REFINITIV STREETEVENTS

EDITED TRANSCRIPT

RPM.N - Q3 2023 RPM International Inc Earnings Call

EVENT DATE/TIME: APRIL 06, 2023 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

Matthew Schlarb *RPM International Inc. - Senior Director of IR*

Michael J. Laroche *RPM International Inc. - VP, Controller & CAO*

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

CONFERENCE CALL PARTICIPANTS

Aleksey V. Yefremov *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

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

Frank Joseph Mitsch *Fermium Research, LLC - President*

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

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

John Ezekiel E. Roberts *Crédit Suisse AG, Research Division - Research Analyst*

John Patrick McNulty *BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst*

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

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

Michael Joseph Harrison *Seaport Research Partners - MD & Senior Chemicals Analyst*

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

Stephen V. Byrne *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

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

PRESENTATION

Operator

Good morning, and welcome to the RPM International Fiscal 2023 Third Quarter Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Matt Schlarb, Senior Director of Investor Relations. Please go ahead.

Matthew Schlarb - *RPM International Inc. - Senior Director of IR*

Thank you, Sarah, and welcome to RPM International's conference call for the fiscal 2023 third quarter. Today's call is being recorded.

Joining today's call are Frank Sullivan, RPM'S Chairman and CEO; Rusty Gordon, Vice President and Chief Financial Officer; and Michael LaRoche, Vice President, Controller and Chief Accounting Officer. The call is also being webcast and can be accessed live or replayed on the RPM website at www.rpminc.com.

Comments made on this call may include forward-looking statements based on current expectations that involve risks and uncertainties, which could cause actual results to be materially different. More information on these risks and uncertainties, please review RPM's reports filed with the SEC.

During this conference call, references may be made to non-GAAP financial measures. To assist you in understanding these non-GAAP terms, RPM has posted reconciliations to the most directly comparable GAAP financial measures on the RPM website. Also, please note that our comments will be on an as-adjusted basis and all comparisons are to the third quarter of fiscal 2022, unless otherwise indicated. We have provided a supplemental slide presentation to support our comments on this call. It can be accessed in the Presentations and Webcasts section of the RPM website at www.rpminc.com.

At this time, I would like to turn the call over to Frank.

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

Thank you, Matt, and good morning, and thanks for joining us on today's call. I'll begin today's call by discussing our high-level performance for the third quarter. Mike will then provide details on our financial results and Matt will provide some business updates. Finally, Rusty will conclude our prepared remarks with our outlook, after which we'll be pleased to answer your questions.

In the third quarter, RPM associates remain focused on the execution of our MAP 2025 and other initiatives to grow both sales and adjusted EBIT to record levels for the fifth consecutive quarter. This focus on execution helped overcome several headwinds, including customer de-stocking and slowdowns in certain end markets. As these slowdowns are expected to continue, we began taking additional actions in the third quarter to address the changing market conditions by narrowing our investment focus to our top growth opportunities and reducing expenses where appropriate. These actions are in addition to ongoing structural improvements as part of our MAP 2025 initiative.

A good example to illustrate how we're driving ongoing structural improvements is our Green Belt program. During the quarter, 58 additional associates underwent training to become green belts, focused on continuous improvement initiatives. To earn this certification, they must identify and execute at least 2 projects with savings of $100,000 each. RPM now has 200 associates who've undergone Green Belt training and are serving its internal resources to drive structural savings, both now and in the future.

Before we begin discussing the segments, I'd like to highlight that over the past 5 quarters, we've successfully navigated several challenges, including severe supply chain disruptions, war in Europe, elevated inflation and a recent demand slowdown. Our ability to generate record-setting performance in this dynamic environment demonstrates the value of our strategically balanced business model and the agility of our associates to leverage our broad product portfolio and entrepreneurial culture in a changing market condition.

Turning to the segments on Slide 4. All 4 achieved record third quarter revenue. The primary driver of this growth was increased pricing in response to continued inflation. The strongest revenue growth was generated by our businesses, providing engineered solutions, targeting infrastructure and reshoring projects. These include our concrete additives and admixtures businesses, our flooring systems businesses and our protective coatings and fireproofing businesses. These businesses have positioned themselves in the highest growth sectors of the construction market, such as manufacturing facilities for electrical vehicle and microchips.

Businesses that serve OEM markets and residential and commercial construction sectors experienced weak market conditions. The demand in these areas has been negatively impacted by higher interest rates, deteriorating economic conditions and customer de-stocking and their impact on the U.S. housing market and commercial construction activity. Additionally, in our Consumer segment, unit volume declined as retailers were cautious about increasing inventory in advance of the spring season and from reduced consumer takeaway at retail.

In addition to our customer de-stocking their inventory, we reduced production at our facilities to continue to normalize inventory levels and improve cash flow. This resulted in lower fixed cost utilization at our plants, which offset most of the MAP 2025 benefits we generated during the third quarter.

Inflation continued with material costs rising 2.5% year-over-year basis. Foreign currency also remained unfavorable during the quarter. Despite these headwinds, we achieved record adjusted EBIT in the third quarter due in large part to the successful execution of MAP 2025 profitability initiatives across the organization as well as margin recovery in our consumer group. We remain on track to exceed our year 1 MAP '25 target of $120 million in EBIT benefit.

Looking at sales by geography in the next slide. North America, which represents 76% of sales in the third quarter, grew the fastest at 8%, followed by Latin America, where sales grew over 7%. These areas benefit from strong infrastructure and reshoring-related spending. Europe was again the weakest region for growth with sales declining 3.6%.

Foreign exchange rates continue to be a meaningful headwind during the quarter and reduced overall sales by 2.3%. Absent these FX headwinds, sales in all regions would have increased in the mid-single to mid-teen percentage range.

I'd now like to call -- turn the call over to Mike LaRoche to cover our financial results in more detail.

Michael J. Laroche - *RPM International Inc. - VP, Controller & CAO*

Thanks, Frank. Consolidated sales increased 5.7% to $1.52 billion, which was a third quarter record. Organic sales growth was 7.3% or $104.3 million. And acquisitions net of divestitures contributed 0.7% to sales or $10.4 million. FX decreased sales by 2.3% or $32.4 million.

Consolidated adjusted EBIT grew 4.2% to a third quarter record of $83.9 million compared to $80.6 million reported in the prior year period. Adjusted diluted earnings per share were $0.37 compared to $0.38 in the third quarter of 2022. The decline was primarily driven by higher interest expense of $30.8 million compared to $22 million in the prior year period.

During the third quarter of 2023, we excluded several items which are not indicative of our ongoing operations from adjusted EBIT and adjusted EPS. On a pretax basis, these include $59.2 million of expenses related to MAP 2025 initiatives, which includes $39.2 million of noncash impairment charges in PCG, the result of a go-to-market strategy change in Europe, a $25.8 million gain on the sale of the non-core furniture warranty business and other assets in our SPG segment and a $20 million gain from an insurance recovery in our Consumer segment.

Next, we'll discuss our segment results. On Slide 7, our Construction Products Group achieved record third quarter net sales of $497 million, an increase of 3.1% compared to the prior year period. Organic sales growth was 4.3% with acquisitions contributing 1.4% and foreign currency translation reducing sales by 2.6%. Sales growth was led by pricing increases and strength in our concrete admixtures and repair products, which benefited from market share gains and infrastructure and reshoring-related spending.

Demand for restoration systems for flooring, facades and parking structures also contributed to CPG's revenue growth. Partially offsetting this growth, demand was weak in residential and certain commercial construction markets. This weakness included the impact of customer de-stocking. Sales in Europe also remained soft.

Adjusted EBIT was $13.3 million, a decline of 62.1% from the prior year period and adjusted EBIT was $35.1 million. The decline was caused by unfavorable fixed cost utilization resulting from lower customer demand and internal inventory normalization initiatives that reduced production at our plants. As a reminder, CPG faced challenging comparisons to the prior year when adjusted EBIT increased 89.7%.

The next slide, with the Performance Coatings Group achieved record fiscal third quarter net sales and adjusted EBIT. Revenue of $299.6 million was an increase of 10.6% compared to the prior year period. Organic sales increased 13.2%, acquisitions added 0.8% and foreign currency translation with a 3.4% headwind.

Sales were driven by pricing and volume growth in nearly all its businesses. Fiberglass grating, protective coatings and flooring systems all achieved strong growth. These businesses are targeting fast-growing vertical markets, benefiting from continued spending on reshoring and infrastructure projects. Strong energy demand also contributed to the segment's growth.

Adjusted EBIT increased 16.4% to a third quarter record of $31.2 million. The growth was driven by strong sales and MAP 2025 benefits, partially offset by FX headwinds. This growth was achieved in addition to strong results in the third quarter of 2022 when adjusted EBIT increased 89.9%. PCG's adjusted EBIT excludes the impact of noncash asset impairment charges of $39.2 million that I previously mentioned.

Turning to Slide 9. The Specialty Products Group reported record third quarter sales of $191 million, an increase of 0.9% compared to the prior year period. Our organic sales increased 2.2%, divestitures net of acquisitions reduced sales by 0.2%, and foreign currency translation with a headwind of 1.1%.

Third quarter sales were led by strength in the disaster restoration business, which was able to quickly respond to the deep freeze in December and flooding in California, thanks to prior investments we had made to improve operational efficiency. Additionally, the Food Coatings and Additives business grew double digits, which was driven by a strategic refocus of sales management. Price increases in response to continued inflation also contributed to sales growth. Offsetting this growth were businesses serving OEM markets, which experienced weak demand as they felt the dual impact of economic pressures and customer de-stocking.

SPG adjusted EBIT was $16.8 million or a decline of 37% compared to the prior year period. Unfavorable mix and lower fixed cost leverage drove the decline. Adjusted EBIT excludes the $25.8 million pretax gain on the sale of the noncore furniture warranty business and other assets.

Turning to the following slide. The Consumer Group grew sales 7.5% to $528.5 million, which was a third quarter record. Organic sales increased 8.9%, acquisitions contributed 0.3% and foreign currency translation was a headwind of 1.7%. The Consumer Group sales growth was driven by price increases to catch up with continued cost inflation. Volumes declined as retailers were cautious about increasing inventory levels in preparation for the spring season as well as from a slowdown in consumer takeaway.

Adjusted EBIT was a third quarter record at $48.3 million or an increase of 180.4% compared to the prior year period. The successful implementation of MAP 2025 initiatives, as well as solid sales increases were the key drivers of the increase in profitability. As a reminder, the Consumer Group experienced extraordinary low profitability in the third quarter of 2022 and as a result of an explosion at an alkyd resin suppliers plant that caused the beer supply disruptions and from high material cost inflation that was not offset by commensurate price increases. This contributed to the strong year-over-year growth.

Additionally, third quarter 2023 adjusted EBIT excludes the pretax impact of a $20 million gain associated with the receipt of a business interruption insurance recovery. This recovery was a result of lost business in the prior year caused by the explosion at the alkyd resin supplier.

Turning to Slide 11. We have continued to return cash to shareholders during the third quarter. We paid $54.2 million in dividends and $12.5 million in share repurchases, bringing our fiscal year-to-date total in these 2 areas to combined $197.3 million.

Looking at our working capital. We have spoken several times today about our initiatives to normalize inventories that had been elevated to add resiliency to our supply chain during periods of raw material shortages. While these initiatives are having a temporary unfavorable impact on our profitability, we are starting to see positive results elsewhere in our financials. Our cash flow from operations was $72 million in the third quarter of 2023 compared to a negative $3 million in the prior year period.

Inventory levels declined $48 million since the end of November, and we expect our inventory normalization initiatives to continue benefiting working capital in the future.

I would also like to provide an update on our debt maturity schedule. As a reminder, in January 2022, we prefunded a bond that was maturing in November '22 at an attractive fixed rate of 2.95%. And in August 2022, we extended the maturity of a term loan to 2025 and a revolving credit facility in 2027. As a result, we have significant liquidity of over $840 million, no maturities until May 2024 and the vast amount of our debt not coming due until 2027 or later.

Now I'd like to turn the call over to Matt to provide a business update.

Matthew Schlarb - *RPM International Inc. - Senior Director of IR*

Thanks, Mike. Over the past several years, political events and societal changes have created transformational forces that are driving investments in new projects and renovations worldwide. A few examples of these transformational drivers are highlighted on Slide 12 along with how our businesses are supporting these investments.

The (inaudible) area for transition is energy. From providing protective coatings to wind turbine blades to improving safety at LNG facilities with specified fireproofing solutions, our engineered products and services are helping create and protect facilities that are diversifying and ensuring the supply of energy. Additionally, we offer multiple energy saving solutions for both new and existing structures. We have spoken several times about the transitioning of manufacturing capacity closer to its customer base or reassuring. This is ongoing across several vertical markets, and one of these things significant investments is electric vehicles.

Globally, changing consumer preferences are driving significant growth for EVs and the batteries that power them. We are supporting this transformation by providing engineered solutions for the facilities that are producing the EVs and batteries to meet this growing demand.

Moving to Slide 13. Legislation is helping to accelerate these transformations. In addition to stimulus passed in 2020 and 2021, where we are benefiting from increased spending on infrastructure and institutions, the U.S. Congress recently passed legislation that is expected to increase the reshoring of manufacturing capacity to North America for multiple years.

The first is the chipset that contains significant incentives for the manufacturing of microchips in the U.S. Several chip manufacturers, with whom we have strong relationships, have started projects or announced capacity additions in the U.S. The second is the inflation Reduction Act, which extended the tax credit for the purchase of EVs in the U.S. with the stipulation that a percentage of the battery must be manufactured in North America. As a result, a growing number of construction projects for EV battery manufacturing plants in North America have been announced or are underway.

Now let's take a look at the role we are playing in these facilities. On Slide 14, the construction and operation of EV battery and assembly facilities have demanding and specific requirements, which are engineered products are designed to meet. Some examples include Euclid Chemical, which provides multiple admixtures and additives that benefit the foundation of the facility. One example is a high-range water reducer that lowers the amount of both water and portland cement needed during construction.

Additionally, Euclid Chemical offers Tuf-Strand patented Macro synthetic fibers, which are used as a replacement for steel reinforcement providing enhanced 3D protection against cracking, improve construction, increase worker safety and better overall durability of a facility's concrete applications.

Another is Carboline's Thermo-Sorb VOC which is applied to interior steel structures to provide up to 3 hours of passive fire protection. It has been extensively tested for outgassing for clean room environments in EV plants and can be applied quickly in the field to keep live projects on schedule.

Finally, Stonhard's Stonclad GS epoxy motor floor system provides the abrasion and impact resistance necessary in the manufacturing facility. Additionally, Stonclad GS controls static electricity, which is critical in a clean room environment and is also resistant to chemicals. Importantly, Stonhard installs this system to ensure that the project is completed properly and on time.

As an example of RPM's agility that Frank highlighted earlier, a couple of years ago, these businesses were serving the construction of warehouses, which was growing quickly at the time. As that area of construction slowed, we've been able to pivot to this fast-growing sector because of the entrepreneurial nature of our people and strong portfolio of products and services.

On the following slide, I'd like to highlight another growth driver for RPM innovation. Bringing new products to market has been integral to RPM's growth strategy for decades. In recent years, R&D has been ongoing. However, new product introductions have been limited because of supply chain disruptions. Now that these issues are largely resolved, we are back on offense.

As an example, in our Consumer segment, Rust-Oleum recently introduced their biggest spray paint innovation in over a decade, the custom spray 5 in 1. With patent-pending spraying technology, the user can customize the output of the can to match the project simply by rotating the dial. These 5 spray patterns increase precision, minimize drips and reduce waste.

Additionally, the Stops Rust advanced formula provides 30% greater corrosion resistance and color attention compared to the traditional Stops Rust formula. We are introducing this product with a sophisticated omnichannel marketing campaign that will reach users at all points during their shopping journey. The QR code on the slide provides an example of this. (technical difficulty)

Operator

This is your conference operator. Please stand by while we reconnect. This is your conference operator. Thank you for holding. I'd like to turn the call back over to Matt Schlarb.

Matthew Schlarb - *RPM International Inc. - Senior Director of IR*

Hi, everyone. Yes. We apologize for that technical interruption. I'm going to turn the call back over to Rusty who will start the beginning of the outlook section.

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

Yes. Thanks, Matt. The challenging economic conditions we experienced in the third quarter have continued and in some instances, become more pronounced as elevated interest rates and tightening credit conditions have caused customers to become more cautious.

While our strategically balanced portfolio of businesses and focus on repair and maintenance helps insulate us from economic slowdowns, we are not immune, and this is reflected in our outlook. For sales by segment, we are expecting CPG to decline low to mid-single digits versus prior year record sales, which increased 18.5%. Strength in concrete admixture is expected to be more than offset by continued weakness in certain sectors such as residential and office construction while distributors are holding inventory levels below historical averages.

PCG to increase mid-single digits as the segment continues to benefit from infrastructure and reshoring project spending as well as MAP 2025 benefits. This growth is on top of prior year record results when sales grew 16.3%. SPG declined low double digits compared to prior year record results when sales increased 11.4%. Demand from OEM markets, which are economically sensitive, is expected to remain weak.

Consumer to increase mid-single digits as higher pricing is partially offset by lower volumes due to lower consumer takeaway as well as the fact that retailers are being cautious about building inventories heading into seasonally strong months. This sales increase is on top of prior year record results when sales grew 8.6%. Overall, we anticipate fourth quarter 2023 consolidated sales will be flat compared to prior year record results when sales increased 13.7%.

Turning to EBIT. We anticipate that fourth quarter fiscal 2023 adjusted EBIT will be in a range of flat to down high single digits compared to the record results in the fourth quarter of fiscal 2022. This range reflects the economic uncertainty in the coming months. It also includes negative impact of lower fixed cost utilization from softer customer demand and our initiatives to normalize inventories as well as increased nonservice pension and insurance expenses.

This guidance implies full year 2023 sales growth of 8% to a record $7.2 billion and adjusted EBIT of approximately $815 million to $835 million, which represents 15% to 18% growth over fiscal year 2022. Both of these amounts would be annual records.

Given this difficult and uncertain environment, we are focusing on what we can control. This includes with MAP 2025, continued execution of data-driven initiatives to structurally improve profitability, leveraging our strong position in markets benefiting from spending on infrastructure and reshoring, introducing new products over the next several quarters including our Rust-Oleum custom spray 5-in-1 aerosol paint that Matt just mentioned, prioritizing and investing in our highest growth opportunities, reducing expenses and aligning resources with demand levels, focusing on cash flow, including initiatives to normalize inventories.

As we look beyond the fourth quarter into early fiscal year 2024, economic uncertainty limits visibility. However, we expect many of the positive tailwinds that we control to continue while certain profitability headwinds will start to abate, including material cost inflation and the negative impact of under-absorption as we complete our inventory normalization initiatives.

This concludes our prepared remarks. We will now be pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

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

John Patrick McNulty - *BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst*

So on the construction markets, in particular, it seems like there's some weakness there, and that's where a lot of the de-stocking seems to be taking place on your side as well as the customer side. I guess, can you help us to think about when you're through that? And it sounds like you may be through a lot of that come the fourth quarter. How much just the end of de-stocking may help the margin and profitability of that business? It's a little bit tricky. This was a quarter where you had sales that were kind of in line with where expectations were, but admittedly, the earnings came in lighter. So my hunch is a lot of that the de-stocking. So I'm just trying to get a better feel for what that looks like when the de-stocking ends.

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

Sure. Our best guess in terms of just the impact of our de-stocking efforts is about a $20 million hit to gross profit. And we have halted production in a number of areas, where historically, we would not have and really looked to take actions that would improve our inventory levels, which have been out of whack for the last 18 months or so relative to the supply chain disruptions that manufacturing is seen pretty much everywhere.

I would expect that our de-stocking activity in Q4 will have the same impact, if not slightly higher as a result of the higher revenue level there. And then obviously, the other absorption hit that we took in the quarter and would expect to take a little bit, particularly in the Construction Products Group in Q4 is just related to lower unit volume.

John Patrick McNulty - *BMO Capital Markets Equity Research - MD & Senior U.S. Chemicals Analyst*

Got it. Okay. No, that's helpful color. And then on the raw material front, it does sound like raw materials are starting to kind of come off pretty notably across a lot of raw material baskets that I think you participate in. I guess when you think about what you're buying products for now. Admittedly, it's going to take a little time to work through the P&L. But how much lower are they? How should we be thinking about what that tailwind might be as you kind of work through the higher cost inventory in your system?

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

Sure. There's a couple of outliers that are still pretty big out there. Metal packaging quarter-over-quarter is up 50% plus certain resins like alkyd are still up. But on a consolidated basis, in the quarter, we were up 2.5% year-over-year. And -- but sequentially, we're starting to see things move in the right direction. So Q3 versus Q2, we're seeing an improvement of about 7%.

Operator

Our next question comes from Aleksey Yefremov with KeyBanc.

Aleksey V. Yefremov - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

I was going to ask you about de-stocking versus lower underlying demand. How do you know the difference? And how would you kind of characterize this difference in your volumes between these 2 categories? And also any sign of de-stocking at your customers abating or improving versus what you saw in early January?

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

Sure. This is Rusty here. In terms of what we saw in the third quarter, there's really 2 pieces to it. There was the absorption hit from lower demand and our customers' de-stocking. There is also RPM's inventory normalization effort as we knock down our inventory balance by $48 million versus the end of the second quarter. So between those 2 pieces, like Frank said, there was about a $20 million hit, which is unusually high for us. It might be in the worst case in the $10 million -- $10 million, a little over that. So there is definitely an extraordinary impact on the P&L in Q3.

Aleksey V. Yefremov - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

And just a follow-up on this. I guess my question was more along the lines of the trends in de-stocking itself. Do you see anything that signals your customers are closer to the end of their de-stocking efforts?

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

Yes, I think you're going to see from us and also supply chains in general work their way back to normal this late spring and summer. So I would anticipate a lot of these levels of de-stocking, the things that we're doing and that we're seeing at customers, both in our industrial businesses and consumer businesses to be kind of rightsized or normalized by this summer. Then the unit volume issue is separate. And where we're seeing the greatest weakness is our -- in our construction product and construction chemical space.

Operator

The next question comes from Josh Spector with UBS.

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

So just in your comments in your slide for your outlook, you had comments about tightening credit pressures and interest rates as well. Obviously, we know about the pressure in resi. I guess, can you comment on, if you're actually seeing some impacts there, on the commercial side different now versus a month or so ago? And is that impacting your order book and visibility in any way?

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

Sure. So I would highlight kind of separate coatings from construction. Our coatings businesses are housed principally in our Consumer Group and our Performance Coatings Group. And if you look at them, I think we're performing quite well versus our more comparable coatings peers. We were up 7.5% on sales in consumer on top of a record quarter last year and really strong EBIT margins and margin recovery.

Our Performance Coatings Group, and I would differentiate; their markets are infrastructure and really driven by industrial capital spending. Their revenues were up 10.5% and their EBIT was up 16.4%. We see those businesses on the coatings space in those categories continuing to be pretty strong for a number of reasons.

In our Construction Products Group, we've been hit by a slowdown in what has grown to be almost $300 million in residential new construction in North America. And we've seen the commercial and light commercial piece of that start to go negative in January and it's been trending down for each of the months here in calendar '23. I would expect that those trends in the construction markets, particularly residential new construction and commercial construction, to continue for the balance of calendar '23.

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

Okay. No, that's helpful. And I guess, I mean, if I could follow up, if you can comment kind of on the same vein. Have your order books been declining there? So I mean, some percentage of your products, you apply yourself. Are you seeing any difference in demand at this point? Or is there an expectation that you'll see softening?

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

Again, I'll bifurcate that. In terms of industrial capital spending, we're seeing pretty strong order books that would be in our flooring business. Our [comp core] flooring business, it does their own application and we're seeing good order flow into Carboline protective coatings into our fiber grade businesses.

I think the real volatility here that would either meet our expectations or allow us to deliver some better performance than we currently anticipate is in our Tremco roofing business, where we also do a lot of the application ourselves to take the full contract. We have a really strong order book, but it seems to have been pushed later into the spring and the summer. And so back to my earlier comment, we've seen 3 sequential months of deterioration in commercial construction activity.

And so I think this spring will tell late spring, early summer as to whether the Tremco Roofing business backlog start to get to refill. The good news about that business is it's 95% reroofing and/or maintenance and repair as opposed to new construction. But as you can see in the results, our Construction Products Group has had a weak start to the calendar year.

Operator

Our next question comes from Stephen Byrne with Bank of America Securities.

Stephen V. Byrne - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

How much of your revenue growth in the quarter was price versus volume? How much more price would you need to offset the raw material cost inflation you've seen over the last couple of years? How much of a delta is there to get back to where you would want to see EBIT margins?

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

Sure. In the quarter, on a consolidated basis, Steve, price was about 13%. In -- the only place where -- segment-wise, while we don't provide price or unit volume by segment, the only place where we had strong unit volume growth pretty consistently was in our Performance Coatings Group. On the flip side, consumer POS month-by-month has been down in the, let's call it, low to mid-single-digit range. And again, that's another category that we're paying attention to relative to any perk up or strength this spring or summer.

Stephen V. Byrne - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

And where you need to push this price, Frank, in order to recover the raws from the last 2 years?

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

In most categories, we're where we need to be. We have taken some price in some of our roof coatings businesses and some of our other coatings businesses that are specific to certain raw materials. We still have some challenges in our consumer business, particularly related to metal packaging which is one of those outliers, it is up 55% year-over-year. Alkyd resins prices have perked up a little bit there as has TiO2. And so there's some challenges there that we'll be looking to adjust to. And the likelihood of what happens with price in the coming quarters is flat or up.

Stephen V. Byrne - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

Okay. And can you just comment on how large of a customer Walmart is for you and whether you -- whether any of your initiatives there are at risk given this recent agreement to have with PPG? I recall you had an e-commerce paint business, I thought, with Walmart. Maybe you can give an update on that?

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

Sure. While we don't provide specific revenues by customer. I can tell you, we had talked about in prior calls, the wall paint interior or exterior initiative that was relatively new 1.5 years ago at Walmart. And I saw the recent PPG announcement. We were not the net loser of that new announcement with the PPG put out yesterday. From basically 0 wall paint 2 years ago in North America with Walmart, we'll do more than $20 million in interior and exterior wall paint and growing.

And so that's a category for us. That category is being reshuffled with the PPG announcement and the replacement of a major vendor. We are not that major vendor. And as I said, we're north of $20 million and growing from a wall paint program at Walmart that 2 years ago was 0.

Operator

Our next question comes from John Roberts with Credit Suisse.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

You lost share in Rust-Oleum during the alkyd shortage. When do you think you get back to your pre-shortage share?

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

I don't have a good answer to that question. It is my understanding that the spray paint positioning of some of our competitors, and it's only at Home Depot is where it is, and it's not expanding. But as to when we would gain that share back, I don't have a good answer to that other than from a capacity and a supply chain position, we could take it all back today.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then excluding the impairment charge, the MAP expense was $20 million in the quarter. Do you expect that to trend?

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

I think roughly about the same. Our MAP program is going really well. And I think we're actually in a really good position when you take into account the MAP initiatives and the $20 million gross profit hit by itself. And again, I want to make sure that's clear that the de-stocking that we under-impacted our P&L by $20 million.

So as we continue the MAP initiatives and as we get back to a normal throughput in position, our inventory levels where they should be, and we're working on that. In the right circumstances, you're going to see a really nice snapback in gross profit margins.

Operator

Our next question is from Jeff Zekauskas with JPMorgan.

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

If you had to allocate your $120 million in MAP savings across your divisions, how would you do it? Or is it just ratably by sales?

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

Across the divisions, I don't know that I have a good answer for that, and we'd have to look at that and don't know that we would communicate that specifically. It is generated by sales. Most of it is in areas that impact gross profit margins. So it's utilizing data to manage mix better, it's continuing to see some savings in the procurement basis on a relative basis to where prices are as we are consolidating more categories and there's a ton of MS-168 work going on in our small-to-medium plants.

So the lion's share of MAP '25 work will show up in our gross profits. And so from that perspective, shows up on our gross profit when we sell something. And so it will very much go up or down with our seasonality -- given the seasonality of our business with strong fourth and first quarters in a somewhat weaker second and obviously a weak third quarter here.

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

And then maybe a question for Rusty. Your payables were lower year-on-year by $100 million in the quarter. Do you think your payables will be lower year-on-year in the fourth quarter?

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

Well, I would think our purchases, if we look back 1 year ago exactly, Jeff, we were probably buying more for the sake of resiliency due to uncertain supply and we're not in that situation today. So I would think that we would not have the same level of purchasing and the same level of payables this year versus last year.

Operator

Our next question comes from Mike Harrison with Seaport Research Partners.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

Just wanted to see if I could get you guys to talk a little bit about 2024. Rusty, I think you mentioned in your comments that visibility is limited, but you expect some of the internal actions that you're taking to continue to be a positive and expect some of these cost headwinds to abate. But as we're starting to kind of turn our attention to fiscal '24, any modeling guidelines that you could maybe help us with in terms of sales growth, margin improvement or earnings growth would definitely be appreciated?

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

Sure. So I'll give you some broad thoughts on that, Mike, and then we'll be in a position to provide more detail when we release our fourth quarter in July. But I think, obviously, volume is a key area to look at. And I say that because in the second half of '23, we will take an absorption hit of somewhere between $40 million and $50 million associated with our own de-stocking and inventory leveling activities. And that is aside from the impact of lower unit volume.

And so when we correct those and we see a return to more normal throughput, there should be a meaningful improvement in gross profitability, particularly in the second half of next year. So that's something to think about.

As I indicated earlier, and this is really repeating, we see good backlogs and strong growth in our Performance Coatings Group, driven by infrastructure and capital spending, industrial capital spending very much in line with the comments that Matt made. We anticipate improvement in consumer takeaway. And as Rusty commented, we are playing offense in our consumer business in ways we have it in the last 2 years relative to supply chain issues and we feel pretty good about that.

I believe that the residential and commercial construction markets are going to be challenging for the rest of calendar '23. And we're doing what we need to do to adjust to that, but we don't anticipate those underlying markets getting better probably until the spring of next year. Beyond that, I think we would provide -- we will provide some more detail both on a consolidated basis and broadly by segment when we would release results for our year-end in July.

Michael Joseph Harrison - *Seaport Research Partners - MD & Senior Chemicals Analyst*

All right. That's very helpful. And then the other question I had was on the consumer business. You kind of indicated that your key retail partners are keeping inventory levels low, they're being cautious as we're heading into the busier season. Just any thoughts on kind of how you're predicting the DIY season to play out and whether we could see some pickup in inventory levels depending on -- I don't know what the key variables are if it's weather or if it's -- what happens with interest rates or other consumer factors?

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

Sure. Again, as I indicated, we're seeing -- and we have seen pretty consistently for the last, I'd call it, 4 or 5 months POS, so consumer takeaway in the negative mid- -- low to mid-single digits. I would anticipate for us that we will see some improvement there, both in terms of consumer takeaway. Also I think by the time we get through this spring, both we and our customers will have completed inventory adjustments.

So if there's a purchase, it will be reflected on our sales as opposed to seeing a difference between consumer purchasing and lower unit volume growth relative to internal and external inventory adjustments and we're playing offense. We've got new products, a new patented spray foam product going into a number of our retailers with DAP. We have a patented new spray nozzle that will first be introduced in Stops Rust that's going to be shipping in the coming weeks, and you'll see it at retailers throughout the summer, by the end of the summer, early fall, we should be pretty much throughout our retail distribution. We're excited about that, and we're going to start a larger advertising and promotion campaign in May around that, it will carry us through the summer.

So we're hopeful for some pretty good performance there and that we'll see an uptick in that area. And then the last piece is to an earlier question, the share loss, particularly at Home Depot that we experienced in the last 12 months, we believe it's over. Time will tell whether we get that business back. But we're led to believe that, that position is now where it's going to be.

Operator

Our next question comes from Ghansham Panjabi with Baird.

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

Frank, just kind of stepping back, I mean, obviously, you sell into several end markets that are sensitive towards interest rates and of course, rates are up quite a bit over the past year. Is there anything notable that you see different this goal run with higher rates? Or is everything essentially playing out you thought it would based on historical patterns? And I'm sort of asking just to -- in context of raw materials, which have a fair amount of stickiness.

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

So yes, first of all, I think at least from a manufacturing perspective, it's not unique to us, you could it in different segments. We are in a good old fashioned recession, and as I commented earlier, I think more cyclical businesses. Certainly, we're seeing it in our more cyclical businesses are experiencing that and are going to do so for the rest of calendar '23. So my guess at all these fancy economists to call recessions. As you'll recall, they typically look, I don't know, in August or September and say, "Hey, we're in a recession and it started in February." So I think we're there.

I think what's different this time is what we've talked about on the past call and on this call. We've never experienced the broad de-stocking that we've had to address here, both with our inventory levels and with inventory levels in our industrial segments and channels. We've had sophisticated consumer customers over time continue to figure out how to reduce inventories, and we've seen those inventories fluctuate up or down. And historically, until this period, typically when we talked about de-stocking, it really only related to our consumer segment. And so I think that's what is different. We've never experienced the type of overhead unabsorption just on our own inventory actions that we experienced in Q3 and that will impact Q4.

In the grand scheme of things, I think going forward, that's good news. Because when that stops, there's tens of millions of dollars of gross profit that's going to show up on our bottom line. And as I said, I'm very bullish actually about the positive impact of our MAP '25 activities. Knowing that when we get our inventories right, we'll stop shooting ourselves in the foot in terms of these overhead absorption hits. And with the return of volume, if -- as we experience a down cycle in commodities, I still think going forward, there is good potential for strong gross margin recovery in the coming years.

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

And I'm sorry, Frank, if I missed this, but what was the impact you think purely from de-stocking at the customer level as it relates to your volumes for 3Q, which I think were down mid-single digits?

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

Yes. So I think it's $20 million -- $40 million in total. And I think the way to think about that is $20 million of lower unit volume sales across RPM and $20 million associated with our own internal inventory adjustments, which literally in a number of our operations, including eliminating shifts and/or outright holding production for days or a week at a time, which is something I can't remember.

We've eliminated shifts in certain areas in the past in light of recessions and things like that. But there's a couple of plants that we closed for a week, and that's incredibly unique to RPM in my career. Yes, simple way to reduce your inventory is to stop making it. And so that's some of what happened in the quarter.

Operator

Our next question comes from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch - *Fermium Research, LLC - President*

Following up on MAP 2025, which is a positive to your results. If I think about the 240 to 260 EBIT in the fourth quarter, how much do you think MAP will contribute to that? And any sort of color in terms of what you need to do to hit the low end or hit the high end of that fourth quarter EBIT range?

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

So as I commented earlier, Frank, the biggest driver of our MAP benefits through our P&L is the sales because most of the MAP benefits are in either prior margin to the extent that we're managing mix better or in our conversion costs. And in both cases, we're making good progress.

Obviously, the other factor here is beginning to see, which I think you see at the end of Q4 and into the summer, some positive delta on past price increases in the last 18 months in our raw material basket that's starting to get better sequentially. So those are the factors. It will certainly be bigger than the $20 million that we experienced in Q3 just because we'll have a larger revenue base and how good it could be really depends on unit volume sales.

Frank Joseph Mitsch - *Fermium Research, LLC - President*

Okay. Got it. Got it. And then, Rusty, you got the working capital improvement that you're anticipating in the third quarter. Obviously, the fourth quarter is typically a use of cash in terms of working capital. I'm curious if you had any thoughts on order of magnitude that, that might be for the coming quarter.

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

Sure. Yes. In the third quarter, really, the improvement in inventory was offset because our payables went down year-over-year because we cut off purchases. So I think you're going to really see the benefit in future quarters like the fourth quarter, first quarter of fiscal '24 because even though you see the progress on the one line called inventory, it's been offset on the payable side as we've reduced purchases.

But we're going to continue to do other things as part of MAP 2025 to reduce the amount of finished goods we carry and that will lead to a structural improvement. But Frank, I think in terms of working capital, the best days are in front of us. We started to get the ship steered at the right direction in Q3. But I think the benefit you'll see it in cash flow from operations as we look forward.

Frank Joseph Mitsch - *Fermium Research, LLC - President*

Our next question comes from Mike Sison with Wells Fargo.

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

Frank, you've made a lot of improvements in the business over the last couple of years, and you've noted we're in a recession. So I'm just curious, your just maybe general thoughts on how the new portfolio and the new businesses should perform in a recession. And it should be probably more resilient than it has been in the past. And just curious on your thoughts there, should be able to grow or holding stable, down? What kind of your thoughts of how the new RPM would perform?

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

Sure. I think there's 2 factors there. One, we have improved our conversion costs across the board. And as volume comes back, you'll see that. Two, I think our performance is pretty solid given the underlying dynamics. The one negative to historic RPM that we have today that we haven't had in the past, and it's a function of the strong growth of Nudura in North America insulated concrete forms and some other aspects that, that has brought along is today, we have about a $300 million exposure in total to residential new construction. And we didn't have that much exposure to residential new construction in the past. And so that's hurting us today.

I can tell you in our Specialty Products Group, the area that's hurting us the most is our OEM coatings there. And we have a very successful nicely profitable woods stains and finishes group and it goes right into housing. We do a lot of work with domestic window manufacturers. We do a lot of work with domestic cabinet door manufacturers. Some furniture, although most of that's moved offshore. And all of that coating goes on to components that are typically involved in residential new construction. So that's probably the weakest area for us today and an exposure on a much larger RPM that albeit larger, but we didn't have in the past. Hopefully, that is helpful.

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

Yes. And just one near-term question. I'm not sure if you have the data, but did March get better than February in total? And then -- when I think about your guidance for the fourth quarter, normally, April gets better than March, and May is better than April. It kind of sounds like the sequential improvement throughout the quarter is not going to improve much. Is that the way to think about it?

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

Again, Mike, it's really just repeat the comments I made earlier. In our more cyclical impacted businesses, January and February and March have not been good. And so -- you can see that in the Construction Products Group and in the Specialty Coatings Group. I will tell you the Performance Coatings Group backlog is good. We expect that to continue. As Matt highlighted, big dollars in infrastructure and driving industrial capital spending. So there's plenty of reasons to be cautious and that is why we have a wide range in Q4.

I can tell you the couple of things to look at in terms of possible upside is consumer POS getting better in the spring. That could be an upside. Our Roofing division improving in the spring and the summer. Again, that as part of our Construction Products business has been slow versus record levels last year. And we're starting to see some sequential improvement in Europe. Some of that's just rounding easier comps. So those are the elements that we'll pay attention to in the spring and the summer as possible upsides to the guidance that we provided.

Operator

Our next question comes from Vincent Andrews with Morgan Stanley.

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

Two quick ones from me. First, you referenced electric vehicles and -- could you just talk a little bit about how incremental that is versus -- I don't recall you guys having a lot of content in automobiles at all. But is there any sort of cannibalization versus an existing sale into an internal combustion engine vehicle?

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

Sure. So these are not coatings that go into auto, and we are not in automotive coatings, but we have a very strong presence in industrial new construction. So whether it's corrosion control coatings, various elements of industrial for steel or intumescent, more architectural decorative fireproofing coatings. And a really good franchise across Stonhard, Euclid, Dudick, a number of flooring businesses, whether it's concrete coatings or fibers that go into concrete in the case of Euclid or the actual polymer flooring. We've been a leader in Microelectronics globally in those areas.

And to the extent that we're seeing a big influx and onshoring that's partly government-subsidized, we should be the beneficiaries of that. And that includes the manufacturing -- that includes the construction of these EV plants and also of battery plants. So those are all areas of strength in terms of specification and work, but it's entirely related to industrial capital spending or construction, not automotive coatings.

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

Okay. Terrific. And just getting back to the issues with the banks and sort of the credit outlook for customers. I mean, if we make the assumption that credit is going to become incrementally tighter for folks over the balance of the year and potentially even more expensive, what can RPM do in terms of working with your customers on that? And are you already starting to hear that the customers are having issues or thinking about paring back just because we'll have less capital to put in the markets?

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

Sure. We're not seeing any impact in receivables. So that is not a sign or an area of concern right now we pay attention to it. The broadest thing I could tell you is that the housing market has been hurt and that's continuing. And you can see that in residential new construction, which is way down and even housing turnover, which is down.

And then the other area that is most impactful is commercial or light commercial, hotels, office space. The days of the mega $1 billion Apple and Amazon new headquarters buildings is over. And so that's some of -- those are some examples of some big projects that are construction chemicals, sealants and products we're on. And so it's office space, hotel and hospitality and all those areas are weak. And so it's not really an issue of credit or receivable concern, it's more just a weakness in those 2 categories of construction, principally in North America.

Operator

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

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

Would welcome any updated thoughts you may have on near-term capital allocation in terms of what you're seeing in the M&A pipeline versus potential to just deleverage in this environment or amplify the pace of repurchases?

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

Sure. Repurchases at this stage, we're in the -- certainly stopping up dilution. And from time to time, we've gotten more aggressive. It really depends on where our stock price is relative to a grid of value that we discussed regularly with our Board.

On acquisitions, I think things have slowed down. There is a fair amount of acquisition activity, but there's still some hanging on to old multiple and value expectations in the face of deteriorating results, and that tends to slow M&A down. And we are seeing that slowdown in the small- to medium-sized market that we target. And obviously, if you read the headlines, the big M&A activity for the same reasons has slowed down dramatically.

Even in the private equity space, the big staple financings for the banks from private equity pretty much dried up right now. So the M&A market is very slow, and I would expect it to stay that way. We've always had good discipline, and we're not paying the historic high multiples of a few years ago on somebody's record results of last year. And I don't think anybody else is either. So we might get to add a small transaction here and there, but we're not anticipating M&A being a big part of our growth for fiscal '24.

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

That's helpful. And then secondly, if I may. You mentioned in your prepared remarks that you're taking additional cost actions and I interpreted that to mean above and beyond the scope of your MAP 2025 program, which itself seems to be trending north of your target range. So any way to quantify the incremental or additional cost help that we might expect moving into next year?

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

Sure. At this stage, I don't know that it's much north of $10 million. But as circumstances dictate, it could be more, and that's in the SG&A area. And it's occurring in some of our more recession-impacted Construction Products Group businesses, particularly the ones we've been talking about, as well as our Specialty Products Group. And so we've undertaken some expense reduction and headcount reduction actions in both of those segments.

On the flip side, we are very determined to continue to spend in a couple of areas. We had talked about in the past a patented adjuvant in our top codes part of our specialty products group. That's a product line that is patented that provides essentially the ability for pesticides and herbicides to be used at rates as much as 40% or 50% less as the product line a couple of years ago, it was a few hundred thousand bucks. This year it'll be $3 million or $4 million, and has got a tremendous growth rate. We are going to spend into that. That's part of our Specialty Products Group, notwithstanding deterioration in that segment.

We talked about Nudura, and Nudura has got a nice, unfortunately, this year, presence in residential new construction. I'll give you one example. We completed last year a new school in Kentucky and the Nudura system was a key highlight of allowing that new school to operate at net 0. And the Nudura ICF is one of the most durable construction methods in the market for residential and light commercial.

So institutions like schools.

And so we will be spending aggressively on a promotion and a specification effort notwithstanding the decline in revenues this year in Nudura in terms of energy efficiency and in terms of safety and security in a growing weather event environment, there's not a better construction product area.

So that's one of those areas unlike in the past, we've seen a significant decline in revenues because of the residential construction pullback. We're going to be increasing spending in that category this year to the tune of $10 million or more. And again, there'll be some areas in SG&A in a Construction Products Group or Specialty Products Group, where we are spending forward in terms of building the momentum for really strong growth in greater spec and a broader distribution in '25 and beyond.

Operator

(Operator Instructions) Our next question comes from Arun Viswanathan with RBC Capital Markets.

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

(technical difficulty) at this point. But on MAP '25, have you found any of your businesses that potentially (technical difficulty) compared from a margin standpoint? And would divestitures be a part of (technical difficulty) given your net gains at all? Or is it...

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

Arun, you're breaking up a little bit, so that was hard to hear. MAP '25?

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

Can you hear me now?

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

That's a little bit better, yes.

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

Yes. Okay. Sorry, Frank. Yes. No, I was just curious if there's any divesture that will be part of the MAP '25 vs just mainly (technical difficulty) the existing portfolio -- MAP standpoint.

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

Sure. We are taking a hard look across our portfolio in terms of MAP '25. And without commenting on any future activity, there's 2 examples, 1 of which -- actually, both of which happened in this quarter. We had the Guardian Protective Products business, which a decade ago was actually providing fabric protecting product and then being part of the insurance around that for consumers. That business became basically an insurance business for furniture.

And while it was a very profitable business and very nice, that's not an area that we felt we could be competitive in the future. And so we sold that business during the quarter, and it was sold into a joint private equity and other insurance and assurance business. So a great home for our Guardian Protective Products people and an exit, which generated $50 million of cash in total and a nice gain in the quarter, which we obviously carved out in terms of our adjusted results. That was part of MAP '25.

We took an impairment charge related to our USL business in the quarter. And you saw that as well. That was also adjusted out of our adjusted results. But we looked at that business and there was a contracting component of that business. It did not make money, and we are working with a couple of parties to sell that to a U.K. contracting business and hang on to the high-margin product lines areas there. So the net result of that will be a reduction in revenues, but an improvement in profitability and margins. And so those are 2 examples that we can talk about because they've happened already of structural changes that we're looking at as part of MAP '25, and there certainly could be others in the future.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Frank Sullivan for any closing remarks.

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

Thank you to everybody for participating in our investor call today and for your questions. While we had a challenging quarter, and we're being somewhat conservative about the outlook for our Q4, I think we're actually very excited about the actions that we're taking, both in our MAP 2025 initiative specifically and then also understanding the impact of the inventory, in particular, but working capital adjustments that are necessary to get our inventory levels back to where they should be and get our cash flow back to where they should be. And those actions are good. They had a negative impact on gross profit and profitability in the quarter, and we'll do so in Q4, but they are onetime events that we will get behind us in the next couple of months.

So we remain excited about the activities that we're taking and its impact on our margins in the coming years. And we look forward to providing you more detail on fiscal '24 when we release our fourth quarter results and talk about '23 year-end in July. Thanks again, a blessed Easter to all on the call to you and your families. And thank you for your participation and interest in RPM. Have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.