transaction, an industrial group that represented 50% of our revenues but did not have leadership. So we did not have an industrial segment president. So we have separated it into Performance Coatings and Construction Products because we have 2 very good leaders there and they run great businesses with good management teams.

The other thing that I think will be very helpful for investors and also as we think about growth opportunities in the future is to separate out what will be this year a $2 billion construction chemical group because very often, we only did compare to our coatings peers. And this $2 billion business is really much more aligned from a peer perspective with pure play, construction chemical peers and competitors.

And so we're excited about what this new segmentation does for us in terms of focus and strategic growth opportunities. And I think it will also provide more clarity to our investors around the various elements of RPM, where we can go and grow and what our performance will be like versus real peers as opposed to a peer group that's made up only of major paint companies.

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

That's helpful. And then as a follow-up, Frank, would this resegmentation make it any easier for RPM to separate businesses if you chose to do that strategically at some point in the future?

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

Our strategic goal is to execute on our MAP to Growth program. We're a little more than 1/3 of the way through and you're seeing the results of it, and position these 4 segments and all of RPM to continue to grow, compete and win in the marketplace and deliver superior returns to our shareholders on a sustainable basis for a long time. And we're off to a good start and we think that this resegmentation is an important part of that.

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

Great. And then lastly, if I may. What is the level of raw material cost inflation in fiscal 2020 versus fiscal '19 that you've baked into your earnings guidance?

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

It's really hit and miss. I don't know the exact number. It's low tens of millions of dollars of inflation at this stage, and it assumes things that have stabilized, stay that way. And as Kristine mentioned, it's mostly around metal packaging, which negatively impacts our consumer segment, in particular, Rust-Oleum. But in our consumer segment, we tend to be the kings of small project stuff, whether it's patch and repair, caulks and sealants, spray paint or small project paints.

And this is a statistic that we'd have to freshen up, but a few years ago, we saw data that indicated that RPM, in terms of the U.S. retail paint market, represented about -- our consumer segment, about 1% of paint by volume and almost 19% of paint by units. And so it really gives you a sense of the challenge that we're facing in packaging in general and metal packaging, template-related specifically. So that's a little bit of a headwind in fiscal '20.

The other headwind is in some unique raw materials in different places, I'll just give you one example, Day-Glo has had some chemical raw material challenges based on chemicals that they import from China that have been subjected to both the tariff activity and also the just trade up and down activity that the country's been facing.

Operator

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

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

I guess I've got a couple of questions on the cash flow side. It looks like you're ahead -- a little ahead of plan on the buybacks. Maybe you can just give us your thoughts on where you are in the working capital improvements that you're targeting from MAP to Growth and your free cash flow generation.

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

Sure. Thanks for the question, Arun. This is Rusty. In terms of inventory, we have made some progress, but it's probably going a little slower because of the plant consolidations. We've learned that we have to be really careful as we close plants and consolidate production into other plants to ensure that we have adequate safety stock on hand during the interim so we can continue to keep up our service levels. So I would say on the inventory front, we are making the progress we expected, but it's probably not coming quite as fast, but we'll get there.

In terms of the payables, we mentioned already that we had a timing difference at year-end. We are making great progress with our procurement team in terms of negotiating supplier contracts on both pricing and terms, and that's going certainly at the pace we expected. It's not a little bit ahead. So hopefully that answers your question.

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

Great, Rusty. Yes, and just as a follow-up. Just on the sales growth guidance, you noted that it's maybe a couple of points below your November 28 outlook, yet you're able to keep the EBIT growth targets intact. So maybe just getting back to the earlier question on accelerating or increasing some of the MAP targets. If you were to see sales growth kind of get back into that mid-single-digit range, would that provide a greater lift to your MAP targets? And would that be mainly dependent on macro recovery? Or how should we think about potential changes there?

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

So I think the way we think about that, and back to my earlier comments about the savings we had in fiscal '19 and in the first 9 months that got eaten up by raw material costs that were longer than we and our industry anticipated, we are ahead of the curve on the $290 million improvement goal that we had, and we continue to add different projects to our pipeline. So we're highly confident in our ability to hit that number.

I do think, as a result of the raw material challenges that persisted longer than we anticipated, and the slower growth rates, we're probably 6 to 12 months behind the absolute goals in terms of an absolute EBIT margin goal and the absolute goal of hitting $1 billion in EBIT. But that's a function of timing and growth rates.

The leverage to our bottom line is really strong. And if interest rate reductions or trade activity piece, you name it, if we got back to generating 5% or 6% earnings growth, I think you'd see a significantly better leverage to our bottom line that would eliminate that timing issue that I just mentioned. So we're excited about what we're seeing, but we're also realistic about where we see growth in the market today.

Operator

Our next question comes from Mike Sison from KeyBanc.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Frank, in terms of acquisitions, can you maybe give us a quick update on the pipeline and what you think could be possible this year? And maybe where the opportunities are by the new segments?

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

Sure. I think part of the growth dynamics that are a little below what we anticipated do relate to acquisitions. I think we completed roughly $120 million of acquisitions in terms of revenue base in fiscal '19. We announced a relatively small acquisition at the beginning of this fiscal year with our Construction Products Group, a specialty tape producer. And so there's a decent pipeline out there. All 4 of our segments are focused on bolt-on acquisitions. And I think it's likely that we would be in that $100 million range. That's half of what we planned for in the November 28 Investor Day presentation, but there are some sizable deals out there, that -- $100 million or $150 million, that if we were able to get something like that would catch us up on those.

So that's really the comments that I would make. All 4 of our businesses are focused on finding bolt-on acquisitions. The good news about those is that while they're not big and they're not moving the needle on the $200 million a year in MAP to Growth, the IRRs in those as we've gotten better in general and better through MAP to Growth of integrating acquisitions and bolt-ons, the IRRs are great and the contributions to the bottom line are working out very nicely.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Great. And then just one quick one on pricing. With the new segments, is there any difference between the pricing power between the new segments? Does everybody have similar pricing power? Or will it differ between each of the businesses?

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

No. The dynamics are still what they've been for quite a while. It takes us 9 to 12 months to catch up in a rapidly rising raw material environment in our consumer segment because of the nature of their customer base. We can pass on prices quicker in most of our industrial businesses, notwithstanding the new segmentation.

As I mentioned earlier, we were early in price increases in a lot of our industrial businesses when we, for a number of reasons, contractual and otherwise, were not getting them in consumer. But those early price increases proved to be inadequate, and so we needed to do another round of price increases in our industrial segment businesses, which we did this spring.

But the dynamics that we've talked about for quite a while still persist between the timing of raw material price increases and when we're able to get those back in terms of product pricing and consumer versus the rest of RPM.

Operator

Our next question comes from Silke Kueck from JP Morgan.

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

I have one question on the consumer segment and then the rest are all cash flow questions. Are you done with the business wins at Home Depot and what's left in 2020 is the True Value relationship that you won?

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

So the -- we're continuing to perform for all of our customers. The major strategic change, both in our categories and in the gallon good categories, were not at True Value. They were at Ace.

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

I see, okay. That's helpful. There's a second slide that you put out that was helpful that had some of the reconciliations in there to get from EBIT to EBITDA. And it says that for 2019, your restructuring expense was maybe $42 million and the professional fees were $26 million. Are all of those already paid out? Or what is the amount that you expect to pay out in 2020?

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

Sure. I think all of those are paid out, and at least as a run rate in the first quarter, we'd probably be at the same place. But as fiscal '20 unfolds, I think you'll start to see, in certain areas, those decline.

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

Okay. And in terms of your targets, do you have a cash flow target for 2020 and what that might be?

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

Sure. The answer is yes, we have a cash flow target in 2020. And no, we have not disclosed that publicly.

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

Okay. And my last question is when I go back to the November presentation, I think what you have put out is that -- or your expectation was that maybe over the 3 years, from fiscal '19 to fiscal '21, maybe you could generate $2.2 billion of cash flow. And then you laid out a slide as to what you might spend it on. Do you think that's still a reasonable target? Or because of the timing issues and how things roll along, that may be too optimistic?

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

I think it's a reasonable target, but as I commented on a question earlier and I think this would apply to our cash flow generation as well, because of the raw material environment in the spring of this year or persisting as long as it did and because of the slower growth, it's likely that, that, along with kind of our absolute earnings targets, will be delayed by 12 -- 6 to 12 months.

And as Rusty indicated, and these are temporary and they'll be picked up, but I think we've learned that the inventory improvement, which is coming, will be a little bit slower because what we've learned on the ground is a, it doesn't take 90 days to close a plant from announcement to closure, it takes more like 5 months; and b, in a number of cases, our companies have found it appropriate to build safety stock inventory in light of closing a plant and then relying on another RPM plant.

At the luncheon today, and it's worth noting as you see our presentations throughout the year, you'll see a change in our org chart. And the cultural change that is happening at RPM is as profound and important as the individual initiatives in terms of how we're thinking about our future and how we think about our businesses and how it's not just about closing a plant. It's closing a plant and having an RPM company rely on another RPM company to be the primary manufacturer of their products.

We're doing similar things in distribution and it's going well. And I can't emphasize enough that the cultural change, getting that right, is as important as the technical change on the ground of closing things and consolidating stuff.

Operator

Our next question comes from Mike Harrison from Seaport Global.

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

I have a couple of questions just regarding the fiscal '20 EPS guidance. Was wondering, maybe a question for Rusty, if you can provide some of the assumptions that underpin that, things like tax rate, share count as well as the amount of corporate expense, the nonsegment corporate indirect piece?

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

Sure. I'll address those. First of all, with the corporate expense, we averaged about $20 million a quarter. It was lumpy during fiscal '19. That'll probably be higher because of higher pension and hospitalization costs that are anticipated. So I think we'll be in the low $20 million range for non-op expense per quarter as we move forward.

On the tax rate, you should assume between a 24% and 26% tax rate, midpoint of 25%, for fiscal '20. We did better than that in fiscal '19 at 23.2%.

So those are a couple of assumptions. Hopefully I captured those for you.

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

And does it assume the share count is about flat from the Q4 level? Or does it assume some share repurchases?

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

It does assume share repurchase. We picked up about $0.05 in the fourth quarter. We'll get the annualized impact of that activity during fiscal '19 as well as more share repurchases. So we'll pick up about $0.10 on EPS in fiscal '20.

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

Okay. And then the last question I had was regarding the realignment of the segments, and in particular, the Dryvit and Nudura businesses coming out of Specialty and into Construction Products. I was wondering is this just a formal change that reflects how these businesses are already being operated? Or were there, in fact, some inefficiencies in how you were presenting that offering? Maybe we could expect maybe some more synergies as you move those into a more cohesive offering?

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

Sure. It's a great insight, and it's very much strategic. So Dryvit was part of our Specialty Products Group in part because it was part of the SPHC businesses that were the elements of our old, now thankfully behind us, asbestos resolution, and so it was in there as part of the SPHC businesses.

When we resolved that, that's when we began reporting a Specialty Products Group with those businesses, in part, because of how we're aligned and what our management and reporting structure was internally.

When we acquired Nudura, it was pretty apparent -- and that was through Dryvit. It was pretty apparent that the synergy there was better with our Construction Products Group, with our Tremco Sealants and waterproofing business in particular. And so this is a very strategic move.

And there are opportunities in sales, marketing and specification, I believe, to drive improvement and growth at Dryvit and Nudura that would not have been possible if they operated as independent businesses as part of our Specialty Products Group.

Operator

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

Jason Andrew Rodgers - *Great Lakes Review - VP*

Just a few quick ones here. Do you have an estimate for CapEx for fiscal '20?

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

Sure, we do. We're going to have a -- what I call a normal CapEx budget of $90 million for fiscal '20, but on top of that, we have certain spending related directly to our MAP to Growth program. So we're going to have about $30 million of -- or $40 million, somewhere in that range, of CapEx tied to ERP implementations. As you know, we're going from 75 ERP instances down to 4, and that project is going to be intense and in gear in fiscal '20.

Also, we're going to have about $40 million or so of other manufacturing-related CapEx as we consolidate production sites. So to do that integration, we'll have to spend some CapEx there. And then on top of that, we have a major project to insource some products that are outsourced as part of our margin improvement initiative, and that'll be about $10 million. So on top of the $90 million, Jason, of normalized CapEx, there'll be about $90 million of unusual items related directly to MAP to Growth.

Jason Andrew Rodgers - *Great Lakes Review - VP*

All right. And then raw material costs, what was the year-over-year increase for the fourth quarter and what's the expectation for the first quarter?

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

Yes. I don't know that we've provided specific detail on raw material costs and/or pricing, and we've learned over time not to do that with any great detail. Raws in the fourth quarter were modestly up year-over-year. And except for the 2 categories we've commented on earlier, things have stabilized. We're actually seeing some declines in certain resins and other chemical raw material categories.

Jason Andrew Rodgers - *Great Lakes Review - VP*

And then finally for our models, would you be able to provide the reclassified gross profit margin and SG&A as a percent of sales by quarter for fiscal '19?

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

We will provide the reclassified SG&A and gross profit on a quarter-by-quarter basis. I will tell you that when you look at the slides that Rusty showed us or talked to supplementally, and we'll also show in the webcast this afternoon, it showed adjusted SG&A on a GAAP basis -- these were done on a GAAP basis -- of 28.7%. On an adjusted basis, it would be 27.8%.

And the gross margin shown on this -- on the supplemental slide and on a GAAP basis was, because of the reclassification, down to 37.5%. On an adjusted basis, it's 38.1%. It is our goal in MAP to Growth to get those on a reclassified adjusted basis gross margins north of 40% and to stay there. And that will happen.

Operator

Our next question comes from Richard O'Reilly from Revere Associates.

Richard O'Reilly

Two quick questions. The guidance for the first quarter, what is the adjusted base earnings that we should be comparing with? You reported $0.76, but now with you excluding investment gains or losses, what's that number? Just so we have a right base.

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

Yes. Last year, in fiscal '19, I believe we had a pretty de minimis amount of investment income.

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

So yes, Richard, you know what, we'll be happy to get that to you off-line. And we'll provide it with anyone else. But we have to go back and look at that.

Richard O'Reilly

Okay. But it's minimal...

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

Yes. (inaudible) adjusted EBIT that we reported in Q1. Like I said, it was just a small amount.

Richard O'Reilly

Okay. It's de minimal. Okay. You answered the question. Second question, on the co-op spray paint line change, is that your brand or is it a private label change?

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

It's our -- those are our consumer segment brands.

Richard O'Reilly

Okay. Fine. So something we can see in the store, we can see the impact in the store?

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

Absolutely.

Richard O'Reilly

Okay. Fine. Okay. And did you give the name of that? I forget what you said before.

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

Sure. It's a broad collection of Rust-Oleum spray paint products, from their traditional Stops Rust to some of their general-purpose spray paints.

Richard O'Reilly

Okay. Right now, did you give the name of the co-op? I'm sorry.

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

Ace.

Richard O'Reilly

Ace, that's what I thought. Okay. Fine. Okay. Great.

Operator

And we are showing no further questions. I will now turn the call back to Frank Sullivan for closing comments.

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

Paulette, thank you. Thank you very much for your participation on our call today. We look forward to hosting a number of the equity analysts that follow RPM and a number of investors at a luncheon at the New York Stock Exchange this year. Our prepared remarks, including comments about their new segments by our 4 segment presidents will be webcast. That will begin at 12:15 and is accessible at www.rpminc.com.

And we look forward to that communication as well, to answering your questions in the coming weeks and to reporting on another good quarter of progress when we report the first quarter of our 2020 fiscal year on October 2. Thank you, and have a great day.

Operator

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