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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and welcome to the RPM International fiscal 2026 first-quarter earnings conference call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Matt Schlarb, Vice President of Investor Relations and Sustainability. Please go ahead.

Matthew Schlarb - *RPM International Inc - Vice President - Investor Relations*

Thank you, Clowie, and welcome to RPM International's conference call for the fiscal 2026 first quarter. Today's call is being recorded. Joining today's call are Frank Sullivan, RPM's Chair 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 a -- on an as-adjusted basis and all comparisons are to the first quarter of fiscal 2025 unless otherwise indicated.

We have provided a supplemental slide presentation to support our comments on this call, and it can be accessed in the Presentations and Webcasts section of the RPM website. As a reminder, certain businesses that are previously part of the Specialty Products Group have been reallocated to other segments effective June 1, 2025. As a result, all references today reflect the updated structure and prior year figures have been recast accordingly. This change has no impact on consolidated results.

With that, I would like to turn the call over to Frank.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Matt, and good morning. I'll start the call with a high-level overview of our first quarter results, followed by Michael Laroche, who will cover the financials in more detail. Matt will then provide an update on cash flow and the balance sheet and provide some details on our Industrial Coatings Group. Rusty Gordon will then conclude our prepared remarks with our outlook for the second quarter and fiscal year 2026. As always, we'll be happy to answer your questions after our prepared remarks.

Looking at slide 3. The pivot to growth I discussed over the last few quarters was on full display with organic revenue growth complemented by the successful integration of strategic acquisitions. All segments achieved record quarterly sales and generated 6% growth or better in what continues to be a challenging macro environment. All three segments increased adjusted EBIT to achieve another record quarter for RPM, thanks to the sales growth and MAP 2025 benefits, which offset several other profitability headwinds.

The first quarter represents the 14th time in the last 15 quarters where we have achieved record adjusted EBIT. This is a credit to our associates. We're focused on realizing the power of RPM by leveraging our entrepreneurial spirit to grow sales, while continuing to work to find new ways to operate more efficiently.

Next, on slide 4 are examples of the key factors that allowed us to achieve record results in the first quarter despite the challenging demand backdrop. These include turnkey offerings in roofing and flooring where we both supply and apply the product, a competitive advantage in a labor-constrained construction market, customer-focused new product introductions, strategic M&A in core categories as well as in new adjacent categories.

Engineered solutions that meet and exceed the demanding specifications of building projects in areas such as infrastructure, data centers, schools, hospitals and pharmaceutical manufacturing. System selling that offers comprehensive solutions for all six sides of the building envelope, a focus on repair and maintenance, which offers a compelling value proposition and where demand is less volatile than new construction; hiring additional sales and sales support staff across our Construction Products Group and Performance Coatings Group segments in contrast with many of our competitors; and continuously implementing efficiency initiatives built on the legacy of our MAP to Growth and MAP 2025 achievements.

These include the consolidation of six facilities currently in process. Over the last six to nine months, we have been talking about a pivot to growth in a frustratingly no-growth environment. To make a pivot to growth, we recognize that we would have to do some things differently. Today, we are doing many things differently while most of our competitors are responding to the no-growth environment by cutting costs, reducing headcount and suspending benefits.

We are expanding sales associates and support staff, a $5.3 million in additional spending in Q1 over the prior year of new employees in this area. We are increasing advertising, especially in our continuing to be challenged consumer business with year-over-year advertising up $3.2 million, and we are rebuilding our M&A pipeline with $2.1 million of higher acquisition-related costs in Q1, while we are maintaining all of our benefit programs, including our 401(k) match which is roughly the equivalent of $0.06 per share per quarter.

These growth investments are having the desired outcome with unit volume growth in our Construction Products Group, up 4% despite negative construction market dynamics and unit volume growth up 8% in our Performance Coatings Group, pretty remarkable in any environment. These self-help measures have been drivers of our recent results and remain critical elements of our coming success.

I'll now turn the call over to Mike Laroche to cover the financials in more detail.

Michael Laroche - *RPM International Inc - Vice President, Controller, Chief Accounting Officer*

Thank you, Frank. On slide 5, consolidated sales increased 7.4% to a record with a nice balance between organic and M&A growth. Key drivers included items Frank just mentioned, led by systems and turnkey solutions for high-performance buildings and a focus on maintenance and repair.

Q1 adjusted EBIT increased 2.9% to a record as volume growth allowed us to leverage MAP 2025 initiatives and overcome headwinds from higher raw material costs and temporary cost inefficiencies from plant consolidations. SG&A as a percentage of sales increased, it was due to higher health care costs, which was up $8.8 million over the prior year, higher M&A expense as well as investment in growth initiatives. First quarter adjusted EPS was a record $1.88 driven by adjusted EPS improvement, adjusted EBIT improvement partially offset by an increase in interest expense resulting from higher debt levels from acquisition financing.

Moving to our geographic results on slide 6. Growth was led by Europe, which benefited from acquisitions and favorable FX. North America grew 5.9%, driven by systems and turnkey solutions for high-performance buildings. Performance in emerging markets was mixed, with strength in Africa and Middle East, driven by infrastructure and other projects with pending specifications.

Segment results begin on slide 7. Construction Products Group sales increased to a record driven by systems and turnkey roofing solutions serving high-performance buildings and infrastructure projects. This was partially offset by softness in Europe, and the disaster restoration business has increased demand last year related to hurricane activity did not repeat. MAP 2025 and higher sales drove the record adjusted EBIT, which was in addition to strong growth in the prior year. This was partially offset by temporary inefficiencies from plant consolidations and SG&A growth investments.

Performance Coating Group is on slide 8. The segment achieved record sales with broad-based strength in turnkey flooring, protective coatings and specialty OEM. Acquisitions also contributed to the sales increase. Adjusted EBIT was a record driven by higher sales and MAP 2025 benefits, partially offset by growth investments and unfavorable mix. These record results were in addition to strong growth in the prior year.

On slide 9, the Consumer Group sales increased to a record as a result of the successful integration of the Pink Stuff and Ready Seal acquisitions. DIY demand remained soft, and product rationalization also had a negative impact on sales. Adjusted EBIT increased driven by acquired businesses with accretive margins and MAP 2025 benefits, which were partially offset by cost inflation, reduced fixed cost utilization from lower volumes, temporary inefficiencies from plant consolidation and increased marketing expenses.

Now I'll turn the call over to Matt, who will cover the balance sheet, cash flow and the Industrial Coatings Group.

Matthew Schlarb - *RPM International Inc - Vice President - Investor Relations*

Thank you, Mike. Two key hallmarks of our MAP 2025 program have been improved profitability and working capital efficiency. These have enabled us to enter fiscal year '26 with a strong balance sheet even after having the largest share of acquisitions in the company's history in fiscal 2025.

We utilized the strong financial position in the first quarter to acquire Ready Seal, a leader in exterior wood stains. This easy-to-use product strengthens our offerings in this category and demonstrates our focus on expanding in core and adjacent markets. Although we have increased our M&A activity, our balance sheet remains healthy with low leverage ratios and liquidity of $933 million at the end of the first quarter, which positions us to take advantage of future strategic opportunities.

During the first quarter, we also returned $82 million to shareholders through dividends and share repurchases. CapEx increased $11.7 million from the prior year, driven by growth investments, including the purchase of RPM's recently constructed Malaysia plant. Inventory increases were driven by strategic purchases to mitigate the impact of future tariffs and ensure high service levels during plant consolidations, partially offset by MAP improvements.

Now on slide 11, I would like to provide some background of business that has benefited from increased collaboration and growth investments, the Industrial Coatings Group or ICG. This business recently joined our Performance Coatings Group and sells a variety of products to multiple markets, including powder and liquid coatings for metal, high-end wood finishes, protective coatings for [pleasure], marine and recreation and wood preservation.

Several of the markets they serve have been under pressure for the past several quarters, particularly those tied to housing. ICG organically grew revenues high single digits in the first quarter despite these challenging markets. This was achieved through investments in new salespeople and improved collaboration among its businesses which has allowed it to build on its legacy of high technical service levels and customer support.

Additionally, customer-focused innovation has accelerated, thanks to investments in collaboration at RPM's Innovation Center of Excellence, which opened in 2023. The Innovation Center also allows us to better demonstrate the high performance of ICG's products to customers. Going forward, ICG has additional collaboration opportunities with other high-performance coatings companies within RPM in PCG in areas like R&D and shared service facilities. They also continue to invest in training and development of salespeople and new products to grow share in existing markets and expand into adjacent areas.

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

Russell Gordon - *RPM International Inc - Vice President, Chief Financial Officer*

Thank you, Matt. Our second quarter outlook can be found on slide 12. We expect another quarter of record sales and record adjusted EBIT led by systems and turnkey solutions serving construction projects with demanding specifications as well as the focus on repair and maintenance. Acquisitions will also benefit growth in the quarter. We have also taken actions to address two of the larger profitability headwinds we experienced in the first quarter.

First, we have taken SG&A streamlining actions, including those enabled by the structural shift from four segments to three. Secondly, we have implemented pricing actions to recover the impact of inflation, including significant increases in metal packaging and niche products produced primarily in Asia, which we expect will continue to rise in the coming quarters.

Overall, we expect consolidated sales and adjusted EBIT to both increase by mid-single digits in the quarter. By segment, consumer is expected to grow sales moderately more than PCG and CPG due to acquisitions. Moving to our full year outlook on slide 13. We expect sales to be at the high end of our previously announced low single to mid-single-digit growth range as we benefit from previous growth investments and acquired businesses.

As Frank mentioned, we are continuing these investments and, in some cases, increasing them to accelerate our pivot to growth. These investments will add to SG&A for the full year and including reallocating existing SG&A spend to the highest growth opportunities. We also expect to continue benefiting from several of the self-help measures Frank discussed.

From a macro perspective, many of the trends we experienced in the first quarter particularly those related to economic uncertainty are expected to persist through the fiscal year. Taking all this into account, we anticipate adjusted EBIT will grow towards the lower end of our previously announced outlook of high single-digit to low double-digit growth.

That concludes our prepared remarks, and we are now happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Michael Sison, Wells Fargo.

Michael Sison - *Wells Fargo Securities LLC - Senior Analyst*

Hey guys, great start to the year. I hope your investors have been as good as the [Guardians]. But Frank, just when you think about the outlook for this year and being at the lower end, how much of that was due to your investments for growth? And how much of that was maybe due to weaker demand?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So in our case, I think the investments to growth are delivering the desired outcome, higher levels of organic growth than as really being exhibited in the marketplace. I outlined in my prepared remarks about $10 million of higher year-over-year quarterly spend, $5.3 million on new hires in sales and sales associate areas, particularly at companies like Tremco Sealants, Tremco Roofing, Stonhard, the ICG businesses that Matt talked about, $2.1 million in higher M&A expense, we got a bigger pipeline.

We're starting to see some better opportunities exhibited by the recent acquisitions we've completed versus what was a pretty quiet acquisition period during our MAP initiatives and $3.2 million of higher advertising mostly in consumer despite what continues to be a challenging environment there.

And then the last area that Mike highlighted on, which was disappointing was an $8 million higher expense for health care costs in the quarter versus the prior year. So those were the primary drivers of the lack of leverage to our bottom line, $10 million of it aside from health care costs, are very deliberate and they're having the desired outcome, and you'll see that continue. The spending that we've been doing and are doing now should serve us well in the coming quarters.

Michael Sison - *Wells Fargo Securities LLC - Senior Analyst*

Got it. And a quick follow-up for the Consumer Group. The organic growth was down 3%. It feels like the industry is weaker. Do you have any thoughts on where you think industry demand is for the Consumer Group?

Is it down a little bit worse? And are you picking up share? And maybe minus-3, some evidence that your business is a little bit more stable than wall paint or the small projects? And any thoughts for kind of industry growth for Consumer Group for the rest of the year?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. I do think that our Consumer Group is outperforming the broader industry. It's a challenging environment, and it's been that way for more than 1.5 years and those challenges continue. We're picking up share in some new categories. We've introduced a low-odor water-based spray paint, which is getting new shelf space. We're picking up share in some different accounts. And we're adding meaningfully in the cleaner category.

The Pink Stuff very importantly, puts our Consumer Group into the consumer products categories of cleaners or historically, our cleaners have been all Rust-Oleum based and really hardware store, paint aisle type of cleaner. So we're very excited about that. It opens up new channels that we haven't served before, grocery, dollar stores, things like that, and it opens up new geographies. It's a global brand. And so notwithstanding the challenges in the North American consumer markets, we are leaning into finding opportunities for growth in other areas.

Michael Sison - *Wells Fargo Securities LLC - Senior Analyst*

Great, thank you.

Operator

Mike Harrison, Seaport Research Partners.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Morning Mike.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

Hi, good morning. I was hoping that maybe you could give us a little bit more detail on the increased marketing spend in the consumer segment. It sounds like -- most of that is advertising, but is there some additional promotional spend or other -- maybe other categories of marketing? And can you also get into any specific product lines that have been a focus of that additional advertising or promotional spend?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So it's been higher advertising versus the past disproportionately more social media, e-commerce as opposed to TV advertising. We have focused a larger share, as you would imagine, in the cleaners category and part of it is the Pink Stuff spend as well. And so those are the principal areas where you're seeing higher spend in the consumer area and advertising.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

Right. And just to clarify there, the additional spend associated with Pink Stuff, is that just an acquisition contribution? Or are you expanding advertising beyond what Pink Stuff brought just as an acquisition?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

It is both.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

Got it. Okay. And then my second question is, I was hoping that you could help in understanding the impact of manufacturing inefficiencies. I don't know if there's a way to quantify that impact from plant consolidation in Q1. But I believe you called that out in Q4 as well.

And I'm just curious, can you help us understand if that's increased versus Q4? And as we look at Q2, should the inefficiencies impact decline a little bit? Or could it worsen? Just helping us understand that trend, I think, would be very helpful. Thank you.

Russell Gordon - *RPM International Inc - Vice President, Chief Financial Officer*

Yeah, hi Mike, it's Rusty here. To answer your question, yes, we do have six plant consolidations and process. So there is some duplicative costs as we transition from one facility to another. So during the first quarter, there is about $10 million of unfavorable year-over-year conversion costs and unfavorable absorption that occurred. And we would continue to experience those, we believe, in the second quarter as the consolidations continue.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

I'll just add a little color to that one example. Tremco's previously largest North American manufacturing facility was in Toronto. 30 years ago, we were in the sticks, but as Toronto grew up, we became surrounded by residential and so really (inaudible) forced out of there, sold that building with a five-year window to get out.

And so we are in the process of transferring that manufacturing from the Toronto facility to other parts of the US. And it's increasing inventory investment as we shift from Toronto to three other sites actually in North America. And also, as Rusty mentioned, some duplicative costs. So there's a couple of other plants like that, but that's the biggest example.

Michael Harrison - *Seaport Global Securities LLC - Analyst*

Very helpful. Thank you.

Operator

John McNulty, BMO Capital Markets.

John Mcnulty - *Bank of Montreal - Analyst*

Yeah, thanks for taking my question. Morning, Frank. So a question on the top line. The organic growth in Construction & Performance was really kind of stand out. And you gave a little bit of color on it, but can you drill down into some of the subsectors or end markets that are really driving that.

And then how does the backlog look going forward for those respective businesses? Because it does seem like maybe on the guide, you're a little bit more conservative than the numbers that you just put up in those businesses.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. As I mentioned, we are leaning forward very aggressively in terms of expanding sales forces and sales associates. So in construction products, some of it's along some of the product lines we've added, and Tremco Roofing continue to see a solid backlog in terms of their reroofing, institutional roofing projects.

But we acquired Pure Air a couple of years ago. It took us quite a while to get certified in every state and really train up our sales force on that refurbishment of big industrial and commercial HVAC units. We're starting to see sales take off in that category. WTI, which is our contracting, both repair and maintenance and then actually doing the whole supply and apply of major reroofing projects has grown actually faster than our material sales.

It's a negative to our gross profit mix, but a positive to overall profitability and growth. So those are the areas there. In our Tremco Sealants business, our (inaudible) and construction products are driving a one Tremco approach. So we are starting to see sales reps both in sealants and roofing benefit each other with referrals.

And then lastly, in Tremco Sealants, we are pursuing a much more aggressive approach to the entire wall. If you go back 15 years ago, we were selling gaskets and wet sealants into windows and door openings. Today, we're selling much a bigger portion of the sidewall building envelope, panelization, panelized EIFS, the ICF Nudura.

And so that is helping our sales as well as we are getting a bigger share of wallet of a wall system versus those higher-end niche sealant products that were the tradition. I'll tell you one great example of that, 10 years ago, Tremco Sealants was about 40% project based, in other words, project specifications and about a 60% traditional distribution.

So basically, our sealants, Vulkem and other things being sold into commercial and industrial and some residential markets through distribution. Today, we are 60% project-based and only 40% distribution. That distribution is where the impact of pretty punky construction markets dynamics is being felt and it's being more than overcome by project specifications that we're driving today and really a flip of that project versus distribution model.

John Mcnulty - *Bank of Montreal - Analyst*

Got it. Okay. No, that's helpful. And the Performance Coatings Group, I guess, the same question because it does seem like that one, the organic growth really kind of spiked up there.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So our Stonhard business has been very aggressive in both efficiencies and hiring salespeople to drive greater sales, and it's been effective. And that's been the purest play add sales reps effectively modeled within RPM over the last couple of years. Our Industrial Coatings Group is really outperforming, part of it is a couple of years of underperformance because of how much they do that touches housing, so windows, doors, cabinets, things like that.

But traditionally, whether powder coatings, metal coatings, we have played in the small to medium-sized, low volume, high service areas. And we have been adding salespeople and capabilities to start competing and winning larger accounts. For instance, this past year, it's the first time we have ever sold project to John Deere. And so we are starting to move upstream and competing effectively in some of the larger accounts, and you can see that in our numbers as well.

John Mcnulty - *Bank of Montreal - Analyst*

Got it. Thanks very much for the color.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you.

Operator

David Begleiter, Deutsche bank.

David Begleiter - *Deutsche Bank AG - Analyst*

Thank you, good morning.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, David.

David Begleiter - *Deutsche Bank AG - Analyst*

Frank, just looking at the guidance back in July versus today with the full year, what's changed to cause you to go to the lower end of that range versus your assumptions back in July?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So a couple of things. One, we continue to see challenging dynamics in the gross profit margin. We held up our gross profit margin in Q1, but some of that's mix. In Consumer, we've got a higher gross margin mix out of the Pink Stuff, for instance. And so the uncertainty around tariffs remains.

We knew we were going to be making and have been making these investments in growth. I think the biggest surprise to us in the quarter was the health care cost increase. That's driven by a couple of particular high-cost cases. And also, the fact in the first six months, we've had about a $6 million.

This is six months now in that quarter over the last six months, a $6 million higher increase for coverage in a lot of these weight loss drugs. And so I would say one-third of that $8 million in the quarter is more permanent with these higher weight loss drug costs and two-third was hopefully, onetime related to some extraordinary expense. So that was the biggest challenge that we saw in the quarter.

David Begleiter - *Deutsche Bank AG - Analyst*

Very helpful. And just on pricing, not the critical here, but could you raise prices earlier to account for the tariff cost increases? Or are you satisfied with the timing of these price increases? Thank you.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

It would have been nice to raise prices earlier. The challenge with this tariff regime is it's on again, off again. And so we had reached agreement, for instance, in consumer with some of our larger accounts on price increases, if and when the tariff impacts occurred. And so sorting through -- the impact of tariffs is a challenge for everybody.

As we sit here today and it's subject to change from one week to the next, the total unmitigated impact of tariffs on RPM is about $90 million or $95 million. We have effectively offset about half of that both through production shifts and pricing and agreements with suppliers, for instance, that might share costs.

Our biggest tariff-related impacts remain in our Consumer Group. It's disproportionately in packaging and frustratingly in metal packaging, where it's really not the tariff impact directly, it's the domestic steel producers that have raised their price in line with the tariff regimen.

So those are the big challenges. Price in the quarter was about 0.5% on a consolidated basis. It should be somewhat higher in Q2, but inflation is likely to be higher in Q2 because we'll start to see the full impact of the tariff regime in Q2 versus where we were in Q4, Q1.

David Begleiter - *Deutsche Bank AG - Analyst*

That's great. Thank you very much.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you.

Operator

Patrick Cunningham, Citi.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning.

Patrick Cunningham - *Citibank Cameroon SA - Analyst*

Yeah, good morning. I think you guys have had a pretty strong focus on pulling some working capital out of this business, but you noted some offset this quarter from strategic inventories purchases. What did you stack up on and why?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So we've stocked up on some of our construction products and in particular, Tremco Sealant products as we make this transition from what was previously the largest Sealants plant in North America in Toronto, two, three other plants in the US.

We have stocked up in the consumer space in some areas of new products. And in some raw material categories, and this has been true both to our benefit and to our detriment, we stocked up on some key raw materials like epoxy in front of some tariff price increases.

Patrick Cunningham - *Citibank Cameroon SA - Analyst*

Understood. And then maybe just related on the price increases. How should we think about the shape of realization consumer? And is there more sort of regular structural price that you're getting across the other two businesses at this point?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So again, price in the quarter was less than 1%. And in Q2, I would expect it to be in the 2% range. We're getting price finally in some of our consumer groups, again, appropriately related to packaging costs, which continue to increase, and we will monitor it as this tariff regime continues to be modified.

Patrick Cunningham - *Citibank Cameroon SA - Analyst*

Very helpful. Thank you so much.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you.

Operator

Josh Spector, UBS.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Josh.

Lucas Beaumont - *UBS AG - Analyst*

Good morning. This is Lucas Beaumont on for Josh. So I guess just kind of coming into the view was that RPM had sort of already scaled up from a cost perspective, so that as you could get to much higher sales that would drive incremental margin uplift on those with like less cost growth on the SG&A side.

So I was just wondering if you kind of think that view is sort of incorrect or just sort of where are the cost investments going now that's different and then how should we think about the volume leverage that are coming through as we move forward from here? Thanks.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So first of all, historically, that's not correct. During the MAP initiatives, we were able to reduce our SG&A on a consolidated basis over the cycle, probably by 150 basis points. It was actually lower than that during COVID, but it was unsustainably low relative to no travel and a lot of cutback expenses during that time. So it's back up some but improved from where it was when we started the MAP initiative.

We had commented about $15 million of personnel-related expense reductions across three different areas. Part of it was the consolidation of our Specialty Products Group into the Performance Coatings Group and then also in consumer. We have reallocated probably half of that into sales and marketing.

And so as Rusty mentioned, we have a very deliberate focus on (inaudible) trying to drive efficiencies, continuing the efficiency drives from our MAP initiatives, particularly in G&A, as we have shrunk the number of ERPs and shrunk a number of places where we close the books from an accounting perspective every month, we have offshored some of those expenses to a shared service center in India.

But we are not putting all of those dollars on our bottom line. We are reallocating those to more salespeople, more advertising, really trying to drive best practices in e-commerce across our businesses. We tend to have our strongest teams in consumer, and we need to drive those disciplines into our industrial businesses.

So there is a real pivot to growth here, which is challenging our businesses in an area of capital allocation. This is not high-level balance sheet capital allocation. This is how are you spending your dollars in SG&A to drive growth.

Lucas Beaumont - *UBS AG - Analyst*

Great, thanks. And then I guess just on the raw materials side, I guess, what's your sort of updated outlook there for inflation over the balance of the year. And between that and I guess, the investment in the higher cost on the SG&A side, if you could kind of just put it all together for us and tell us how you're thinking about net gross costs as [the year] progresses. Thanks.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. For the quarter, material inflation was about 1% on a consolidated basis. We anticipate it being up to about 2% to 3% in Q2, and it's disproportionately in consumer.

Lucas Beaumont - *UBS AG - Analyst*

Right, thank you.

Operator

John Roberts, Mizuho.

John Roberts - *Mizuho Securities USA LLC - Analyst*

Thank you. Morning. Will there be a public new three-year plan and should we think about an aggregate it being similar earnings impact to the MAP 2.0 plan?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So the answer to that is yes. We will probably be coming out with something public in the spring or summer of next year. As you know, we reorganized from four-group structure to three groups. We announced that in July. We have some leadership changes that will be forthcoming in the next couple of months.

So in conjunction with those changes and quite candidly, to wait out what's been a crazy environment of uncertainty around these tariff regimes and certainty around where broadly, things are going is difficult. We'll be in a better position to put out publicly a new three-year plan next year. We are working internally on what we call MAP 3.0, but it's not ready for public prime time yet.

John Roberts - *Mizuho Securities USA LLC - Analyst*

Okay. And I think you had a consumer initiative to enter the dollar stores and supermarkets. How is that going?

Matthew Schlarb - *RPM International Inc - Vice President - Investor Relations*

No, it's going well. Like Frank talked about, there's a real push to go into these adjacent categories and go into stores where we historically have not had a big presence. And with dollar stores, there's such a large footprint. So some of our companies have actually modified the packaging of their products so that they can get into those stores. And so we're seeing nice traction there.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So DAP in particular, has come out with some smaller size caulk sealant adhesive and repair products, had a really nice program there. And we're also seeing with the Pink Stuff opportunities to have discussions with retailers, for instance, in grocery and/or big drug store chains that traditionally we didn't have much of a relationship with.

John Roberts - *Mizuho Securities USA LLC - Analyst*

Thank you.

Operator

Frank Mitsch, Fermium Research.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Morning, Frank.

Frank Mitsch - *Fermium Research LLC - Analyst*

Hey, good morning, Frank, to you as well. I just want to come back to DIY, suggesting that the softness and it's been an extended two-year-plus period of softness there. What -- and you're spending some money on advertising, what are your thoughts on at least a flattening out or a rebound to take place in terms of DIY takeaway?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

I appreciate the question. This pivot to growth is in anticipation of what we feel like will be some improved financial numbers as we get into the spring and summer of next year. If for no other reason, then we are annualizing two years of negative consumer takeaway in this space.

And so you're getting down to levels, whether it's in architectural paint, which we don't play in or some of the spaces that we do that are unit volumes that are pre-COVID. And that some smart new products and I think some improvement in the housing market, which will happen with further interest rate cuts.

Remember, a housing turnover is a big driver for our Consumer Group. Typically, people fix up their homes before they sell it and then the new buyer turns around, redecorates it. We are in a 40-year low for housing turnover. And so both the easier comps and improving interest rate environment, we anticipate will finally result in better dynamics in the spring and summer of next year, and we are doing what we can to lean into it.

Frank Mitsch - *Fermium Research LLC - Analyst*

Very helpful. And just speaking more near term, we've got the month of September under our belt, how would you compare the typical August to September this year relative to what you've typically seen historically?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. In the pivot to growth, we are accomplishing what we set out to do. And the numbers are really solid. And except for the extraordinary health care expense, I would expect our second quarter to look like our first quarter.

Frank Mitsch - *Fermium Research LLC - Analyst*

Terrific. Thank you so much.

Operator

Kevin McCarthy, Vertical Research Partners.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Kevin.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Good morning, everyone. Frank, would you elaborate on the expansion of your sales force. From my side, a few of the things I'm curious about is where in the company you're adding, if it's concentrated in any particular businesses? How many people do you plan to add, is the $5.3 million pace of expense you alluded to, likely to be steady or increase or decrease?

And finally, I imagine on day one it's not profitable, right, to add a salesperson, but over time, productivity increases, and they cross through and become profitable. What is that amount of time? Do you have a rule of thumb there to think about?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. I appreciate the question. So as an example in our Tremco Roofing business, we have new hires in their sales training program. They are essentially apprentices for year one, they work under the tutelage of an experienced rep in year two and in year three, they're on their own. By year five, we have about a 30% turnover.

And so that's the dynamic there. So we're expanding those training classes. So that's a payoff that will come, but that's been going on for the last couple of years. And so you're starting to see some benefits there. In both our Stonhard businesses and in Tremco Roofing, we are starting to add -- that's why I made it clear.

It's not just salespeople, but sales support staff. We are adding support staff to better manage the contracts that we're taking where we apply or we have the supply and apply model. And some of our sales reps were being tied up with the dynamics of overseeing projects. And to the extent that we've been adding experienced people in project management, it frees up our good sales reps and sell more. And so those are examples of the areas where we've been adding people.

Lastly, the effort starting under Ronnie Holman's leadership, Johnny Green, who runs our ICG, the Industrial Coatings Group was pulled together of a bunch of different relatively independent RPM businesses that did industrial or OEM metal coatings and wood finishes for wood repair products or wood preservative products.

And under the ICG, they have been pulled together and are cooperating and, in some cases, being coordinated more as a unit. So we can go to large accounts and deliver powder and liquid coatings in a more thoughtful, straightforward approach as opposed to having different approaches from different operating companies. So it's really been the integration of the sales approach in the ICG that's helping us. And it's well designed, it's being well executed, and you can see it in our numbers.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Appreciate all the color there. And as a follow-up, if we take into account these new investments as well as the other ones that you alluded to on the call, how would you characterize the likely increase in total company SG&A expense this year?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Well, I don't -- the $10 million that I referred to in terms of higher advertising, higher selling and higher M&A costs probably extend quarter-by-quarter, the health care costs and costs we'll see. And we need to get to the point where we can leverage this big investment into higher sales growth.

Quite honestly, with a few exceptions, we're accomplishing what we need to do on the top line and bottom line in our Performance Coatings Group and Construction Products Group, and you'll see that. We need consumer after two challenging two years to start generating positive organic growth in the top line and bottom line. It's not unique to us. I think we're outperforming the dynamics in the marketplace, but nobody here is happy with another quarter of negative organic growth in consumer.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Okay, thank you very much.

Operator

Jeff Zekauskas, JPMorgan.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Jeff.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Hi, good morning. Can you talk about how the Pink Stuff did on a pro forma basis? And is your roofing business -- is demand for roofing accelerating or decelerating in the current environment?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So I'll let Matt address the Pink Stuff question. But on the roofing business, we're seeing higher revenue growth in roofing. Again, some of its ancillary product areas like Pure Air, which is the refurbishment of big HVAC units the disruption and cost of getting cranes to get big air handling units off of hospitals or high-rises in downtown settings, very disruptive, very costly to put in a new unit, and we acquired this business.

We've developed it out over the last 2.5 years and a 25% or 30% of the cost of new can refurbish something that dramatically improves air quality, dramatically improves operating efficiency and extensive useful life anywhere from five to 10 years. And we are starting to see those revenues pick up. And so they're reflected in our Roofing division. So that's just one example.

Matthew Schlarb - *RPM International Inc - Vice President - Investor Relations*

Yes. And then with the Pink Stuff, we've had it for a little over a quarter as part of RPM and the integration is going as expected. We mentioned that it's been accretive to margins or M&A has been, and certainly, the Pink Stuff is a contributing factor.

And like Frank talked about, we're taking the advertising that they did and inherited that. And then we're increasing our marketing in that area to grow the sales there and then also leveraging their presence in these different categories and [sales channels] where we traditionally haven't been as large.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So organizationally, we're doing one more thing, which is in the early stages. We had about a $50 million, $60 million cleaning -- collection of cleaning products within Rust-Oleum. And within our Consumer Group now, we have a cleaning group, which includes the Pink Stuff and those previously driven by Rust-Oleum cleaning product categories, including Mean Green and the new patented two container packaging that we put out.

And so we're taking a more comprehensive approach to cleaning than what we had done in the past. And in terms of growth, it's the right way to go. The broad cleaners category is $12 billion to $15 billion in the United States. It's probably larger than the serviceable addressable market in the

US that exists for small project [paint and patch] repair products, which has been our core for a long time. So we're really excited about it, but we're reorganizing internally to better be focused on that cleaning category area.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

And then to go back to SG&A expense. Even if your health care costs for the quarter increased zero, your SG&A would have been up 10%. So is it an accumulation of acquisitions, spending and infrastructure. Like last year, your SG&A expense was basically flat. Why has there been such a jump? And maybe to repeat Kevin's question, like where should that grow to in 2026?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So broadly speaking, there's three areas that are driving SG&A higher. One is acquisitions in both the Pink Stuff and Ready Seal. We have higher gross margins and higher SG&A spend, so a different P&L. So that's just a mix effect and the health care costs we talked about and then the $10 million in growth investments in the quarter, which I think is in pretty sharp contrast to peers that are cutting costs and suspending payments.

And we believe it's the right thing to do to trigger organic growth in what's in a very frustrating no-growth environment for most of the manufacturing for almost two years. So far, it's working, and we will continue to push those levers if it keeps driving an outperformance in organic growth.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Thank you.

Operator

Aleksey Yefremov, KeyBanc Capital Markets.

Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Thanks, good morning, everyone. Just wanted to go back to your sort of [growth algorithm]. So let's say, this year, your guidance for mid-single-digit sales growth and then high single-digit EBIT. Should we look at this as a normal year? Or is this a year where you have these temporary challenges, investments et cetera, such that in a more normal growth or maybe high incremental margins and your EBIT would grow more than high single digit.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So I do not think of this as a normal year. I talked about the uncertainty of the tariff regime and what it's done to the cost in raw materials and its stall broadly on big capital investment decisions of our customer base. And the inflation element, it's still in the SG&A areas. You're looking at underlying inflation of compensation in the 2.5% to 3% range.

So it's challenging. In a normal environment, and I'm not sure when we'll see that 7% revenue growth should be spinning out mid-teens earnings growth. And so is the lack of leverage to the bottom line, somewhat disappointing, yes. But I think time will tell. Some of our peers are going to be putting up flat or no growth, and you're going to see flat or declining EBIT margins.

When the [worm turns], we want to be in a position to outperform. And it's not just strategic thinking today. I can tell you in some of our industrial businesses, going back to the early 2000s, we overcooked expense cuts coming out of the 2000, 2001 recession and took 12 or 18 months to catch up when the markets turn positive. And we want to be in a better position today, and that's how we're thinking. Obviously, if we wake up in 2026 and the world is a worst place than it is today, we can take appropriate action if necessary.

Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Thanks Frank. And then in Consumer, are you still intending to raise prices to sort of reflect raw materials environment? Or are you fully [caught up] after what you're planning to do in Q2?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

We have a level of price increases that were enacted at the end of Q1, which will benefit Q2 in consumer.

Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Okay, thanks

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you.

Operator

(Operator Instructions)

Arun Viswanathan, RBC Capital Markets.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Morning, Arun.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Good morning, Frank. Thanks for taking my question. Hope you're well. So I guess two questions for me. So first off, I think you mentioned a $90 million to $95 million unmitigated impact from tax tariffs. Could you just walk through that?

Is that maybe 10% or 20% of your raw materials bucket that you saw elsewhere that's, say, up 30% to 50% or something? And that's how you calculate that. And then the actions you've taken, are you resourcing from other locations? Is that correct on the tariff question?

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So I don't know off the top of my head, somebody will have to do the math for me in terms of the percent. But I can tell you that the three areas that we've had success in mitigating in some cases with certain suppliers. We have worked to understand the true cost and then we have agreed to split it, and so essentially sharing the pain. In certain cases, we have passed on price to our customers.

And in other cases, we have shifted production. So an example of production shift. Most of the Pink Stuff paste which is their iconic cleaning product that they really were founded with, which is produced in the UK, we have taken action to ship production of that to one of our US consumer plants to serve the consumer market.

Unrelated but helping us is the shift from Toronto, the Tremco Sealant plant into the US although some USMCA is helping us between business in Canada and the US Mexico, again, it's complicated to figure out how that works. And then we have not fully offset all of the tariff impacts, as I indicated. About half of it has been mitigated, and we are working on the other half.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Okay, thanks for that. And then just on the M&A front, I think you may have noted that fiscal '25 was one of your most active years, if not the most active year on that front. So I guess what are you seeing there? What's your kind of appetite to take leverage higher for the right property? And would that be mostly in PCG and CPG? Or where are you finding -- or is maybe consumer and cleaning or where are you finding opportunities? Thanks.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

So we've spent $600 million in the last five months, and it's all been a consumer between Ready Seal and Pink Stuff. And again, it's been a thoughtful approach to saying, all right, where are new categories where we can drive new growth. We have done a number of smaller product lines in our Construction Products Group. They've been very strategic as it relates to the building envelope and looking at different product categories that they would like to be in that they're not.

So we have grown our market share and expansion joints for heavy industry and/or commercial. We've expanded market share in certain fireproofing and fire stopping product lines. And they've been small acquisitions but the opportunity to take a $5 million product line and turn it into a $15 million or $20 million product line with our distribution and our sales force is pretty exciting for us.

I will tell you that one of the benefits of the MAP to Growth initiative that I hope people appreciate. For a long time, we operated -- I'm talking 20-plus years with a debt-to-EBITDA ratio of 2.5% to 3%. And because of the stability of RPM still maintained an investment-grade rating, we just completed $600 million of debt-funded acquisitions and our debt to EBITDA is about 1.8% (sic – "1.8 times").

And so the benefits of the MAP initiative in terms of cash flow and profitability improvement -- I'm sorry, 1.8 times, not 1.8%. And so the benefits of the MAP initiatives are really part of our cash flow and our credit metrics as well. And so we've got plenty of dry powder to do acquisitions. The last comment I'll make is [PE] seems to be not as active. They seem to be more on the sell side and they're trying to raise a new fund side as opposed to being as aggressive in the acquisition market. So we're seeing deal flow at two or three multiple turns below where it was at the peak.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Thanks.

Operator

This Concludes our question-and-answer session. I would like to turn the conference back over to RPM's Chairman and CEO, Frank Sullivan for any closing remarks.

Frank Sullivan - *RPM International Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you. I want to conclude with a comment about what's happening societally today and in relationship to my reference to 401(k). To a certain extent, there is a battle for the soul of what drives the economy in the US with a younger generation that starts to think maybe socialism is better than capitalism and that could not be further from the truth.

In fact, the American form of capitalism over the last 200 years has brought more people out of poverty in our country and the world, has generated more wealth across generations, across ethnic groups, gender, you name it and has done more to spur innovation in technology, medicine, entertainment, despite all its flaws in any other system. I mentioned that because business has to be smart.

When companies defer benefit payments that are long-term investments in the stability and security of our associates retirement to meet near-term earnings per share pressure that we all have, you're feeding that narrative. Private equity right now is working to open up $2 trillion worth of 401(k) assets to an asset class that because of its past success and its growth has average returns now that are not much better than what the broader market provides, but with a dramatically higher fee structure and liquidity, neither of which will work well in retirement plans like 401(k).

And so, I say that because the CEOs that matter, the Brian Moynihan, Jamie Diamonds, Jeff Bezos, Mark Zuckerberg, Doug Mcmillon need to be pounding the table in support of American capitalism. The alternative will not be good for anybody and need to provide examples of how American capitalism can create value for everybody, and we have to not feed the narrative out there that socialism might be a better model.

And I appreciate the opportunity to provide that perspective. Our second quarter will look much like our first quarter, couldn't be more proud of the RPM associates that have effectively executed on a pivot to growth in a continuing no-growth environment. We appreciate your time on the call today and look forward to welcoming any and all of you to the RPM Annual Meeting of Stockholders tomorrow at 1:30 Eastern Time. Thank you and have a great day.

Operator

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