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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to the RPM International Fiscal 2026 fourth quarter and full year earnings call. (Operator Instructions) Please note that 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, sir.

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

Thank you, Cole, and welcome to RPM International's conference call for the fiscal 2026 fourth quarter and full year. 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 Roche, 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 report filed with the SEC.

During this call, references may be made to non-GAAP financial measures. To assist you in understanding these non-GAAP terms, RPM has posted reconciliations to the most directly comparable GAAP financial measures on the RPM website.

Also, please note that our comments will be on an as-adjusted basis and all comparisons are to the fourth quarter of fiscal 2025 unless otherwise indicated. We have provided a supplemental slide presentation to support our comments on this call. They can be accessed in the Presentation 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. This change has no impact on consolidated results.

Now, I will turn the call over to Frank.

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

Thank you, Matt, and thank you, you all for being on this morning's investor call. I'll start with an overview of our fourth quarter results, then provide an update on the current raw material outlook and operational improvements that we've been making.

Next, Michael Laroche will cover financials, and Matt Schlarb will provide an update on cash flow, the balance sheet and our system selling approach. Finally, Rusty Gordon will provide our outlook after which we'll be happy to answer your questions.

Starting on slide 3. We generated another quarter of record results with each segment growing sales and adjusted EBIT. By segment, our Construction Products Group and Performance Coatings Group continued to lead our growth. They achieved this above-market growth by focusing on maintenance and restoration solutions targeting growing end markets and winning a larger percentage of project spending through system selling and improved collaboration.

While our Consumer segment continued to face challenging DIY markets, they generated record sales and earnings in part driven by acquisitions. Our associates demonstrated their ability to adapt to increased global uncertainty, procure raw materials, continue implementing operational efficiency improvements and serve our customers with high-quality products and services.

Nowhere is just more evident than in the Middle East, where despite severe supply chain disruptions they were able to find alternative raw material sources, navigate logistical challenges and deliver mid-teens sales growth on a year-over-year basis.

The combined actions of associates worldwide and the SG&A-focused optimization actions we previously implemented allowed each segment to achieve record adjusted EBIT and offset increased health care and insurance expenses as well as inflation to expand consolidated adjusted margins to a fourth quarter record, even against challenging comparisons to the prior year. This fourth quarter represents the 16th quarter of the last 18 quarters that we have achieved record adjusted EBIT results.

Turning to slide 4. During the fourth quarter, our center-led procurement team did an excellent job partnering with our top suppliers and having contracts in place to ensure our business had sufficient raw materials and were insulated from spot price volatility.

Our businesses led by the Construction Products Group and Performance Coatings Group reacted quickly to the inflationary environment by implementing price increases where necessary, which caused our price/cost mix to be slightly favorable in the quarter. While still elevated from the beginning of the calendar year, spot prices have declined from their peak.

While we have limited direct exposure to spot pricing, directionally, it does impact where our index-based supply contracts are headed, and it currently suggests moderating inflation in the second half of fiscal 2027 as we continue to be challenged with inflation in the first and second quarters of the new fiscal year. It is important to remember that the situation is dynamic, and our teams will adapt to changes as necessary. In the first quarter of 2027, we anticipate raw material inflation to be up 5% to 6% with pricing up by a similar dollar level.

For the second quarter, we expect inflation could be as high as 6% to 8%. As we progress through the fiscal year, we anticipate that our price increases, including in our Consumer segment will recover the gross margin percentage lost in the first quarter.

From a supply availability perspective, we were in good shape throughout the quarter due in large part to the actions of our procurement team. Looking forward, supply availability has improved, although a fire at a supplier's plant has caused some tightness with propylene oxide derived raw materials in North America. Additionally, MDI supplies are also tight due to supplier issues. Our procurement team has done a good job finding additional sources of supply, which has limited the impact on us, but this market tightness will add to overall inflation.

An update on operational improvement is on slide 5. We continue to make progress implementing operational improvements across our businesses, which was reflected in our record results. The SG&A focused actions we implemented last fiscal year are on track to deliver $75 million of savings in the new 2027 fiscal year. As a reminder, we consider this a down payment on our new MAP 3.0 strategic plan.

Additionally, our Green Belt program continues to expand. We have now trained 620 RPM associates to identify opportunities, implement efficiency actions and track their progress. This program has developed a pipeline of more than $30 million of additional savings. We are now expanding it to administrative functions and are already starting to see benefits in this area as well. We are looking forward to providing a strategy update and additional details on our next operating improvement plan at an Investor Day, which will be held on Monday, November 9 of this year. The [event] will be webcast, and we will provide more information as to how to participate by streaming or live as the event approaches.

Turning to slide 6. Another benefit of our operational improvement since our MAP 2025 operating improvement program was initiated has been cash flow. Thanks to four consecutive years of record adjusted EBIT and structural improvements to working capital efficiency, we have increased our average annual operating cash flow by nearly 90%. This has allowed us to complete strategic acquisitions, invest in organic growth projects and return capital to shareholders through dividends and share repurchases, while at the same time reducing debt. Although the teams have made significant progress in converting profitability into cash flow, we still have additional improvement opportunities ahead of us.

In summary, our record fourth quarter results reflected our emphasis over the past fiscal year and over these past several years on executing things that are within our control. These include leveraging our competitive strengths, focusing on maintenance and restoration solutions to drive sales and implementing efficiency initiatives to improve profitability and cash flow. I want to thank the RPM associates for their commitment and focus during this volatile economic period. And I look forward to RPM delivering continued growth in sales and earnings for our new 2027 fiscal year.

I'll now turn the call over to Mike Laroche.

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

Thank you, Frank. On slide 7, consolidated sales increased 7.2% to a record, driven by engineered solutions for high-performance buildings and infrastructure projects, M&A and pricing to offset inflation. Adjusted EBIT also increased to a record as sales growth, including higher volumes, resulted in improved fixed cost utilization.

SG&A-focused optimization actions also contributed to profitability growth and were partially offset by higher health care and insurance expenses as well as inflation. Adjusted EPS was a record, driven by higher adjusted EBIT.

Geographic results are on slide 8. All international regions generated double-digit growth, led by emerging markets. Our collaborative platform approach in emerging markets continued to generate positive results as we are selling more engineered solutions for high-performance buildings and infrastructure projects. Sales in North America were up a solid 5%, driven by turnkey and system solutions for high-performance buildings. Growth in Europe was driven by M&A. Foreign currency translation also contributed to sales in most countries outside the US.

Now turning to our segments on slide 9. Construction Products Group sales grew to a record with broad-based strength led by the concrete admixtures business. By end market, growth was strongest for roofing and wall systems for high-performance buildings such as data centers and infrastructure projects. Pricing increases to offset inflation and foreign currency translation also contributed to the sales growth. Volume growth and operational efficiency improvements leverage fixed costs and drove adjusted EBIT to a record. Mix and SG&A-focused optimization actions also contributed to the record results.

Next on slide 10, Performance Coatings Group achieved record sales with broad-based growth across businesses. Growth was highest in solutions for infrastructure projects, food coatings and ingredients, emerging markets and fireproofing systems for high-performance buildings. Pricing to offset inflation also contributed to the sales growth.

Adjusted EBIT was a record, driven by higher sales, volume growth resulting in improved fixed cost leverage and SG&A-focused optimization actions. This was partially offset by a $3.2 million bad debt expense from a customer bankruptcy.

The Consumer Group results are on slide 11. Record sales were driven by acquisitions and pricing to offset inflation. DIY end markets remained soft. Adjusted EBIT grew as MAP operational improvements, including SG&A-focused optimization actions more than offset reduced fixed cost absorption from lower volumes and inflation. M&A integration also added to adjusted EBIT growth. Adjusted EBIT excludes a $9.7 million non-cash impairment charge related to the Color Group.

Now I'll turn the call over to Matt to cover the balance sheet, cash flow and our focus on restoration.

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

Thank you, Mike. The cash flow improvements Frank talked about were evident in the fiscal year 2026 as we generated $899 million of operating cash flow, the second highest amount in company history. We used a portion of the strong cash flow to reward shareholders through dividends and share repurchases, which totaled $349 million for fiscal 2026, an increase of over 7% from the prior year.

Our Board recently authorized a $700 million increase to our share repurchase program, which is in addition of $115 million remaining under the previously authorized amount. We continue to view repurchases as a complement to our dividend while allowing for the financial flexibility to invest in organic growth projects, acquisitions or other capital allocation decisions that generate long-term value.

CapEx for the year was approximately $224 million, slightly below the prior year and included targeted growth investments like the shared European distribution center and the new operating facility in India that will be used to produce products for several RPM businesses. During the year, we used $202 million to acquire multiple businesses with a focus on adjacent consumer categories and components that we integrate into our system offerings.

An example of this is CPG’s Kalzip acquisition, a metal roofing and facades company, which closed in the fourth quarter. Once fully integrated into our organization over the next couple of years, we expect this acquisition to be margin accretive.

Liquidity remained strong at $1.09 billion, which gives us financial flexibility and capital deployment, including in acquisitions where the pipeline remains healthy.

Next, on slide 13, we have some examples of our engineered systems for high-performance buildings, which have been a contributor to our ability to outgrow our end markets. Through a combination of strategic M&A and innovation, we have developed system offerings for all six sides of the building rather than just selling singular components.

This system selling approach offers a compelling value proposition to building owners. First, we can guarantee that our systems will perform to meet demanding specifications and can offer warranties to back up these guarantees. Second, we make procurement similar by streamlining the decision-making process.

Third, our systems speed construction time. As an example, we can manufacture a wall system in a factory, ship the wall system to the job site and assemble it there. This improves construction time by reducing the need for skilled labor, reducing weather-related disruptions and improving safety on the job site.

System selling also provides benefits to RPM and increases the amount of RPM products in a given construction or restoration project. Our unique systems offer performance that others in the industry cannot which also helps us win the jobs.

We are continuously looking to expand and enhance our system capabilities often through the acquisition of a component that we can then integrate into our systems. For example, we have acquired multiple floor joint companies that allow us to provide high-performance flooring systems that can handle increasingly heavy loads.

We've also expanded our insulated concrete form systems through acquisitions that now allow us to offer vertical and horizontal offerings throughout a building. The pipeline in this area remains healthy. We continue to, we expect to continue strategic M&A in this area.

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 first quarter outlook can be found on slide 14. Please note that we have transitioned our primary measure of profit and loss to adjusted EBITDA. This change will help comparisons to peer companies and will better reflect underlying earnings during periods of acquisition activity. Results for fiscal year 2026, incorporating the use of adjusted EBITDA were filed in a Form 8-K today.

The positive top line momentum we generated in the fourth quarter is expected to continue with all segments expected to grow in the mid-single-digit range. Our construction-focused businesses continue to focus on the highest growth factors, including data centers, energy and infrastructure projects as well as building restoration.

In Consumer, we anticipate improved results as comparisons are easier, and DIY markets have shown signs of stabilization. In total, we expect sales to increase in the mid-single-digit range. We expect first quarter raw material inflation to be in the 5% to 6% range.

We have already implemented price increases to offset this inflation on a dollar basis with additional price increases to come as we recover the gross margin percentage. In the first quarter, we anticipate previously announced SG&A reductions will generate $25 million of benefits, partially offset by higher health care and benefit expenses.

Taking all this into account, we expect adjusted EBITDA to increase in the mid-single-digit range which is in addition to record results in the prior year period. Our full year 2027 outlook is on slide 15. We anticipate that many of the sales trends from the first quarter will continue throughout the year, including a stabilization of consumer end markets. However, it should be noted that we have the least visibility in this segment.

Additionally, we will benefit from increased pricing in response to inflation, although economic uncertainty limits demand visibility. Overall, we expect sales for the full year to increase 3% to 7%. Adjusted EBITDA is expected to increase 5% to 10%. Assuming current raw material costs remain stable, the rate of inflation will be highest in the first half of the year as the impact of the Iran conflict will have a greater effect on the P&L.

From a gross margin perspective, we expect price / cost to be somewhat negative in the first half of the year and then become more neutral in the back half as additional price increases are implemented and cost inflation moderated. The temporary cost headwinds from plant consolidations in fiscal 2026 will diminish in fiscal 2027 as the plants are closed.

However, a portion of this will be offset by start-up costs and several newly opened shared RPM facilities. SG&A-focused optimization actions are expected to generate around $75 million in benefits during the year, although a portion of these will be offset by higher health care and benefit expenses. We are actively implementing other efficiency actions across the organization and look forward to providing more details at the November Investor Day.

That concludes our prepared remarks, and we'd now like to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John McNulty, BMO.

John McNulty - *Bank of Montreal - Analyst*

Thanks for taking my question. So Just maybe if we can unpack a little bit some of the strength that you're seeing in CPG and the PCG group. It sounds like some of it is coming from onshoring data centers. I guess, can you help us to think about how that plays out through your fiscal '27? And how much visibility do you have on the trends that you're seeing in that space right now?

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

Sure. Backlogs remain strong across both CPG and PCG. But we had it, as you'll recall, in fiscal '26 a pretty volatile year as did everybody. And unfortunately, given the on gain-off again situation in the Middle East, the fact that we're going to restart the tariff wars, in fact, have already started and anticipate some more tariff activity at the end of this week. Our guess is it's going to be another volatile year.

We have an administration that seems to not like stability. In that environment, I think we've proven that we can perform pretty well, particularly versus the peers. And so backlog is good, but we anticipate a lot of volatility because of broader geopolitical and economic circumstances.

John McNulty - *Bank of Montreal - Analyst*

Got it. Fair enough. Yes, definitely a tricky environment. On the cost saves, as the second question, you targeted the $100 million or so of savings on the SG&A front. And I believe back at time, you'd indicated, look, a lot of that the execution was already happening and/or done. So I guess have you -- since then, have you seen any new opportunities, any other areas to enhance efficiency or further cost cutting? I guess how should we be thinking about that?

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

Sure. It impacted us negatively in the last 1.5 years relative to our gross profit absorption. But we will be opening and really getting up and running on joint distribution centers in Europe. We will complete the closure of our largest North American facility in Construction Products Group in Toronto and effectively transition that to plants in the United States. And there's a number of issues like that, which we will begin to benefit from, particularly in the second half of fiscal '27.

As Matt commented, we continue to drive our Green Belt initiative. And so we expect our MAP program, which we track monthly and quarterly to continue to benefit efficiency as well. And then lastly, we'll be providing some more detail at our November 9 Investor Day, we talk about MAP 3.0 and some accelerating connectivity across RPM from an administrative perspective.

John McNulty - *Bank of Montreal - Analyst*

Got it. Is there a way to quantify some of those headwinds that die down with the joint distribution side and the Toronto plant closure, et cetera?

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

Yes, John. So like what we talked about last year was some of those inefficiencies from the plant consolidation. They totaled about $20 million in our FY26 results. We think that with some of the plant startups, it will be about half of that will be a P&L headwind as we go through FY27. We'll be able to provide more details on things like that at the Investor Day.

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

So again, in the second half of the year, in particular, you're looking at picking up a positive benefit in the $10 million to $12 million range.

John McNulty - *Bank of Montreal - Analyst*

Got it. Thanks very much for the color.

Operator

Mike Harrison, Seaport Research Partners.

Michael Harrison - *Seaport Global Securities - Analyst*

Hi, good morning. Congrats on a nice quarter. I was hoping that you could give a little bit more detail on the Consumer business? How much lower were organic volumes in the quarter? And were there any particular product lines that were better or worse. And then I guess in terms of the outlook for Consumer, it sounds like you're expecting some stabilization in DIY. Is that just stabilization at a low level, or are there some signs of green shoots or any positive dynamics there?

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

So we overall had positive growth in the quarter. And as you would expect, we had kind of low to mid-single-digit unit volume growth in CPG and PCG and 2% or 3% negative volume growth in consumer. The consumer segment results were benefited by The Pink Stuff acquisition and the Ready Seal acquisition. And so that's really fiscal '26 in Q4. We're seeing some spotty consumer pickup.

And so as we got into the summer months, there's a few areas of strength in terms of consumer takeaway. Again, it's volatile, but it does feel like after two years of a pretty steady single-digit negative decline in consumer takeaway and volume impact, that we're hitting bottom. That feels better than anticipating another year of negative results. I can't say we're seeing anything that suggests that there'll be a robust rebound. And so that's kind of where we are.

As I mentioned in the earlier comment, we continue to expect volatility. The biggest impact of the tariff wars for us was indirect, principally with steel costs and packaging in our consumer business. And as the tariff wars renew, we're on the lookout for possible increase in packaging costs again.

Michael Harrison - *Seaport Global Securities - Analyst*

All right. And then my second question is on the share repurchase. Historically, you guys have been pretty programmatic with your share repurchases, $12.5 million a quarter for a while, stepped up to $17.5 million a quarter for a couple of years. In Q4, you stepped that up to $25 million. Should we just assume that $25 million a quarter is the new repurchase rate? Or could the larger authorization maybe signal a willingness to be more opportunistic with repurchase activity going forward?

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

So two comments on that, Mike. One is broadly with a bigger and healthier balance sheet and really confidence in an entirely new level of cash generation from our operations, which has been a significant win of our MAP initiatives, we have more capital to deploy. Our M&A activity seems to be pretty strong, but it's your typical RPM, small- to medium-sized transactions. So it allows us to consider as appropriate, more aggressive share repurchases.

I think your assumptions about how to think about our share repurchases on a regular basis are correct. But certainly, with a stock price that has been declining with the broader market and what we feel is an industry outperformance, which we would hope will continue, there will be opportunities for us to be opportunistic in the event of weakness in our stock price.

Michael Harrison - *Seaport Global Securities - Analyst*

Thanks very much,

Operator

Patrick Cunningham, Citi.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Hi, good morning. Thanks for taking my questions. Maybe just on the pricing side, I think you previously mentioned segment specific measures that were maybe 70% structural, 30% temporary. Are you currently executing to plan here? And any change in how you're using surcharges versus structural price versus some sort of index mechanism? And so what sort of level of pushback have you experienced so far?

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

Sure. In the quarter, price was up about 2%. We anticipate further price increases over the summer, some of which have been announced and won't hit until ended July or August time frames that will impact a little bit in Q1 and then more so in Q2. We have mostly driven price increases. And as you've seen over time, particularly in high inflationary periods, we've generally been successful in recovering price on a dollar-for-dollar basis.

And then based on the strength of our brands and the unique nature of our businesses being able to hang on to that and then see margin recovery as raw materials begin to decline. We anticipate the same thing with our quarterly outlook for Q1 of a mid-single-digit top line growth in a better environment, that would generate some leverage to the bottom line.

We anticipate about a mid-single-digit earnings growth, where the difference will be some challenges to our gross profit because of what's happening with inflation raw material in the first quarter. You'll see that continue a little bit in Q2, and then we anticipate that coming down. It's interesting to note that some of the underlying primary chemicals have not been as negatively impacted and as volatile as oil prices or gasoline prices, and that's a demand issue.

So we're watching that very closely. The other frustrating thing is what I mentioned earlier, which is the impact on packaging, particularly steel packaging, which is not a direct tariff impact for us, but indirectly as a result of US steel manufacturers raising prices.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. No, that's very helpful. And then maybe just on the raw side, I think you and others in the industry have called out the dynamics within the Polyurethanes chain. I guess, is there any anticipated supply availability or operational impact there? And what sort of expectations for that to remain tight for the next several quarters?

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

Sure. So I think we've been really pleased with the exceptional work of our operating people in regions like the Middle East and Asia. We have not seen any raw material availability problems. We've been able to work around a few things. The exception is really not geopolitical related.

It's here in the US with a significant fire at a primary chemical producer whose downstream products directly impact Tremco Roofing. And so we will have some negative impacts in terms of costs. And in the first quarter, some negative impact on sales growth because of the inability to get that product should be moving in the right direction as we get through the end of the summer. That's a supplier circumstantial situation as opposed to anything geopolitical or tariff-related.

Operator

John Roberts, Mizuho.

Saurabh Dhir - *Mizuho - Analyst*

This is Saurabh Dhir on for John Roberts. I just have a question on the sales outlook for next year. So what's the underlying organic volume growth expectation in the low and high end of that sales guidance?

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

So for the full year, yes, it's up mid -- yes, so you know we've talked about sales growth being up 3% to 7%. And so as we sit here today, M&A should add about 1 point to that. We've talked about pricing being -- around, like, as Frank said, around 2% in the first quarter or in the fourth quarter and up a little bit more as we progress throughout the year. And so if we're at the lower end of that range, that implies a little bit of volume declines. And if we're at the higher end of that range, that would imply higher volumes.

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

Yes. The -- if we can maintain the unit volume momentum in our Construction Products Performance Coatings Group, which will be compared to prior year records. And if the stability in the consumer business comes back, along with the elements that Matt mentioned, we should be at the higher end of that range. But as I mentioned earlier, we anticipate another volatile period of time in terms of the impact of a lot of geopolitical and tariff-related items that are now back in the table.

Saurabh Dhir - *Mizuho - Analyst*

Got it. And on the high performance buildings segment, what is the pipeline of demand for 2027? And what's like the go-to-market strategy on that segment?

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

Sure. It's a grind it out everyday effort. We are delivering some unique capabilities versus some of our competitors by being able to warrant entire wall systems as opposed to just selling components. We're doing, as you all know, 95% of our Tremco Roofing business is restoration and reroofing. And so that continues to have a solid backlog.

Although, as I mentioned earlier, we could see some raw material costs challenges and some revenue challenges in Q1 related to this raw material supply issue, which is temporary. Those are the primary key elements there. We -- this new business, not relatively new to RPM bought five years ago, PureAir is really starting to take off. Again, it's a renovation, restoration of major HVAC units.

So we're seeing really good strength there. So it's really our people responding to the renovation or restoration needs in manufacturing and in major institutions. Underlying commercial construction continues to be weak, and we don't see that changing.

Saurabh Dhir - *Mizuho - Analyst*

Thank you.

Operator

Ghansham Panjabi, Baird.

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

Good morning, Frank. Just to call out in terms of concrete admixtures in terms of strength. Can you just give us a bit more color as to what's going on there? Is that RPM specific, you think? Or do you sense any sort of change just in the underlying demand environment for that segment?

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

Hi, Ghansham, it's Rusty here. Yes, we are definitely gaining share. There's been big M&A by peers, there's been regulatory action in the space against peers. And we're picking up distribution. And we're finding growth where we can, whether it's the data center sector, which is growing. We have done well with infrastructure, so we are definitely continuing to pick up share in that business.

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

Okay. And then as it relates to the emerging markets across the board, it seemed very, very strong. And I know you cited some very specific drivers with engineered solutions, high-performance buildings, et cetera. How do you expect that to evolve? Is it just taking your commercial focus here in the US and overlaying that across the emerging markets is driving that inflection in demand? I'm just curious as to why the strength was so broad-based in the quarter?

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

Sure. So strategy matters, and I've made this comment before. When I was a new CEO 20 years ago, we developed a strategy of planting a flag in a developing country through a small acquisition. It's a relatively risk-free way of getting into some of these geographies where we did not play. And we did that in a very decentralized basis in an M&A review with our Board five or six years ago.

I think we identified a lot of these small developed country acquisitions is not performing very well. And it happened for a simple reason, we didn't pay attention to them. And the one big exception to that was in South Africa, where given the challenges in that market, we had really a strong team there, really good manufacturing capabilities. So they operated as the RPM of South Africa. And so organically, that business grew from about an $8 million or $10 million business we acquired 20 years ago to what's about a $50 million business today.

So we took that knowledge, and we reorganized the developing world approach to what we call the RPM platform approach. Our business is now in the Middle East, Africa, India and Southeast Asia, I'll report up through Grant Boonzaier and his team. They have brought a sharper accounting control perspective, a better compliance environment and a real focus on driving growth and improving margins.

And it's paying off in the coming years, you're likely to see us expand the breadth and the geography of that RPM platform approach. It's a little bit Consumer, but mostly a collaboration between the Construction Products Group and the Performance Coatings Group.

And you can see the numbers. The underlying profitability is consistent with the regional revenue growth that we're talking about, and we expect that to continue we should be $1 billion plus in the developing world. And so there's a lot of room for us to grow now that we have a better organized, more strategic way to allocate capital into that part of the world.

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

Perfect. Thank you, Frank.

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

Thank you.

Operator

Josh Spector, UBS.

Joshua Spector - *UBS AG - Equity Analyst*

Good morning. I had a couple of follow-ups. First, I wanted to ask on raw materials, just I understand your commentary, and you're pretty explicit on 1Q and 2Q. But as you think about the second half, when you say it's down, are you saying it's sequentially flat in the second half, and year-on-year comparisons are down?

Are you saying it's sequentially down in the second half. And just if you could frame, is this guidance reflective of a $90-plus oil environment, or is it reflective of where we were a couple of weeks ago? I know that's probably a harder one to answer, but just curious on your framing.

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

Sure. This is not the answer maybe you're looking for. I would call it a swag. And it's our best guess as to what might happen in the second half of the year. We did note when there was a couple month period of stability and it felt like the war in the Middle East was coming to a resolution that the underlying primary chemicals that drive a lot of our raw materials decline meaningfully.

They're starting to inch back up. And so it's really in anticipation of a level of stability relative to geopolitical issues that should deliver improving raw materials. But who knows? And it's not a very good answer. But with FIFO accounting and with some backlog that we can see in certain of our businesses, but certainly not all of them, I think we have fairly good insight into what's coming in the next two to three months, other than a sophisticated guess about the future, not much six or nine months from now.

We did experience and anticipated improvement in raw materials, but as I said earlier, we seem to be in an environment where stability is not going to hang around for a while. And so I think that's the world in which we anticipate living in '27. The good news is it's a world in which we lived in '26, and we focused on what we could control and deliver pretty decent results.

Joshua Spector - *UBS AG - Equity Analyst*

Yes. No, I appreciate all that. I guess I want to try again just like second half, are you assuming it's sequentially stable from peak inflation and your pricing for that? Or do your gross margin assumptions assume costs come down?

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

We would expect still to see year-over-year inflation in the second half of the year. It will just be at a more moderate pace than what we're seeing in Q1 and Q2.

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

And as I mentioned earlier, you'll see some of the headwinds that we had in our conversion costs moderate relative to actually operating combine distribution centers in Europe, completing some of the plant closures that we've been working on for the last couple of years. So there will be some pickup in the second half of the year that we referenced earlier.

Joshua Spector - *UBS AG - Equity Analyst*

Okay, thank you.

Operator

Matthew DeYoe, Bank of America.

Matthew DeYoe - *Bank of America - Analyst*

Good morning, everyone. I want to drill on a little bit on Consumer for the quarter. So EBIT up pretty modestly on a pretty large top line number. So what are the primary takes? And I guess in my -- I would have thought SG&A savings would have accrued nicely to consumer. Is that not necessarily the case yet?

And as you look through like organic growth for the year, I know you had mentioned some stabilization, but not much in the way of reflection. But how does operating leverage progress for that business? And can you talk through, I guess, some of the things you're doing to try to drive growth in?

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

Sure. So the $100 million SG&A expense reduction across the board, slightly less than half of that impacted our Consumer segment. And so you should see the benefits of that as we get into fiscal '27. We have taken significant actions to improve our fill rates, our flow-through in our plants. And so there's a lot of MAP initiatives that have benefited the manufacturing efficiency of our consumer business. But as we have said in the past, those don't show up until we sell more.

And we had another quarter in which while through acquisitions and price, we had positive sales growth in the Consumer segment. Unit volume growth in the quarter was down low single digits. So we continue to be challenged as is everybody in this space by a weak consumer takeaway.

Hopefully, we've kind of hit bottom there after two years of pretty steady declines. And it feels that way we'll see as things progress into the new fiscal year. But we are poised to put unit volume growth on our bottom line in our consumer business is better than we ever have been.

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

One other thing I'll add there, Matt, is if you look at our improvements in working capital efficiency and reducing inventory, Consumer Group has worked really hard to do that. So that leads to some temporary under-absorption at our businesses, but overall, it's a positive for cash flow.

Matthew DeYoe - *Bank of America - Analyst*

I might have missed this, and I apologize if that was the case, but it felt like a lot of the actions you've taken on the $75 million, in particular, were right out of the gate Jan 1. So was there any real tailwind to fiscal '27 -- sorry, sorry, fiscal 4Q? Or was there a headwind because you were laying people off and there was severance, like how how did that ultimately play out for the fourth quarter? Or is that really just a 2027 kind of fiscal '27 tailwind?

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

So we benefited in the fourth quarter to the tune of about $20 million. And so it was announced in middle of January, really took effect for about one month of Q3. And the follow-on, which has now been completed is maybe one-third of it was in geographies outside of the United States. And those take longer to communicate and execute relative to different laws in different European countries. And so that's how it played out.

So about $20 million benefit in Q4 and a follow-on $75 million benefit for all of fiscal '27. One comment on that as well as we talked a lot about inflation and mostly focused on raw materials. I would anticipate wage inflation, salary inflation, benefits inflation to be down from fiscal '26, but it will still be up in the 3% to 4% range.

Operator

Frank Mitsch, Fermium Research.

Frank Mitsch - *Fermium Research LLC - Analyst*

Hi, good morning, Frank, I appreciate the guidance for fiscal 2027. 3% to 7% top line, 5% to 10% on EBITDA. I'm curious, do you think of this as kind of the new growth algorithm for RPM. And then given in your earlier comments on buybacks, what do you think that implies in terms of the new growth algorithm for RPM on EPS?

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

I think if we find ourselves in a period of stability, you'll see RPM be able to generate mid-single-digit revenue growth and double-digit earnings growth. And so we are really poised to perform better than we have. And so I would not call what we are projecting here a new growth algorithm.

I would call this living in a world of a government that can't stand stability. And so you watch oil prices, you watch credit flows, you watch transportation costs, you watch a new version of the tariffs, and everybody has to adjust.

Very proud of how the RPM companies and our associates have dodged and weaved and adjusted in this VUCA environment. And if you can set some frustration in response to your question is there. When we have a couple of months of stability and things seem to be moving in the right direction, you saw it in our third quarter, we can put it on the bottom line really nicely. When we're dealing with the volatility, which seems to be coming again, we will adjust as necessary.

Frank Mitsch - *Fermium Research LLC - Analyst*

Understood. And congrats to Mr. Dennsteadt on the promotion to President and COO, I'm wondering what that might imply in terms of a step-up to your current positions?

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

Sure. Well, it implies bringing one of our top operating leaders to help develop our next strategic plan, which is really implicating more strategy around sales and marketing and collaboration around the globe. Dave Dennsteadt was one of the primary architects of this platform approach that's really driving our overperformance or significant performance in the developing world.

He and Paul Hoogenboom, who runs our Construction Products, were the primary collaborators on that. He's been with us a little more than 25 years as worked in Europe, the Middle East, was the Group President of our Performance Coatings Group and is bringing those skills and that energy into corporate leadership as well. So I'm excited for Dave and look forward to working with him for the next couple of years.

Frank Mitsch - *Fermium Research LLC - Analyst*

Perfect. Thanks so much.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank AG - Analyst*

Good morning. Frank, just on pricing, sorry if I missed this, but how much will you retain if and when raw material costs come back down?

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

So typically, we retain 100% of the price we put forward given the strength of our brands. As I had commented earlier, the weakness and basically the lack of leverage in Q1 and in Q2 as a result of our ability generally to gain to cover price dollar for dollar and then hold on to that price as raw materials revert back to norm, and we can recover margin in that environment.

There's rare exceptions to that, for example, silicone, which we're not primary in. So we have silicone in some of our DAP construction products and some of our sealant products. And as silicone prices go up dramatically, we pass on price and if silicone prices dropped dramatically that we need to adjust. So with a few exceptions like that, we generally are able to hang on to that price. There was an earlier question about surcharges. Those are temporary. Most of the surcharges are associated with freight costs.

David Begleiter - *Deutsche Bank AG - Analyst*

Very good. And just back on Consumer, volumes are down about 4% in fiscal '26, which brands or products or groups were actually up or above that metric and which were lower. I presume Pink Stuff was either -- was up year-over-year, is that fair?

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

No, Pink Stuff was down somewhat year-over-year, given some adjustments and reorganization that we're doing there to position it broadly across our Consumer business. We're excited about that. It's the only global brand that we have in the cleaners category. And so we'll have good news to talk about in terms of our cleaner categories as we get into fiscal '27. DAP performed better than our Rust-Oleum business because they have a heavier weighing towards the pro.

And so we saw positive revenue growth out of our DAP business, their caulks and sealants, their foam products, products generally used by contractors, whereas Rust-Oleum is more heavily weighted towards DIY consumption. And as we've talked about, the DIY markets have been flat to down pretty consistently month by month for the last two years.

David Begleiter - *Deutsche Bank AG - Analyst*

Thank you.

Operator

Abigail Eberts with Wells Fargo.

Abigail Eberts - *Wells Fargo Securities LLC - Equity Analyst*

(multiple speakers) Congratulations on the great quarter. I just wanted to push further on the growth that you're seeing across CBG and PCG. How much growth are you saying -- are you seeing from data centers compared to your energy and infrastructure projects?

And then looking further ahead, there's some very large estimates for data center construction spend and seeing something like $4 trillion between 2026 and 2030. Realistically, what size of the slice of the pie would go to RPM in that scenario?

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

Yes, Abigail. So this is Matt. If you look at those two businesses, I think it's really important to remember that two-third of what they do is maintenance and restoration. So that is a key reason that they've been able to outperform in this market. But when it comes to new growth categories, data centers are clearly at the top of the list.

And if you look at RPM overall, it's about 1% to 2% of our business, and it's been growing clearly above the average there. And again, as we talked about, selling systems and being able to warranty that and to save on construction labor because that's what data centers care about, we're able to win more jobs and win a higher percentage of the project spend. So that remains a good category for us.

And then in terms of infrastructure, infrastructure has been solid. It's been solid for a few years, and we really do well in this category. And so we would expect that to continue. And including the energy build-out, we've done different projects like in our Protective Coatings with our Carboline business and Euclid chemical, they provide some of the concrete admixtures and construction products for those. So those are two categories, and we expect those to remain positive as you go through FY27.

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

So more specifically by product line. In our Construction Products Group, it's the Euclid chemical business that has the biggest exposure to the data centers. You can see that in our comments about admixture strength for us.

And then our Performance Coatings Group, our Fibergrate FRP grading business does a really nice chunk of business in data centers for grading for trench covers and for a lot of different things that are needed as data centers are built as well as our Carboline Coatings business where corrosion control and fireproof coatings for structural steel.

Abigail Eberts - *Wells Fargo Securities LLC - Equity Analyst*

Got it. Thank you.

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

Thank you.

Operator

Kevin McCarthy, Vertical Research Partners.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Yes, thank you and good morning. Just a follow-up on the data center discussion. We've been talking about it as a source of strength for quite a few quarters now. As you look at the project backlog for CPG and PCG, do you think that the data center activity is still accelerating? Or is it starting to decelerate given how strong it's already been or an even keel, how would you characterize that?

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

I think it feels like it's even keel, and I don't want to overstate the impact of data centers on our results. As Matt said, we're doing a lot of business, for instance, the Construction Products Group across hospital systems, schools, the traditional markets where we do maintenance and repair and restoration. And so certainly, it's additive and it's a new area, and we see it continuing as is. But again, not to overstate its impact on our results.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Understood. And then secondly, perhaps for Rusty, would you comment on your capital expenditure budget for fiscal 2027? And any larger projects we should be keeping in mind there? And also welcome any other cash flow-related prognostications that you may have on working capital or any other extraordinary items that you can foresee?

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

Yeah. Thanks, Kevin. Yes, we anticipate capital expenditures to be roughly in line with what you saw in fiscal '26 and '25, probably in that $220 million plus to $240 million range. And in terms of projects, we are completing a shared RPM plant in India, which will generate a lot of growth for RPM, one of our highest growth regions, again, under the successful platform model that Frank spoke to earlier. So I think that's probably the most exciting project site.

And we also, as we've talked about before, are going to be producing Nudura in the UK. So we have some capital there as well. And then on cash flow, we're going to continue to make progress on working capital like we have, so we anticipate to keep that positive trend going.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Thank you very much.

Operator

Eric Boyes, Evercore.

Eric Boyes - *Evercore Inc - Analyst*

Good morning. First one on the fiscal year guide and understand the transition to EBITDA guidance given acquisitions, I think D&A has been growing double digits. So can you just confirm what the 5% to 10% EBITDA guide equates to for EBIT growth? Is that 4% to 9%, 3% to 8%? And then does the fiscal year '27 guide include most of MAP 3.0 or just kind of the $75 million down payment you've mentioned? Thank you.

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

Yes. So as far as the EBITDA and the D&A goes, yes, the D&A has been rising with capital expenditures, Eric. The two metrics are pretty much in line with each other. I mean, if EBITDA is up mid-single digits and EBIT will be up in that same range.

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

And I think one of the drivers of the change is really feedback from analysts. All of our peers report adjusted EBITDA and many of our analysts worked to try and reconcile our EBIT numbers that were published back to an EBITDA to make comparisons easier. And so we thought we should get in line to do the work for you. So it won't impact us, except in the instance of some sizable acquisition in the future.

Eric Boyes - *Evercore Inc - Analyst*

Okay. Thanks. I appreciate that. And then for my second, is price catch-up tracking to make fiscal 2Q kind of dollar neutral as well? Or does that go slightly negative as we work through the 6% to 8% inflation as that flows through? Because I mean, our mass kind of shows that 3% to 4% price in fiscal 2Q could get to dollar neutral, which seems reasonable relative to the 2% you mentioned for fiscal 4Q. Does that check? Thanks.

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

Yes, that sounds reasonable, Eric. As like Frank mentioned, we've already announced some price increases that will go into effect later this summer. So there'll be a little bit of benefit in Q1, but you'll see more of that pricing benefit flow through in the second quarter. which corresponds with an incremental step-up in inflation.

Eric Boyes - *Evercore Inc - Analyst*

Perfect. Thank you.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Good morning. Thank you for taking my question. Good morning, Frank. I hope you guys are well. So my question, I guess, I have two. Maybe I'll try the operating leverage question again. I think in the past, you had guided to 13% -- or sorry, 16% EBIT margins. You're running at about a 13% clip right now for fiscal '26. So do you still have line of sight for maybe 300 basis points of operating margin expansion, whether it be EBIT or EBITDA?

And what would drive that? Is it really, do you really require some more volume in Consumer and potentially CPG to come back? Or could you do that through MAP savings and maybe some moderation in the health care and other savings as well.

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

So yes, we do have line of sight to meaningful margin improvement in the coming years. We'll provide more detail on that at our November 9 investor meeting. And yes, it will require a return to unit volume growth in our Consumer business and a continuing maintenance of the strength that we're demonstrating in Construction Products and Performance Coatings. And lastly, per my earlier comments, a period of time that seems a little more stable than what we've experienced over the last couple of years. And quite honestly, what we anticipate again fiscal '27.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Got it. That's helpful. And then just on capital allocation here. You mentioned continued kind of bolt-ons. Would that kind of, would you be in a position to maybe expand that to larger acquisitions if the right opportunity came up?

Is that something you're also considering given now that you've kind of got the house in order a little bit, and you've maybe integrated some of the back office functions. Would that maybe position you to pursue larger acquisitions as well, or is it still the focus is going to be on smaller bolt-ons?

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

Sure. Our balance sheet, credit metrics and our cash flow would allow us to do larger transactions. And so we're certainly attuned to that. But we will, as always, be very focused on strategic fit, relative value and return. And so we are positioned to do either more and/or bigger transactions, but they will continue to be kind of the disciplined strategic fits that we've done for many years.

Arun Viswanathan - *RBC Capital Markets Inc - Analyst*

Thanks.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

Hi, good morning, Frank. I think I want to start off with a question for Rusty. Your prepaid expenses were up about $100 million year-over-year to $423 million. Can those come back down in fiscal 2027 back to the low 300s. And your accounts payable sequentially went up $180 million, which is unusual for you. Are your -- do you think you can keep your days payables at this sort of level, or do they have to come down?

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

Sure, Jeff. I'll start with accounts payable. As you know, back with MAP 2020, which we introduced eight years ago, we formed a central procurement team, and they've done a great job over time negotiating better terms with our suppliers. We also use, as you see in our SEC filings, a little bit of supply chain finance and mechanisms as well. But yes, I think you'll continue to see progress in accounts payable.

Yes, those are definitely representing sustained progress. And then as far as prepaid goes, we do have different income tax accounts, our marketable securities, assets held for sale. So that can be somewhat volatile, especially based on our tax position. So I wouldn't read too much into trends and prepays.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay. And then my second question is for Frank. Interest rates have moved up both mortgage rates, the 10-year rate. When you see that, does that make you more conservative in your outlook? Or do you view RPM as really not so interest rate sensitive. And how might these trends affect the Roofing business?

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

Sure. I don't feel that we're very interest rate sensitive to a point, obviously, if things get extreme, they'll impact everybody. But in our construction products or Performance Coatings businesses, and you see that it's things that Matt emphasizes his investor decks about the restoration and repair maintenance aspect of our businesses. And I think that will continue to play out in fiscal '27 and beyond. Interest rates, particularly how they impact mortgage rates and housing turnover clearly impacts our Consumer business.

And it's been one of the drags on our Consumer business for the last couple of years. We continue at housing turnover at 30- or 40-year lows. And as we've commented in the past, we benefit when a homeowner prepares their home for sale. And when then a new homeowner takes possession and at home and then redecorates it. And so interest rates do have a meaningful impact on activity in our consumer segment, not so much in the others.

Jeff Zekauskas - *JPMorgan - Analyst*

Thanks.

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

Thank you.

Operator

(Operator Instructions)

Vincent Andrews, Morgan Stanley.

Mr. Andrews, perhaps your line is muted.

And this will conclude our question-and-answer session. I'd like to turn the conference back over to Frank Sullivan for any closing remarks.

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

Thank you, Cole. With a May 31 fiscal year-end, it allows RPM to celebrate New Year's twice. So we conclude this call with thanking all of you for your participation, recognizing the tremendous success and perseverance of the RPM associates of delivering another year of record sales and earnings results in a very volatile environment and wishing all of you a happy RPM New Year. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.
