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RPM.N - Q4 2023 RPM International Inc Earnings Call

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OVERVIEW:

Company reported cash flow of $314 million, Consolidated sales of $2.02 billion, net sales of $748 million, cash flow of $314.1 million.

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PRESENTATION

Operator

Good morning, and welcome to the RPM International's fiscal fourth-quarter and full-year 2023 earnings conference call. (Operator Instructions) Please note that 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, sir.

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

Thank you, Joe, and welcome to RPM International's conference call for the fiscal 2023 fourth-quarter and full-year results. 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. This call is also being webcast and can be accessed live or replayed on the RPM website at www.rpminc.com.

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

During this conference call, references may be made to non-GAAP financial measures. To assist you in understanding these non-GAAP terms, RPM has posted reconciliations to the most directly comparable GAAP financial measures on the RPM website. Also, please note that our comments will be on an as-adjusted basis and all comparisons are to the fourth 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 & 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*

Thanks, Matt. Good morning, everyone. For those following the slides, I'm going to start with slide three. We'll begin by discussing our high-level performance for the fourth quarter, after which, Mike will provide details on our financial results, and Matt will provide a balance sheet and business update. Finally, Rusty will conclude our prepared remarks with our outlook, after which we'll be pleased to answer your questions.

Starting on slide three, you can see that in the fourth quarter, we generated the sixth consecutive quarter of record sales and adjusted EBIT on top of the strong growth we achieved in the fourth quarter of last year. Importantly, we achieved these record results. At the same time, we generated record fourth-quarter operating cash flow. In the time of economic uncertainty, we prioritize cash flow generation over P&L management, which resulted in cash flow from operations of $314 million, primarily through initiatives to normalize inventories and benefits from our MAP 2025 initiative. The strong cash flow allowed us to reduce debt by nearly $140 million during the quarter.

Moving to slide four, the agility of our businesses demonstrated, played an important role in achieving these record results. As an example, several of our business repositioned to focus on engineered solutions for infrastructure and reshoring projects, which are the fastest-growing sectors in the construction industry. Our strategic focus on maintenance and repair, our differentiated service model, and the agility of our sales teams to find pockets of growth helped offset a decline in other new build construction sectors where volume declines were compounded by customer de-stocking.

We have also improved our operational agility through our MAP 2025 program so we can quickly respond to demand changes. In our Consumer Group, our customers were holding leaner than normal inventories heading into the warm months when demand usually picks up. As is typical, there was an increase in consumer takeaway late in the quarter, and we were able to quickly fill these orders.

De-stocking was the driver of volume declines at our Specialty Products Group, particularly in businesses serving OEM manufacturing. We faced additional profitability headwinds in this segment from continued cost inflation, FX and initiatives we put in place to normalize our inventory, which had a particularly pronounced impact on the SPG profitability.

Turning to slide five. Looking at sales by geography. Sales growth was strongest in emerging markets where growth range between high-single digits to high-teens despite foreign currency headwinds. These regions are investing significantly in infrastructure in an area that we are well positioned to serve. Europe declined nearly 2%, but excluding FX headwinds, Europe grew in the quarter, the first sign of improving performance after more than a year of challenging economic conditions.

Despite the challenging second half, fiscal 2023 was a solid one for RPM with sales up 8%, driving adjusted EBITDA nearly 19%. We finished the year with improving results in our Construction Products Group, and in particular, the Tremco Roofing division, improving performance in Europe. The challenges of supply chain disruptions and customer inventory destocking mostly now behind us; and finally, an improving cost price/mix dynamic with major raw materials cycling down from historic highs. These dynamics indicate a strong start to our new 2024 fiscal year.

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

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

Thanks, Frank. Starting on slide six. Consolidated sales increased 1.6% to $2.02 billion, which was a fourth-quarter record. Organic sales growth was 2.6% or $51.1 million and acquisitions net of divestitures contributed 0.4% to sales or $8.4 million. FX decreased sales by 1.4% or $27.2 million.

Consolidated adjusted EBIT was a fourth-quarter record and increased 1.5% to $267.8 million. The growth was driven by sales increases, MAP 2025 benefits and Consumer margins recovering towards historical averages following the supply chain disruptions of the prior year.

We also took cost reduction actions in the fourth quarter in businesses with declining volumes, primarily in the SPG and CPG segments. While these actions had a modest impact on Q4 profitability, they will have a more pronounced impact going forward.

Adjusted diluted earnings per share were $1.36 compared to $1.42 in the fourth quarter of 2022. The decrease was primarily driven by higher interest expense.

Turning to segment results on slide seven. Our Construction Products Group achieved record fourth-quarter net sales of $748 million, up slightly from the prior year period. Organic sales growth was 0.8%, with acquisitions contributing 1% and foreign currency translation reducing sales by 1.5%. Sales growth was led by pricing increases and strength in concrete admixture and repair products, which benefited from infrastructure and reshoring related capital spending. Demand increased for restoration systems for roofing, facades and parking structures, which benefited from its strategic focus on repair and maintenance, differentiated service model.

Demand was weak in new residential and certain commercial construction sectors, which included the negative impact of customer destocking. Adjusted EBIT was $124.5 million, an increase of 1.7% from the prior year period. Pricing increases and MAP 2025 benefits more than offset reduced fixed cost leverage from lower volumes and internal initiatives to reduce inventory. As I mentioned, we took cost reduction actions at CPG in the fourth quarter.

On the next slide, the Performance Coatings Group achieved another quarter of record net sales and adjusted EBIT. Revenue increased 8.8% to $358.4 million. Organic sales grew 10.4%, acquisition added 0.9% and foreign currency translation was a 2.5% headwind. Sales were driven by strong demand for the segment's engineered solutions for infrastructure and reshoring capital projects. Increased pricing and energy demand also contributed to the segment's growth.

Adjusted EBIT increased 21.5% to a fourth-quarter record of $51.7 million. The growth was driven by strong sales and MAP 2025 benefits. These results are on top of a strong prior year increase when adjusted EBIT grew 37.3%.

Turning to slide nine. Specialty Products Group sales declined 14.3% from the prior year period to $193.4 million. Organic sales declined 12%, divestitures net of acquisitions reduced sales by 1.8% and foreign currency translation was a headwind of 0.5%. OEM demand was weak during the quarter due to a reduction in customer manufacturing activity, which was compounded by destocking. This segment faced a challenging comparison to the fourth quarter of fiscal 2022, when our disaster restoration business had strong sales as it made progress in resolving its microchip supply chain issues.

During that quarter, SPG sales increased 11.4%. SPG also faced more challenging comparisons from the divestiture of the noncore furniture warranty business in the third quarter of fiscal 2023. SPG adjusted EBIT was $16.3 million or a decline of 63.1% compared to the prior year period. Unfavorable product mix and lower fixed cost leverage drove the decline and a $3.4 million expense related to the resolution of a legal matter also negatively impacted adjusted EBIT.

Since SPG has the highest concentration of intercompany sales it was most impacted by RPM's inventory normalization initiatives. We also took cost actions to align resources with demand levels during the quarter.

Moving to slide 10. The Consumer Group grew sales 4.9% to a fourth-quarter record of $716.4 million. Organic sales increased 5.6%, acquisitions contributed 0.3% and foreign currency translation was a headwind of 1%. The Consumer Group sales benefited from pricing increases in response to continued inflation. Volumes declined as consumer takeaway was lower in the quarter. However, as Frank described earlier, our ability to quickly respond to increased demand at the end of the quarter helped limit the volume declines.

Additionally, we had some market share wins as we return to playing offense. We gained shelf space in aerosol paints and abrasives. And over the summer, we expect to continue to offer new products and innovation to the market. Adjusted EBIT increased 30.4% to $104.7 million. The successful implementation of MAP 2025 initiatives as well as solid sales increases were key drivers of the increase in profitability and resulted in margins approaching historical averages following the supply chain disruptions of the prior year. Now I'd like to turn the call over to Matt to go over the balance sheet and cash flow and provide a business update.

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

Thank you, Mike. As Frank mentioned earlier, we prioritized cash flow during the quarter, and the progress can be seen in our results on slide 11. We continue to make progress in reducing inventory both from inventory management and also structural improvements enabled by MAP 2025. We reduced inventories by $205.8 million in the fourth quarter. This played an important role in generating record fourth-quarter cash flow from operations of $314.1 million during the quarter versus $22.8 million in the prior year, and we were building inventories to add resiliency to our supply chain.

We funded these investments in our supply chain with debt, so as working capital improved, we reduced debt by nearly $140 million during the fourth quarter. We also have continued to return cash to shareholders during the fourth quarter. We paid $54.1 million in dividends and $12.5 million in share repurchases, bringing our full fiscal year total in these 2 areas to a combined $263.9 million.

Moving to slide 12. We've spoken several times about how our businesses are well positioned to provide engineered solutions for infrastructure projects, and I'll highlight a few of them. In Europe, the continent's busiest train station, the Gare du Nord in Paris selected CPG's Flowcrete flooring systems for repairs in advance of the 2024 Olympics because of its durability, easy maintenance and ability to be installed during the six hours the station is closed each day.

At hydroelectric plant in Manitoba, PCG's Carboline fire protection system was chosen because there's two component epoxy intumescent fire-resistant material that required specifications was able to be applied off-site and can withstand the variable weather conditions of Northern Canada.

In Australia, CPG Tremco was selected to repair and waterproof the Sydney Harbor Bridge tower because of its ability to provide a membrane waterproofing system that can be installed in a variety of temperatures, cure within an hour of installation and has weather resistance.

This slide shows a few examples of the many projects where we have provided engineered solution to infrastructure projects. We expect to continue benefiting in fiscal year 2024 as global investments to build and maintain infrastructure growth.

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. We'll start on slide 13. As we look forward to the first quarter, many of the demand trends we saw in Q4 are expected to continue. Pricing is still expected to be positive, but with a lower year-over-year impact than this past fourth quarter as we lap some of the larger pricing increases implemented last summer.

From a profitability standpoint, MAP 2025 benefits are expected to continue while several Q4 headwinds, including FX, customer destocking, internal inventory normalization initiatives and inflation are expected to abate. Taking all this into account for the first quarter, we expect consolidated sales to increase in the low-single-digit range and adjusted EBIT to increase in the high-single-digit range. This would represent the seventh consecutive quarter of record sales and adjusted EBIT and is on top of a strong prior year comparison when sales grew 17% and adjusted EBIT increased 33%.

For sales by segment in the first quarter, CPG is expected to increase in the low-single-digit percentage range. PCG is expected to increase in the mid-single-digit percentage range. SPG is expected to decrease in the high-single-digit percentage range, and Consumer is expected to increase in the low-single-digit percentage range.

Moving to slide 14. As we think about the full year, demand visibility remains limited and volatility by end market makes longer-term forecasting challenging. That being said, our expectation is that our focus on repair and maintenance and strong position providing engineered solutions for reshoring and infrastructure projects, we'll be able to offset potential weakness if there is a downturn in commercial construction sectors. Additionally, we expect to leverage our MAP 2025 initiatives to help expand margins.

Our current expectation is there will be modest economic growth, and we will achieve consolidated sales growth in the mid-single-digit range and adjusted EBIT growth in the low-double-digit to mid-teen percentage range. Growth is expected to be strongest in the second half of the year, aided by less challenging comparisons as much of the unfavorable impact of destocking occurred in the second half of fiscal year 2023. This outlook assumes that we will not enter a recession in that FX and inflation pressures will continue to ease.

By segment, we expect the following for fiscal year 2024. At CPG, we expect continued share gains in concrete admixtures, continued momentum in roofing and stabilization in the residential sector with continued uncertainty in commercial construction. Once again, we benefit from our focus on reshoring infrastructure, as well as on building maintenance and restoration. At PCG, we expect continued momentum driven by strength in reshoring, infrastructure and energy markets, even as the segment faces challenging comparisons after a year of strong growth in fiscal year 2023. We expect SPG to benefit from easy comparisons in the back half of the year as destocking headwinds abate and demand stabilizes.

At Consumer, we expect the volume decline from the prior year to stabilize in the second half of the year with a continued benefit from pricing, but at a lower level than fiscal year 2023. The outlook I just provided is prior to a business transfer, and we made effective at the beginning of fiscal year 2024.

On June 1, 2023, a few international businesses that had previously been a part of our CPG segment transferred to the PCG segment. This impact is relatively small with about $100 million of annual revenue shifting from CPG to PCG. In October, you'll see this change reflected in our Q1 FY '24 reporting, and we will provide the recast prior period financials for ease of comparability starting in the first quarter of fiscal '24. Again, the outlook I just provided is on the old basis.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from John McNulty with BMO.

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

Congratulations on some really solid results. And I guess one of the things I wanted to dig into to maybe better understand it a bit was I guess when you were coming into this quarter, there were expectations for the Construction business to be under a reasonable (inaudible) putting up better sales than expected, and as a result, a better total numbers. I guess -- can you help us to think about what was different from what you expected in terms of -- was it just demand was stronger in certain sectors? Or was the destocking less and you got better clarity on that as things kind of progress? I guess -- how would you characterize the beat in Construction relative to your original expectations?

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

Sure. I think it has to do with things that we've been talking about starting in the second quarter and certainly experience in Q3 and the destocking that we experienced, what Rusty was calling the bullwhip effect of inventory was more pronounced across more of our businesses and segments than we had ever seen, including Construction Products.

And quite honestly, I think there was some hesitation once we made significant improvements in our inventory position. There is certainly more to come in the coming years, but a big chunk of it happened this spring. And as the destocking more normalized inventory levels across most of our businesses, but in this case, particularly in the distribution channels of construction products.

And so, as weather improved and economic activity picked up and also kind of our normal seasonal pickup in the Roofing division related to schools as schools led out in May and early June, all resulted in a stronger finish, which seems to be continuing in the early parts of the summer. So, the strength in Q4 really occurred towards the end of the quarter in our Construction Products business. And I think the destocking levels to more normalized or in some cases, skinnier than usual inventory, not only Construction Products, but other parts of our business are starting to show up in a positive way.

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

Got it. Okay. No, that's helpful and clear. I guess the second thing I wanted to just dig into was raw material deflation. It looks like it's kind of increasing or accelerating theme across the space. I guess you guys are on a FIFO accounting method, so it takes a little bit longer to roll through. I guess, can you help us to think about raw material deflation in your fiscal '24 guide and how that progresses as you kind of go through the year?

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

Sure, John. Yes, this is Matt. So, as we think about what we expect to see in the first quarter, we'll probably have a little bit of benefit on our P&L from raw material deflation. And then as we move throughout the year, we're expecting it to be down in the mid-single-digit range. Now that's just for materials. We still have rising inflation in things like labor and some of the raw materials like packaging and TiO_2 are sticky, but that's how we're looking at it, and that's included in our forecast for the year.

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

So I would add two more elements to that, John. One is, as we experienced, and this has been typical for us in our industry, there is a lag as raw materials increase, particularly as dramatically as they did between the time of the increase and when we can get price. And then as that cycle comes down, we begin to pick up lost margin. And so, we are at the beginning stages of that. Just to pick on one of our segments, Consumer, we still aren't back to pre-Covid levels of margin activity. So, there's more to come in recovering those margins.

Secondly, we'll continue to see gross margin improvement, not only from cost price mix relative to improving raw material costs, but also from our MAP benefits, which are real and had really good benefits for fiscal '23. We'll continue with $120-some million or more in fiscal '24. And they were masked in the second half of the year by lower volumes and the un-absorption hits we took in the second half of fiscal '23 by deliberate production shutdowns and inventory adjustments. And so those two things should combine to demonstrate some pretty solid gross margin improvement in fiscal '24.

Operator

Our next question will come from David Huang with Deutsche Bank.

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

Just on commercial construction, I guess do you think the commercial construction activities hit the bottom? And I guess, when do you expect those will recover?

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

Yes. I -- we don't have really good insight into that right now, and we read the same headlines that everyone else does about tightening in the banking and regional banking market, which have been critical providers of credit for commercial construction projects.

So, the guidance we provided does not anticipate any pickup or rebound in commercial construction activity per se. As I commented and Matt commented, our sales forces have been able to adjust to really focus on where the dollars are being spent and the normal maintenance and repair activity of our Construction Products Group and roofing and facade restoration is picking back up again. And that's really driven by different dollars and different decision making the commercial construction. So, we don't have good insight into that, but we do not anticipate a pickup in commercial construction whether it's hospitality or office space anytime soon.

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

Okay. And then I guess for the full year guidance, I know you're not assuming a recession. But if there is a mild recession, I guess there's MAP. Can you comment on if there are any additional levers that you can pull to maybe achieve the low end of your guidance?

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

Sure. We have very deliberately invested in growing SG&A in a number of our businesses, in particular, Consumer. I know that's a concern of some folks. I can tell you just an example, advertising, promotion and marketing activities in Q4, was up 70% from last year. Keep in mind, last year was abnormally deflated because we had some supply chain challenges and there was no point in advertising or promoting to drive people to stores or the activity that we couldn't supply sufficiently.

For the full year, that category is up 54%. And so, we are rebuilding across a lot of our businesses and in particular, Consumer, those promotional advertising and marketing dollars. There are other discretionary areas whereas the year progresses, we see economic challenges beyond what we anticipate we can cut back. And so that's certainly there.

I will tell you that in certain of our businesses, commercial construction that we just talked about in OEM, particularly the OEM businesses that we serve in doors, kitchen cabinets, things that go into the housing market last four or five months in terms of volume, sure feel recessionary to us. So hopefully, that hit is being mitigated, and we're starting to come out of it.

Contrary to commercial construction, one area of positivity as we progress throughout the year, though we're not seeing it yet is a pickup in residential construction, which was a headwind for us for most of '23.

Operator

And our next question will come from Mike Harrison with Seaport Research Partners.

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

Congrats on a nice finish to the year. I wanted to follow up on your comments there on the resi construction. You called out a potential stabilization in residential markets as a positive for 2024. Can you give a little bit more color on the trends that you're seeing in your residential business I guess, as it relates to both the new resi side as well as kind of repair and maintenance and small projects?

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

Sure. So we've become somewhat more exposed to residential new construction in -- our Construction Products Group, in particular, for instance, with Nudura has a sizable share in ICF in Canada and a growing share in the U.S. and some of the products and for facades that we put on there. And we were struggling for the entire year, starting in the middle of summer last year of fiscal '23 as residential construction declined. And it was, if you believe the headline is kind of a value trap where people were stuck in their homes because of rising interest rates and concerns not only about maybe they get a higher price for their home if they sell it, but they're going to have to pay a higher price for where they went. So, you saw housing turnover slow down.

But in terms of long-term trends, it's a funny dynamic because we are underserved by the rate of residential construction versus demand. We see that changing. And so, a combination of easier comps as we go into '24 for product lines that are high profit like Nudura and the sealants and coatings products that follow that and I think a stabilization, and as you see in the homebuilders, anticipation of a pickup in new residential starts should serve us well.

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

All right. And then I guess maybe if you can give a little bit more detail on what's going on in your Specialty business. This is where you seem to be seeing a lot of customer destocking also where you're seeing the heaviest internal destocking and fixed cost impact. Can you maybe just help us understand when those impacts are expected to stabilize or normalize?

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

Sure. So again, especially our OEM tends to serve elements that actually go into the residential housing market as well. We still manufacture wood stains and finishes that go into doors, kitchen cabins. We have a particularly nice share with Amish Woodworking again, which tends to go into residential, whether it's furniture or kitchen cabinets or specialty wood. We go into the RV sector, which was hotter in Covid and then cooled off dramatically in the last year.

So, all of those have been down meaningfully. DayGlo is also a part of our Specialty Products Group and is really more of a specialty chemical company supplier. And if you follow what's happening with the more commodity or specialty chemical business in this raw material deflationary environment when it's just starting, we're experiencing the same negative trend there.

And then lastly, we divested this spring, the Guardian furniture warranty protection business revenues but -- annually about $20 million. It's about $20 million in revenues, but very high-margin business, but not core to RPM and found a good home for that business, and that will annualize next year. But that was $20 million of lost revenue at a margin that was meaningfully higher than the SPG average.

Operator

And our next question will come from Jeff Zekauskas with JPMorgan.

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

When you look at the results of PPG and Sherwin-Williams, their gross margins this quarter are up about 400 basis points. And when you listen to them over a longer period of time, they're always focused on what their gross margin should be. And in the case of Sherwin, I think they want to be somewhere between -- I don't know, 46 and 48.

And with RPM, your gross margins are up maybe close to a couple of hundred basis points this quarter. And in the old days, you used to be in the low-40s, I don't know, 42%, something like that. Now you're not exactly a coatings company. Can you talk about why your gross margin expansion isn't this great? And do you have gross margin targets in the future? Can you get back to that 42% or 43% number. How do you feel about the gross margin?

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

Sure. Jeff, that's a great question and it's an area of significant focus for RPM and our MAP '25 goals. So first of all, you have to reset gross margin profitability in 2018, and we were aware of this for a couple of years prior, we were accounting for freight out differently than most of our peers. We incorporated it in SG&A, so it raised a number of questions about how come our SG&A is so high.

So, we changed the accounting for that in 2018 by incorporating all of our freight into cost of goods sold. So, on that readjusted basis, our forever peak gross margin that used to be represented and you're correct in -- I think it peaked close to 43%, the equivalent is about 39 -- 39.8%. So almost 40%. And so that's the right way to think about where our peak gross margins were on an adjusted basis for that accounting allocation change.

We have set a target of 42% in our MAP 2025 initiative. Clearly, we have ways to go. We are making really good progress in the original MAP initiative and then had significant step back like the whole industry did relative to rapidly rising inflation and the discontinuity of the supply chain challenges. We are experiencing similar dynamics to our coatings peers, but versus Sherwin-Williams, we're on a FIFO accounting and they're on LIFO. So typically, our benefits would show up in our P&L 60 to 75 days later. And so, I would expect you to see that.

And lastly, you made the comment here, which is correct. About 35% of RPM's revenues are driven by our Construction Products business, nicely profitable, but different dynamics and different economic cycles than more pure-play coatings companies.

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

Okay. And then lastly, when you think about your level of inventories, but the inventories really came down and benefited working capital. Are you at the right level? Do you think your inventories a year from now will be higher or lower? Or it's just too difficult to tell?

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

So you sound like you've been party to some of our strategy discussions with our Board over the last year or so in the sense that there's two areas of great focus. One is gross profits, which we just talked about and the other is working capital. And our working capital is not where it needs to be. We are -- I can probably talk about different elements of our success versus our peers in the broader market.

In working capital, we are a laggard. And so there should be 300 or 400 basis points of working capital improvement out of RPM on a consistent basis over the next three to four years.

And so, the working capital improvement we experienced this quarter, I think, demonstrated a different RPM than maybe three or four years ago.

We were able to turn off production and turn it back on, even in our Consumer business. We attitudinally, we're able to communicate better to the Street and internally about -- it's not that we're not concerned about, but the absorption hits that we took were the right things to do. And if we take more absorption hits by aligning our operations and the efficiency of our operations, you will see working capital continue to improve.

And so, I think that's also a very smart question in an area that's gotten a lot of attention over the last 1.5 years with our Board. You're seeing the benefits of the MAP '25 program and the good cash conversion cycle in Q4, but there is significantly more to come. And again, it's an area where versus our peers, we are 300 or 400 basis points behind the curve.

Operator

And our next question will come from Vincent Andrews with Morgan Stanley.

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

Just wanted to tie together your comments about the consumer demand picking up sort of seasonally as the quarter progressed. Can you give us a little color as you have in the past about what you're seeing in terms of point of sale versus what you're actually selling in? And just help us understand if the point of sale is improving, I think last quarter, you said it was still running down low- to mid-single digits, but sort of is that -- is that gap narrowing between what your customers are doing and what their customers are doing?

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

Sure. The last unit volume sales that were positive were in the first quarter of last year. And we experienced negative unit volume or negative consumer takeaway in most of our Consumer product lines and businesses throughout the rest of fiscal '23. And it was high-single digits or low-double digits this spring.

Part of it was a function of consumer takeaway and changes in consumer spending patterns. Again, things you can read about headlines about more experiences and less DIY stuff post-Covid.

Part of it was aggressive destocking and/or inventory adjustments within our supply chain relative to the supply chain disruptions and inventory challenges in all types of areas, including for our Consumer businesses. And so, I think by the time we got into the spring, a lot of that customer inventory destocking or rightsizing and a lot of our own supply chain issues were behind us. It doesn't mean we won't see those things in the future relative to supply chains that have happened in Consumer. But a lot of that corrected. And while consumer takeaway was still negative in the fourth quarter, it was improved from the last product from the two prior quarters. So, we're seeing the Consumer week-by-week picking up. And I would expect us to be positive sometime this fall in part because of what we're seeing in part because of the new products we're introducing, some market share gains, and also, we'll be annualizing some easier comps in terms of negative consumer takeaway.

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

Okay. And if I could just follow up on the 2024 -- fiscal 2024 sort of the shape of the year, and maybe if you want to comment on specific segments, it seems like that there's going to be kind of a bit of a handoff between the residual price that's in the system, the residual destocking, maybe in the first half of the fiscal year, and then the back half of the year, it seems like you're anticipating more of a volume recovery and then less pricing and then presumably to the EBIT line, you're going to see more of the deflation that we've been talking about. Is that the right way to think about the shape of the fiscal quarter?

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

Yes. That's right, Vincent. This is Rusty here. The first half of fiscal '23, we obviously have more difficult comps with sales up double digits and EBIT up in mid-30% range in the first half of fiscal '23. We did suffer, of course, as well in the back half of '23 from the under-absorption as we made a conscious effort to throttle back production. So as a result, yes, we do expect as fiscal '24 goes on, that we will see pickup in the growth as we face some easier comparisons.

Operator

Our next question will come from Steve Byrne with Bank of America.

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

This $100 million of sales of businesses between CPG and PCG, what's the logic behind that? And maybe more broadly, given both of those segments benefit from reshoring and infrastructure, is there potential logic in combining them, having at least at a commercial level, where you could potentially drive more cross-selling between these businesses within the two segments? What do you think of that?

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

Sure. And again, another really kind of sharp strategic question. So particularly in the developed world, PCG, our Performance Coatings Group and our Construction Products Group, had relatively small and needing more investment operations in places like the Middle East, elements of Africa, India and Southeast Asia. And rather than go it alone, what we've done is taking a platform approach. We have a particularly sharp management team out of South Africa, the leader there is a gentleman named Grant Boonzaier. He is a PCG leader, runs their platform group. But because of the dynamics there and his success and the success of his team, they have become the platform in South Africa for Rust-Oleum that had a business there for our Construction Products Group, so Tremco and Euclid concrete repair products.

And then the original businesses that they've had there for many years, which were Carboline and Stonhard. We've taken that model and again, Grant is part of PCG, and we have taken the Construction Products Group businesses in the Middle East and Africa, the Construction Products Group in India, and the Construction Products Group business in Southeast Asia, and they are operating on a more combined basis as you're suggesting in those developing countries. We are investing in new facilities in Southeast Asia and in India that will serve multiple product lines. And all of those businesses will now report to Grant Boonzaier. So, they have shifted from reporting to the Construction Products Group, to reporting to what we consider the developing world platform approach and that's part of our PCG. So that's the primary driver of that $100 million shift in revenues. We would expect it to drive synergies on cost, synergies in a way of expanding revenues more quickly than if they operated on their own, and improving unit margins there.

Last comment I would make on that, this will have no effect whatsoever on our consolidated results or guidance.

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

Okay. And Frank, can you remind me on in consumer, do you still provide guidance to, I believe, it's Home Depot as a product category leader in and maybe aerosol paint is one of them. And I ask about this, are these positions that you have with them in particular categories, enabling you to have more pricing power and/or enabling more share gains?

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

So first of all, we are great partners with all of our retail customers, and we are the leader in our small-project paint category in every major customer that you can think of, and in every major channel. The only exception is one that you would easily gather, which is Sherwin-Williams Paint Stores.

And so, we are a partner in understanding consumer takeaway and analyzing profitability. And so that's been true for many years and continues, that really doesn't drive profitability. What drives profitability is innovation, new products and the strength of our brands. And so, for example, this spring, and we're just advertising it now, Rust-Oleum introduced a five in one spray cap. It's patented. It was first introduced into their primary stop thrust category. You'll see that patented five in one spray tip. So, it allows a consumer to adjust the spray, to get a fan spray or a narrow spray, a light spray, fan up and down, pretty unique product, that will be introduced across more of the product line. DAP has introduced a number of new products taking the benefits of a two-component foam and putting it in one can, and that will be a Consumer -- like a heavy Consumer or a Pro product. We're coming out with some other products for popcorn ceiling spray which has so far been dominated by a single supplier, and we intend to become a major player in that space as well.

So, I think it's innovation and new product introductions and the strength of brands that allows us to maintain price levels more so than the size of our business or the relationship we have with the customers in terms of understanding Consumer dynamics.

Operator

And our next question will come from Ghansham Panjabi with Baird.

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

So Frank, last quarter, you basically qualify the current operating environment as a good old-fashioned recession. This was back in April. Just curious as to your updated thoughts on what your -- how you would qualify the current backdrop, you touched on new home construction or residential as a whole, but any other categories that are either better or worse relative to what you saw maybe three months ago?

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

Sure. Well, three months ago and for that -- the three months prior, it was looking back and as we sat there in April, when consumer takeaway is mid- to high-single digits negative, when you're a Specialty Products Group and your Construction Products Group that serve elements of the residential market in North America are negative in terms of unit volume, sure felt like a recession to us.

With the exception of the Specialty Products Group companies, we have seen improvement in the rest of our portfolio. And so, while we're still negative consumer takeaway, it's much more modest than it was for a period of five or six months. We actually saw an uptick at the end of the quarter in our Construction Products Group, particularly in the Roofing division and waterproofing. And we see signs that the challenges in the residential construction market, which were driven by a bunch of different dynamics are changing for the better this summer, and we anticipate going into the rest of the year. So -- we're -- red lights are turning into yellow lights and in a few places, even green lights, which is a nicer place to be than where we were, how we felt just a few -- three or four months ago.

And I guess, lastly, I'd say I credit our operating people in our MAP program because our ability to adjust to these dynamics as quickly as we did is way better than it used to be.

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

Got it. And then as it relates to the Construction segment, specific to the fourth quarter and the margin upside there relative to the few quarters prior to that when they were declining year-over-year. What drove that significant increase in the fourth quarter specifically?

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

Much like my earlier comment on Consumer, but also here. We were within our supply chain and internally, dealing with inventory challenges and destocking across our distribution for Construction Products and internally, and that seems to have corrected itself. And I think there was some anticipation that things were moving in the right direction. The question was whether we were going to experience that in May or June. And we had a few distributors that were hinting at, a, we can boost some product if you discount. And I think we held our pricing and held our discipline. And let's say everybody held their breath until they needed inventory, and it started showing up in May. And that positive trend is continuing as we enter the first quarter.

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

Got it. And then just one final question. So, as it relates to your fiscal year '24 construct, you're basically guiding towards three times operating leverage relative to your sales guidance, is the delta between what you're guiding towards for fiscal year '24 versus what you would typically have in terms of operating leverage? Is the delta purely MAP? Or is it also a contribution from raw materials deflation?

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

It's a combination of both, as I commented earlier. When you look at our cycle, and we experienced this as our industry did, we're behind the curve in terms of catching up with raw material prices, particularly during this cycle as quickly as they went up. And so, we are experiencing deflation versus the prior period and versus now for the first time in the prior year. But we're not back to the margin profile in a few of our businesses that we were pre-Covid.

And so, we've got work to do there. So, a part of it will be the benefits of that cost price mix moving positively, and we're starting to see that as is our industry. And the other benefits, and we talked about it, we're talking about MAP, we're doing the right things on the ground. We talked about $120 million plus of benefits in fiscal '23. It was hard to find. We had $50 million of unabsorbed hits in our gross profit in our P&L in the second half of last year as a result of lower volume marketwise, but also the production shutdowns to right size inventories internally.

And so those MAP benefits covered a lot of that in a rising unit volume environment, which we're working hard to get back to and open for, you'll start to see those MAP benefits add to that margin expansion. So those are the two dynamics that will drive a pretty meaningful margin expansion on what we anticipate to be relatively modest revenue growth, at least for the first half of the year.

Operator

And our next question will come from Josh Spector with UBS.

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

Just a couple of quick follow-ups. First, can you just talk -- what was pricing in the fourth quarter? And what's your assumption for the first quarter?

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

Sure. In terms of pricing in the fourth quarter, it was in between 9% and 10% for an impact. And in the first quarter, we would expect that to diminish somewhat because it will be lapping the anniversary of the major catch-up selling price increases that were done in the Consumer segment in the first quarter of '23. We still do have price increases going up most days at RPM and various product lines, more modest, of course, than we saw last year when we had the rampant inflation. But we'll continue to get selling price benefits just more modest.

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

And just on under-absorption, you made some comments, I believe, when talking about Construction and Specialty that you expect the impact to get larger into the first quarter and maybe the first half. I guess is that just the roll-through of that cost through inventory, or are you actually ramping up efforts? And just what's the quantum that you're baking into your guide for first half or further under-absorption impact?

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

Yes, I don't expect them to be larger in fiscal '24 than they were in '23. In fact, they'll be smaller, particularly in the second half. But we'll still have some level of un-absorption until we're positive unit volume everywhere. And we still will have some level of un-absorption where we're continuing to adjust down inventory levels. As I commented earlier, we have more to do. But on the full year, we had $60 million or $70 million of unabsorbed costs, we would have substantially less than that in fiscal '24 unless we bump into some unanticipated economic challenges.

Operator

And our next question will come from Mike Sison with Wells Fargo.

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

Congrats again on a nice quarter and outlook. As I recall, wave two is something like $160 million or so in MAP savings. And if I did the math for your growth for '24 versus '23, it's kind of like all of it and then some, right? So, it doesn't seem like there's a lot of deflation in that number. It looks like you're going to have some volume growth. So, I mean, am I doing the math right? Is there -- it seems like your outlook could be a little bit conservative.

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

Well, in terms of the outlook, the outlook is for volume declines to be modest in Q1 and then start to turn around as we get into Q2. And as Frank mentioned, we will see MAP benefits that we didn't see last year because they were masked by under-absorption. So, for that reason, we did have an outlook where the full year is actually better in the last nine months in total compared to the first quarter.

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

Sure. And Mike, I would add to that, just -- and we commented on this earlier. Some of our peers have had the same type of strong performance over a period of time, but not all of them have. Our Q1 of last year sales were up 17%, including a lot of unit volume growth and EBIT was up 33%. In Q2, sales were up 9%, and adjusted EBIT was up 36%. So -- and those were all-time records. So, we got some big mountains to climb in the first half of the year. I think we're confident with what we see that we're going to be generating sales growth and EBIT growth, but more modest for the reasons that Rusty mentioned and the dynamics that we're slowly growing out of, and more modest in comparison to the prior year where we just had big, big numbers.

And as we -- we were all high-fiving in October of last year because unit volume growth was solid everywhere, and our MAP-driven leverage was really good. And then, boy, the bottom fell out of a couple of our businesses starting in November and December, and that's what we communicated in January and in the spring. I think it's a combination of improving economics. And as I mentioned earlier, a more agile organization than maybe we were four or five years ago.

Operator

And our next question will come from John Roberts with Credit Suisse.

John Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Back to the new product comments on Consumer, I think you lost some share because of the alkyd shortage during the pandemic. Do you have any data on category growth versus your growth or something that might suggest you regained some share?

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

Yes. We have picked up small-project paint share at a major home center this spring. So, share has gone up for us in small-project paint if that's what you're referring to.

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

Yes. We -- and this is news from last year, we lost a portion of spray paint business to Baird, Home Depot. In some cases, it was elimination of Universal, which is one of the more high-performing products. We've been able to reposition that product in other parts of our channels. And we are making up in that category, for instance, almost the entirety of what was lost in that transition.

And as Rusty said, we picked up share on shelf with some other major retailers. So, we're back to playing offense in our Consumer business. Boy, a year ago, we had supply chain challenges. We had our own operating challenges that we were addressing, I think that had as much as anything to do with the market share loss at a major customer. Those issues have been corrected. We have more than enough capacity to take on more business, our spending in advertising and promotion, some on normal TV, a lot more online. And so, we're playing offense in terms of introducing new products, going after share and having the volume to be aggressive in ways that we didn't just a year ago.

John Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

And then on PCG, I think you highlighted the energy customers with the lower energy prices, I thought those customers probably had pulled back.

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

No, we're still seeing solid growth in the energy markets, whether it's gas and fracking. Interestingly enough, there has been a resurgence in some offshore production. And so, while there's been some volatility in oil prices per se with slowdowns in China, persisting longer than people thought. I think the geopolitical issues and where the energy companies are suggesting to us, at least for the next year, that, that will continue to be a relatively solid area for business.

Operator

And our next question will come from Frank Mitsch with Fermium Research.

Frank Mitsch - *Fermium Research, LLC - President*

Rusty, last conference call, you said that your best days were ahead in terms of cash flow. And obviously, this quarter delivered on that. And obviously, the inventory question has been discussed at nauseam, but the net debt has come down as well. So, it begs the question, you bought back $12.5 million the last couple of quarters. How are you thinking about use of cash, buybacks versus M&A in the current environment.

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

Yes, in terms of share repurchase, it has been modest with all the economic uncertainties over the last couple of years and with Covid, of course, before that. The biggest potential use will be if we run into bigger acquisitions. We've been doing smaller acquisitions over the last couple of years with multiples being out of whack. As you know, we're very disciplined in the prices we pay. And as a result of the inflated expectations, those acquisitions have come in light. But you are correct. If acquisitions stay relatively small, we will have the ability to enlarge from the minimal level of share repurchase.

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

Sure. So, I think directionally, we would expect maybe $50 million of share repurchases next year and then would be somewhat opportunistic relative to market dynamics. We will be favoring debt reduction in small transactions. The M&A markets, both globally for big M&A and on the smaller scale have dropped dramatically. And part of that was expectations of sellers to get multiples from a year or two ago on earnings from a year or two ago. And I think there's been good discipline on the buy side, again, big global deals, as well as small to midsized mid-market deals. And you'll see, I think, a capitulation at some point relative to the interest rate environment and higher cost of capital in general, but also the higher cost of incremental capital. I think some of the M&A valuations were relatively undisciplined. Some of that came out of private equity because for a period of time, your incremental cost of capital was practically 0. That's not true anymore.

And so, if we can -- we will certainly utilize free cash flow to reduce debt, improve our balance sheet, modestly repurchased stock. I think it's likely that when our Board meets in October, we'll increase our dividend for the 50th consecutive year, which will be a nice milestone and then position our balance sheet to take advantage of opportunities when they show up at the right price.

Frank Mitsch - *Fermium Research, LLC - President*

Got you. Got you. Very helpful. And Frank, you indicated that Europe FX was actually up a little bit in the fourth quarter, here we are seven weeks or so into the first quarter. What are you seeing in Europe? What are your expectations for that region?

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

Sure. It's a great question, and I appreciate you're picking up on that. Europe hurt us in terms of sales and earnings for five or six quarters in a row. And we saw an uptick at the end of Q4, and that's continuing. It's modest, like everything that we're seeing is modest, but it's modest, and it's modest in the positive direction. So, we're seeing sales moving in the right direction. We're seeing margin expansion. We're also doing a -- I wouldn't call it reorganization, but a focus on Europe and have one of our top executives actually moving there and take responsibility for accelerating some of the MAP programs in Europe, which is lagging the MAP initiatives that we've done in North America. And the underlying dynamic there is a positive revenue growth and some margin expansion in Europe, which we haven't seen for five or six quarters. So, there's a lot of points of light or shoots of growth that we're seeing. And the key for us, and I guess my caveat to all of that would be none of us have ever experienced a more volatile period of time than we've seen over the last two or three years.

Normally, I would get excited about a three-month trend and projected into the future, given the whip size that we've all seen in the last two or three years, we're going to -- we'll get excited about a trend when it feels like it's five or six months in a row.

Operator

And our next question will come from Aleksey Yefremov with KeyBanc Capital Markets.

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

Frank, I think you historically talked about infrastructure uplift mostly in calendar 2024, but I think you mentioned some more of the wins just on this call. Are you seeing acceleration in this end market in the U.S. in particular?

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

We are seeing benefits from onshoring. We've long been a provider of fireproofing coatings and specialty flooring into the tech sector, and there's significant investments there. We're seeing onshoring in other areas. And so that is benefiting us. You're seeing highway, marine, different areas where you're seeing pretty good investment. And so, we participate in all those markets.

And I'm a little bit hesitant because the amount of money in a $1.2 trillion infrastructure build, it's hard to track where all that is. And over what period of time it's going to flow through, but it's certainly a positive tailwind for our Performance Coatings Group and portions of our Construction Products Group.

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

And then another question on pricing. How is competitive environment, especially in the areas where you have to bid on projects has it been disciplined so far?

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

Sure. Historically, we've been able to hold on to most of our price and most of our businesses. The categories where that has not been true have been more commodity pass-throughs. So, in some areas of silicones, we had a lot of value in the more commodity space of silicones, we package it and sell it through and silicone prices rose dramatically. We thought to kind of catch up on price, that's true in our Construction Products Group and in the silicone portion of our DAP business. And as silicone prices have dropped, our prices have moderated as well.

Probably the only other area where I would tell you historically, we've seen prices go up and down is in the highway portion of infrastructure, pretty highly competitive there. And so, you'll see prices go up and go down based on the underlying core raw materials to some of those systems. But other than that, historically, we've been able to hold on price and that's what we're doing at this point. As I said, we've got some lost margin to pick up, and I would expect that to continue for the foreseeable future.

Operator

And our next question will come from Kevin McCarthy with Vertical Research Partners.

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

To come back to the subject of cash generation. It sounds like you have some ongoing benefit from reduction of inventory. So, can you comment on the working capital that you might be able to extract in fiscal '24 as well as your capital expenditure budget for the year?

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

The capex budget for the year, Rusty.

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

Yes, it will be in line with where we were in fiscal '23.

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

The $250 million or so. Yes. And then on working capital, I think I'd rather report our achievements in hindsight other than the comment I made earlier, which is we have a goal of improving our working capital as a percent of sales by 300 or 400 basis points over the next three to four years.

And so, if you just do the simple math, call it, 100 basis points a year, maybe we can do a little bit better than that. But if you apply that 300 or 400 basis points as a percent of sales, you can get a pretty good sense of the additional cash flow that we should be able to generate on top of what we would generate based on revenue growth and our profit margin profitability. And it's a function of us getting better, more efficient, and our team is doing a really good job on the MAP '25 initiatives, and the fact that we are an underperformer in this area. So, versus our peers, there is efficiencies that we are gaining that we have not had in the past. That's our challenge, and it's something we're up for today relative to the disciplines we have and the approach we have now with MS-168 and a more center-led approach to our operations than what we had at RPM five years ago.

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

That's very helpful. I appreciate the comments.

Operator

(Operator Instructions) Our next question here will come from Arun Viswanathan with RBC Capital Markets.

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

Congrats on the strong results and the favorable outlook here. So, in listening to your comments, it sounds like there were a couple of positive drivers, maybe slightly better infrastructure and reshoring activity, some price -- holding price cost a little bit better as well. And then your own MAP gains as well. Is that accurate, maybe as the top three? And then if you were to kind of see how that moves forward, are there further improvements in each of those categories that you expect? Or is it maybe a recovery in commercial and some other weak parts that would be bigger drivers?

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

Sure. So, I think you got that right. I would add that some of the more solid or stable business activity we're seeing is a result of this bullwhip inventory effect and supply chain challenge that we saw more broadly across our businesses than we've ever seen before. And so excess inventories or having the wrong inventory in the wrong places because people overbought during a period of time where they couldn't get stuff, that's been corrected. And it's been corrected perfectly? No. And is there's still adjustments here and there, both at RPM and with our supply chain that will occur? Yes. But the biggest chunk of that has been corrected. So now there is a normalized demand that's serving, we think, an improving market in the construction area, an improving consumer takeaway, although it's still modestly negative as we sit here today. And so those are the dynamics. I think that's right. So going forward, improvement in the underlying dynamics.

And then lastly, assuming that we avoid recession, substantially easier comps for the RPM businesses and substantially better leverage capabilities if we have unit -- positive unit volume in the second half of the year. If we have a positive unit volume in the second half of the year versus what we experience this year, and the internal challenges that we undertook to drive cash flow, you'll see nice margin expansion. So those are the dynamics to think about for the year.

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

Great. And then sorry if you already addressed this. But on the MAP gains, did you provide an actual dollar number that will maybe flow through in fiscal '24 out of that $160 million? And if it's less than, say, $120 million or something -- and then would it be the remaining $40 million in fiscal '25? Or how should we think about what actually flows to the P&L?

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

The original guide we provided on the Investor Day a little more than a year ago, was $160 million for fiscal '24. And -- some of that's on the if come. In other words, as we realize it throughout the year, it is an ongoing sustainable basis. And so, we'll report on that on a quarterly basis as we get through the year. But I would expect to realize over $100 million in our P&L in fiscal '24. And on a run rate by the end of the year, we will -- if we hit our targets, we'll have achieved on a run rate of $160 million. That's the plan. But again, given our momentum and where we are, I would expect it to at least $100 million to flow through the P&L during the year.

Operator

And this concludes our question-and-answer session. I'd 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, Joe, and thank you to everybody for your participation on our call today. We're excited about improving business dynamics throughout RPM in combination with the effective execution of our MAP 2025 program. We look forward to updating you on our first-quarter results and talking about our dividend activity and our outlook for the balance of the year when we're together again in October. Enjoy the rest of your summer, and have a great day.

Operator

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