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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the RPM International Fiscal First Quarter 2024 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Matt Schlarb, Senior Director of Investor Relations. Please go ahead.

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

Thank you, Andrea, and welcome to RPM International's Conference Call for the Fiscal 2024 First Quarter. Today's call is being recorded. Joining today's call are Frank Sullivan, RPM's Chairman and CEO; Rusty Gordon, Vice President and Chief Financial Officer; and Michael Laroche, Vice President and Controller and Chief Accounting Officer. This call is also being webcast and can be accessed live or replayed on the RPM website at www.rpminc.com.

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

During this conference call, references may be made to non-GAAP financial measures. To assist you in understanding these non-GAAP terms, RPM has posted reconciliations to the most directly comparable GAAP financial measures on the RPM website. Also, please note that our comments will be on an as-adjusted basis and all comparisons are to the first quarter of fiscal 2023, unless otherwise indicated. We have provided a supplemental slide presentation to support our comments on this call. It can be accessed in the Presentation and Webcasts section of the RPM website at www.rpminc.com.

Additionally, as we discussed on our most recent earnings call, certain businesses in Asia Pacific that were previously part of the Construction Products Group are now being managed and reported under the Performance Coatings Group effective June 1, 2023.

As a result, all references to CPG and PCG today reflect the updated structure. The recast businesses generate approximately $100 million in annual sales, and this change has no impact on consolidated results. At this time, I would like to turn the call over to Frank.

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

Thank you, Matt, and thank you to everyone for joining us on our call today. I'll begin today's call with an overview of our first quarter performance, and then I'll turn the call over to Mike Laroche to discuss financials in more detail. Then Matt Schlarb will provide an update on one of our businesses, and then Rusty Gordon, our CFO, will cover our outlook for the next quarter and the balance of fiscal '24. At the conclusion of the prepared remarks, we'll be pleased to answer your questions.

Beginning on Slide 3 of our investor deck, our associates are to put it simply executing at a very high level. We generated 4.1% sales growth and what could be best described as a mixed economic environment, resulting in record first quarter sales. Driven by the continued execution of our MAP 2025 initiatives, we expanded margins and grew adjusted EBIT by 12.3% to an all-time quarterly record. These results represent the seventh consecutive quarter of record sales and adjusted EBIT.

Importantly, we remain focused on converting this profitability into cash flow. And this focus resulted in $359.2 million of cash generated from our operating activities during the quarter, which is an all-time record.

Moving to Slide 4. Sales were driven by pricing mainly from the wraparound effect of increases implemented in fiscal 2023 and strong unit volume growth in our Construction Products Group. Our CPG was our fastest-growing segment as the team there leverages its strategic focus on repair and maintenance and differentiated turnkey service model. As we've highlighted in the past, several of our businesses in our Performance Coatings Group and Construction Products Group have positioned themselves to benefit from spending on infrastructure and reshoring capital projects which continued during the quarter. The successful execution of our MAP 2025 initiatives led to margin expansion during the quarter, particularly in businesses where volumes grew as we were able to more fully leverage the structural efficiency improvements that we put into place.

MAP 2025 is a key driver in growing adjusted EBIT to an all-time record of $309 million. As I mentioned, this growth is in addition to strong results in the prior year, and our 2-year stack sales and adjusted EBIT growth rates were 22% and 49%, respectively. MAP 2025 initiatives are also contributing to structural improvements in working capital through improved coordination between sales, operations, procurement and R&D as well as being a more data-driven decision-making organization, we have become more agile with more efficient inventory processes. This contributed to strong cash flow conversion during the quarter. And while we still have significant work to do in improving in this area, I'm proud of the progress we are making on a sustainable basis.

Looking at sales by geography on Slide 5. Sales growth was strongest in Africa, the Middle East and Latin America, driven by continued spending on infrastructure projects in these emerging markets. This growth is in addition to strong prior year results when sales in these regions were up double digits.

Europe is expanding for the first time in over a year, while economic growth in the region remains subdued, our teams captured growth opportunities and our leveraging MAP 2025 initiatives to expand margins. While on the surface sales growth in North America may appear moderate, it is important to keep in mind that in the prior year, revenues increased in North America nearly 23%. The 2-year stack growth rate in North America is 26.1%. Overall, RPM has begun our fiscal year with positive momentum, and our teams are executing at a high level on the things that we can control.

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We remain focused on executing our MAP 2025 program, leveraging our competitive strengths to capture growth opportunities and bringing new products to market to continue growing throughout the fiscal year.

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

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

Thanks, Frank. Starting on Slide 6. Consolidated sales increased 4.1% to a first quarter record $2.01 billion, driven by pricing with modest volume growth. Organic sales increased 3.9% with foreign currency translation and acquisitions, less divestitures both contributing 0.1% to sales.

Adjusted EBIT grew by 12.3% to an all-time record of $309 million during the quarter. Gross margin expansion was a driver of this growth, led by MAP 2025 initiatives and improved fixed cost utilization, particularly at businesses with growing volumes. All segments, except consumer generated commodity cycle benefits.

Because of consumers' raw material basket and in particular, TiO2 and metal packaging, this segment's raw material inflation has been larger and continued longer than the other segments.

SG&A as a percentage of sales increased during the quarter, driven by growth investments and higher variable compensation expenses due to the improved financial performance. Expense reduction actions were implemented in the fourth quarter helped to offset the SG&A increase. Adjusted EPS grew 11.6% to $1.64 and was driven by adjusted EBIT growth.

Turning to the segment results on Slide 7, our Construction Products Group achieved all-time record sales of $783 million an increase of 10.8% from the prior year period. Organic sales growth was 9.5% with acquisitions contributing 0.6% and foreign currency translation adding 0.7% to sales. Sales growth was led by strength in our restoration systems for roofing, facade and parking structures would have benefited from the segment's strategic focus on repair and maintenance as well as its differentiated turnkey service model. Concrete admixtures and repair products also helped drive sales growth.

After several quarters of sales declines, Europe returned to growth. As expected, new office construction was weak, but stronger demand in other end markets and our strategic focus on repair and maintenance more than offset this softness. Adjusted EBIT increased 33% to an all-time record $145 million, led by improved fixed cost leverage and MAP 2025 benefits, including commodity cycle benefits. As a result of improved financial performance, variable compensation increase and was partially offset by expense reduction actions put in place at the end of fiscal 2023.

Additionally, as we recently announced in the second quarter of fiscal 2024, CPG acquired a wall system fabricator to expand its offering in offsite panelized construction. The acquired business has annual sales of approximately $20 million.

On Slide 8, the Performance Coatings Group achieved record net sales and adjusted EBIT. Revenue increased 4.1% to a record $379 million. Organic sales grew 4.0%, acquisitions added 0.8% and foreign currency translation was at 0.7% headwind. Sales were driven by strong demand for the segment's flooring systems and other engineered solutions for infrastructure and reshoring capital projects. Demand was strong internationally and increased pricing also contributed to growth.

Adjusted EBIT increased 17.4% to an all-time record of $59 million. The growth was driven by strong sales and MAP 2025 benefits, led by commercial excellence programs in Europe and included commodity cycle benefits. These results are on top of a strong prior year increase.

Part of our MAP 2025 focus on improving profitability in Europe, PCG divested a non-core service business there. PCG incurred $14.6 million of charges related to this divested business, which are excluded from adjusted EBIT.

Moving to the next slide. Specialty Products Group sales declined 10.7% to $181 million. Organic sales declined 9.0%, divestitures net of acquisitions reduced sales by 2.2% and foreign currency translation was a tailwind of 0.5%.

OEM demand was weak during the quarter, particularly in businesses that serve the residential sector, including coatings for furniture, doors, windows and cabinets. Additionally, SPG sales were negatively impacted by customers holding inventory levels below historical averages, which is pressuring volumes.

The divestiture of the non-core furniture warranty business last fiscal year also reduced sales. Pricing helped to partially offset some of this weakness. SPG adjusted EBIT declined 39.6%, and to $18 million. The sales decline, product mix and unfavorable fixed cost leverage drove the decline. The divestiture of the non-core furniture warranty business also contributed to the adjusted EBIT decline.

SG&A as a percentage of sales increased driven by investments in growth initiatives and unfavorable impact of deleveraging a lower revenue. Expense reduction actions implemented at SPG in Q4 helped to offset this.

Moving to Slide 10. The Consumer Group sales increased 1.5% to a first quarter record of $670 million. Organic sales increased 1.7% and Foreign currency translation was a headwind of 0.2%, and there was no impact from acquisitions. The sales growth was driven by increased pricing, primarily due to the large increase instituted during the first quarter of 2023 in response to inflation. Inflation, although less of a headwind still persisted for the consumer segment in the first quarter.

As a reminder, Consumer faced a challenging prior year comparison as sales surged 22.5% in the first quarter of 2023 when it began restocking retailers after raw material availability improved. Volumes declined moderately, driven by reduced customer takeaway and certain customers holding inventory levels below historical averages, share gains helped to partially offset these volume pressures.

Adjusted EBIT increased 3.5% to $121 million, driven by MAP 2025 benefits and the sales increase. Cost inflation continued in the quarter and was a headwind to adjusted EBIT as was lower fixed cost utilization as we slowed production to normalize inventories. We also received a $10.3 million business interruption insurance reimbursement during the first quarter and the gain associated with this reimbursement has been excluded from adjusted EBIT.

Now I'd like to turn the call over to Matt to go over the balance sheet and cash flow and provide a business update.

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

Thank you, Mike. Moving to Slide 11. The progress we made improving working capital during the fourth quarter continued in the first quarter, driven by our inventory normalization actions and MAP 2025 initiatives to structurally improve working capital. Inventories declined by $223 million compared to the first quarter of 2023. Working capital management and strong profitability growth resulted in an all-time record cash flow from operating activities of $359 million compared to $24 million in the prior year. This enabled us to return $54 million to shareholders through dividends in the first quarter. We have continued our share repurchase program and have bought back $25 million of shares from the beginning of the fiscal year through the end of September. We also reduced debt by $178 million during the quarter.

Now turning to Slide 12. We'd like to provide an update on Pure Air, the indoor quality and HVAC service business that CPG acquired in fiscal 2022. Pure Air provides turnkey solutions to address indoor air quality and HVAC performance issues. These include environmental consulting, building diagnostics and HVAC system cleaning and restoration.

As commercial HVAC systems age, they can become dirty and worn down, resulting in reduced performance, efficiency in air quality. These issues negatively impact all buildings but can become critical problems in places like hospitals and schools, which are key end markets for CPG.

Pure Air's turnkey solutions address these challenges and offload building owners the possibility of restoring their HVAC equipment instead of replacing it, resulting in significant savings and reduce disruption to the building's occupants. Pure Air expand CPG's role as a partner to building owners, offering products and services focused on the repair, maintenance and restoration of all 6 sides of a building which drives increased efficiency, extended asset life and lower costs. Sales over the last 12 months are more than double what they were when Pure Air joined RPM, we are optimistic about its future.

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

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

Thanks, Matt. Our outlook for the second quarter is on Slide 13. Many of the trends we experienced in the first quarter are expected to continue in the second quarter. On the positive side, the tailwinds include MAP 2025, including the commodity cycle, infrastructure and reshoring demand, reduced destocking and resilient demand for repair and maintenance.

As a reminder, some of our MAP 2025 benefits are more dependent on volumes to be fully realized so they will naturally be lower in our seasonally lower volume quarters of Q2 and Q3 and higher and stronger volume quarters, Q4 and Q1.

Some of the challenges we expect to face in the second quarter are continued weakness in OEM demand, softness in some new construction end markets and a reduced benefit from pricing, although pricing is still expected to be positive. We also faced challenging comparisons to the prior year when sales grew 9% and adjusted EBIT increased by 36%. Taking all of this into account, we are forecasting sales to increase in the low single-digit range on a consolidated basis led by CPG and PCG with Specialty still showing declines. We expect adjusted EBIT margins to expand and to generate consolidated adjusted EBIT growth of high-single digits to low-double digits.

Moving to Slide 14. Turning to our full year outlook, we still expect modest economic growth. Despite the soft macro backdrop, we are focused on leveraging the growth drivers we control, including number one, MAP 2025. Number two, our strong position serving infrastructure and reshoring demand with our engineered solutions. And number three, our strategic focus on repair and maintenance. We also continue to expect to benefit from reduced inflation, reduced destocking and easier comparison in the second half of the year.

As was the case last quarter, we anticipate weakness in certain new construction markets throughout the year and weakness in OEM demand, at least in the first half of the year.

Our current outlook for 2024 on a consolidated basis remains unchanged. Sales are expected to increase in the mid-single-digit range with adjusted EBIT growing in the low double-digit to mid-teen range. This concludes our prepared remarks. We are now pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Mike Harrison of Seaport Research Partners.

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

It seems like the construction business was pretty strong across the board. Just curious where are you expecting to see momentum continue? Where could we potentially see some choppiness? And can you break down the 9.5% organic growth between volume and pricing?

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

Sure. So boy, 2/3 to 3/4 of their growth in the quarter was unit volume growth, and it was pretty strong at the Tremco Roofing WTI business and our Tremco Sealant business, Euclid and then broadly, and this is mostly our Construction Products Group and our Performance Coatings Group in the Southern Hemisphere developing countries. And so real good strength there.

In many instances, we're bucking trends. As we talked about in the past, we've had a real focused effort on investing in growth initiatives and one of the real starts this year is something that in this quarter that Matt talked about, which is Pure Air, which is finally gaining some traction after its first year, which we got off to a slow start. Had to integrate it into WTI and into our Roofing sales force, and it's going very well. So that's one example of some of the very specific initiatives that we're investing and it starting to pay off that's, I think, allowing us to buck some of the trends in the construction markets.

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

All right. And then over on the Specialty business, you mentioned that you're seeing weak demand from OEM customers, and it seems like that's going to continue into the November quarter. But any thoughts on what that business looks like once it stabilizes, maybe talk a little bit about your longer-term growth and margin expectations for that Specialty segment?

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

Sure. So the biggest impact there is housing. We do a lot of wood stains and finishes into furniture, into windows and doors, kitchen cabinets. And so notwithstanding the inventory mismatch for demand, particularly in this higher interest rate environment, the North American housing market, U.S. housing market is weak and continues to be weak, and that's hurt us.

Some other categories that they have been strong in, including manufactured housing and/or RVs. And those are weak after the post-COVID bump.

All that notwithstanding, we have some very targeted initiatives in our (inaudible) adjuvant business. There's some patented products there that allow for a significant reduction in the use of herbicides and pesticides, we believe in the long-term benefit of that business, and we're investing in that.

We're investing in an expanding MRO channel for our Legend Brands business that should take out some of the storm-related cyclicality. Those are just a few examples.

And the one thing that the lower volume is hiding is some significant MAP 2025 improvements in our Specialty Products group. But as Rusty highlighted, most of these improvements are on the manufacturing floor and/or cost price, mix items and with improved conversion cost, better handle on mix, those benefits only show up when we sell something. And so the lower volume is hiding. I think, the good efforts in our Specialty Products Group folks have made, along with the rest of RPM and executing on the MAP '25 initiative.

Operator

The next question comes from Ghansham Panjabi of Baird.

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

I guess as a follow-up to the last question on construction and the margin improvement that you saw there. Frank, you highlighted several factors, fixed cost improvement, raw materials, MAP savings, et cetera. How would you have us think about those dynamics from a stack rank standpoint in terms of the margin bridge year-over-year?

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

I'm -- could you repeat that? I'm not sure I understand the question, Ghansham.

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

Yes. So the margin improvement in CPG, I think, was up -- at 310 basis points year-over-year, just the main drivers as it relates to that.

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

So I think the main drivers are MAP '25 initiatives where we're seeing improvement in conversion costs. I mentioned this what we call D3 initiative at RPM and standard-driven decision-making. So we are much better today at driving mix on a going-forward basis, and that's helping us.

We are benefiting in the quarter from the commodity cycle disinflation that we're starting to benefit in a few places, construction products is certainly one of those. And then it really is a very focused efforts in strategic initiatives around repair and maintenance. So we're seeing real strong results in our core roofing business. All of that is -- we're 95% reroofing and repair on existing roofs, not new construction.

Pure Air has been very strong, and we expect that to continue. We'll see tens of millions of dollars of new volume from that initiative. Panelization is something we've been working on for the last 3 or 4 years. We just added a significant piece of that with this Texas acquisition we announced in this past week. So it's really focusing on the things that we can control that tend to be in the large repair and maintenance areas.

The last comment I'll make is that hospitals have been a significant market for us. And we had some booming business there during and coming out of COVID. Last year was not a good spending year for that sector. And so that weighed on our performance in fiscal '23, and we're seeing some pickup on a relative basis there and also some pickup on Nudura, which had a challenged '23 because of what's happening in the residential market. But again, a very focused effort on expanding the understanding and the specifications for the Nudura ICF system.

So again, it's a lot of self-help and a lot of very deliberate spending into specific initiatives across RPM, and you're seeing the results of that spending best impacting our Construction Products Group as we sit here today.

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

And then just in terms of the balance sheet, what do you expect the balance sheet to sort of end up at the end of fiscal year '24 on a net debt-to-EBITDA basis. And just related to that, how are you thinking about capital allocation in terms of -- in context of where interest rates are and all the macroeconomic uncertainty. And I guess I'm referring specifically to your appetite for incremental acquisitions.

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

Sure. Great question. And so let me step back big picture and kind of just address simply, what are we trying to do with this MAP program and it's really two things. We're trying to significantly improve our cash conversion cycle and it's working. And we're trying to be more data-driven; in our decision-making with a real focus on investing in specific organic growth initiatives, and you're seeing that work, particularly in our Construction Products Group.

And so what that looks like is record first -- record fourth quarter cash from operations, followed by record first quarter cash from operations, notwithstanding a handful of acquisitions and maybe $25 million or so of what did we acquire Rusty last year in share repurchases?

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

Last year, we did $50 million.

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

$50 million in share repurchases. Year-over-year, we reduced debt by $332 million. And so that focus on cash conversion is really working. We expect that -- those improvements to continue. And so that's big picture of what we're trying to do.

The volatility that we've all experienced over the last few years is continuing. And so as we work with our Board, I think we'll have a better answer in the coming quarters, Ghansham, about how we think about capital allocation.

But as we sit here today, the M&A market is relatively slow. We will continue to execute on good strategic small- to medium-sized deals. But the days of huge multiples, in my opinion, are over, if not forever, at least temporarily. We went through a period of time where incremental cost of capital was almost zero. That is not true today. And so given the choppiness in the markets and the MAP initiatives that are benefiting our conversion costs and our efficiency, we are focusing a lot of time and attention on driving organic growth where we can. It's easier said than done in an economic environment that is, as Rusty likes to say, feels like a rolling recession, both geographically and across sectors.

Operator

The next question comes from John McNulty of BMO Capital Markets.

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

So I guess the first one would just be on raw materials. Your previous destocking over the last few quarters that you guys were implementing and FIFO makes it a little bit complicated to kind of think about how raws are really trending for you. So I guess, can you help us to think about -- it looks like you got some improvement in the first quarter. How should we think about that continuing to flow through in terms of deflation throughout the rest of (technical difficulty) and has the move in oil recently? Has that had any impact upward on some of the raw material trends that you pay attention to? How should we be thinking about that?

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

Sure. I'll address your last portion of your question first. The only place where we're seeing the move in oil prices impact us immediately is an acetone. That's a prime -- it impacts a number of our coatings businesses, but in particular, Rust-Oleum.

So in general, as you followed RPM for many years, we in our industry follow the commodity cycle increases up with lagging price increases, and so you see some margin compression. And then as the commodity cycle cycles down, we typically pick up the lost margin.

We are now experiencing that in Q1, in most of our businesses and segments, except consumer. We would expect to begin to see that in consumer in Q2. We're rounding metal packaging increases that were pretty extreme and are attention to some tariff activity relative to tinplate, which is the primary raw material for metal packaging and spray cans, things like that. TiO_2 is up modestly year-over-year and acetone is the only raw material that we see reacting to current price increases.

So the commodity cycle benefited us, particularly in our Construction Products and Performance Coatings segment in Q1, and we would expect it to continue to be a benefit to margin expansion in Q2 as well. Again, that's another one of those things that is volume driven, you get the benefit when you sell something.

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

And then maybe just on the consumer segment. So you spoke to -- it sounds like some of your customers are drawing down inventory kind of below normal levels. I guess can you help us to think about if that's largely played out at this point? or if there's still a disconnect in terms of the point of sales and what you're seeing in terms of pull? And then I guess, maybe as an add on to that, you mentioned some share gains, I guess, can you speak to those as well?

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

Sure. So our consumer segment is continuing to perform, I think, at a good level. I think most of the inventory adjustments are behind us. They were certainly significant in the last year. I will tell you in terms of consumer takeaway, while it is improved, meaning less negative, it still trends across different product categories in different channels and the kind of low-to-mid negative range, which is a slight improvement from what we experienced in the second half of last year, which was kind of solidly mid- to upper single-digit negative consumer takeaway. Some of that's hangover from the COVID bump.

As we had communicated in the past, we had lost some share to major big-box account. Some of that was related to our own supply challenges. Our supply challenges are over. Our fill rates are back to solid numbers. Through the MAP initiative we have created through efficiencies, 40 million or 50 million units of volume. And so we're in really good shape today there.

And product gains have been with our universal. We're picking up share in new accounts, and that's going really well. The Rust-Oleum 5 in 1 spray is showing some incremental gains, and I'd say incremental. Any positive numbers in the face of slightly negative consumer takeaway look good. We've got some new product introductions at [DAP] a 2-component spray foam and one can that's being introduced really well as well as a textured spray that's being well received.

So new product introductions are going well, and we actually experienced because of the new product introductions, some positive unit volume growth in the quarter at DAP. And so that's kind of the broad overview of what's happening in Consumer.

Operator

The next question comes from Steven Byrne of Bank of America Securities.

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

Frank, I got a question for you on CPG. Do you have a view as to how much of the revenue in that segment is generated from service versus selling materials and that could be a complicated question given your -- some turnkey projects. But I asked about this service component because it seems as if it's something that you're expanding into this Pure Air model seems to be service in your restoration and maintenance on roofing seems to be -- there's a service revenue component. And just wondering if you had an estimate on that and maybe more importantly, would you see that model potentially expanding into other areas of service such as cleaning or water treatment, something beyond the air quality inside the building?

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

Sure. So great question. And in general, our Construction Products Group revenues are about 30%, maybe slightly higher, 30% service revenues with roughly 70% driven by product sales. It's a little bit -- and there's a little ambiguity there because in most instances, we're not selling -- in some cases, we sell only repair services or other services but in many instances, those services go hand in glove with the material sale for a reroofing project, for instance.

I would expect that over time to expand. And we talked about Pure Air, that's a good example. That addresses right at indoor air quality. And we have been asked for many, many years as we're on the roof with our WTI Services Group and addressing issues on the roof and not just roofing materials, but rooftop safety in terms of the work that Tremco does with fiber grade in terms of railings and walkways.

We've been asked for many years, can we address HVAC issues in repair and the answer for too long was no. Two years ago, we acquired Pure Air and there's a key element of this. It took us a while there to fix. And that is a service business, whereby we do an assessment of existing HVAC systems and then have really good capabilities to clean, disinfect and repair components. And it was a $20 million business when we acquired it, we expect a few tens of millions of dollars of revenue growth this year and the potential for that is meaningfully higher. And so as that rose as a share of our business that will grow, that 30% services business higher, the benefits are basically about a 1/3 cost versus total replacement.

The immediate benefits are significant improvement in efficiency of an old system that's getting one down because of blades or motors or other things. And there is a measurable benefit immediately in indoor air quality. And so for the hospitals and school system, customers that our construction products group serve, it's really exciting market for us.

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

And Frank, any thoughts about expanding some of that service to go into other issues such as cleaning services, for example, or water?

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

Yes. I think the expansion will come from our continued market share gains broadly roofing. But the areas that we'll expand like a Pure Air are where we can add value. So we can add significant value versus replacement. And so we'll look for other opportunities but they'll be limited to areas where we can truly add value as opposed to areas that are more commodity-like in services. And I think it's critical and it's back to that component of it's not just the service, but it's adding the material element or the cleaning or disinfecting or blade repair components to go along with it.

One other factor, which is also true for our Stonhard flooring business, and the reason that we got off to a rough start in the first year of Pure Air was staffing. I think anybody that is doing any work in residential or commercial and industrial construction, workforce issues are significant. We have solved that issue with Pure Air with our WTI roofing workforce. We have a great collection of installers with our Stonhard business. And so that certainty of having our people on the job, on time staying on the job to get it done in this environment is also getting us a competitive advantage in the roofing and the HVAC restoration and in the industrial flooring markets.

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

Okay. And one quick one on Nudura. Do you see the value proposition of that product to be more in its insulation value, thus either cold or hot claimants or more for its hurricane, tornado protective value? And how are you marketing that product based on those two value propositions?

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

So the simple answer to that is, yes. It's one of the most energy-efficient building systems for residential and commercial structures in the market today. It's got its unique characteristics that we continue to have to educate people on. But it's also one of the most durable residential and commercial structures today.

So for instance, we got approval for Nudura specifications for schools in Kentucky. And that was, in part, a direct result of a terrible experience they had with a tornado a few years ago. The durability of Nudura in hurricanes is also becoming well known and so it's a combination of the energy efficiency for people that are looking for net zero buildings. We completed the first net zero school in Kentucky a year ago. It's not just the new Nudura piece, it's other building components but -- so we can deliver that and the durability in the face of expectations for more climate-driven weather events.

Operator

The next question comes from Josh Spector of UBS.

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

I wanted to ask on group pricing overall. And maybe if you can detail the segments a little bit more beyond construction. I guess based on what you've given, I mean, it seems like price was up 3.5-ish percent. Our math at least is on a stack versus a few years ago. Second half last year, you're tracking about 30% pricing multiyear stack, this quarter implies maybe about mid-20s.

I'm not sure if those numbers are right with your thinking that there has been a step down sequentially or not. I'm just curious how you think pricing would trend in the various segments based on that information through the rest of the year?

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

Sure. And we don't provide that detail by segment. But on a consolidated basis, we're in the 3.5% range. So across our businesses, you're seeing price impact in the quarter that might be as low as 1.5% and might be as high as 5% depending -- it's really not by segment, it's by product line and really driven by raw material issues. But on a consolidated basis, we were about 3.5% price in the quarter.

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

Okay. Thanks. I mean, I guess the crux of that question more is there any sequential step down in pricing in any of the segments? Or is that math may be incorrect?

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

No, I think that's correct. I mean, again, we've been fighting and it's not unique to us or whole industry for that matter, most manufacturing a commodity cycle that's bigger than any of us have ever seen. Over a 2-year period, we saw more than $500 million of raw material price impacts in our consumer business. And so it took us a long time to get on top of that. And I can tell you the other aspect of it, and this is something that I said in the spring of '22, and we were early.

We were starting to see inflation throughout our whole P&L. And so we've seen inflation, which continues. While raw material inflation is abating and our regulated price increases are stepping down, and you can see that with the data I just gave you this quarter.

Labor is still an issue. Items like insurance, are a meaningful issue in terms of higher inflation. And so inflation still exists in a number of factors and inflation still exists because of interest rates in the housing market. And I think that's part of the challenges that we're seeing, particularly in our Specialty Products Group.

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

So I guess -- sorry, to clarify one more time. So sequentially, when you're talking about inflation still persisting, are your pricing moving up sequentially, down sequentially or holding sequentially in terms of how you're thinking about this quarter and your outlook?

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

So in the quarter, year-over-year, we're up 1%?

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

In which quarter?

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

This quarter.

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

The second quarter. Yes, we're going to lap some anniversaries of selling price increases, Josh. So yes, we would expect marginal decrease in that 3.5% price effect.

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

But it's -- again, there's a few areas where we've had price increases where it was just necessary to get them that are a little outside of cycle, but we are seeing the impact of price sequentially step down. And so I can't give you the numbers for future quarters other than -- in this quarter, price increases accounted for about 3.5%. And we would expect that to sequentially slowly bleed out in the next couple of quarters. And the things that we're paying attention to are odd off one's again, relative to oil prices and their impact in other areas, tinplate relative to tariff activity that's being pushed in Congress. So there are a couple of areas that we're paying attention to, but nothing that's impacting additional price increases today.

Operator

The next question comes from Aleksey Yefremov of KeyBanc.

Unidentified Analyst

This is Ryan on for Aleksey. So I guess my first question, I understand there's a number of different pockets of nonres, but can you walk us through how demand is kind of trending in each of those markets? And have you seen any signs of slowdown in backlogs in any of those markets?

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

Sure. So there's not too many in the construction markets. There's not too many good statistics to point to. Residential constructions take it on the chin in North America, which is where we have our primary exposure, commercial construction is not very strong. You look at the office glut and what's happening there. The build-out of the Amazon distribution centers, things like that, that run their course in terms of the big growth. So there's not a lot of good signs to point to.

The areas of strength for us are the things that we talked about, very deliberate initiatives around maintenance and repair in the sectors that we have strengthened. And so I think our performance is kind of bucking the underlying trends. And a big part of that is in our construct and Products group, I would say we have maybe a 30% or 35% exposure in new construction between residential and commercial, which means we're in the 65% to 70% less cyclical renovation, repair, reconstruction, reroofing markets. And I think those markets are stable, and we're picking up share given some of the new initiatives we have.

The other area -- the only area that's showing continued strength is related to industrial construction and capital spending driven by the onshoring movement and a substantial amount of government subsidies in that area. And that is impacting Construction Products Group a little bit in our Performance Coatings Group more.

Unidentified Analyst

Got you. Okay. That's helpful. And then just -- I have a question on your comment in the deck here in the Specialty Products Group. So you mentioned customers held inventories below historical levels, I mean does this mean destocking this business is over and there's been no uptick from restocking? Can you kind of try and parse that out for us?

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

Sure. I think it's over. I don't know that it would have a much of a big impact going forward. But a good example is because the supply chain challenges into RVs and what remaining furniture or [cabin making] is done. It was very common for those businesses pre-COVID to shut down for instance, in the month of January for maintenance and other things. And during the COVID period and in the post COVID period with supply chain challenges, those shutdowns disappeared, while they showed back up in calendar '23. And so they got back to no more shutdowns. There was inventory adjustments.

The other thing that I don't think we've emphasized enough here is most of this is done, but not all of it. But starting in December of last year, really driven by better data and our MAP '25 initiatives, we very deliberately shut our own production in a number of areas to make some permanent inventory adjustments.

And so in the second half of '23, we had tens of millions of dollars of unabsorbed overhead, both from lower volumes from a market perspective, but also lower volumes from deliberate decisions to shut down production in some of our Specialty products companies, in our consumer group and other areas to really address some permanent inventory level issues across RPM. Most of that is behind us as well.

Operator

The next question comes from David Huang of Deutsche Bank.

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

I think I -- in a deflation cycle, you historically generate $100 million to $200 million price cost tailwind. Can you talk about how much was the price cost tailwind on a dollar basis of Q1? And then with higher oil prices now and some lingering inflation in consumer, maybe help us understand your expectation on price cost realization this cycle versus the historical $100 million to $200 million range?

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

Sure. So I can give you a big picture. I don't know that we would disclose that by quarter. So big picture in our MAP initiative, we laid out a goal, and it was actually a year ago that we went public with the MAP goals of achieving $465 million worth of savings. And about $115 million of that was our expectation of commodity cycle recovery. So non MAP-driven initiatives, just the normal commodity cycle recovery.

Our target this year in MAP savings is $160 million. I would venture that half of that is going to be commodity rate cycle recovery. Depending on our dynamics and looking at the past, it's possible that we would exceed that $115 million. But again, time will tell as the pending quarter's results happen.

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

Got it. And then on SG&A. First, can you talk about the investments you're making? And if demand gets worse from here, how much can you pare back from those spendings? And then can you also quantify the year-over-year headwind on incentive comp for your business?

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

Sure. I'll let Rusty address the incentive comp issue and some of it is a truly set of cash, which is higher based on higher results and better mix and some of it's continued inflation in wages and sales.

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

Sure. In terms of the SG&A for the quarter, David, there is a few areas of compensation. One obviously is commissions go up when we sell more, especially of higher-margin products, which we're pushing, and you saw that on the gross margin line.

Another area would be performance-related bonus accruals were up a few million dollars during the quarter. And then on basic salary and wage inflation in SG&A, typically, those have run over the long term, about 3%. They're up more in the 4% to 5% range right now. So as a result of that, pay increases were probably in the $6 million or $7 million range impacting SG&A.

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

And to your -- the first part of your question, roughly 25% or 30% of the SG&A increase in Q1 was driven by focused. We follow big ideas for growth, BIG in our businesses. And so I can give you broadly some of the things. These are just directional. But in our Construction Products Group, Pure Air, panelization, Nudura are getting a lot of attention and extra investment. One example in our Performance Coatings segment is a project that we're in our second year called C2B, which is Carboline to a billion. And there's specific initiatives in Canada, Europe and in non-oil and gas segments.

In our Specialty Products Group, we are focused on a turnaround of our DayGlo resin and fluorescent color business. I mentioned previously the specific investments in the (inaudible) patented adjuvants as well as the channel -- MRO channel focus for Legend Brands, which is a new market for them.

In consumer, we're very focused on increasing advertising and promotion around some of the new product introductions at DAP and Rust-Oleum.

For the balance of the year, if we follow through with our plans probably anywhere from 30% to 40% of SG&A increases would be associated with these specific initiatives with the intent of driving organic growth. All of these are easy to cut back, and I don't say that cavalierly in some instances, hiring more salespeople or tech service people in other areas. It's truly advertising and promotion or digital advertising. But as we sit here today, we think that's penny wise and pound foolish. And it is our specific intent to focus some of the MAP savings on these specific growth investments. And if we're successful, you'll see in the coming year, some more stories like what we're talking about in our Construction Products Group today.

We expect that to continue in CPG for the balance of the year. They got good momentum in these new initiatives. And on the flip side, if we bump into the deep recession that some economists fear, there are tens of millions of dollars of SG&A that could be cut pretty quickly.

Operator

The next question comes from Mike Sison of Wells Fargo.

Richard Garchitorena - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

This is Richard on for Mike. So first question, you saw strong growth in Europe, over 9% year-over-year growth. You did divest one noncore business in Performance Coatings. So can you give me some color on what end markets were driving strong growth this quarter in Europe? And should we expect margins to improve somewhat from the divested business?

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

Yes. So I think part of the European story is Europe really was negatively impacted by recessionary elements and then the Russian war on Ukraine. And so we experienced a very challenging performance in Europe in calendar '22 and most of fiscal '23 and so some of it is we're rounding easier comparisons.

The other area is that we are having a more focused effort in the MAP '25 initiatives in Europe. For instance, our MS-168 initiative, which is really driving lean manufacturing and continuous improvement disciplines across our plants. It's a very in-plant, hands-on utilizing outside consultants process. It takes weeks, is followed up by performance audits on a 90-day cycle. That got interrupted by COVID. And so our efforts were halted a little bit. The lion share of it was initially focused on our larger plants in North America. We're seeing those benefits now happen in Europe.

We positioned Dave Dennsteadt, who's our Performance Coatings Group President. We also have a big presence in Europe. He and his family moved this summer to Europe, and he has a senior leader oversight to help accelerate some of the opportunities to drive efficiencies more aggressively in Europe. The decision to divest a business in the U.K. and close some underperforming operations were part of that. And so all of that should bode favorably for growth and margin expansion in Europe quarter-by-quarter and over the next couple of years.

Richard Garchitorena - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Great. And then just a follow-up, strong EBIT margin growth on CPG as well. Is there a limit to how much additional margin improvement we can see there? Obviously, you got to 18.5% maybe talk about some of the specific to CPG benefits from MAP and pricing as well?

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

Sure. I don't know that I would talk specifically about limits to EBIT margin growth in any of our businesses. We still have room to grow. But not surprising from my earlier comments, there is a trade-off in the near term between expanding margins and investing in organic growth. And back to the big picture thing if we simplify across RPM internally and into our investors, what we're trying to do here, it's significantly improve our cash conversion cycle and ramp up organic growth initiatives. And we think the economic circumstances that we're in call for that, and we're having really good progress in the cash conversion cycle improvement, and there's more to come. And we're having really good improvement on the organic growth piece in Construction Products, and we're hopeful that we'll see more benefits across more RPM companies in the coming year.

Operator

The next question comes from Frank Mitsch of Fermium Research.

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

I want to come back to the MAP 2025. I believe you mentioned before that you're expecting a benefit of $160 million in fiscal 2024. But my understanding is that's the run rate, right? That you're expecting to end this year? And you guys are actually expecting about $100 million to impact the 2024 P&L? Is my understanding correct?

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

That is 100% correct, and I appreciate you're clarifying that.

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

All right. Great. And what was the actual benefit that you saw in the first quarter from that 2025? Of the $309 million EBIT?

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

We ran at about the run rate you'd expect. So it was about a 1/4 of that year's benefit, maybe a touch ahead.

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

So $25 million or $30 million. And we communicated in July. We had $120 million goal in fiscal '23, we exceeded that. And we have a $160 million run rate goal. And you're right, we expect $100 million of it to flow through our P&L.

Some of that is benefits that will begin to be realized in the second half of the year in terms of run rate. Some of that is the impact of FIFO accounting, both in terms of conversion costs and the commodity cycle benefit that shows up in our case, maybe 60 or 90 days later than where we on LIFO. And so that's what's happening there. But we are on or slightly ahead of target for that $160 million run rate for the year.

And as I said earlier, I would expect about half of that or slightly less than half of that to be associated with the commodity cycle benefits as well. This should be the year unless we get surprised by oil prices or some other spikes. And as we look in the past, where the lion's share of the commodity cycle benefits should show up.

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

Got you. Well, we are seeing oil starting to pick up since the beginning of July. But I wanted to also ask a bigger picture macro question. Given that the guide for the year assumes no recession, and you've been indicating that you've been seeing red turn to yellow turn to green. I believe you mentioned last quarter in reading through the release, it sounded fairly promising. So I'm just curious as to where do you stand on the whole hard landing, soft landing, no landing for the U.S. economy for your fiscal year?

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

Yes. I think -- and maybe Rusty can comment on this? Rusty Gordon has captured the sentiment a bit better than any economist I know, and maybe it's a combination of his reading in seeing our numbers. But it feels like we're going through a rolling recession and the housing market is taking it on the chin, you can see it in our Specialty Products Group results, you can see it in companies that serve residential construction and/or the components that go into that furniture and other things.

Retail takeaway has not been very strong across many categories. And as we commented, in the second half of last year. POS in our categories tended to be mid- to high negative single digits. We're seeing that improve, which means it's less bad. And so I'm hopeful that there'll be somewhat of a soft landing in the sense that this is a rolling recession.

Again, Europe went in early. We're seeing better performance in Europe. I think there is no more stability around the impact of the Russia's war on Ukraine. We're rounding easier comps and quite candidly, there is some reasonable growth in the U.K. for instance. And the U.K. seems to be performing better than Continental Europe as we sit here and for us that's a good thing because a little less than half of our revenues in Europe come out of the U.K. And so that's the best shot to have at that, Frank. And other than to say a lot of our performance in this quarter and what we expect in the second quarter is as much self-help as it is counting on any economic green shoots or pickups.

Operator

The next question comes from Kevin McCarthy of Vertical Research Partners.

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

Frank, I wanted to ask about the impact of fiscal stimulus. It seems like the infrastructure and reshoring project contributions have really gained some traction over the last couple of quarters. Can you speak to the kind of the magnitude and duration of that tailwind? Do you think it will continue to accelerate as the year progresses or flatten out? And when do you see the peak in that phenomenon?

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

Yes. I still think that there is a significant amount of fiscal stimulus coming. The infrastructure bill that was passed on a bipartisan basis I think was $1.2 trillion. I think the analysis of that kind of although was infrastructure. But if half of it, $500 billion or $600 billion was infrastructure, that's still coming. I can -- you can see that in highway construction, you could see that in the onshoring of manufacturing, you can see that in some expansions in airports.

So I think as we sit here today, we see that having a pretty good runway for the next 1.5 years or 2 and that's our best guess. It's not having any impact on residential construction in the housing market. And I think that in commercial construction as well.

There's 2 big macro trends that are fighting each other. One is massive amounts, trillions of dollars of federal subsidies and stimulus fighting the fastest interest rate increase that this country has ever seen. And you look at bond rates today, the cost of mortgage, the cost of rent, the cost of a lot of things that are debt driven are continuing to go up.

So those are the few macro trends, I think, that are fighting each other relative to how these things impact the economy to your question and impact us. But for portions of our Construction Products Group and portions of our Performance Coatings Group, we think there's still pretty good tailwinds there.

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

That's a great segue to my second question. You spoke earlier on the call, Frank, about how higher interest rates render acquisitions a bit less appealing relative to the era of free money. The flip side of the coin is maybe divestitures become less punitive or less dilutive. And in the case of low-margin businesses, we're starting to see a couple of examples where divestitures can actually be accretive.

And so I'm tempted to ask you, as you kind of look across the portfolio, do you think the next year or two could be an interesting window for what I would call portfolio cleanup divestitures, perhaps some candidates in Specialty products or elsewhere in the portfolio to follow the trend that you started with Guardian?

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

Sure. We're continuing to look as part of our MAP 2025 initiative at opportunities to improve margins where we have low margin, no growth businesses. The latest example of that was in this quarter, where in the U.K., we were able to sell off a piece of service element of our USL business and then also restructure a piece, taking the high-margin product lines and putting it in different parts of RPM paid off nicely. The divested piece has gone to a group that will retain all the employees there and continue to drive that business in a manner that works for them. But was not margin positive for RPM.

So part of the self-help and what we expect to be a quarter-by-quarter and meaningful improvement in European margins is not only the broader dynamics we're talking about, but divesting or closing or restructuring lower margin, no growth businesses. There is more of that to come over the next year in our MAP initiative in different segments. And it tends to be either product line or specific facility-related and when they're executed, we'll provide details.

Operator

The next question comes from Jeff Zekauskas of JPMorgan.

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

I think on an adjusted basis, your SG&A costs were up about 12% in the quarter. Isn't that way too high? And in general, should your SG&A costs grow above the rate of sales growth, below the rate of sales growth, at the rate of sales growth over a longer period of time or do you not have a target?

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

Sure. So in general, the SG&A in the quarter was up 10.9%. And so I'm not sure what are the adjusted...

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

Yes. 10.9% is right.

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

Yes. And it really goes back to my earlier comments, a couple of things are driving higher SG&A. Some of it is continued inflation in wages and salaries that we're beginning to annualize those. We're not seeing that so much today as we were seeing it throughout fiscal '23. And so in the first half of fiscal '22, the higher wages and salaries, insurance costs, all the things that impact us and all our peers are there.

The other element is really twofold. One is being much more deliberate about driving mix. I mean you're talking to a CFO and CEO of a company who maybe 5 or 7 years ago, wasn't very good at analyzing mix with great accuracy in hindsight. And today, with the data initiatives we have in place on the ground at the operating level, we're much better at driving mix going forward. Where do we want to incentivize our sales forces to focus their time with higher mix comes higher commissions, particularly in our Construction Products and Performance Coatings Group, where we still have a fair amount of commission-based sales.

And then lastly, are the very targeted initiatives that I've been talking about. We fully intend as part of MAP '25 to take some of these margin savings and reinvest them in our P&L and growth initiatives. It's paying off in a big way of construction products today. And I think as long as we could generate solid sales growth and earnings growth. And again, I would remind you we're generating positive results as RPM and in most of our segments other than SPG on top of big mountains.

Last year, consumer sales were up 22.5%. RPM had an all-time record in Q1. I think our EBIT last year in Q2 was an all-time record, and it was up 36%. We expect to top that and so as long as we have forward momentum on the sales line and we're experiencing both the improved cash conversion cycle and the margin enhancements that we expect. We will continue to reinvest in these growth initiatives. And then we have to have the discipline when after a couple, 2 or 3 years of investing, we're not seeing the expected results to cut back in those areas.

As I mentioned earlier, Jeff, as well, we are targeting very specifically what we call BIG: Big Ideas for Growth investments, separately on an SG&A sheet and if the economy turns sour quickly, we have already lined up the specific SG&A cuts that we can make.

And I would just comment on that. As long as we continue to outperform quarter-by-quarter versus some big year, big pounds last year, I would expect for the balance of the year for you to see SG&A rise at a level higher than sales. While at the same time, you'll see gross margin and EBIT margin expansion for the year. In the long run, SG&A should grow at or below the level of sales growth, that's correct.

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

Okay. Good. And then for my follow-up, Sort of a 2-part follow-up. Should inventory levels change very much this year? You're kind of flat sequentially, but raw materials are down and demand is sort of soft.

And then in Construction, I think you talked about mid-single-digit growth for the second quarter, but you grew organically around 10% in the first quarter. And I get that the price comparisons will be a little bit harder but what accounts for the step down in Construction growth? And will inventories change very much from where we are?

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

Yes. On the inventory side, Jeff, as you know, we have MAP objectives to reduce working capital and inventory is a major piece of that. You've seen progress this year. I think -- what might be a bit different as we go forward for RPM is traditionally in the late winter time, we would build up safety stocks for the big spring orders. And I think thanks to a lot of our MAP improvements, you will not see that as pronounced going forward for RPM because we'll be able to respond better to typical higher seasonal demand. So that's your answer on inventory.

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

Yes. And in general, this year, I would expect a 300 basis point maybe more improvement in working capital as a percent of sales, and you're seeing that. We had an all-time record cash flow in Q4, all-time record cash flow in Q1, and inventory improvement has been a meaningful part and working capital improvement has been a meaningful part of that record cash flow generation along with margin expansion.

Operator

The next question comes from Vincent Andrews of Morgan Stanley.

Steven Kyle Haynes - *Morgan Stanley, Research Division - Research Associate*

This is actually Steve Haynes on for Vincent. Question on the guidance. First quarter was a bit better than expected. It looks like 2Q is also kind of a bit better than expected and your macro views don't sound that much worse at the margin versus kind of where we were last quarter. So I guess, kind of, what's keeping you from being more biased towards the high end of your guidance range?

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

Yes, great question. The volatility we've experienced over the last 2 or 3 years is what's keeping us from being more bullish. We have seen sharp turns in economic conditions that we didn't expect. We've seen trends that look great for a while and then reversed and there's nothing about all the headlines of -- and not to get too big picture, but whether it's government shutdowns or anticipating things might get a little dicier as we get into an election year. And as bond rates actually start to rise, maybe we'll see a normal bond cycle in terms of the reverse of the current interest rate inversion.

There's nothing that suggests that the economy is getting better. And so we're focused on delivering what we can control, anticipating that we're going to see challenges. But if we hit a soft landing and the start of calendar '24 is peaches and cream, with our MAP initiatives and positive unit volume growth across our organization with easy comparisons, we'll have a blowout second half.

Most of our reading of the economy is people are anticipating that if we're going to have a recession, that's going to start at the beginning of next year. And so we don't have any confidence that the economy is getting better. We just know the things that we can positively impact are continuing to happen. So we're pretty confident in Q2. And beyond that, we'll give you our level of confidence or lack thereof for the second half of the year when we have a chance to talk to investors in January.

Operator

The next question comes from Arun Viswanathan of RBC Capital Markets.

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

Just wanted to go along those lines. I had kind of the same question as to potentially why you're not raising guidance for the full year. But also wanted to add on there, a lot of folks that we speak to are speaking about destocking and inventories coming down, you mentioned 300 basis points. But you're -- again, you're a little less -- or a little bit more cautious on the rest of the year. From a volume standpoint, no confidence that things are getting better. Is that what your customers are saying too? I mean shouldn't they be thinking that they're more of in a coiled spring kind of situation where as soon as somebody bites, maybe they all start buying and we see a little bit better performance. What do you think is really holding them back as far as making greater commitments and if you think that restocking is not going to be as pronounced as in the past, why is that the case?

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

Sure. So a couple of comments. Number one, we're hesitant to really comment much beyond what we've done, particularly in the second half. I'd point out again I think MAP '25 and our growth initiatives are delivering because we anticipate a record level of sales and earnings in Q2, albeit somewhat modest on top of the quarter last year, where sales were up 9% and earnings were up 36%. So unlike some peers, we're not rounding easier comps or modest comps. We're rounding an all-time record second quarter, and we're going to beat it.

As it relates to the broader question, I really think that interest rates are biting more people in more parts of the economy. It was the fastest rate increase in the history of the United States. And there is a lag effect of when the Fed raises rates and how it filters into, you name it, car loans, housing, rent, mortgage rates, et cetera.

Now I'm playing economist and I'm not very good at that. But you're going to have student loans that are going to begin to have to be paid starting this month. So there's a lot of different elements out there that I think make people hesitant.

The last comment I'll say, and I think we're doing a pretty good job of this. And so I look at RPM sometimes, I think, what are trends. So our capital spending is really solid. And so I think most of our manufacturing customers who are doing capital spending. That's really solid, and we see that in the results of our PCG and our Construction Products Group to a lesser extent.

On the other hand, RPM is meaningfully and sustainably improving our working capital ratios, which means we're bringing down levels of inventory. So are most of our customers and so are most of our competitors. So those trends are continuing. And so I hopefully -- that answers your question.

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

One quick follow-up. How much of the MAP savings are volume dependent? You mentioned a portion there. What would you quantify that as?

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

I would say you're 90% of them, they are very targeted at efficiencies in our plants, so lower conversion costs a better cash conversion cycle. So that's all about how you get (inaudible) to the door, what you pay for them, how quickly you add value and how quickly you get it out the door. And then even a lot of the data decision making is helping us drive a positive mix, but that's about what we sell.

And so that's why I do think you'll see a nice rebound into the mid or upper teens in terms of EBIT margins in our Specialty products group when the volume returns. They're doing the work and it's having a real impact in their operations, but they've been through now 7 months or so of negative unit volume growth. So the benefits of the work there aren't going to show up until we start seeing positive volume growth. So very volume dependent. It's why you're seeing the nice leverage in our Construction Products Group when you have positive unit volume and the MAP savings are real, you'll see really nice leverage to our bottom line.

Operator

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

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

Andrea, thank you very much. 2024 started out with positive momentum, and we look forward to leveraging our strengths to build on this strong start for the rest of the fiscal year. We appreciate your joining us today and hope you will join our Annual Meeting of Stockholders online tomorrow. It will be done virtually. It's at 1:00 p.m. Eastern Time, and it can be accessed through the RPM website www.rpminc.com.

At tomorrow's Board meeting and our annual meeting, we will be announcing our 50th consecutive increase in cash dividends to our shareholders. And our Board will be deliberating tomorrow about what that will be. I'd like to put that in perspective. If you like the power of compounding interest, you'll love the power of an annually growing cash dividend.

My father, Tom started our consistent consecutive growth in cash dividends 50 years ago in 1973. Since then, we have had a compounded annual growth rate over 15 years to our shareholders, including reinvested dividends of 15.1%. To put that in further perspective, if you invested $1,000 in the S&P 500 in August of 1973, today, you would have $178,000. That same $1,000 invested in RPM stock in August of 1973 with reinvested dividends, would deliver a $1,150,000 value today. And as far as I can tell, about 1/3 of that value creation was driven by our annually growing dividend. It's a track record that we're very proud of. It speaks to the stability of RPM strategy and businesses, and we're excited about the outcome of our 2025 NAFTA growth initiatives where we are focused on significantly improving our cash conversion cycle and on reigniting organic growth in most of our businesses.

Thank you for your participation in our investor call today, and we hope to hear from you and to have you join us for our annual meeting of shareholders tomorrow. Thank you, and have a great day.

Operator

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