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RPM.N - Q2 2026 RPM International Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESERVATION

Operator

Good day and welcome to the RPM International fiscal second quarter 2026 earnings conference call. (Operator Instructions) 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, Betsy, and welcome to RPM International's conference call for the fiscal 2026 second quarter. Today's call is being recorded. Joining today's caller Frank Sullivan, RPM's Chair and CEO; Rusty Gordon, Vice President and Chief Financial Officer; and Michael Laroche, Vice President, Comptroller, and Chief Accounting Officer. The call is also being webcast and can be accessed live or replayed on the RPM website at www.rpminc.com.

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

JANUARY 08, 2026 / 3:00PM, RPM.N - Q2 2026 RPM International Inc Earnings Call

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, the most directly comparable GAAP financial measures on the RPM website.

Also, please note that our comments are on an as adjusted basis and all comparisons were made to the second quarter of fiscal 2025 unless otherwise indicated. We have provided a supplemental slide presentation to support our comments on this call. It can be accessed in the presentations and webcast section of the RPM website at www.rpminc.com.

As a reminder, certain businesses that were 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. There's no impact on consolidated results. Now, I will turn the call over to Frank.

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

Thank you, Matt. Today, I will begin with an overview of our results and cover some recent actions we've taken. Followed by Mike Laroche who will cover the financials in more detail.

Matt will then provide an update on cash flow, the balance sheet, and a recent acquisition. And then Rusty Gordon will conclude our prepared remarks with our outlook. As always, we'll be happy to answer your questions after our prepared remarks.

Beginning on slide 3, we achieved record sales during the second quarter, aided by our targeted growth investments. However, momentum slowed as the quarter progressed.

We began the quarter with a solid September, actually better on the top-line and bottom line than our first quarter results. Then the trend of longer construction project lead times became more pronounced and DIY demand softened, particularly in late October and through November, resulting in sales declines for those months.

The government shutdown contributed to this slowdown as we saw activity in certain construction sectors tied to government funding come to a near standstill and consumer confidence declined. All segments generated positive sales growth for the quarter.

However, this was not enough to offset higher expenses, including growth investments and costs from temporary inefficiencies, as we continue to consolidate plant and warehouse facilities, resulting in a decline in margins in the quarter.

To better align our SG&A structure with current market demand, we are acting quickly to execute optimization actions across the organization. In many ways, this is an acceleration of the SG&A structural realignment we have been preparing as part of a new MAP 3.0 program.

Importantly, we also continue to have focused investment in our highest growth opportunities and on the following slide are some details about what we're doing.

Turning to slide, we estimate that once fully implemented, our optimization actions will yield an annual benefit of approximately \$100 million. We will realize \$5 million of the benefits in the third quarter with an incremental \$20 million in the fourth quarter, with the remaining \$75 million in fiscal 2027.

As we are currently in the process of implementing these changes, we have an estimate of the implementation cost by the time of our next earnings call in April.

We're also continuing our focused investments in areas where we have seen good returns and have opportunities for continuing growth. These include high-performance buildings, business intelligence, and innovation.

JANUARY 08, 2026 / 3:00PM, RPM.N - Q2 2026 RPM International Inc Earnings Call

For high performance buildings, we are expanding our technical sales force in areas like turnkey roofing and enhancing our system offering through acquisitions.

As an example, we purchased an expansion floor joints company HCJ and Fiscal 2025, which along with our other complementary RPM products, enables us to meet the demanding requirements of high-performance floors.

We expect additional acquisitions to expand our system offerings similar to the recently announced agreement to acquire Kalzip, which Matt will speak to in a few minutes.

We're also investing in improved business intelligence. This includes capitalizing on the pink Stuff's expertise and leveraging data to develop targeted marketing campaigns across multiple RPM businesses.

Additionally, following several years of ERP integrations, we have been investing in business intelligence to better utilize data company-wide. It is helping to guide decisions and actions in areas such as marketing, pricing, and operations.

Finally, innovation has been a core element of RPM's historical growth, and through investments in people and facilities like our innovation Centre of Excellence, we have enhanced our product offering across our segments.

One example is AlphaGard Puma, which is leading waterproofing technology and can be installed at temperatures as low as 20 °F.

Another example is [Yo] Tilt WB. It is a newly introduced water-based bond breaker that provides a clean separation of panels, along with other benefits in the growing tilt-up construction market.

In summary, we are accelerating actions to optimize SG&A levels in response to soft market conditions while remaining focused on supporting our best growth opportunities. With our growth investments and the quality of our people, we remain well positioned to continue outpacing our markets, particularly as markets rebound.

Lastly, in addition to the actions we announced today, we are in the process of developing our MAP 3.0 program and expect to provide details at an investor day event after the conclusion of our 2026 fiscal year. I will now turn the call over to Mike Laroche to cover the financials.

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

Thank you, Frank. On slide 5, consolidated sales increased 3.5% to a record driven by acquisitions and engineered solutions for high performance buildings, partially offset by continued DIY softness and longer construction project lead times, partially due to the government shutdown.

Adjusted EBIT decline as topline growth and MAP 2025 benefits were more than offset by higher SG&A expenses from growth initiatives, M&A deal costs, healthcare, and temporary inefficiencies from plant and warehouse facility consolidations.

Adjusted EPS declined, driven by lower adjusted EBIT and higher interest expense resulting from higher debt levels to finance M&A activity.

Geographic results are on slide 6, with Europe the fastest growing region driven by M&A and FX. North America grew approximately 2% as an increase in high-performance building solutions was partially offset by soft demand in DIY and in Canada.

In emerging markets, growth was led by Africa and the Middle East as they continued to have success serving high performance building and infrastructure projects.

Moving to slide 7, construction products group sales grew to a record led by solutions for high-performance buildings.

Project lead times lengthened as the quarter progressed, driven by the extended government shutdown. Additionally, weak sales in the disaster restoration business due to lower storm activity this year was a drag on growth.

SG&A growth investments, temporary inefficiencies from plant consolidations, and lower fixed cost absorption of businesses with volume declines more than offset map 2025 benefits and led to a decline in adjusted EBIT.

Next on slide 8, performance coding's Group achieved record sales with broad-based growth across its businesses. Acquisitions also contributed to the growth. Adjusted EBIT was approximately flat as higher sales and MAP 2025 benefits were offset by growth investments and unfavourable mix. Consumer group results are on slide 9.

M&A and pricing to recover inflation drove the sales growth as volumes declined due to soft DIY demand, particularly in November. Additionally, some sales were delayed as a result of software system implementations and the transition to a shared distribution centre in Europe. Continued product rationalization also negatively impacted sales.

Adjusted EBIT declined due to lower volumes, temporary inefficiencies from footprint consolidation, and startup of the shared distribution centre in Europe. Additionally, lower demand of the color group also weighed on margins.

In our cleaners business, the integration of the Star Brands Group, the parent of the pink stuff, remains on track. However, we reversed a \$12.7 million liability associated with an earnout for this acquisition. This earnout liability was originally calculated based on a probability weighted sales forecast and much of the value is driven by more aggressive sales scenarios.

Current forecasts are more in line with our base case assumptions, and the aggressive targets needed to achieve the earnout are unlikely to be met, which is driving the reversal. This \$12.7 million gain has been excluded from our adjusted EBIT.

Now, I will turn the call over to Matt, who will cover the balance sheet and cash flow.

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

Thank you, Mike. Starting with cash flow from operations on slide 10, it was up \$66.3 million in the second quarter compared to the prior year, with the increase attributable to improved working capital efficiency. This is the second highest second quarter in the company's history and helped us pay down \$127 million in debt in the first half of the year.

And that's in addition to returning \$169 million to shareholders through dividends and share repurchases and spending \$162 million on acquisitions. We are proud that in October we increased our dividend for the 52nd consecutive year.

This is a testament to our steady cash flow and our strategically balanced business model and focus on maintenance and repair. Liquidity remains strong at \$1.1 billion and combined with a strong balance sheet, we have a high level of flexibility in capital allocation decisions.

As an example, yesterday we announced an agreement to acquire a company that will strengthen our system's offering for high performance buildings that Frank discussed earlier. Turning to slide 11, you'll see more information on the agreement to acquire Kalzip.

They are a German-based leader in metal-based roofing and facades, which is a fast-growing part of the construction market because of their durability, lower maintenance, and high performance.

The incorporation of Kalzip products into our existing offerings will strengthen CPG's ability to provide building envelope systems that enhance efficiency, durability, and aesthetics, while also meeting or exceeding demanding specifications.

The company had calendar year 2024 sales of approximately EUR75 million and the acquisition is expected to close in the fiscal fourth quarter of 2026. Now I would 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 outlook for the third quarter can be found on slide 12. Market conditions are expected to remain sluggish with soft DIY demand and continued longer lead times for construction projects.

We are encouraged to see that construction pipelines remain solid, although visibility of when this pipeline converts to actual construction activity remains unclear.

Despite these macro challenges, we expect to outgrow our underlying markets thanks to the targeted growth investments we have been making.

We will also benefit from the implementation of SG&A-focused optimization actions as Frank mentioned. Although in the third quarter, that will be offset by continued healthcare inflation and M&A deal expenses. Overall, we expect consolidated sales to increase by mid-single-digits in the quarter.

By segment, consumer expected to grow sales moderately more than PCG and CPG due to acquisitions. We anticipate adjusted EBITs will grow mid to high single-digits during the quarter.

Moving to our fourth quarter outlook on slide 13, we expect sales to grow in the mid-single-digit range. With our solid construction project pipeline, we expect some of the projects that were re Be delayed to convert into activity by the end of the year.

Also, if weather delays some projects from the third quarter, as we saw last year, we expect most of these to be realized in the fourth quarter.

We will continue to benefit from acquisitions and the targeted growth investments we have been making, along with our resilient repair and maintenance focus and ability to sell engineered systems and solutions to high performance buildings.

In the fourth quarter, we'll also see more of the incremental benefit from the SG&A focused actions that we are currently implementing and should more than offset higher healthcare and M&A deal expenses. Taking all of this into account, we anticipate adjusted EBIT in the fourth quarter will be up low to high single-digits with volume growth being the key variable.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ghansham Panjabi, Baird.

Ghansham Panjabi - *Robert W. Baird & Co Inc - Senior Research Analyst*

Hey guys, good morning and Happy New Year. Good morning, Frank.

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

Happy New Year.

Ghansham Panjabi - *Robert W. Baird & Co Inc - Senior Research Analyst*

Yes. Thank you. So I guess, starting off with maybe slide 3 where you have the organic sales breakdown, during the quarter. I know it can vary quite a bit, on a monthly basis depending on comps, etc. But could you give us a bit more color as to how the businesses specifically performed, the three operating segments was trying to get a sense as to whether the deterioration was specific to construction and then also consumer or the, performance also getting impacted.

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

Sure, so if you look at, this is kind of unique, and I don't expect us to do this, very often in the future, but, when we provided guidance on our last investor call, the latest information we had was in September, and the unique element is talking about months which we are in this call, actually in September, we saw margin improvement and solid growth at the construction products group and the performance coding's group.

And some continued weakness which has been pretty prevalent across the whole peer group and consumer. Pretty much across the board, as we got into the back half of October and into November, we saw deterioration across all three of our segments.

Ghansham Panjabi - *Robert W. Baird & Co Inc - Senior Research Analyst*

Got you, and then in terms of the \$100 million, SG&A, initiative that you outlined, how much of that should we assume is, temporary versus permanent? And is that just a reappropriation of spending relative to the previous growth investments? I'm just trying to get a sense as to whether you've curtailed some of those growth investments as well, just given the change in the operating conditions.

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

Sure, as we, we've been working on a new, MAP 3.0, not sure what we're going to call it yet, and, like a lot of folks have kind of.

Put off, longer-term forecasts in the midst of all the tariff disruptions and other elements. It's our expectation regardless of where the markets are that we would, provide details, this summer, whether it's on our July call or perhaps an Investor Day. So, we have been preparing for that with our leadership team and our Board.

So to a certain extent, the disappointing kind of market, downturn which is hopefully temporary. Accelerated some of our thinking there. The \$100 million is roughly \$70 million in personnel related risk, across the globe and about \$30 million, in discretionary, expense reductions.

Ghansham Panjabi - *Robert W. Baird & Co Inc - Senior Research Analyst*

Got it perfect thank you so much.

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

Thank you.

Operator

Matthew DeYoe, Bank of America.

Matthew DeYoe - *Bank of America - Analyst*

Morning.

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

Morning.

Matthew DeYoe - *Bank of America - Analyst*

The fiscal 3Q and 4Q guidance seems to imply, much better incremental margins, maybe not great, but certainly better than where we were. Can you help provide a little bit more confidence, as to the rate of change of fixed cost absorption as we move through fiscal 3Q and into 4Q.

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

Sure, so a couple of things. Number one, we're rounding easier comps, and so that will certainly help us. Secondly, the structural SG&A actions that we announced today and that we are implementing as we speak, will add to that leverage, in ways that we weren't seeing in the first half of the year, and then I think secondly with.

Some improvement in unit volume growth which we anticipate you'll see a reversal in absorption which hurt us mightily in Q2 as unit volumes declined in October and November, and to the extent they improve in the third and fourth quarter, that'll be a nice swing both versus Q2 and also last year.

Matthew DeYoe - *Bank of America - Analyst*

All right, and as I think about some of the acquisitions that are starting to layer in in a decent clip here, I mean, how should we think about.

EBIT accretion from this is this, are these deals kind of like non EBIT accretive given DNA write up or is it at margin above margin? How should we think about the layering in there?

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

Sure, it takes some time for these to get integrated into, particularly in our construction products group where most of these have happened. One of the areas for real possible strength for us in the second half, for instance, is pure air. It was an HVA, reconditioning and rehabilitation project or product system that we acquired a couple of years ago.

It took us. Longer than we thought to get properly certified in every state, and we're starting to get traction there. And so I think an 18 months to two year cycle, is the right way to think about, for instance, a Kalzip.

High margin, unique metal roofing business in Germany, both some basic core stuff that we're in in terms of metal roofing and some high-profile projects, principally a European business. So back to that 18 to 24 months, I think that's the right time frame to think about how we can integrate that into a Tremco CPG distribution and sales effort more globally.

Matthew DeYoe - *Bank of America - Analyst*

I guess I appreciate that from a, from an operating integration perspective, but would that also kind of align with earnings accretion as well.

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

Absolutely. So in the early years of a pure air, not, really, accretive, and I believe as we get into calendar '26, and certainly the back half of fiscal '26, what's a relatively small acquisition will be nicely accretive.

Ghansham Panjabi - *Robert W. Baird & Co Inc - Senior Research Analyst*

Understood. Thank you.

Operator

Arun Viswanathan, RBC Capital Markets.

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

Good morning, Arun.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Great, thanks for taking my question. Good morning, Frank. Hope you guys are well. Happy New Year. I guess I just wanted to ask about, maybe some of the transitory costs you guys, incurred this quarter. How much would you attribute maybe to the government shutdown and as well as, SG&A increased SG&A spending, and how do you see that trending as you go forward? Thanks.

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

Hello Arun, this is Rusty here. In terms of some of the transitory costs, we did get hit hard on absorption and higher conversion costs. Part of that is due to the plant shutdowns going on and transition of facilities. We also opened up a shared distribution center in Europe with some inefficiencies at the outset, which will be resolved as we get up to speed there.

So in total, we lost almost a percentage point in margin just on higher conversion costs. Some of that was volume driven. Maybe \$4 million or \$5 million of that was due to transition of facilities whether it's shutdowns or changes in distribution, so hopefully that gives you some color.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Great, thanks. And as you look out maybe into the second half of fiscal '26 and into '27, what would be the run rate on some of these savings? I know that you will capture a portion, as you said, maybe \$5 million here in the third quarter, but when do you expect to see the full amount of that savings kind of flowing through the P&L? Thanks.

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

Sure, I think the full amount will start to flow through in Q1 of '27. We are executing as we speak, what will be about \$25 million per quarter run rate, and we would expect, most of that activity to be completed and announced internally by the end of Q3.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Thanks a lot.

Operator

John McNulty, BMO Capital Markets.

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

Yeah, good morning, John.

John McNulty - *BMO Capital Markets - Analyst*

Maybe a question on the 4Q outlook because 3Q is so exceedingly light it probably doesn't matter all that much. You've got a pretty wide range, low single-digit to high single-digit growth in EBIT, and I know in some prepared remarks, it, you commented that it's largely contingent on volumes is the high end of the range assuming.

The world starts to feel better again, or is that just the recapturing of maybe some lost business around the government shutdowns, I guess maybe you can peel back the onion a little bit in terms of what gets you to the low end of that range and what gets you to the high end.

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

Sure, as for the lost business relative to government shutdown to the extent that's real, I would expect, us to see that pick up in Q3, Q4 really is about volume. We will be rounding two years of challenging consumer takeaway, unit volume growth in consumer, so we'll be seeing easier comps there.

Part of the changes we've made, with this SG&A structural realignment are in our consumer business, with what we hope will be a positive effect, to margin in the bottom line. And we have a really strong backlog in our industrial business, and, both CPG and PCG.

If that becomes to be realized again, you'll see us, have a pretty good 4th quarter, but given the volatility that we're experiencing, just in this quarter, a really solid by any measure September and then a really disappointing by any measure November. Makes us a little hesitant to be more specific about coming months because that volatility seems to be continuing.

John McNulty - *BMO Capital Markets - Analyst*

Okay, fair enough, and then I guess just given the general weak environment that continues, if anything, maybe it got a little bit worse overall, I guess, can you speak to what you're seeing from a raw material perspective?

Are you starting to see any signs of relief? I know AR tariffs kind of made that a little more difficult over the last few quarters, I guess what is your outlook as you're looking forward?

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

Sure, I will let, Matt provides some specifics, but generally the trends that we're seeing, both in the marketplace and geopolitically suggest that that should be a tailwind for us in the second, half of the year.

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

Yeah, so absent tariffs, yeah, we are seeing raw material inflation coming down and even turning into deflation, but you have these pockets of inflation and some of the categories we have talked about in the past that continues, and these are really tariff driven. So, excuse me, looking at metal packaging, that's up low 10s.

Proxy resins are actually up high single-digits, and then we have some specific categories that really can only be sourced from Asia. These are more niche products, not a huge dollar spend, but when you're facing tariffs of 20%, 30%, 50%, it can add up. And so all in all, taking all into account, we expect a little bit of inflation in the third and fourth quarter, but that's all tariffs driven.

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

And again, I think geopolitically and where underlying base chemicals are going, we would expect that to be a tailwind, and as we get into Q4 and certainly in the fiscal '27, we will be analysing the impact of tariffs, for instance, on steel packaging.

John McNulty - *BMO Capital Markets - Analyst*

Okay, got it, fair enough. And maybe if I could slip in one last one just on the pink stuff burnout, I know there were kind of a wide range of outcomes in terms of how much you kind of felt like you could really drive that business, I guess, what now are the base expectations since you took down that earn out a bit, I guess, how should we be thinking about where that business can go over the next few years?

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

Here, the pink stuff, acquisition is on track for our, base case, as, Mike alluded to. The earnout was a relatively short two-year earnout and it was based on double-digit unit volume growth and in this environment, we are not hitting double-digit unit volume growth, and we don't expect to, in calendar '26, and so that was the basis for the reversal of the earnout.

John McNulty - *BMO Capital Markets - Analyst*

Got it, fair enough, thanks very much, Frank.

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

Thank you.

Operator

Patrick Cunningham, Citi. Please go ahead.

Patrick Cunningham - *Citi Investment Research - Analyst*

Hi, good morning, just on the weakness in consumer group, how much would you attribute to underlying market softness versus some of the other things you called out like sales delays or targeted product rationalization?

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

I think most of it has been underlying, consumer takeaway, and again it got weaker, it picked up a little bit in September, we had solid results across all our businesses in that month, and then it got. Weaker in the quarter as it progressed.

Understanding how much of that is government shutdown and other issues it's hard to know. We're also at, approaching year end for, a lot of the major retailers, so there continues to be, working capital inventory management levels there.

As I said earlier, we will be rounding as we get into calendar '26, two years of easier comps, and so I think we will see better results in the second half of fiscal '26 and better results in fiscal '27 for consumer. We don't need a roaring comeback to start seeing unit volume going in the right direction, which will agree to our bottom line nicely.

Patrick Cunningham - *Citi Investment Research - Analyst*

Understood. And then just on price realization, where did price shake out in fiscal 2Q? And has there been any tension on getting full realization in the consumer group given the weak demand environment and, some disinflation on the raw side?

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

Price was less than 1% in Q2, and I would anticipate, about the same, in Q3 unless of course we see any, material spikes and we have not had a real challenge over the last couple of years in terms of getting price where needed. In consumer in particular, we did bump into some price elasticity issues relative to price points at retail and we have adjusted accordingly. That was really a spring of '26, I'm sorry, spring of '25 phenomenon, not Q2.

Patrick Cunningham - *Citi Investment Research - Analyst*

Understood. Thank you so much.

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

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 - Analyst*

Hi, good morning. Happy New Year. Was, hoping that we could just dig in a little bit more on this impact from the software system implementation, in consumer sales, and it sounds like maybe EBIT too. Is that implementation now complete, or should we still expect maybe some delays or impacts in Q3? And I guess to the extent that sales were delayed, are you realizing those sales then in Q3, or is it going to take longer for those sales to materialize?

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

Yeah, Mike, this is Rusty here. Yeah, that was temporary, we have resolved that. It was a simple matter of new systems as well as a new warehouse in Europe. The new system was implemented in a couple of places in consumer, but we are up and fully running, so yeah, that was a temporary situation.

Michael Harrison - *Seaport Global Securities - Analyst*

All right. And then within the performance coding business, you noted broad-based growth really across that business. I was hoping you could give a little more color on what portions of the business are particularly encouraging to you as you look out over the next few quarters.

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

Sure, our stone hard flooring business is continuing to grow nicely, really, industrial capital spending and, onshoring, fibre rate is benefiting from a lot of the data centre build out, a lot of their, functional systems are used in multiple areas there. And so those are two probably strongest areas, and we're also picking up, some market share, a little bit of expensive margin, in our carb line business.

Michael Harrison - *Seaport Global Securities - Analyst*

All right, thanks very much.

Operator

Frank Mitsch, Fermion Research.

Frank Mitsch - *Fermium Research LLC - Analyst*

Hey, good morning, and yes, thank you. Good morning and Happy New Year. Hey, I must say I am a fan of the granularity that you provided in, slide 3. Obviously it shows a, how the quarter started out pretty good, therefore leading to, some, optimism in terms of the quarter, fiscal second quarter, but then deteriorated in October and November. That trend does not look like to be your friend. Here we are on January 8th. How did December, turn out?

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

Sure, well, as I said earlier, it's not been our habit, and I'd like very quickly in the next earnings call to get off this habit of talking about monthly results, but December is over, and herein lies the, conundrum, of volatility. Our December sales were up 12.1%. Unit volume was up 7%.

And so how much of that is a pickup of Q2 government shutdown related recovery. And, how much of that is underlying the strength in the areas that we're continuing to invest in, was, actually across the board, so we did see a little pickup in consumer, but a significant pickup in construction products, in our roofing business.

So, we're off to a great start in December the challenge we have is understanding what that number means and how much of that is really a pickup of what was a temporarily weaker Q2, how much of that indicates that, things are moving in the right direction.

It's anybody's guess as to whether January and February will look like December or whether they'll look like November. And so I think that's why, we have the wider range that we have in our Q3 and Q4 forecast.

Frank Mitsch - *Fermium Research LLC - Analyst*

Wow, that's, that I did not expect that answer, and let me drill down just a little bit. I know you're not in the habit of giving monthly sales, but I'm just curious, it begs the question, is there anything with the year ago result?

Was there an artificially depressed December of '24? Was there a super November of '24, is there anything in the year ago comps, or is that that would have led to the negative six November, positive 12 December, or this is really the kind of underlying business as you see it right now?

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

You will recall we had a weak third quarter last year. A lot of that was winter weather related. So certainly, we are rounding, some easier comps, and I think that's, a part of why, we are confident in the second half, albeit within a range of generating solid sales and earnings growth, in Q3 and Q4, and so that's part of the answer.

Frank Mitsch - *Fermium Research LLC - Analyst*

Got you. All right, thank you so much.

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

Thank you, Frank.

Operator

John Roberts, Mizuho.

John Roberts - *Mizuho Securities USA LLC - Analyst*

Thank you. Aside from disaster restoration, would you say that weather was not a factor in either the quarter or December so far?

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

No, I think weather was a factor, we got hit pretty hard across the country in the Thanksgiving, kind of late November period with heavy snow, and, that continued into December. We are certainly seeing a relief in that right now.

And so, I don't expect year over year for that to be a big issue in Q3 because we got clobbered last year. And so, year over year, I think the trends are moving in the right direction both versus these comps, how we are starting the quarter, and the impact, of the acceleration of our SG&A realignment which will not necessarily impact Q3 much. It will impact Q3 in the last month, but we'll start to be realized more fully in Q4.

John Roberts - *Mizuho Securities USA LLC - Analyst*

And do you compete at all against BASF's industrial coatings business or any of the areas of overlap between Exalta and Axo's industrial coatings businesses? I don't perceive there is a lot of opportunities for share gain as there's maybe some disruption across those businesses, but is there, are there any key areas of overlap?

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

We have a \$400 million high performance, industrial coatings business. It's part of our performance coatings group. They're really focused on wood stains and finishes. We have a real nice market share in what's left of that. Business, cabinetry doors, windows in North America, and that business is actually growing, we are picking up sharing a couple places.

It incorporates, our TCI powder coatings business as well as a small but growing, OEM liquid metal business and so that's an area where I would expect us to continue to grow. We reorganized that into a comprehensive business from about four or five different separate pieces, and that reorganization, what we are doing at the, R&D Centre in Greensboro, which is primarily owned by, our, RPM, OEM coding's business, is actually a bright spot for us right now despite economic problems.

John Roberts - *Mizuho Securities USA LLC - Analyst*

Great, thank you.

Operator

Kevin McCarthy, Vertical Research Partners.

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

Morning, Kevin.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Good morning. Happy New Year to you, Frank. Question on M&A. Can you talk through why you decided to pursue Kalzip, and then more broadly, if I look at the recent acquisitions, many of them are domiciled in Europe, and I was wondering if you could speak to that. Is that strategic on your part or just simply a function of where you're seeing the best, value or opportunities now?

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

So the simple answer is yes to both, very strategic, but, in M&A it's also what's available for sale at a value that makes sense for us. We, sell tens of millions of dollars, of purchase for resale, metal roofing in the US.

And we have been looking for opportunities, to enhance that purchase for resale with stuff that we own and control Kalzip's a unique asset, German-based.

Their specialty is actually a lot of high-profile projects which we are not in, and so we're pretty excited about the ability to take some of their patented technology, bring it to the US, and accelerate, the metal roofing elements of what some of our Tremco roofing salesmen are already selling, as well as helping to expand that metal roofing capability globally.

JANUARY 08, 2026 / 3:00PM, RPM.N - Q2 2026 RPM International Inc Earnings Call

Kalzip has had projects in Europe, Middle East, and Asia, areas where our Tremco roofing business is not really present. So we're pretty excited about it, as I commented earlier, it's a real strategic play.

It is going to take us some time to take that technology and bring it into the US, but when we do, the opportunities for us to add tens of millions of dollars or more in the US market where we have an awesome sales force, on top of what's about a EUR75 million revenue business is something we're pretty excited about.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Very good and then secondly, if I may, I want to revisit the subject of pricing. I think you said in response to a prior question that the price contribution was less than 1% in the quarter, and I was somewhat surprised to hear that. My recollection was that you were targeting.

Higher contributions and acceleration into the fiscal second quarter. So I was wondering if you could just unpack that and talk a little bit about where you're seeing the most and least traction and maybe segment contributions and, whether or not you might anticipate any acceleration on price in the back half of the year.

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

Sure, again it'll be circumstantial. We're past the period of heavy inflation that drove, price increases meaningfully across all of our businesses, and so in the quarter, less than 1%.

But we got more price in consumer because that's the place where we're, having the biggest challenge again, it's the place where metal packaging, is got the biggest impact across our pm, and then selectively, for instance, around epoxy resins and a few other places, we're getting price and selected product categories but not across the board like we were a few years ago.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Thanks very much.

Operator

Mike Sison, Wells Fargo.

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

Morning Mike.

Michael J. Sison - *Wells Fargo - Analyst*

Hey, good morning. Happy New Year. I guess with your outlook for the third or fourth quarter for sales growth, how much are you, expecting that to be organic sales growth and acquisitions, and I know you have a lot of acquisitions in there. So just curious if you had, sort of a feel for how much organic growth is embedded in the third and fourth quarter sales outlook.

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

Oh, okay, I think we're back on temporary drop there, in response to Mike Sison's question, can you hear me?

Michael J. Sison - *Wells Fargo - Analyst*

Yeah, I can hear you Frank.

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

That's fine. Okay, thank you, so I'll just point back to the monthly. Information we provided, you saw what we talked about in Q1, we talked about, on slide 3, the unit volume growth, month by month, September, October, November. I just provided it for December, and.

It's our expectation, that the growth focused growth investments that we are talking about drive organic growth. That is how we are going to leverage to the bottom line, and, we provide quarter by quarter the breakout between organic growth FX, and acquisitions.

But it is our expectation that we will be seeing better organic growth in the second half as a result of the comments we have made earlier, easier comps, focused growth investments, and hopefully, some improvement, in market dynamics.

But given the volatility we're seeing again, it's anybody's guess as to whether January and February and subsequent months look like November or December that were starkly different and perhaps a little bit of an average given the impact of the government shutdown. It is hard for us to know what that is, but I can tell you for us and every business, the negative impact of the shutdown was greater than zero.

Michael J. Sison - *Wells Fargo - Analyst*

Got it. And then I guess for the third quarter with the outlook being mid-single-digits in December doing, pretty strong. I mean, does that imply that January and February has tough coms it might be negative, or do you think we'll just be positive for the rest of the way?

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

I think we will be positive, but I don't know, and we will learn in January, for instance, how much of the real strength in December was picking up, lost business in Q2 because of the government shutdown or how much of it is a release, for instance, some of the good backlog that we continue to build, in our construction products group and our performance coding's group and so.

If we had higher confidence, we'd be putting out, maybe a better forecast, but given the volatility we're experiencing, it's hard to know as we sit here today.

Michael J. Sison - *Wells Fargo - Analyst*

Got it, understood. Thank you.

Operator

Joshua Spector, UBS.

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

Morning, Josh.

Joshua Spector - UBS AG - Analyst

Hey, good morning, Frank. I just have, two quick follow-ups here. First, just going back to the transitory costs, I think last quarter, you guys framed it at about \$30 million, and you had roughly equal buckets between healthcare, some of the plant consolidation, and then SG&A growth. What is that the right number that was in the August quarter? And can you help us think about what that looks like over the next couple quarters?

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

Sure, yeah, Josh, looking at second quarter healthcare was still an issue. We had, probably in the \$67 million range of higher healthcare costs, in terms of, the, impact, unfavourable impact on conversion costs, like I mentioned. That was about 1% of sales hitting our margins, so that's close to \$20 million and what was the third category you talked about?

Joshua Spector - UBS AG - Analyst

I believe you had the plant consolidation, the SG&A investment, I think is the third one.

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

Yeah, the SG&A investment is continuing, of course, on a more selective basis, given the risk activity we're talking about.

Joshua Spector - UBS AG - Analyst

Okay, I guess then just on that last point with the SG&A, I mean, someone asked earlier about your saving costs, you're investing. Are you then investing less in some of the savings is that you're moving people around there or are you cutting people around that?

And I think just one other follow-up to sneak in there is that. You said the cash cost we won't know until April, I believe, but you think those costs are going to be ramping up over the next couple of months. So, would not there be like a \$60 million to \$70 million charge for that coming up shortly?

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

Yeah, the details we'll provide in April, but two third of that will be realized here in the next few weeks, and one third will play out, into the spring, particularly related to notice provisions and things like that in certain countries outside of the US.

In terms of your earlier question, some of our expense reduction activities, on a gross basis will be higher, than the numbers we provided, and then we are reallocating some of those dollars, into our best opportunities for growth, and so certain of this is expense reduction and a structural realignment that we have been working on, for some time, given the.

Challenging performance in October and November, we saw that as an opportunity to accelerate that and others of it is a reallocation of growth capital in our P&L, from certain areas that aren't growing to areas that are growing nicely, and we continue, we intend to continue to support that.

Joshua Spector - UBS AG - Analyst

Okay, thank you.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - Deutsche Bank AG - Analyst

Thank you. Frank, staying on the cost issue of the MAP 3.0 savings, how much is being pulled into this program? Is it a majority? Is it a minority or is it a large amount?

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

As we've laid out the plans that we're executing today on a net basis, have about \$100 million impact. \$75 million of that will be a net additional to fiscal '27, and then we will provide, more detail, as I said, either in a July call or in a separate investor day, about.

The details of MAP 3.0 that will incorporate manufacturing efficiency procurement as well as a more methodical approach to SG&A and so it will be at least \$75 million but likely higher again, the details will be provided this summer.

David Begleiter - Deutsche Bank AG - Analyst

And of these costs you laid out today, how much are manufacturing versus SG&A and Are you closing plants? I, obviously you're firing people, but what functions are those people doing today and how are they being replaced?

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

So in some instances it's a reallocation of, Certain spending from one place to another of the 100 million, probably [\$10million or \$15million] will impact cost of goods sold, but the balance of it will be an SG&A, and again in terms of more specifics, we'll provide it in April as we're in the midst of executing right now.

David Begleiter - Deutsche Bank AG - Analyst

Thank you.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - Morgan Stanley & Co Ltd - Equity Analyst

Thank you and good morning. If I could ask on the government,

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

Good morning.

Vincent Andrews - Morgan Stanley & Co Ltd - Equity Analyst

Thanks, good morning on the government shutdown, can you just talk a little bit about, how much of your sales are sold directly to government contractors in the different segments, versus, sales to traditional customers that, are working on projects might be funded by the, by the government? Are we talking? 5% plus or minus is at the order of magnitude and so when that goes to zero, it's meaningful. Maybe we could start there.

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

Sure, we do not sell a lot direct to the federal government. A lot of it has to do with state, and local spending, that's tied to government subsidies. So for instance, in schools, You know there are a number of state and federal programs, education, particularly impacting our construction products group.

Probably 20% of their revenues is tied to the education market and so you saw both government shutdown wise and. Let's call it Washington dysfunction wise, some dynamics that froze, the different funding elements of public education.

We are starting to see that, unfreeze, which is a good thing. And so, it is more the follow-on effect, of education funding, and some infrastructure as opposed to any specific. Direct business, we do not do much if any direct GSA business, for instance.

Vincent Andrews - Morgan Stanley & Co Ltd - Equity Analyst

Okay, that's helpful. And then on the \$100 million if you could just help us think about how that's going to be spread across the three segments, that would be helpful.

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

Sure, we'll provide that detail in April. We are in the midst of executing and, people deserve to understand what's happening, within RPM before, people hear it publicly. It's pretty much that simple.

Vincent Andrews - Morgan Stanley & Co Ltd - Equity Analyst

Okay, fair enough, thank you very much.

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

Thank you.

Operator

Jeff Zekauskas, JPMorgan.

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

Morning.

Jeff Zekauskas - JP Morgan Securities, Inc - Analyst

Hi, good morning. Happy New Year.

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

Happy New Year.

Jeff Zekauskas - JP Morgan Securities, Inc - Analyst

In fiscal 2025, your SG&A growth was pretty flat. And for the first two quarters of the year, it's up about 10%, which is about \$50 million a quarter. Can you speak in general to, what exactly has happened? And when you talk about a \$100 million reduction in SG&A, what are you trying to accomplish with this? You know what, what's happening to the overall rate of yours and a growth?

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

Sure, I would tell you broadly speaking in terms of expenses, I think of it as in three categories. One is some higher corporate expenses, related to healthcare insurance, and in particular, which is extraordinary M&A. We have done a lot of M&A transactions overseas, and they, have a higher.

Complete a cost rate versus what we do in the US and so that's part of it. The second one is some of the follow-on to the MAP initiatives, in terms of finalizing plant consolidations and or, consolidating distribution and warehousing.

I will give you one example of what that is practically, the largest North American plant, actually the largest plant, globally for Tremco was in Canada.

We, sold that plant, two years ago and, have had a window to move all that production to mostly the United States. It has nothing to do with geopolitics. It was a plant that was in the sticks 30 years ago and, suburban Toronto has been surrounding that plant, and so we had an opportunity to sell that for a nice price, recognizing we were getting.

Regulatorily moved out of that space. We are incurring duplicate inventory. We are incurring duplicate production costs, as we move that, mostly from Toronto to Georgia and Texas, and that should be completed by the end of March. So that is the type of duplicate conversion cost that we're seeing there.

We're also seeing it in Europe, in parts of the US as we consolidate distribution, all of which should make us more efficient in the future, but which right now is hurting us and then the third category, Jeff, is what we talked about growth investments.

We had a deliberate belief that we could invest in certain areas after a frustrating one year and a half years of low growth, no growth, or two years of low growth, no growth environment.

And that was, proving true through five months, we had better growth rates in most categories than our peers. September reinforced that because sales, organic growth, and leverage to the bottom line was actually better than Q1.

And for some reasons we understand and some reasons we are just guessing at that fell apart in October and November. Last comment I'll make is that the structural SG&A, changes are things that we've been working on for some time and as I commented, we made the decision to put off communications on a new long-term strategic plan until this summer.

So a lot of this is work in progress, as opposed to a quick reaction to a short, hopefully a short-term temporary downturn.

Jeff Zekauskas - *JP Morgan Securities, Inc - Analyst*

And thank you for that. And then quickly, for your acquisition effects in fiscal '26, are they accretive to your margins or do they trim your margins?

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

So in fiscal '26, at this end of fiscal '25 and fiscal '26, they have hurt our margins. Most of that is transaction costs, we have significant transaction costs, for instance, on the pink stuff and Ready Seal that was at the end of last fiscal year and into the first quarter, most of these small transactions that I have talked about, have been overseas in our construction products group.

We are very excited about them, but they carry a relatively higher transaction cost in terms of legal fees and due diligence fees relative to the size of their revenues.

Excluding transaction costs, which of course flow through our P&L, they're modestly accretive and we expect them to be very nicely accretive in the coming years. But for the first half of fiscal '26, they have hurt us and been deluded principally because of the high costs and we referenced that as part of the higher corporate expense.

Jeff Zekauskas - *JP Morgan Securities, Inc - Analyst*

Yes, okay. Thank you very much.

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

Thank you.

Operator

(Operator Instructions) Alexey Yefremov, KeyBanc Capital Markets.

Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Thanks, good morning. I think you mentioned earlier backlogs remain healthy. So should we take it as your backlogs today are the same or higher than three months ago, or have your backlogs declined?

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

So our backlogs are stable in our performance coding's group and backlogs continue to grow in the construction products group.

Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Got it. And in terms of facilities consolidations, I mean, you talked about the first half of this fiscal year. Could you give us any sense of what to expect in terms of future actions in the second half of '26 and perhaps in '27? Even directionally, our facilities consolidation is going to continue at about the same pace or higher or lower pace of costs related to these actions?

JANUARY 08, 2026 / 3:00PM, RPM.N - Q2 2026 RPM International Inc Earnings Call

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

So we're developing that and again details on a broader longer-term approach or something we expect to communicate publicly this summer.

Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Okay, thanks a lot.

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

Thank you.

Operator

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

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

Thank you and thank you for participating in today's call. We are executing an SG&A structural realignment that we see as a down payment on our new long-term strategic plan. We look forward to providing details on a new MAP 3.0 later this year. In the meantime, we are focused on outgrowing our underlying markets and controlling what we can.

This strategy will help us navigate the current economic challenges and volatility and position us for outperformance as markets recover. Thank you again for your participation on our call today, and we wish everybody a Happy New Year.

Operator

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

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