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RPM.N - Q1 2021 RPM International Inc Earnings Call

EVENT DATE/TIME: OCTOBER 07, 2020 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q21 consolidated net sales of $1.61b and adjusted diluted EPS of $1.44. Expects 2Q21 consolidated sales growth to be in low-to mid-single digits.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the First Quarter 2021 RPM International Earnings Conference Call. (Operator Instructions) Please by advised that today's conference may be recorded. I'd now like to hand the conference over to your host today, Mr. Frank Sullivan, Chairman and CEO. Please go ahead, sir.

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

Thank you, Liz. Good morning and welcome to the RPM International Inc. investor call for our fiscal 2021 first quarter. Joining me on today's call are Rusty Gordon, RPM's Vice President and Chief Financial Officer; and Matt Ratajczak, our Vice President of Global Tax and Treasury, who is supporting our Investor Relation activities.

I'll share insights behind our strong financial performance for the quarter as well as an update on our MAP to Growth operating improvement program then Matt will walk you through a review of our first quarter adjusted financial results. Rusty will conclude our formal remarks with our outlook for the remainder of fiscal '21, after which we'll take your questions.

Our strategically balanced business model, the resiliency of our operating companies and our MAP to Growth operating improvement program have enabled RPM to pull through the depths of the economic slowdown created by the COVID-19 pandemic. With the dual benefit of improved margins and better working capital management, our businesses are generating excellent cash flow, which allowed us to pay down nearly $200 million of debt during the first quarter. Today, our liquidity is up to $1.5 billion. We have pivoted back to investing for accelerating growth, as demonstrated by the acquisition of Ali Industries as well as our strong organic growth in a number of our segments in the first quarter.

During our fiscal '21 first quarter, selected segments of the global economy began to gain momentum as stay-at-home orders were relaxed. This freed pent-up demand from last year's fourth quarter and helped drive our record top line results, which grew 9.1% over the prior year period. This was in sharp contrast to the COVID-19-related sales decline we reported for the fiscal 2020 fourth quarter. Our 2 largest segments posted positive growth in the first quarter while 2 of our segments declined. Overall, RPM's results benefited from the positive impact of our MAP to Growth operating improvement program and our balanced business model, where strength in one segment offsets weakness in another.

In addition, much credit for our strong performance is due to our management philosophy, which keeps customer-centric decision-making at the operating level and enables our companies to be very nimble in adapting to change. Some examples around RPM of leaning into the pandemic's disruption include Rust-Oleum, tinting wall paint and shipping to residents through a new e-commerce program hosted by a big box home center; Tremco developing innovative indoor air quality services with a global MRO distributor for use on its customers' facilities; in our Legend Brands business, pivoting from disaster remediation to disinfecting and air purification in response to evolution of its contractors' business needs.

The most significant driver of RPM's first quarter growth was our consumer segment, which had already been experiencing unprecedented demand for small project paints, caulks, sealants, stains cleaners, patch repair products as consumers completed more DIY home improvement projects. On a consolidated basis, international markets rebounded with 2% growth after a 26% drop during the difficult fourth quarter when construction and hardware channels were not deemed essential and were thus locked down in most of the international markets we serve.

We continue to benefit from successfully implementing our MAP to Growth program, which enabled us to leverage the first quarter sales growth into even stronger bottom line results with adjusted EBIT that increased nearly 40%. During the first quarter, we announced the closure of 1 additional plant, which brings our total to 23 out of the previously announced 31 plants that originally targeted in our MAP to Growth operating improvement program.

The momentum behind our MAP to Growth program continues to accelerate as it drives efficiency and operational excellence throughout our businesses. We are on track to reach the targeted run rate of $290 million in annualized savings by the conclusion of our current fiscal year, which ends May 31, '21. The projected benefits from our center-led procurement initiatives are ahead of plan, and our administrative improvements and ERP consolidations will continue into fiscal '22.

In regard to our IT investments, we are currently enhancing our capabilities and analytics by centralizing systems and databases. This is allowing RPM to harness more complete information across its multiple business units and build decision support tools to improve the effectiveness of our procurement, distribution and sales teams. We are leveraging our information resources to make RPM stronger, and our success is a direct result of the cooperation and buy-in of our associates across RPM. While the MAP to Growth operating improvement program will be reaching its annualized cost savings target by the end of the fiscal year, we will run through that target as a result of continuing opportunities in the MAP to Growth pipeline, including consolidation of more accounting locations after the setup of new ERP systems are completed. In addition, we are establishing a culture of continuous improvement and operational excellence that will benefit RPM's bottom line for years to come.

Most importantly, I'm proud of the efforts of our plant managers who have made our workers' health and safety a top priority during the pandemic. Supported by Mike Sullivan and Ken Armstrong here at the corporate office, our operations personnel have successfully minimized workplace transmission of COVID-19 at a very low level. I'll now turn the call over to Matt Ratajczak, who will review our fiscal 2021 first quarter results on an adjusted basis.

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

Thanks, Frank, and good morning, everyone. Please note that my comments will be on an as-adjusted basis. During the first quarter, we generated consolidated net sales of $1.61 billion, an increase of 9.1% compared to the $1.47 billion reported during the same quarter of fiscal 2020. Organic sales increased 9.3% or $136.6 million. Acquisitions contributed 0.5% to sales or $7.4 million. Foreign exchange was a headwind that reduced sales by 0.7% or $10.1 million. Adjusted diluted earnings per share were $1.44, an increase of 51.6% compared to $0.95 in the year ago quarter. Our consolidated adjusted earnings before interest and taxes, EBIT, increased 39.8% to $269.2 million compared to $192.6 million reported in the fiscal 2020 first quarter.

Now I'll discuss our segments results. Sales in our Construction Products Group increased 2.2% to $547.7 million compared to $536.1 million a year ago. Organic sales increased 3.6% or $18.9 million. There was no impact from acquisitions, and foreign currency translation reduced sales by 1.4% or $7.3 million. Adjusted EBIT in the Construction Products Group increased 17.7% to $102.3 million compared to adjusted EBIT of $86.9 million during last year's first quarter.

The segment's commercial sealants and roofing businesses in North America performed well, driven by continued success in its restoration and building envelope systems initiatives. Sales were boosted by orders that were deferred during the fiscal 2020 fourth quarter. This segment also benefited from easier comparisons to last year's first quarter when extremely wet weather in North America slowed construction activity. MAP to Growth initiatives, price increases and strong cost management enabled the segment's bottom line to vastly outpace its relatively modest sales growth.

Sales in our Performance Coatings Group were down 12.6% to $259.8 million compared to the $297.2 million we reported during last year's first quarter. Organic sales declined 12.2% or $36.4 million. Acquisitions contributed $0.8 million or 0.3% to sales. Foreign exchange was a headwind of 0.7% or $1.9 million. The segment's adjusted EBIT was down 16.4% to $30.9 million compared to $36.9 million during last year's first quarter.

Similar to the fourth quarter, the segment's top line continued to be impacted by core energy market conditions that resulted in deferred industrial maintenance spending as well as by COVID-19 restrictions that limited outside contractors access to facilities and construction sites. In response, the segment has managed its decremental margins well by aggressively cutting fixed costs and reducing its breakeven point.

Cost savings that resulted from MAP to Growth operational improvements benefited the segment's earnings. Adjusted EBIT margins would have actually improved during the quarter had it not been for the impact of transactional foreign exchange expense. Finally, we announced one more facility closing in this segment during the quarter.

As Frank mentioned, there was unprecedented demand for our consumer products, which drove incredibly strong Consumer Group sales. They increased 33.8% to $641.2 million from $479.3 million during last year's first quarter. Organic sales increased 34% or $163.2 million. There was no impact from acquisitions, and foreign currency translation reduced sales by 0.2% or $1.3 million.

Adjusted EBIT in the Consumer Group increased 121.6% to $136.7 million compared to $61.7 million in the prior year period. Results were up significantly in this segment due to robust DIY demand as consumers spend more time in their homes completing improvement projects during the pandemic. Our Consumer Group was a large beneficiary of this trend due to our market leadership position and many years of building our retail distribution network. We are working around the clock to meet this unprecedented demand and are also making significant investments in plants, equipment and operational disciplines to expand our capacity.

The segment also benefited from an easier comparison to the prior year's first quarter when its product sales were tempered by extremely wet weather. The segment's bottom line increased as a result of volume leveraging, MAP to Growth savings, temporary reductions in discretionary spending, favorable product mix and moderation in some raw material categories. However, future cost pressure is anticipated due to recent inflation in certain raw materials and packaging as well as additional overhead expenses resulting from ongoing investments in capacity. We anticipate that we will see elevated demand over the next few quarters as housing turnover improves and more DIY-ers gain successful experience with new projects.

Specialty Products Group sales were $158 million through the fiscal 2021 first quarter, a decline of 1.3% compared to sales of $160.1 million in the prior year period. Organic sales decreased 5.7% or $9.1 million, which was partially offset by acquisitions, which contributed 4.1% or $6.6 million to sales.

Foreign currency translation increased sales by 0.3% or $0.4 million. Adjusted EBIT in the segment was down 15.9% to $24.1 million in the fiscal 2021 first quarter compared to $28.6 million in fiscal 2020. The segment's first quarter sales rebounded and were nearly flat as compared to last year's first quarter. This was due to more favorable market conditions that drove demand for some of its products. Marine coatings were boosted by increased outdoor activity, wood protectants were boosted by stronger lumber sales and nail enamels increased because of greater demand for home beauty care.

The unfavorable impact to the bottom line from product mix, operating disruptions associated with COVID-19 and deleveraging on lower volumes was partially offset by savings from the MAP to Growth operating improvement program. Now Rusty will walk you through our outlook for the remainder of fiscal 2021.

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

Thanks, Matt. For the second quarter of fiscal 2021, we expect to generate consolidated sales growth in the low to mid-single digits with strong leverage to the bottom line for more than 20% adjusted EBIT growth, which are growth rates that are more in line with recent quarters prior to the outbreak of COVID-19. Our MAP to Growth momentum continues to be excellent, and the Ali acquisition, excluding acquisition-related costs, will contribute towards good results in our second quarter. Our first quarter consolidated growth of 9.1% was a bit of an anomaly due to double-digit growth in the month of June as lockdown restrictions were eased in several markets.

Looking ahead to the full year of fiscal 2021, our guidance is relatively unchanged from the direction we provided in our fiscal 2020 fourth quarter earnings release. We anticipate that our Construction Products Group and Performance Coatings Group could experience sales declines for the next 2 quarters and then turn positive in the fourth quarter. Our Consumer Group should continue its strong sales momentum throughout the fiscal year. The Specialty Products Group is likely to face flat sales comparisons during the second quarter, which should turn positive in the second half of the year. These estimates assume that we do not experience a surge in COVID-19 that results in a second round of stay-at-home orders. Due to continued economic uncertainty related to the impacts of COVID-19 and the upcoming U.S. elections, we are not providing fiscal 2021 full year earnings guidance. This wraps up our formal comments. We will now be pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John McNulty with BMO Capital Markets.

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

Congratulations on a really solid set of results. I guess one of the questions I had, like you did have some really strong numbers and I think some of it was expected. I think there was a lot of hope on the DIY side picking up and that type of thing. But you also had a lot of big new initiatives that you were launching, some with Home Depot and Walmart, and I think even Grainger may have been on the list as well. So I guess can you help us unpack how much of it came from kind of just core traditional growth versus how much of it came from kind of new product introductions and some of the initiatives that you're pushing there? How should we think about that?

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

I think most of it, John, came from our core traditional growth and just the surge in North American DIY activity. We're also starting to see that pick up in the U.K. and parts of Europe. And the new initiatives are some tests in the wall paint area that we talked about and a few other categories that I think will have, hopefully, a greater impact in the coming quarters and into next year.

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

Got it. That's helpful. And then it sounds like on the MAP to Growth side, your $290 million run rate by the end of fiscal '21, it sounds like it's actually a little earlier than what we were expecting. And then also, you certainly implied there's more to come in '22 as you get kind of the ERP system up, can you speak to kind of what line of sight you have in terms of potential incremental savings above the $290 million that you were originally targeting?

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

I think we'll certainly run through $300 million and then some as we get into '22. There's outperformance in the benefits of consolidating procurement areas. There's continuing benefits and outperforming in the manufacturing sector. It's a combination. We're getting what we expected from the plant consolidations, but the benefits of the lean manufacturing disciplines and continuous improvement activities will actually result in probably $100 million of savings in the manufacturing sector versus the $75 million we originally projected.

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

Got it. That's helpful. And then maybe just one last one if I can sneak it in. On the cash flow side, your cash flow from operations was huge. I mean it's probably double what you normally run. I guess can you speak to how much of it is kind of onetime-ish in terms of some of the cleaning up and tightening up of working capital that you've been working on versus how much we should be thinking about it being sustainable? And then I guess just uses for that cash, are you starting to see the bid-ask spreads starting to narrow in terms of M&A? Or do you see buyback opportunities picking up? How should we be thinking about that?

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

Sure. It was -- I think we missed the opportunity in our prepared remarks to emphasize the cash flow and the balance sheet improvements we had in the quarter, pretty extraordinary. I think for the most part, it's sustainable. Some of the working capital improvements in our consumer segment are probably a little overdone in the quarter just because our inventory levels are lower than we would like relative to a 34% organic growth and our need to continue to expand capacity.

We also had probably $15 million or so of COVID-related onetime benefits in the quarter. But in general, the strong cash flow I think is indicative of the operating efficiencies we've been pursuing, improvements in our working capital, most of which will be permanent, and the higher margin profile that we're able to leverage on the sales growth we have. We paid off $200 million of debt in the quarter and there will be more to come, and I think that's one of the real highlights of the quarter.

Operator

Our next question comes from Frank Mitsch with Fermium Research.

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

Let me echo the congrats on the strong start to the year. Rusty, you mentioned that June had double-digit sales growth. I was wondering if you could kind of parse out where the rest of the quarter fell and where -- what you've seen so far in September.

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

Sure. Yes. For the rest of the month other than June where we had extraordinary double-digit growth as lockdown restrictions eased, we were in the low to mid-single-digit range. So that's why we projected Q2 similarly.

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

All right. Terrific. And Frank, you mentioned that you've closed 23 to 31 plants. What is the timing on completing all of the plant rationalizations? And how do we think about the financial impacts of the shutdowns impacting your bottom line in terms of timing and pace?

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

Sure. As we had indicated in the past quarterly investor calls, the pace of some of our activities has been slowed by the impact of the COVID-19 pandemic. And so like most companies, we have kept independent contractors out of our plant facilities and offices. So it slowed the pace of the completion of some of our ERP implementations. It's also slowed the pace of some of the plant closure activity and in the related area, slowed our ability to get into now kind of mid- to smaller-sized manufacturing facilities with what we call fit events, which are really the kickoffs of the lean manufacturing disciplines and continuous improvement activities that are paying big dividends for us.

And so we're probably 6 to 12 months beyond the original December 31, 2020, target date that we communicated a couple of years ago only as a result of the slowdown from the pandemic and our ability to get people in the plants and/or offices to complete these activities.

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

And is that chunky in any way, shape or form in terms of, in the back half of this year, you'll see a nice increase in the financials? Or is it kind of evenly spread? How do we think about that?

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

No. I think the -- there were some concerns by folks in the investment community, some expressed on this call in the past, that we had a good benefit from our MAP to Growth program after the first year but that some programs would lose steam. We accelerated in the second year of the MAP to Growth program, and we don't see that acceleration stopping at this point. There's still gas in that tank.

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

Got you. And hopefully your brownies will continue to not lose steam. Congrats.

Operator

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

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

Congratulations one more time. Following up on the MAP benefit, your savings were about $20 million in the first -- in the third quarter of last year followed by $25 million in Q4. What did you -- what was the benefit in the first quarter of this year?

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

Just a little more than $30 million.

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

Okay. And you expect to generate the $290 million run rate by the end of the year. What would be the actual dollar amount that you expect to achieve in 2021?

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

I think roughly $100 million, could be a little bit more. Keep in mind that a lot of the benefits here have been in cost of goods sold in the manufacturing area, so it flows through our P&L with the seasonality of our revenues. So you can't just take a $30 million or $32 million benefit in our seasonally high first quarter and flow it evenly across months or quarters. But we'll get $100 million this year, and we're probably $50 million ahead of our original targets through wave 2. Some of that is pulling forward things that we plan for wave 3, so not necessarily additional savings to our original goal. And then others of it are additional savings. I think that's why we're confident by the time we get through May 31, '21, we'll have achieved the $290 million. And then we believe there's another collection of tens of millions that will show up in fiscal '22 as well and will benefit subsequent quarters.

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

And then looking at the unrealistic growth on the DIY side, do you think -- do you have a feel as to whether your customers have been building inventory or replenishing inventories that they had eliminated or reduced earlier on? And if that is the case, you are adding capacity, but the demand is going to slow down to a more normal level. So do you think that you are maybe a little overly optimistic in building this capacity? Or do you need it regardless of what the decline in DIY growth is next year, which I expect will be?

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

Sure. A couple of things on that. Number one, specific to DIY, I think in our categories and many others, and we have commented on this in the past, a good example is our wood stains and finishes category that's up big, that takes a greater skill set than just patching and repairing. And so we firmly believe, and our big customers believe, that the confident DIY-er base in North America has grown, and that bodes well for the DIY sector across a lot of categories. And so we see solid growth in the consumer segment for the balance of this year. And we think it will be on a new base that's higher than what any of us could have achieved on our own as a result of, I think, one of the very few positive consequences of this pandemic in terms of driving that larger level of activity.

The flip side is supply chains across all industries and certainly in DIY have been disrupted mightily. We've seen some allocations on things like cans. Some of that's been driven by spikes in demand, some of it's been driven by plant closures associated with COVID-19 infections. So that's in our supply base.

Inventory levels are not where they need to be in the DIY channel. Very few companies, and we're one of them, sit around with idle capacity of 40% or 50%. And so the 34% organic growth that we experienced in the first quarter, along with some of the supply chain disruptions, has been challenging to us and everybody. And we're working hard to make sure that we can drive the efficiency to overcome that.

So the long and the short of all that is we see solid performance in our consumer business for the balance of the year. We see a larger base that's going to be permanent, and we continue to introduce new products and take market share. So we're pretty excited about what we see for the next couple of years in consumer.

Operator

Our next question comes from Mike Sison with Wells Fargo.

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

Congrats on a good -- on a great quarter, and I hope you're excited about the browns as I am.

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

Absolutely.

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

In terms of the -- in terms of DIY, it's -- we've had a really good run here, what are your thoughts in terms of that business over the next year or 2? Do you think there's good sustainability in demand for DIY over pro? And how long do you think this trend can continue of really strong growth?

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

Sure. Well, I think the comments I just made in response to Rosemarie Morbelli answered that question in terms of a larger base and I think really expectations by us and our customers of a continuation, at least for the next couple of quarters, of this larger-than-usual organic growth basis. You'll also see a pickup in the pro, and we're finally starting to see that. And we would expect more of that in the new calendar year. Most of the big activity has been DIY as, at least over the late spring and early summer, homeowners were reticent to allow contractors in or around their homes. That's starting to change. And the pro business, particularly at some of our biggest customers, will start to pick up. That has not been a big driver of demand so far, but we think it will be in the coming quarters and the next year.

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

Okay. And then in terms of -- you closed an acquisition in September, I think. And is the environment there improving? Is that an opportunity for more incremental growth over the next couple of quarters as well?

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

Sure. We closed Ali Industries, great family business headquartered in Ohio. They're essentially in abrasives and sandpaper products and DIY, a great adjacency to our Rust-Oleum business but also with some of our other businesses. So we're very excited about that, and we're thrilled to have the Ali family and the Ali Industries associates join RPM.

We had negotiated that transaction prior to the pandemic, and we had put most of our acquisition activity on hold. I think given our strong results and our great cash flow, we are confident in restarting our acquisition activity. And I would expect that, particularly in the small- to medium-sized private company space across all categories, you'll see activity pick up pretty aggressively between now and calendar year-end, in part in anticipation or concern about possible tax changes with an administrative change in the new year.

Operator

Our next question comes from Ghansham Panjabi with Baird.

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

Maybe, Frank, going back to the construction segment, which is one of the -- obviously, the sources of upside relative to your original guidance. Where did you see the upside relative to perhaps your initial predictions for the quarter? And then related to that, why would that turn negative in the second quarter apart from just some pull-forward based on pent-up demand? Is that what you're expecting for that segment?

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

No. I think it may be flat to slightly down in Q2, but we see it turning modestly positive in the second half. The challenges there in our construction segment is really what happens with the economy. Our results in the first quarter and continuing to spring suggest to us that we're taking market share. We're seeing decent, modest revenue growth. It's leveraging to our bottom line really well. And some of our peers where we can get data are still experiencing negative results. If the economy continues to improve and if the health interventions around vaccines and treatment kind of help build confidence, then upside for us for the balance of the year and into '22 could be the activities in our construction group, Construction Products Group.

If there are hiccups relative to coronavirus and further shutdowns, like you're seeing in Israel and select parts of Europe, then that will be a challenge for us as we get into the new year. So that's the principal area that makes us scratch our head about providing any more detailed guidance for the year. But if things continue as they are, we'll do perhaps better than we've indicated in the second half of the year and for the full year of fiscal '21.

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

Very clear. And then in terms of Performance Coatings, how would you characterize channel inventories for that segment? I mean, obviously, there's some dislocations in the energy markets, but I would imagine that some of it would just be a deferral because I don't think you can defer the maintenance forever for that end market. And then just a final question for the consolidated portfolio. How did September actually play out for your company from a sales standpoint?

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

Sure. I'll take the last question first. We'll just repeat what Rusty said. We anticipate kind of mid-organic growth in the second quarter, and it ought to leverage nicely at the bottom line with EBIT growth of 20% or more. And I think that's all we would say about the second quarter.

As it relates to Performance Coatings, it's about $1 billion, $1.1 billion segment in total. And as you recall, about 30% of the revenues are tied to the oil and gas, energy and energy-specific -- broadly energy. And that segment's taking it on the chin in terms of oil prices and the halting of spending and a lot of activity. That will rebound eventually, but we don't anticipate seeing really any positive numbers there year-over-year until we get into the fourth quarter.

Operator

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

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

As it relates to the margin performance, I guess first off in consumer, really impressive margin performance, and obviously a good portion of that is volume and a good portion is potentially MAP to Growth. Is there any way that you could help us identify what you think the normal margin is? And maybe do you expect margin to kind of moderate in the coming quarters as maybe some of the DIY surge moderates? Yes. Maybe we can just start with that.

And I also wanted to ask basically the same question for construction products. Again, that was a little bit above our expectations. So just trying to think about how we should think about your margin trajectory from here in those 2 segments.

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

Sure. Our original MAP to Growth specific goals, as you will recall, were $1 billion of EBIT and a 16% consolidated EBIT margin. And as we indicated, boy, it started a year ago mostly because the revenue growth up until recently wasn't meeting our expectations. We had a couple of other headwinds that we didn't see achieving those within the time frame we talked about.

We are still keenly focused on a 16% consolidated EBIT margin. It will take longer to get there than we thought, but there will be opportunities for continued margin expansion in certain parts of RPM in the coming, I'd say, 12 to 18 months. So those goals are still front and center for us, and I think you'll see EBIT margins improve. They're likely to improve in places other than consumer. With this performance, some of which has been COVID-driven. We've finally gotten back to margin levels that we had experienced in the past. And I would expect to see continued margin improvement in our Construction Products Group as well as the Specialty Products Group this year and then, eventually, but probably not until '22, in the Performance Coatings Group.

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

And then I guess, secondly, could you just address the international performance? Obviously, you're seeing different trends in Europe, and you mentioned potential lockdown risk outside of North America. So I guess where do you think you are in your international businesses recovery-wise? Maybe if you could characterize it from an innings standpoint or a percent recovery, but where do you think you are in some of those international markets?

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

Sure. I'll let Rusty handle that.

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

Yes. Thanks. Yes, in terms of international, Arun, we are pretty flat in Europe after having taken it on the chin, of course, in April and May there due to tighter lockdown restrictions. Currency is not a headwind in Europe at the moment, so that's good news there as well.

In Latin America, it's been really challenging. As you can imagine, in Brazil and other places, Mexico, we've had challenging results, and that's made worse by currencies that have weakened over time versus the U.S. dollar. So Latin America has been a bit of a challenge, and that's principally where most of our international business is.

Canada did well in the first quarter. That was another place where they had tighter lockdown restrictions versus the U.S. in April and May. So we had good performance there. And we have very strong consumer brands in Canada. So of course, that business mix helps us and should help us looking ahead.

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

So I would just add to that, that we're starting to see similar trends in the U.K. and Europe in consumer takeaway that is building a bigger base than what we had before. And we would expect, for instance, in the second quarter, some pretty good organic growth in the U.K. and Europe, assuming they're not in further lockdowns as the DIY markets start to look a little bit like what we've experienced in North America.

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

Great. And just a quick one, if I may, just on price cost. Are you experiencing any inflation, whether it be on the petrochemical side or input cost side or freight side? Could you just provide some commentary on those items?

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

Yes. Sure. Yes, we are seeing some inflation in select raw materials, like acetone, for example, is one that really stands out. Also, as Frank mentioned, due to some supply chain issues and metal packaging, we are having to find new sources, often not with the same costs that we were used to from the old sources. So that will certainly provide some cost pressure. Yes, I have heard of other raw materials. And freight, as you mentioned, we expect that to go up by a modest mid-single-digit percentage next year. LTL freight always seems to go up, and we expect more of the same.

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

Yes. And I would just add to that 2 things to keep in mind. One, in general, the cost price/mix is relatively flat now. We haven't had meaningful price increases in some time. We are benefiting from the fact, and we've reminded folks of this in the past, that we're one of the few of the major competitors that we get compared to that's on FIFO accounting. And so you'll see reflected in our results in the first quarter things that we experienced in terms of cost price/mix 60 or 90 days ago. And so that's worth keeping in mind as well as you think about RPM versus peers.

Operator

Our next question comes from Kevin McCarthy with Vertical Research.

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

Question on MAP to Growth beyond sort of the discrete items around plant closures, procurement and other facets of the program. My sense is that it's had a large impact on RPM's culture in terms of operational excellence, continuous improvement, et cetera. If that's the case, Frank, can you speak to sustained productivity benefits? For example, some companies endeavor to offset inflation ad infinitum. Have you thought about future opportunities in those terms? And be curious to understand what impact that may have beyond the formal end of the program in late fiscal '21.

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

Sure. So in terms of the lean manufacturing disciplines and continuous improvement disciplines that we are taking now in places outside of just the factory floor, I would say we're in middle innings, and there's more to come. Obviously, over time, that incremental benefit will become less impactful, but it should be the gift that keeps on giving for a long time. And it has changed our culture, and the way that our people have embraced that change and the speed with which it happened has been very impressive. And we work hard to make sure that we maintain those gains. And so we see more to come in that category.

Boy, it'd be hard to talk about something offsetting inflation because if you've -- if you have followed us over 20 years, we're pretty raw material-intensive, as is everybody in our space. And when you get spikes in raw materials, up or down, I certainly think we've proven through price increases, although not always timely, but through price increases and now going forward our ability to operate more efficiently. We can certainly maintain a level of margin profitability over a cycle, but we'll continue to see some swings in the future as we have in the past relative to the activity of raws. We are lastly taking the MAP to Growth activities into some more data-intensive areas around product mix and other things that are going to help our margins in the future as well.

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

Understood. Good to hear. And then secondly, if I may, Frank, you made a comment that you're working around the clock in consumer and another comment that I think you expect to face increased overhead costs. Do you need to invest in more capacity at this point? And if so, what impact might that have on your capital expenditures for this year and beyond?

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

Sure. I'll have Rusty answer the CapEx question, but we are investing in more capacity, particularly in consumer. And we -- obviously, a 34% organic growth rate isn't anything we expect to be sustained, but there is a higher base of business and we're expanding to meet that, particularly in small project paints and cleaning categories.

In the cleaning category, we've gone from what was a modest start 7 years ago with Krud Kutter and an acquisition that was $5 million to what should be a product category at Rust-Oleum in excess of $100 million. And that could be a meaningfully larger category for us in the future.

So those are 2 areas, for instance, where we're expanding. We're also expanding capacity in the roof coating capabilities of our Construction Products Group.

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

Yes. So Kevin, back in July, we said our CapEx would be about $130 million this year. Now, because of this above-expectation demand in consumer, the CapEx will probably be closer to $140 million, which will make it pretty comparable to last year when we did about $147 million.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

You spoke about being on FIFO accounting. Were there FIFO benefits in the quarter? And if there were, how much were they? Where did the FIFO benefits come in your second quarter, given that raw materials probably bottomed in, I don't know, April, May?

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

Sure. Again, I don't know that we would provide that kind of detail other than to just make clear that on FIFO, you're looking at across price/mix that was in spot prices what we experienced 60 or 90 days ago as opposed to somebody on LIFO who would be reflecting spot prices as of today.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So if I understand what you're saying, though, you should have -- you're not going to feel a raw material detriment in the second quarter. You might feel it in the third?

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

I think that's correct.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. And then lastly, in other accrued liabilities, I think they went up from maybe $272,000 to $365,000, sequentially. What's that about? And where will that number go?

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

Sure. Yes, the other accrued liabilities went up, and the reason is that customer rebates went up because of our strong DIY activity, and it also relates to the timing of tax payments. That was the big reason for the $67 million increase versus 12 months ago.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Where should that be at the end of the year?

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

Well, typically, we pay out customer rebates at the end of their year, which should be in the winter time. So that aspect will go down. On the timing of tax payments, Matt, do you have any idea?

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

Yes. Some of that is some of the deferrals on the FICA and stuff, but income tax payments will probably spike a little bit in the second quarter -- or second quarter and then catch up in the latter half of the year.

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

So we had communicated in the spring, when companies were able to defer FICA, about a $25 million benefit there -- about a $25 million benefit, and that's just the deferral into the next year. We did not choose to reduce the FICA payment of our payrolls. That was an option, and we chose not to pursue that.

Operator

Our next question comes from Josh Spector with UBS.

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

Just a question around the top line guidance range of low to mid-single digit. Just trying to think about what are the factors at this point that could move that from the top or bottom end of the guidance. Is it one particular sector, region or segment that you look at more?

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

I think we feel pretty good about our guidance for Q2. As it relates to the second half of the year, I really think it depends upon our construction products category. We've got a lot of new products. We've got a lot of good momentum there. We're taking market share. We are really pulling together what was a not very well-coordinated collection of companies serving the construction chemical industry, broadly in waterproofing and sealants and floor coatings and things like that. And that has become very well coordinated and got good leadership there.

So we're poised to do really well. And it really depends on economic activity as we get into the new calendar year. And again, it goes to our hesitancy to provide more specific guidance. If the economic recovery continues, we will outperform this year. If some combination of COVID and disruptions around the elections result in an economic downturn as we get into calendar '21, then I think we'll be more at the bottom of what we talked about.

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

Okay. And I mean specifically for your fiscal second quarter, I mean is it a fair base assumption to say that you're planning on consumer up maybe mid-teens and construction down low single-digit percent? Or is it significantly different than that?

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

Yes. I wouldn't get into the segment details right now other than to say kind of mid-single-digit growth. We will continue to have outsized growth in consumer, although not to the extent that we had in the first quarter. And we should have flat to positive growth in our Construction Products Group. And I think the others go in line with what Rusty has talked about.

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

Okay. And then just maybe one quick one on working capital. So I mean it's been mentioned a number of times that you've done better in the quarter to date. I don't know if you have an update of what you're thinking in terms of core working capital for the year overall, if you're kind of back on track to maybe improve that in fiscal 2021 or if that's going to be further delayed following plant closures.

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

Sure. Well, it's delayed, as we've communicated from our original projection. I think we just made bad assumptions at the beginning of MAP to Growth that the working capital improvements that we expected to generate, originally about $230 million in cash, would come evenly. And the fact of the matter is the way it happens is you get your plant improvements first, you begin to get the benefits of some of your consolidating activities and then your working capital improvements follow. We are seeing that now. And certainly, over the next 12 to 18 months, there's another $100 million of relative working capital improvement. And I say relative. Obviously, the numbers will move based on our revenue growth.

Operator

Our next question comes from Mike Harrison with Seaport Global Securities.

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

Congrats on the nice quarter. I was wondering if you can talk about the operational impact of COVID that you referenced in the specialty business. How much -- can you quantify that impact for us and maybe discuss whether you've overcome those disruptions at this point?

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

Sure. I can do it just generally and by some examples we've provided in the past. Our marine coatings business in April and May, our Guardian Protective Products business that supplies furniture retailers and furniture manufacturers, businesses like that literally saw their revenues drop 50%, 60%, 70% in April and May, and it was pretty scary.

We are seeing a significant return in the marine coatings business to being very positive. As retailers open up, we're seeing a bigger than anticipated return in the Guardian Protective Products business. So we're seeing a nice rebound in those businesses. And while the Specialty Products Group had negative results in the first quarter, you'll see positive results out of that group, I believe, for the remainder of the fiscal year. And it's for those reasons. But those were the disruptions that we saw.

The disruptions in other parts of our business that have been hit-and-miss and are really referenced to the supply chain issue are, in many cases, around COVID-related plant closures. We had a protocol very quickly that if we had any infections, we would close a facility and do disinfecting and cleaning. And if -- we've had very few, if any, work-related exposures. Most of our exposures over the summer have been from people who had been working at home. But in a few places, we had to close a facility for 2 weeks. We've had suppliers that have had to close facilities for weeks. And so those disruptions in different raw materials and/or different parts of the supply chain have been challenging. We're not seeing those today, although we're still suffering the impact, for instance, in the can category.

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

All right. And then you mentioned price increases in the consumer business. How much pricing did you see? And it sounds like maybe there wasn't a formal increase announced. So this -- is this more a function of just less discounting or less promotional activity in a strong demand environment?

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

Yes. We did not have any price increases over the summer or in the quarter. And so the price increases that we got were mostly a year ago, and those were necessary to overcome what were a couple of year of raw material challenges. And we certainly have benefited from that in the subsequent quarters in terms of cost price/mix. But from a price perspective across most all of RPM, it's been -- there's been a little or no price increases in the last couple of quarters.

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

All right. And just lastly, can you comment on what you're seeing in TiO2 pricing right now?

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

Yes. I don't have a good answer for that question. We can get back to you.

Operator

Our next question comes from Vincent Andrews with Morgan Stanley.

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

This is actually Steve on for Vincent. Sorry, should have led with that. I think just to come back to consumer for a second. Last quarter, you had a comment that the full year would be kind of up low to mid-single digits and clearly outperformed in the first quarter versus initial expectations. So could you help us maybe kind of size how we should be thinking about that prior guide going forward?

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

Sure. I think consumer will be kind of mid- to upper single digits for the balance of the year.

Operator

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

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

So Frank, I've seen massive purchases of Varathane in my house. I think my wife meaningfully contributed to your quarter. I just wanted to drill in on your consumer, your 34% organic growth. How much of that was volume? And how much of it was price mix?

Operator

Ladies and gentlemen, please stand by. Your conference will resume momentarily.

(technical difficulty)

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

Thank you. Apparently, we had a technology hiccup with the line disconnection, but we're back on. If there are any further questions, we will take them. And Liz, if there are no further questions, let me know.

Operator

We do have Steve Byrne with a question.

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

Okay. Go ahead, Steve. Sorry for the disconnect.

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

Yes. No worries, Frank. So that 34% organic growth in consumer, was that almost all volume? Or was there some price/mix in there?

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

It was all volume, and it was broadly across the entire category of small project paints, wood stains and finishes, caulks and sealants, patch and repair products. Cleaners were a big category, and so that was good.

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

And when you look at those trends, and I believe you've indicated in the past that you have almost real-time visibility on purchases of your products from some of the home centers, is there anything in particular that is driving that volume? I mean is there any particular categories that give you confidence that, one, it's DIY-driven and not pro? I'm not sure how you can differentiate that, but are there particular products that give you confidence that this DIY strength has some legs to it?

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

Sure. So in talking to our largest customers, they believe this DIY strength has some legs to it. I think we concur that there is a -- that this crazy dynamic has created a larger base of confident DIY-ers across a lot of categories, including ours. So there is a new larger base of business that, quite candidly, neither we nor our big customers probably could have generated in this time frame in normal circumstances, but it's here. And it is broad across all the different categories, and it's continuing into the fall months.

Obviously, it's -- in our case, it's a seasonal business. So we'll see seasonal slowdowns as we get into the colder winter months. We anticipate solid results in the spring, whether they're back to kind of the normal mid-single digits or there's still an uptick in the spring. When the seasonality comes back, we'll find out the hard way. But we're pretty excited as our customers about this whole category, about our larger base of business and also, in our case, some tests in a couple of areas like wall paint, a few other places that could get us into some new categories, but time will tell on that.

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

And I recall last quarter, you mentioned e-commerce was somewhere in the tens of millions of revenue through homedepot.com and Amazon. How would you characterize it now? Is it continuing to post a doubler year-over-year?

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

Yes. It's increasing at a rate of double, and it started on a relatively small base, call it $10 million. But we're seeing doubling of our e-commerce business through a number of platforms but principally homedepot.com and Amazon. Those are the 2 biggest drivers. There are other platforms.

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

And you just mentioned about the Walmart paint, this grab-and-go. Is there any interest at Walmart to add in paint color-mixing machines and advance that beyond this just grab-and-go approach?

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

So we have a tint-based program that is a direct ship that we are having tests with a couple of other customers. So we do have a tint-based program there. And on the color ready-to-go program, it's still in test at Walmart, and it's going well. Walmart has other paint vendors that have tint-based programs, and that's -- we are the color-to-go program.

Operator

I'm showing no further questions in queue at this time. I'd like to turn the call back to Mr. Sullivan for closing remarks.

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

Sure. Before we hit our closing remarks, I'd like to qualify a couple of things. In the Construction Products Group and Performance Coatings Group, we anticipate flat to down sales for the next couple of quarters. The MAP to Growth should allow us, particularly in construction products, to leverage to positive EBIT growth there. And then we're hopeful that we'll see that turn up in the second half or certainly the fourth quarter.

As it relates to TiO_2, we're seeing over the last couple of months about a 2.5 -- 2% to 2.5% price increase impact there.

At 2:00 Eastern Time tomorrow, we are going to hold our Annual Meeting of Stockholders. As many companies have done and for obviously solid and important health reasons, we will be doing it virtually. Our Annual Meeting of Stockholders can be assessed -- accessed through our website at www.rpminc.com or at www.virtualshareholdermeeting.com/rpm2020. We remain optimistic that we'd be able to return to an in-person meeting next year and continue our tradition of engaging with shareholders in person and also providing samples of our newest products.

We'd like to thank our associates worldwide for their continued hard work and dedication during these uncertain times. Through all these challenges we've experienced over the last few months, our associates have demonstrated incredible resilience as they find new and innovative ways to safely operate our businesses and continue to deliver for our customers.

I'd like to especially thank our personnel at our Carboline plant in Lake Charles, Louisiana, whose resiliency in the face of the aftermath of Hurricane Laura is inspiring to all of us. A number of our employees lost homes. Our facilities received structural damage. There continue to be power outages and water outages for weeks after the hurricane. And despite all that, we were able to ship products to customers 11 days after the hurricane hit the area. And their response is symbolic of the RPM culture, where our employees act like owners of their businesses.

I'd also like to thank our shareholders for their ongoing investment in RPM. We remain committed to completing our MAP to Growth program, to generating solid revenue and earnings growth and to creating value for you over the long term.

And to everyone on the call, I wish you and your families good health. We look forward to updating you on our fiscal 2021 second quarter results in the first week of January and hope that many of you will join us for our Annual Meeting of Stockholders tomorrow. Thank you, and have a great day.

Operator

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