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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, everyone, and welcome to the RPM International's Fiscal Third Quarter 2024 Earnings Call. (Operator Instructions) Please also note that this event is being recorded.

At this time, I'd like to turn the floor over to Matt Schlarb, Senior Director of Investor Relations. Sir, please go ahead.

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

Thank you, Jamie, and welcome to RPM International's Conference Call for the Fiscal 2024 Third Quarter. Joining today's call are Frank Sullivan, RPM's Chair and CEO, who is dialing in remotely today; Rusty Gordon, Vice President and Chief Financial Officer; and Mike Laroche, Vice President, Controller and Chief Accounting Officer. This call is also being webcast and can be accessed live or replayed on the RPM website at www.rpminc.com.

Comments made on this call may include forward-looking statements based on current expectations that involve risks and uncertainties, which could cause actual results to be materially different. For more information on these risks and uncertainties, please visit 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 2023, 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.

Additionally, as a reminder, certain businesses in Asia Pacific that were previously part of the Construction Products Group are now being managed and reported under the Performance Coatings Group effective June 1, 2023. As a result, all references to CPG and PCG today reflect the updated structure. The recast businesses generate approximately $100 million in annual sales, and this change has no impact on our consolidated results.

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 thank you to everybody for participating on our call today. I'll start with a high-level review of our third quarter results. Then I'll turn the call over to Mike Laroche to discuss the financials in more detail. Matt will then provide an update on the balance sheet on organic growth investments in emerging markets, and Rusty will cover our outlook for the balance of the year. At the end of the prepared remarks, we'll be pleased to answer your questions.

I'll begin on Slide 3 with our third quarter results. In addition to our strategic balance and focus on repair and maintenance, positive momentum with our MAP 2025 operational improvement initiatives continued in the third quarter, which generated our ninth consecutive quarter of record sales and EBIT results. Margins expanded, and we had our fourth consecutive quarter of record cash from operations.

During this trailing 12-month period, we generated $1,260 million in cash flow from operating activities far exceeding any previous 12-month period in RPM's history. Much of this has been driven by improvements in working capital, which has been a particular area of focus with our MAP 2025 initiatives.

Turning to Slide 4. Sales growth was led by our Construction Products Group and our Performance Coatings Group. These segments benefited from their focus on repair and maintenance as well as their ability to serve strong demand from infrastructure, reshoring and high-performance building projects with their engineered solutions. Favorable timing of some project completions, particularly in the Performance Coatings Group contributed to sales growth in Q3.

Due to challenging market conditions, volume declines in the Consumer and Specialty Products segments continued. Consumer was negatively impacted by lower DIY takeaway and retail customers who continue to tightly manage inventory levels, partially offset by market share gains. While volumes declined in the Specialty Products Group due primarily to challenging comparisons in the Legend Brands disaster restoration business, there were signs of stabilization in our core specialty OEM markets. As expected, pricing was positive in all segments as we catch up with inflation, including continued inflation in wages, benefits and insurance.

On a consolidated basis, pricing during the quarter was up approximately 1% quarter-over-quarter. We achieved record adjusted EBIT as our MAP 2025 benefit inclusive of the commodity cycle recovery drove a 170 basis point improvement in margins. MAP 2025 initiatives were a benefit to all businesses, particularly those that generated positive unit volume growth. It is imperative that throughout cycles we invest in initiatives to leverage our entrepreneurial spirit and generate volume growth that will allow us to fully realize the benefits from the MAP initiatives we have put in place.

Some recent examples include capacity expansions, increasing R&D spending through the establishment of our Innovation Center of Excellence and improving our data-driven decision-making capabilities. We are also expanding our sales forces and training them to increase sales of higher-margin products as well as introducing new products such as DAP, one component wall and cavity spray foam which is helping us win market share this spring.

Moving to Slide 5. The positive momentum from improved coordination outside the United States continued in the third quarter, emerging markets led growth for the company as a result of RPM's heavy emphasis on engineered solutions for infrastructure investments in these geographies. In Europe, we are taking share with our focused sales strategy. After excluding the impacts of a divested business, sales in the region were roughly flat despite macroeconomic pressures in several economies. And our focus on implementing MAP 2025 initiatives in the region generated strong EBIT margin improvement.

Overall, I'm proud of our associates' continued commitment to our MAP 2025 program, which has consistently generated efficiencies, higher levels of cash flow and record results. We remain focused on expanding margins, accelerating organic growth and improving cash flow to achieve our MAP 2025 targets.

I'll now turn the call over to Mike Laroche to cover our third quarter financial results in more detail.

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

Thanks, Frank. Starting on Slide 6. Consolidated organic sales increased 0.9%, driven by positive volumes at Construction Products Group and Performance Coatings Group as well as higher pricing in all segments. FX was 0.4% headwind to revenue.

MAP 2025 benefits, including the commodity cycle drove adjusted EBIT margin expansion of 170 basis points, improved fixed cost leverage at Construction Products Group and Performance Coatings Group also contributed to better margins. As Frank mentioned, we are investing in initiatives to accelerate organic growth, and this contributed to an increase in SG&A during the quarter. Incentives to sell higher-margin products and inflation and wages and benefits also added to the SG&A increase.

We continue to selectively raise prices at businesses with the most pronounced inflationary pressures and took expense reduction actions at the end of fiscal year 2023 to help mitigate the SG&A rise.

Adjusted EPS increased 40.5% to $0.52, which was a third quarter record and was driven by the adjusted EBIT growth. Interest expense declined in the quarter due to a $629 million debt reduction over the prior year as a result of record cash flow, and this contributed to the adjusted EPS increase as well.

Now turning to the segment results. Starting with Construction Products Group on Slide 7. Third quarter sales were a record and growth was led by concrete admixtures, which continued to benefit from reshoring and infrastructure projects, including in Latin America. The segment also generated growth from increased demand for high-performance buildings and market share gains. The rise in adjusted EBIT was led by MAP 2025 benefits driving a favorable product mix and improved fixed cost leverage from volume growth.

On Slide 8, Performance Coatings Group achieved record sales, once again driven by the demand for engineered solutions serving reshoring projects, including favorable timing of some project completions as well as market share gains.

The businesses in Africa, Middle East and Asia Pacific that were recently aligned under the Performance Group -- Performance Coatings Group management contributed to the segment's growth driven by RPM's engineered solutions focused on infrastructure projects. Adjusted EBIT was a third quarter record, driven by sales growth, favorable mix and improved fixed cost leverage that was enhanced by MAP 2025.

Moving to Slide 9. Specialty Products Group sales declined primarily due to challenging comparisons to the prior year period for the disaster restoration business, when it benefited from the response to freeze-related flooding, which should not recur to the same extent this year. The divestiture of the noncore furniture warranty business also contributed to the sales decline. After several quarters of weakness, specialty OEM markets began showing signs of stabilization during the quarter.

The reduction in adjusted EBIT was driven by the sales and volumes decline in the disaster restoration business, which resulted in unfavorable absorption as well as the divestiture of the noncore furniture warranty business. SPG also continued strategic investments in long-term growth initiatives, which were partially offset by expense reduction actions taken at the end of fiscal 2023.

On Slide 10, the Consumer Group was pressured by weaker takeaway at retail stores from DIY customers, customers maintaining lean inventories and the rationalization of lower-margin products. Market share gains partially offset the decline in volumes. MAP 2025 initiatives and the rationalization of lower-margin products resulted in margin expansion, which was partially offset by under-absorption associated with lower volumes and higher expenses from wages and benefits.

Now I'll turn the call over to Matt, who will cover the balance sheet and cash flows and provide an update on emerging markets.

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

Thank you, Mike. Moving to Slide 11. The positive momentum in working capital improvements continued in the third quarter as inventories declined by $261 million compared to the prior year. Year-over-year in the third quarter, we reduced working capital as a percentage of sales by 580 basis points to 21.4%. This contributed to a record $173 million in cash flow from operating activities during the quarter.

Over the trailing 12-month period, we have generated $1.26 billion in cash flow from operating activities, which is a record and represents an increase of $969 million from the same period in the prior year. We have used the strong cash flow to reduce debt by $629 million compared to the prior year and returned $210 million in cash to shareholders through dividends and share repurchases during the first 9 months of the fiscal year.

On Slide 12, I'd like to highlight investments we've been making in emerging markets. As we've previously discussed, businesses in Asia Pacific, Africa and the Middle East have recently aligned under a new management structure. This alignment has resulted in improved coordination and growth has accelerated as we are better positioned to capture increasing demand for our engineered solutions serving infrastructure projects. We've seen this growth continuing, and we are making investments in new plants in Malaysia and India to add capacity, reduce shipping costs and improve our ability to serve our customers.

In line with our Building a Better World initiative, the construction of these plants incorporate several sustainability features, including solar panels, rain water harvesting and a solvent recovery system. These plants are also incorporating MAP manufacturing improvement initiatives and will produce from multiple brands across RPM segments, demonstrating the increased collaboration between RPM businesses that has been enabled by MAP. The Malaysian facility is scheduled to open in the first half of fiscal 2025, and the Indian plant is expected to come online in the second half of fiscal year 2025.

Now I'd like to turn the call over to Rusty to cover the outlook.

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

Thanks, Matt. Our fourth quarter and full year outlooks are on Slide 13. On a consolidated level, fourth quarter sales are expected to be approximately flat compared to a record prior year period. CPG is expected to lead growth with sales up low to mid-single digits, driven by demand for solutions serving infrastructure and institutional projects and its focus on restoration and maintenance.

After multiple years of achieving record sales, PCG sales are expected to be approximately flat in the fourth quarter. This is primarily due to the timing of project completions, including some that were pulled forward into the third quarter. Additionally, PCG's results will be impacted by a previously announced business divestiture.

SPG sales are expected to decline in the mid-single-digit percentage range as the disaster restoration business remains challenged, while specialty OEM markets stabilize, albeit at low levels.

In Consumer, market share gains are expected to be more than offset by continued softness in DIY demand, resulting in sales declining in the mid-single-digit range. With these continued share gains, we believe we are poised to achieve accelerated growth when existing home sales and DIY markets ultimately recover.

Consolidated fourth quarter adjusted EBIT is expected to increase in the high single-digit percentage range compared to a record prior year period driven by MAP 2025 benefits, which are being partially offset by under-absorption from lower volumes.

Finally, our full year guidance is at the bottom of Slide 13. We anticipate that full fiscal year sales growth will be near the midpoint of our previous guidance of up low single digits and adjusted EBIT growth will be near the midpoint of our previous guidance of up low double digits to mid-teens.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today comes from Joshua Spector from UBS.

Lucas Charles Beaumont - *UBS Investment Bank, Research Division - Associate Analyst*

It's Lucas Beaumont on for Josh today. Just wanted to start with Consumer, if we could. So I just wanted to get your view, current view on sort of whether you think now the sort of sell-in was reconnected with the takeaway at the retail stores, something you called out that the takeaway there was weak. And assuming things have sort of got more in sync now, how do you kind of see the outlook there at the retail level over the next couple of quarters? And when should we expect to return to volume growth?

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

Sure. So we expect a continuation in Q4 of what you have seen in Q3 and for most of fiscal '24, with continuing relative strength in Construction Products and Performance Coatings and some challenges in the Consumer segment and Specialty Products Group particularly in relationship in the Consumer segment to a very strong fourth quarter last year. I would expect we're going to start to see an improvement and Consumer takeaway and a return of volume as we get into fiscal '25.

Lucas Charles Beaumont - *UBS Investment Bank, Research Division - Associate Analyst*

Great. And then just on the continued strength on the CPG side. So I mean you guys basically beat your volume expectations for about 4 quarters in a row, despite the kind of broader macro indicators pointing to slowing. 3Q was kind of more in line. Could you maybe just kind of give us your thoughts there and sort of split out the benefits that you're seeing between the infrastructure reassuring versus the base growth? And I mean, should we see a reconnection with those macro indicators at some point? Or how do you see that kind of playing out?

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

Sure. So we see momentum continuing for both our Performance Coatings Group and our Construction Products Group into Q4 as well as into fiscal '25. It's worth noting that the Construction Products Group performance has been despite a lot of weakness in the core noncommercial, core commercial construction products market, certainly been relatively weak. We picked that up in infrastructure as well as a lot of the projects that we referenced.

And then look going forward, we're well positioned. Our backlogs are in good shape and quite candidly globally, and this is broadly speaking. We're not through a fraction of the trillions of dollars of government stimulus, mostly in the United States, but in other parts of the world, they're helping to drive this. And so whether it's the onshoring and/or friendshoring in Europe and in North America. We're pretty well-positioned to continue to win more than our fair share of those projects, and we see that continuing for the coming quarters.

Operator

Our next question comes from Frank Mitsch from Fermium Research.

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

Frank, hopefully, you're someplace nice today. Let me follow up on that last comment. You said that the backlogs are looking pretty good. Was that a construction products specific comment? And is there any way that you can kind of size order of magnitude relative to where you are historically on the 4th of April?

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

Sure. I wouldn't comment on that any particular specificity. But our backlogs are good in Construction Products. Our Performance Coatings Group continues to see good momentum. We will have a little bit of a weaker fourth quarter as we projected, partly because of project completions. I think it's worth looking at the second half. If you include the guidance that we provided here, for all of RPM, second half of '24, the third quarter we just reported and the guidance that we reaffirmed relative to our full year would suggest sales growth on a consolidated basis at flat or plus 1% and adjusted EBIT growth in the 13% to 14% range.

And I mentioned that because we had some acceleration or completion of projects at the end of Q3 that otherwise would have fallen into Q4 in Construction Products and Performance Coatings. But the backlog in both is really strong. It's an odd start for us and everybody in Q4 because of the way holidays fell, there were 3 less shipping days in March, and there are 3 more shipping days in April. So we're also having some odd comparisons to prior years on a monthly basis. But in general, both of those segments are in really good shape and the dynamics that have led to record sales growth, positive unit volume growth and margin expansion feel like they're continuing.

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

That's very helpful. And then if I could follow up on the Consumer side. I believe the last time we spoke, the interplay between price and raws was looking to turn positive in Consumer. If you could just offer some comments as to how that stands and maybe a comment in general on raws. I know that the expectation was that we would see peak raw material deflation in the second half of '24. Is that still your assumptions?

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

It is still our assumption, and that's what we're experiencing. In fact, in particular, with our Consumer Group, we're starting to see some raw material upticks in a few select areas, acetone is up significantly. That is kind of an outlier. Propellants up a little bit. Plastic cartridges are up. And so we're seeing some return of inflation or pricing in a few categories that particularly impact our Consumer Group. But overall, we are at the point at which I think the commodity cycle recovery is what we're experiencing. We'll see a little bit of that in Q4. And then I think time will tell as we look out into our new fiscal year.

Operator

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

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

Congrats on the strong cash flow in particular. I was wondering if you could give a little more detail on what's going on with the margin performance in the Specialty segment. The revenue there was pretty similar to last quarter, but the adjusted EBITDA looks like it was close to $5 million that is lower compared to last quarter on a sequential basis there. What's driving that? And if you can provide any help on how we should think about specialty margins going forward?

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

I will let Rusty Gordon handle that question about both the Specialty Products Group performance in the quarter and year-to-date and kind of where we see it going.

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

Yes. In terms of Specialty performance in the quarter, we really did not have any disaster restoration business to speak of, Mike, during the quarter. No weather events really drove sales. So as a result, we really suffered from under-absorption. We continue year-over-year to have an unfavorable comparison like we did in the second quarter and that we divested our furniture warranty business. And then in general, OEM volumes looks soft, not as bad as it's been. It's getting a little bit better. So we do have some reason to hope that, that will improve.

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

And then I would add to that, Mike, that the impact of weather-related events last year was very significant in Q3. We don't have exactly that same challenge comparatively in Q4. And the Guardian warranty business, which was really not core to us, it was an insurance business and had nothing to do with products was a very high-margin business, and that was sold last year in the third quarter. And so again, we will not be seeing the negative comparison of that when we get into the fourth quarter as well.

So as Mike Laroche commented, we're starting to see in the core OEM coatings categories, things flattening out. And we won't have the same big challenging comparisons of the Guardian divestiture or the significant weather-related events at Legend Brands that have impacted Q3.

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

All right. And then I was hoping that maybe you could provide some initial comments as we're starting to turn our attention to fiscal '25 think about earnings growth. Consensus is looking for EBITDA to be up by kind of a high single-digit number compared to fiscal '24. Is that a reasonable starting point for now? And maybe talk a little bit about some of the puts and takes as we're thinking about earnings growth next year.

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

Sure. Other than reemphasizing some comments that we've already made, which I'll do in a minute, we're not really prepared to provide guidance for fiscal '25 with any detail. We will do that when we report fourth quarter results in July and then we'll provide some more detail for how we see fiscal '25 shaking out. The comments that we have made are, we're going to be rounding easier comparisons as we just talked about in our Specialty Products Group. I think at some point, as we get into fiscal '25, we're going to see both easier comparisons and some market share-related wins, some positive unit volume growth coming back to our Consumer segment. And we see continued good momentum in the economic and market and infrastructure dynamics that we've been talking about for Construction Products and Performance Coatings.

So we are planning on our tenth consecutive quarter of record sales and earnings in Q4. And I think we've gotten some good dynamics as we go into fiscal '25, but we'll provide more details on a consolidated basis and broadly by segment when we report Q4 in July.

Operator

Our next question comes from John Roberts from Mizuho.

John Ezekiel E. Roberts - *Mizuho Securities USA LLC, Research Division - MD & Senior Equity Research Analyst*

Frank, can you tell us if RPM would be interested in PPG's North American architectural paint business? Or any thoughts around that?

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

We generally don't comment about our acquisition activity until things are done. Certainly, M&A is picking up, and it was publicly announced that the -- I believe it's about $1.8 billion in revenue, PPG architectural -- North American Architectural Coatings business is going to be sold, divested or realigned. And so I think like anybody in the paint and coatings interest industry, we have some interest in pieces and parts, and we certainly intend to be part of any process and take a look at that. And that's more of the specifics that we generally would provide, but it's relatively unique that a divestiture process like this would be announced publicly and has been. And so we'll take a look at it.

John Ezekiel E. Roberts - *Mizuho Securities USA LLC, Research Division - MD & Senior Equity Research Analyst*

The final year of MAP 2025 begins in a few weeks. Do you think there'll be a MAP 2028 program? Is that the right cadence to think about? Or do you think RPM will pivot to a different approach to strategy beyond MAP 2025?

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

That's a great question. And I think we're highly focused on achieving our MAP 2025 targets. And if you look at our performance through 9 months, I'm really proud of the incredible work of the RPM associates around the globe. You can see our MAP '25 initiatives having tremendous impact. We are improving working capital. We are improving margins. We are focused on driving a more favorable mix and whether it's operating improvement initiatives in our plants, whether it's taking some of the MS-168 disciplines into the commercial area. We're having a lot of success. You can see it clearly in our cash flow, which is at meaningfully higher record levels.

And so the things that we can control are working really well. One thing that we've talked about and makes sense when you look at the areas that we're focused on in MAP '25, when we have a return to unit volume growth in Specialty Products and Consumer, you'll see even better results out of those businesses, much like the real strong leverage we generated in Q3 with Performance Coatings and Construction Products, both of whom had positive unit volume growth in the quarter and we've had it throughout the year. So we're pretty excited about that.

There will be a new program, and it will be something that we will be talking about publicly either next spring or next summer, exactly what we call it. I couldn't tell you yet. But the MAP initiatives have a lot of legs, particularly on the commercial side and the data side. And there will be a new program, and we will provide details, I would say, roughly a year from now. But in the interim, we're going to be focused on hitting the 42% gross margin goal and the 16% EBIT margin goal that we set out a few years ago.

Operator

Our next question comes from Dave Huang from Deutsche Bank.

Yifei Huang - *Deutsche Bank AG, Research Division - Research Associate*

I guess first in your project businesses in Construction and Performance Coatings. Can you talk about the competitive dynamic here. I think a lot of your peers indicated they're interesting further expanding the U.S. construction and manufacturing markets. I guess, do you expect any competitive pricing in the next few quarters where we could see some negative pricing for your businesses?

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

Broadly speaking, we've done a really good job of maintaining pricing. There have been a few exceptions, certain more commodity-like silicone sealants, where the underlying silicone chemicals have dropped dramatically from their peaks. It's been one area. There's been a few areas in our Consumer Group, where we literally bumped into some price elasticity and our understanding price levels on products that are interesting points in terms of continuing to drive Consumer takeaway. We're not seeing roughly speaking, with the exception of more commodity-type chemicals that have peaked dramatically a year ago, 1.5 years ago and have come down significantly since.

Other than those areas, we're not seeing significant price reductions. I will tell you that the -- and you can read this, the level of inflation has dropped dramatically and we are seeing a stabilization of raw materials for the most part. And there are some commodity chemicals that have dropped meaningfully, and that's the one area where we have also dropped some prices while still maintaining pretty good margins.

Inflation is happening in a few categories, as I mentioned, in conversations about our comments about our Consumer Group, and inflation is continuing at a more moderate pace, but still up when it comes to salaries, benefits, hourly wages and categories like insurance.

Yifei Huang - *Deutsche Bank AG, Research Division - Research Associate*

And then I guess on fixed cost absorption. I think last year, in Q3, you had $20 million headwind. I guess, at the company level, is there additional headwind this quarter? And I guess assuming you're closely be done with inventory rightsizing and assuming sales volume to be flat next year. What kind of leverage, I guess, would you have from fixed costs in FY '25 versus FY '24?

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

Yes, I'd like to have Rusty Gordon answer the question about absorption and its impact on us now and the inventory reduction programs that we have been pursuing internally pretty aggressively, its impact on results and how he thinks about that. Rusty?

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

Yes, sure. We have, again, suffered from poor absorption, David, especially in our SPG and Consumer groups where volumes are dropping. On top of that, like Matt mentioned, we dropped our working capital ratio year-over-year by 580 basis points, much of that through inventory, which you can see on the balance sheet. So that's continued. And you can really see in our PCG and CPG results where volumes are growing, the kind of leverage we get. We've still gotten great leverage in the Consumer segment due to a lot of their MAP activity, and that will continue to help RPM through this under-absorption issue, but really pronounced at SPG and Consumer.

Operator

Our next question comes from John McNulty from BMO Capital Markets.

John Patrick McNulty - *BMO Capital Markets Equity Research - MD & Senior United States Chemicals Analyst*

So I wanted to dig into Consumer a little bit. So it looks like you're on pace for basically a record margin for the year in Consumer, and that's despite a pretty tough demand environment. So I guess, how should we think about the levers that you can still pull around some of the MAP improvements and the efficiencies there as we look kind of going forward over the next 12 months? Or is the next step up in margin really going to be completely dependent on the volumes picking back up and kind of getting back to more normalized Consumer takeaway? How should we think about that?

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

Sure. I'll provide some comments and maybe Rusty has a few thoughts as well. First of all, I don't believe we're at record margins for our Consumer Group. Those were achieved during the COVID period. And so -- even pre-COVID, I think we've got some ways to go. Our Consumer Group was hit the hardest by raw material inflation given some of the metal packaging and some of the chemical raw materials they deal with. And that has been a challenge. We are seeing significant leverage. We're at the point where price and commodity cycle are benefiting us the most, although we're starting to see some raw material pickups like acetone that I mentioned. So that's a head scratcher.

But the leverage and improvements that we've achieved in our Consumer segment has been significant. I mentioned on our prior call that we have uncovered tens of millions of unit and excess capacity just through efficiency. We are doing something pretty unique because of the significant improvements in Consumer. Historically, on the asset base we have, we would build inventory in February and March for the spring and summer months. In fact, last year and this year, internally, we're continuing to reduce inventory as we've developed a much more efficient operation that can meet supply and demand. Our fill rates are back up to the high 90% range.

And so the improvements we've made there are really impressive and really dramatic. And you sure can't see them when your unit volume is declining in the low single digits. So when we get back to positive unit volume growth, I think you'll see the benefits of the MAP initiatives that are as meaningful at Consumer as they are, for instance, the Construction Products or Performance Coatings. But because so much of the benefits are tied to manufacturing efficiencies, they don't show up until you sell something.

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

Yes, that's right, Frank. A lot of the MAP savings have been masked and under-absorption has been pronounced at Consumers since volumes have been declining. There's at least 200 basis points a quarter, I could point to this year for the impact of under-absorption caused not just by lower sales volumes, but the conscious effort to reduce inventory.

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

But the underlying performance improvement, particularly in our plants is really remarkable. And I think it will show up when we get to a better unit volume environment.

John Patrick McNulty - *BMO Capital Markets Equity Research - MD & Senior United States Chemicals Analyst*

Got it. Okay. And then, I guess, just a second one, maybe a little bit farther out, but you're making some decent investments in trying to drive the Asian business and you've got some new plants already that are coming on. I guess how are you tackling that in terms of gaining market share and brand awareness for a space that -- you don't have as big of a presence as you do, say, in the U.S. or Europe or even Latin America. So I guess, how should we be thinking about that? And how are you kind of looking at the growth opportunities there?

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

Sure. I'll make a few comments, and then Matt Schlarb can add to that. As part of our MAP '25 initiative and really going back to the original MAP program, we recognize that our efforts, particularly in the developing world, we're not very effective. We had too many small operations, did some small acquisitions to have kind of a starting footprint. But because these were small and faraway operations, we didn't pay much attention to them. So we weren't having good traction.

We have an exceptional management team in South Africa that because of the unique nature of that market both South Africa and Africa became a platform for multiple RPM products. And their success led to our decision as part of the MAP initiatives to put the Middle East, India and Southeast Asia from the Asian markets underneath that leadership team and really take an RPM platform approach to the developing world.

And as you could see on Slide 5, in the PowerPoint slides that we teamed up with for this -- for our prepared remarks, really strong sales growth. And as you could imagine, equally impressive earnings growth in these geographies. And that's all as a result of kind of a restructuring and rethinking of how we could better approach growth in these developing parts of the world. Lastly, I'll tell you with an approach that seems to be working the fact that we're relatively small, makes me believe there's a ton of opportunity for continued growth.

Matt, do you want to add anything to that?

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

I'll just add one thing to John's question about the brand. So within PCG and CPG, our brands are well-known globally, particularly amongst multinational corporations who are making investments in Southeast Asia and India. But there's certainly room to grow those brands. So opening of those facilities there just allows us more responsive to our customers, and it also helps with the shipping costs and get them the products that they need because we see investments in that part of the world and particularly in infrastructure and manufacturing CapEx continuing.

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

Yes. So they'll drive lower cost and higher service levels than typically what we've been able to generate from a mostly North American or European manufacturing base.

Operator

Our next question comes from Mike Sison from Wells Fargo.

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

Nice quarter. Frank, it seems to me you've done everything within your control to get to the sort of 42% gross margin goal, 16% EBIT margin goal. How much volume do you think you need to get to sort of get there? And maybe just any thoughts on what type of recovery you need to see in existing home sales, in DIY, to sort of put you on that to get you closer to those goals?

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

Sure. I'll make two comments on that as we approach fiscal '25. One is we expect to see and we will need a recovery in our Specialty Products group. This group even adjusting out the Guardian warranty business was a mid- to upper single digit -- I'm sorry, mid- to upper double digits. So mid-teens to upper teens EBIT margin business. And I would expect us to get back there over time and that recovery has got to happen in fiscal '25. We will see a return to positive Consumer takeaway sometime in fiscal '25. I don't think we have a good sense of when, and we'll provide, I think, a better view of that when we talk about '25 in July.

Lastly, as folks have noted, we've been making some significant investments in SG&A, for instance, around developing this RPM platform approach for the developed world, which are -- developing world, which is paying off and some of our MS-168 and CS-168. In case of CS-168, smart pricing initiatives. We've added people in different categories. In fiscal '25, I think you'll see a very deliberate approach to balancing SG&A spend and reallocating SG&A to things that are really growing and addressing some SG&A spend that's been very deliberate over the last 2 or 3 years. But if there's areas where it's not paying off, then we will tackle that. And so those are the elements that I see and that we will need for our MAP '25 goals.

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

Got it. And a quick follow-up. In Consumer Group, you mentioned market share gains. Any particular areas or customer sets? And then if things don't recover robustly in '25. With those market share gains, could you still turn the corner in volume growth for Consumer Group?

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

Matt, do you want to talk about some of the market share gains and new product introductions that we've had?

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

Sure, sure. Happy to. So as Frank already mentioned this on the call, but DAP introduced a new one component, wall and cavity foam insulation spray. We've had share gains. It's actually been pretty broad-based. We've had several share gains at automotive retailers. We've had some specialty retailers. And looking at product categories, you may remember, we acquired Ali Industries, which makes Gator sand paper a few years ago, and they've had some nice gains at home improvement retailers over the past several quarters as well. So it's a pretty broad-based strength in terms of its market share gains. But it's really a trend we've been seeing since we got through the supply chain challenges several quarters ago.

Operator

Our next question comes from Aleksey Yefremov from KeyBanc Capital Markets.

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

Frank, just to come back to Consumer, I guess, how should we think about potential volume recovery or snapback? Is that volumes are down low single digit, so you'll get that back and then maybe the market is growing low singles or whenever that comes or is it some bigger number?

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

No, I think it's a steady return to normal Consumer takeaway combined with the volume driven by some new product introductions that Matt just talked about. We don't see any huge snapback per se, but we will be rounding easier comparisons as we get into fiscal '25 when we really started to see Consumer takeaway. I think some of this is a long tail rebalancing from the boom in COVID. And I think some of it is the simple fact that in manufacturing.

And again, we've talked about this in past quarters, while broadly speaking, perhaps we're avoiding a major recession. The manufacturing sector has gone through a rolling recession. Anything that touched housing has gone through a rolling recession and things that are driven by housing turnover have gone through a rolling recession. So we see that in our core Specialty Products Group that manufacturers wood, paints, finishes and things that go into kitchen cabinets and doors and windows and RVs and all kinds of things that are housing related. You can see that in other companies that manufacture goods that are in there.

The housing turnover is starting to perk up, which is a good thing for both our Specialty Products Group and our Consumer Group. Because housing turnover tends to drive some of our Consumer takeaway. And as was noted by just a few months ago, broadly, we're at a 30-year low in the United States for housing turnover. So that's been a challenging dynamic.

I think all those things are moving in the right direction, and then you'll start to see what's been consistently over the last fiscal year, negative Consumer takeaway in the low to mid-single digits, slowly turn into a positive number in terms of unit volume that would be low single digits, be nice if it was higher but there's no big boom that we foresee in terms of some huge snapback in volume.

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

And then across your product lines, not just in Consumer but to have clients like Nudura, there is probably more optimism around new residential construction, not immediately, but later this year or into even next calendar year. So in these areas, do you see any more optimism as far as your product takeaway or backlogs or anything like that?

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

Absolutely. We are performing really well in our Construction Products Group. Nudura specifically was not immune to the decline in residential new construction and the negative impact of interest rates both on construction and housing turnover. So that product line was hurt in last year. We're seeing those products, the Nudura products and projects grow. It was principally a residential product when we acquired it 5 years ago.

Our Tremco Construction Products Group is now successfully targeting Nudura at the broad North American school market, and we're having some successes there. So we're expanding what was primarily a residential new construction product line into some more commercial markets that we're excited about. Tremco is also relatively unique between Nudura and Dryvit. And the Tremco Sealants and putting together what they call a One Tremco package where they are working with architects and engineers to actually have specified an entire wall system. And so instead of having different components from different manufacturers that have different warranties or no warranties at all, we can put together a complete wall system and warrant the entire wall performance as opposed to individual components.

So those are all dynamics that we've been working on, and they are making good progress and momentum. And I think with a return of new construction residentially, a return of commercial construction, which has also been down pretty significantly in the last 12 to 15 months, you'll see even better momentum in our Construction Products Group.

Operator

Our next question comes from Jeff Zekauskas from JPMorgan.

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

Home Depot was buying SRS sort of building products and they have Specialty and Roofing. Is that something which is positive for RPM, or negative or it really doesn't matter?

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

I don't think at this stage, it matters. We have certainly good relationship with Home Depot and they are our largest customer. And so if there's opportunities for us to explore what that might mean, we'd be excited about it. But as I just mentioned relative to the previous question, most of our products are specified into schools, into universities, into hospitals. So they're highly specialized, particularly, as you know, in our stone hard flooring, but in this case, Tremco Roofing. We do a lot of our own application, either outright or as the general manager -- general contractor on a major project.

So not a lot of our products in the Roofing segment are sold through distribution. That does not mean that there's an opportunity in the future that we could explore to expand some of our product ranges more broadly into distribution. But at the current time, there's not a real -- it's not a positive or negative because of the nature of how we go to market versus people that have more commodity type products that go to market through distribution today.

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

In response to an earlier question, you said that there were parts of the PPG business that might be interesting to RPM. Does that mean the whole business is not interesting to RPM?

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

Again, it's an odd circumstance where we normally wouldn't comment on M&A activity, except for the fact that this is very much in our space and a very much of a public announcement. It's our understanding that detailed material will be forthcoming in some weeks or months whenever it comes out. We have a sincere interest in looking at the entirety of what might be for sale. But there are certainly brands, pieces and parts that we would have a real interest in and could integrate. But Jeff, I can't answer that question in any detail because we have yet to see any detail.

Operator

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

Stephen V. Byrne - *BofA Securities, Research Division - MD of America Equity Research & Research Analyst*

Your cost of goods in the quarter looked like they were down 6% or 7% on an absolute dollar value year-over-year. Can you rank the drivers of that decline between lower volumes in Consumer Specialty, lower raw material costs and the third bucket being MAP 2025. What would you -- how would you allocate the drivers of the lower COGS?

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

Sure. I'll let Rusty provide some color on that as well. I think, broadly speaking, it's a combination of cost price mix and our MAP initiatives. Some of it is a function of our very deliberate efforts of driving and incentivizing sales forces towards a higher margin mix, particularly in CPG and PCG. It's the benefits of our MAP initiatives on higher unit volume. But beyond that, I don't know if, Rusty, do you have any additional color you'd like to add.

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

Yes. I would peg it exactly that. It's a combination of selling price increases, which were modest, but nevertheless, helpful across all segments. We did have deflation, plus right up there is the MAP savings. We're going to save incrementally this year, about $100 million that varies by quarter. We're in a obvious seasonal low quarter in the third quarter this year, but that was very impactful, too.

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

Yes. And as Rusty mentioned earlier, a meaningful amount, tens of millions of dollars of our MAP savings have been undercut or masked by the under-absorption, particularly Consumer in a number of our Specialty Products Group companies.

Stephen V. Byrne - *BofA Securities, Research Division - MD of America Equity Research & Research Analyst*

And Frank, I have a structural question for you. You look at Consumer -- pardon me, Construction Products and Performance Coatings, there's so much overlap between those segments in the products, the end markets that they sell into these new plants you're building in Malaysia and India will cover both. You have some businesses that switched from one to the other. A broad question for you, and that is could you drive more cost synergies and maybe cross-selling by combining those segments?

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

Sure. I appreciate the question. First of all, throughout our history on a very thoughtful, long-term strategic perspective. RPM has been willing to adjust our structure. If you go back 24 years ago, we moved from really a true holding company with 40 or 50 independent business units into a 6-group structure that served RPM and our customers and shareholders as well for about 15 years. As we initiated the MAP 2020 program in 2018, we reorganized into 4 groups. That reorganization has really driven meaningful synergy and cooperation amongst our businesses even across the 4 groups in their various business units to a greater extent than what existed in our 6-group structure.

So I think we're very committed to our current 4-group structure, certainly through the MAP 2025 period. And as I answered an earlier question, I think we will look this time next year, long term to think, all right, what's the next initiative for RPM. And whether it's a year from now or 10 years from now, the idea that we would look at our structure and do something different, it made sense. It's certainly something that we've proven in the past we're willing to do and we certainly would do in the future when it's appropriate.

Specific to the Construction Products Group and the Performance Coatings Group, I think there are some significant differences between the end-use markets of the Performance Coatings Group, which tend to be heavy industry and more infrastructure related and the Construction Products Group tends to be more construction markets and new home construction, commercial construction. The overlap today is pretty much the infrastructure area. And certainly, we have good levels of cooperation. That's also been enhanced by $1 trillion plus or federal stimulus that's just beginning to play out, and so we'll see that continue. But at this stage, we don't have any plans to change that structure if it made sense. As we've done in the past, we would do it again in the future.

I would add one more thing to that, which is as long as these 2 segments with really good leaders and leadership are continuing to pile out positive unit volume despite some choppy economics and generate margin expansion and the solid EBIT growth year-over-year and quarter-over-quarter, we would be very hesitant to adjust something that's working exceedingly well. And there's good momentum in both.

Operator

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

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

Frank, a question for you on cash flow and specifically working capital. I think a couple of quarters ago, you had signaled potential to reduce your ratio of trade working capital to sales by maybe 300 basis points or so. And as of this morning, it looks like you're running a 580 basis points down. So really nice progress there. I guess my question would be, if you look out over the next 6 to 12 months, is there additional opportunity to extract cash from working capital? Or have you just about rightsized inventory and the other line items at this point?

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

Yes. I'll let Rusty add some commentary to that as well. But our MAP initiatives on the MS-168 side in particular are continuing. That's a never-ending effort of continuous improvement. And I think one of the -- I hope people appreciate one of the more significant benefits of our MAP initiatives beyond the metrics that we've improved in the cash flow numbers and the margins is the cultural change at RPM. And it's really in 2 areas. There's a level of I think cooperation and communication across our groups and businesses that didn't exist before. And there is a mindset of a lean manufacturing, continuous improvement approach that, as I mentioned earlier, isn't maybe new to the world, but it's new to RPM, it's really taking hold, and that's a cultural change that's paid huge dividends for us.

Specific to the cash flow and working capital metrics, I'll let Rusty add his thoughts.

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

Yes. I would say that when it comes to inventory, that was clearly our biggest opportunity to get better when we compare RPM to peers. And Kevin, I would say that we're good at some of our businesses, but I'd still say more than half our businesses have plenty of room to improve in sales and operational planning so that we only make the stock that's needed by our customers and not much more.

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

And then secondly, I want to come back to Specialty Products. If you look at the big picture, do you think that the fiscal third quarter margin levels that you just posted are likely to be a durable trough level? And then related to that, I was a little surprised that the fourth quarter sales guide in Specialty Products, just given how much easier your comparison is versus the fourth quarter of last year. I heard your comments on lack of Disaster Restoration business. Is there anything else going on there, perhaps on a sequential basis, that would cause your sales to be running down mid-singles into the end of the fiscal year?

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

So about half of our Specialty Products Group is our OEM Coatings and the Industrial Coatings OEM piece of our businesses, highly tied to indirectly, but to new home disruption, also a significant share in RV -- in the RV market, which boomed during COVID. And because of that, it's been very, very soft. And so those dynamics are also impacting our Specialty Products Group. I believe that Q3 is the low point of performance for our Specialty Products Group, and you will be seeing sequential improvement, both as we get into Q4 and as we get into fiscal '25.

Operator

And our next question comes from Ghansham Panjabi from Baird.

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

Frank, as we kind of think about fiscal '24, obviously, Construction and Performance had outstanding volume years at least so far. And then price cost was obviously a big driver of margin expansion as well. Just based on your comments that some of the commodity input costs seem to have inflected a little bit, certainly in Consumer and then, of course, oil is up a bit. Is it fair to assume that margin expansion in '25 will be led by productivity and just better fixed cost and operating leverage and just some sort of a reversion back in Consumer? And then also, how should we think about construction and performance for fiscal year '25 in terms of difficult comparisons and so on, on a year-over-year basis?

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

Sure. I guess I'll refer back to some earlier comments and your presumption is correct. A, we expect to see margin expansion; b, it's going to be more driven by the leverage of unit volume growth to our bottom line and the MAP efficiencies that we've gained over the last 3 or 4 years and certainly over the last 1.5 years. So we see margin expansion, but it will be driven -- will need to be driven by positive unit volume growth. And we're pretty certain we'll see that in Consumer in fiscal '25. I think we'll have a better sense of when that might be when we report our fourth quarter results and really talk in more detail about '25.

Good momentum in Construction Products, good momentum in our Performance Coatings Group, which we don't see changing and recovery in Specialty Products. So those are the things that will do it. But your presumption of your question is absolutely correct. You're going to see margin expansion more driven by the benefits of our MAP initiatives on higher volume levels than on any cost price mix impact. And as we highlighted, even in this quarter, I think we're at the third quarter kind of the peak of the benefits from commodity cycle, price on a year-over-year price on a consolidated basis is up 1%, which is obviously sequentially down from over the last 4, 5 quarters. So it's going to be the good work that we've been done leveraging on higher unit volumes.

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

And then for the second question, in terms of the emerging markets, which were pretty solid throughout, what do you attribute that towards? I mean, I know comparisons are a little bit easier in some cases, but is this just fundamental improvement? And you also mentioned some changes you made in terms of how you approach those markets internally as well.

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

Leadership matters everywhere, and we've got really good leaders now in our developing regions throughout the South Africa, Middle East, Asia Pacific. It's taken us a while to really focus on a strategy that is leverageable and sustainable, and we have one. And so we're pretty excited about it. Our acquisition approach was not working for a decade plus and acquiring small businesses and not giving them the resources are paying enough attention to them.

So the performance you're seeing here is principally organic. It's a better structure, better leadership and a better focus. It will continue to be organic, as you see from our first-ever meaningful manufacturing, greenfield manufacturing investments in these regions, and we'll fill up those plants pretty quickly. And so that strategy is going to continue for the next couple of years. And as we begin to get critical mass, we'll get back to the point where we can acquire a business but integrate it and make it part of this strategy as opposed to have a small business that's far away and not paid much attention to. So it's an area that we're pretty excited about. And was a key element of our MAP initiatives in terms of how we would be organized to be successful.

Operator

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

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

Congrats on the strong progress. If we look at fiscal '24, it looks like Construction Products Group and Performance Coatings drove a large part of the gains this year with Consumer kind of offsetting Specialty. And then if I look into kind of fiscal '25, wanted to get your thoughts on maybe how those segments would play out. It does appear that maybe we're seeing a little bit of slowing momentum in Construction Products and Performance Coatings or at least some catch-up there, but that could be offset by Consumer coming back and maybe Specialty as well. Is that how you're thinking about it? And I guess if that is the case, is it mainly MAP gains that would be kind of driving those dynamics? Or how do you kind of think about how your earnings growth is shaping up as you look out in the next couple of quarters?

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

Sure. The fourth quarter guidance that we provided related to Construction Products and Performance Coatings is as much about the timing of the completion of some major projects, and we will provide this detail in July. But when you look at the second half of fiscal '24 on a consolidated basis, I mentioned this earlier, you'll see sales on a consolidated basis, flat up 1% and EBIT up, let's say, 13% to 14%. That's based upon the results we reported today and the guidance that we provided for fiscal fourth quarter here in '24.

When we look back at the second half of the Performance Coatings Group and Construction Products Group, you're going to see just really solid good unit volume growth and good performance. It's being masked a little bit by these project completions at the end of Q3, which will inhibit a little bit of our growth in Q4. We don't see any slowdown in the solid performance and momentum of those 2 segments as we go into the summer months.

And as I mentioned earlier, I think we've hit bottom on our Specialty Products Group. And we will start around easier comps, along with a real focus in our Consumer Group on new product introductions and operating efficiencies that will allow us to serve customers at a very high level. So I think we see good trends as we go into fiscal '25, but the impact will be more as a result of MAP initiatives because the deflation elements and the pricing elements will be coming to an end as we get through the fourth quarter and get into the summer months.

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

Great. That's helpful. And then, yes, if I could just ask another question, I guess, on capital allocation. You guys have done a great job of bringing your leverage down and obviously, that has accreted to the equity side. At this point, and in the past, you've often kind of favored smaller bolt-on deals. So is there an opportunity now to pursue something larger, given the changes in the organization and the ability to integrate maybe some larger properties? And if so, would you be open to taking on some extra leverage to do that?

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

Sure. Yes, I appreciate the question. We will continue and actually have a decent pipeline of small- to medium-sized acquisitions that we will integrate and add to the strategies of our different companies and segments. So that I would expect to continue. Particularly in our Consumer Group and our Construction Products Group where we are more integrated than other parts of RPM, I think we are in a position to take on larger acquisitions and really drive synergies that are required to be competitive from a price perspective in those. And we have throughout my 30-plus career at RPM, been very fine with using our balance sheet. And so I think we've got tons of leverage. We've got a stronger cash flow than we've ever had and we would be willing to use our balance sheet right up to maintaining our investment-grade rating. And so there is plenty of room between cash flow and debt capacity to do larger transactions if we can find them at a price that works for us.

Operator

(Operator Instructions) Our next question comes from Vincent Andrews from Morgan Stanley.

Steven Kyle Haynes - *Morgan Stanley, Research Division - Equity Analyst*

This is Steven Haynes on for Vincent. Just wanted to come back to a comment you made on SG&A earlier. I think in your MAP targets, you're kind of looking for 26% of sales for SG&A. And right now, when you kind of adjust for all the onetime costs, I think you're running like 200 basis points or so above that. You're also doing better on gross margin. But just wanted to just like within the broader framework of the MAP program is 26% still kind of the right way to be thinking about your SG&A spend.

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

Yes, it is.

Operator

And ladies and gentlemen, that will conclude today's question-and-answer session. I'd like to turn the floor back over to Frank Sullivan for any closing remarks.

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

Thank you, Jamie, and thank you to everybody for your participation on our investor call today. Through the first 9 months of the year, we demonstrated our ability to expand margins and increase cash flow despite some economic challenges, particularly for our Consumer and Specialty Products Group. We look forward to building momentum in those 2 segments and continuing the good momentum in our Construction Products Group and Performance Coatings Group as we enter our fourth quarter in the summer months of our new fiscal year.

In July, we'll provide the details of our FY 2024 fourth quarter, which we expect to be our tenth consecutive quarter of record sales and earnings performance, and to provide any comments on our outlook for our fiscal 2025. Thanks again for participating in our call, and have a great day.

Operator

Ladies and gentlemen, that does conclude today's conference call. We do thank you for joining. You may now disconnect your lines.
