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PRESENTATION

Operator

Welcome to RPM International Conference Call for the Fiscal 2018 First Quarter. Today's call is being recorded. 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's website. (Operator Instructions) Please note that only financial analysts will be permitted to ask questions.

At this time, I would like to turn the call over to RPM's Chairman and CEO, Mr. Frank Sullivan, for opening remarks. Please go ahead, sir.

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

Thank you, Christine. Good morning, and welcome to the RPM International Inc. investor call for our fiscal 2018 first quarter ended August 31, 2017. On the call with me today are Rusty Gordon, RPM's Vice President and Chief Financial Officer; and Barry Slifstein, our Vice President of Investor Relations. Today, we'll discuss our first quarter results, then provide guidance for the balance of our 2018 fiscal year and answer your questions.

In the first quarter, we saw strong top line growth from all 3 segments, driven by 2017 acquisitions and solid organic growth in our specialty and industrial segments. Better leverage as a percent of sales in the SG&A line through cost-reduction actions from last year helped to offset much of the anticipated higher raw material costs, and some of our price increase actions started contributing as well towards the end of the quarter. The severe hurricane season will undoubtedly perpetuate the challenging raw material environment throughout the second quarter.

Sales in our industrial segment increased 8% in the quarter, driven by prior year acquisitions and organic growth of 3.2%. Good growth came from our European and Canadian businesses, while construction markets in the U.S. were a bit soft. We continue to see a significant decline in Brazil and in our companies serving oil and gas markets, which has been consistent with their results over the last couple of quarters. EBIT results for the industrial segment reflect a combination of higher materials costs, unfavorable product mix, higher distribution expenses and disappointing results in Latin America, in general.

Sales in the consumer segment increased 6.8% in the quarter, driven mostly by last year's acquisition of Touch 'N Foam at DAP and SPS at Rust-Oleum in Europe. Organic sales were down slightly, which is consistent with recent trends across the industry as evidenced by softer consumer takeaway in the paint category across retail customers. A good point -- a good portion of higher raw material costs were offset by cost reductions in SG&A resulting in an EBIT increase in our consumer segment of 3.5%.

Sales in the specialty segment increased 6.9%, driven by recent acquisitions and solid organic growth of 3%. Sales were particularly robust in our restoration services company due to the immediate response efforts to Hurricane Harvey and very strong growth at powder coatings, wood treatment and wood preservative businesses. We saw strong leverage as we were able to more than offset higher raw material costs with SG&A cost reductions, including the impact of the closure last year of an underperforming European operation.

I'd now like to call -- turn the call over to Barry Slifstein to provide you with more detail on our first quarter results.

Barry M. Slifstein ***RPM International Inc. - VP of IR***

Thanks, Frank, and good morning, everyone. I will review the results of operations for our fiscal 2018 first quarter, then cover some August 31, 2017, balance sheet and cash flow items before turning the call over to Rusty, who will provide more detail on our guidance for the balance of fiscal 2018.

First quarter consolidated net sales of $1.35 billion increased 7.5% from last year. Organic sales increased 1.8%, acquisition growth added 5.4% and foreign currency translation increased sales by 0.3%. Industrial segment sales increased 8% quarter-over-quarter to $729.8 million. Organic sales increased 3.2%, acquisition growth added 4.3% and foreign currency translation increased sales by 0.5%. Consumer segment sales increased 6.8% to $427.1 million. Organic sales decreased 1.2%, acquisition growth added 8.1% and foreign currency translation reduced sales by 0.1%. Specialty segment sales increased 6.9% to $188.5 million from $176.3 million. Organic sales increased 3%, acquisition growth added 4.1% and foreign currency translation reduced sales by 0.2%.

Consolidated gross profit increased 3.6% to $572 million from $552 million last year. As a percent of net sales, gross profit declined 160 basis points due principally to higher raw material costs and an unfavorable shift in mix.

Consolidated SG&A increased 2.7% to $394.4 million (corrected by company after the call) from $384.1 million last year. The increase was largely driven by acquisitions, higher health care costs and higher freight expense due to increased sales volumes, partially offset by lower bad debt expense. As a percent of net sales, SG&A declined 140 basis points to 29.3% from 30.7%, reflecting last year's cost-reduction actions and better-than-company average operating leverage on last year's acquisitions.

Consolidated earnings before interest and taxes, EBIT, increased 6.1% to $177.6 million from $167.4 million last year on higher sales and modest increases in SG&A, partly offset by lower gross profit margins due to higher raw material costs.

Industrial segment EBIT increased 0.4% to $91.5 million from $91.1 million last year due to higher sales, which was largely offset by higher raw material costs, unfavorable product mix and disappointing results in Latin America. Consumer segment EBIT increased 3.5% to $72.6 million from $70.1 million last year, principally due to acquisition sales growth and better SG&A leverage, partly offset by lower gross profit margins on higher raw material costs. Specialty segment EBIT increased 8.9% to $33 million from $30.4 million last year due to solid organic and acquisition-related sales, combined with SG&A leverage, partially offset by higher raw material costs.

Corporate/other expense of $19.5 million declined from $24.1 million last year. The decrease is predominantly attributable to lower pension expense and outside professional services fees.

Income taxes. The effective income tax rate was 24.7% for the 3 months ended August 31 compared to an effective income tax rate of 23.6% for the 3 months ended August 31, 2016. Last year, we experienced a large discrete tax benefit from share-based compensation as we adopted ASU 2016-09. This year, we had a slightly lower discrete benefit related to foreign tax credit planning and the corresponding reduction to deferred tax liabilities. The balance of the rate change was due to changes in the jurisdictional mix of income.

Net income of $116.4 million increased 3.2% from last year's $112.8 million. Current quarter EPS of $0.86 per share compares to EPS last year of $0.83 per share.

And now a quick look at the cash flows and capital structure. Cash used by operating activities was $26.1 million this year compared to cash provided by operating activities last year of $6.5 million. The decrease was principally attributable to the increase in sales and the timing of receivable collections this year versus last year and the timing of accruals associated with customer rebates and income taxes.

Total debt as of August 31, 2017, was $2.1 billion compared to $1.7 billion last year. The increase is largely attributable to cash used for fiscal 2017 acquisitions of $254 million, the payment to the 524(g) trust in December 2016 of $102.5 million, the prefunding of the December 2017 524(g) trust payment of $119 million in May and the prefunding of the fiscal 2018 pension plan contribution of $52.8 million, also in May. Included in total debt for this year is $254.1 million of short-term debt, reflecting the upcoming maturity in February 2018 of our 6.5%, $250 million bond.

With that, I'll turn the call over to Rusty.

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

Thank you, Barry. And I'll provide some color on the balance of our fiscal 2018 year. Let me start with where we are. In the first quarter, our performance was in line with our expectations and our internal plan, which included raw material costs going up, which we offset with tighter SG&A controls. Now as we roll forward to the second quarter, we've had hurricanes, which have led to higher raw material costs in the second quarter, and that's also disrupted some of our sales activity most recently. So as the areas of the country that have been impacted by hurricanes rebuild in the back half of the fiscal '18 year and into fiscal '19, we do expect increased sales into these affected areas. Additionally, we are going to continue to increase prices in response to the raw material inflation.

I'll now address each segment specifically. Let's start with the industrial segment. In the first quarter, we had a nice balance of acquisition and organic growth, as you've heard. We've had strong sales in Europe and Canada. We expect that to continue. Also, we expect poor economic conditions to continue in Latin America, most specifically in Brazil. Our sales in the energy market, which most impacts our industrial coatings business, seem to be nearing the bottom, and we do continue to expect a rebound at some point in our second half of the fiscal year. We do expect commercial construction in the U.S. to continue to provide a favorable market for the balance of the year. Even though most recently, we haven't seen the forward momentum in U.S. construction that's occurred in the recent years, we do see some promise, especially in the south with the rebuilding activity from the hurricanes.

So for the balance of the year, we expect the industrial segment to grow sales in the mid-single-digit range. Additionally, we continue to incur expenses relating to the ongoing integration of Flowcrete and Euclid into the newly formed Euclid Group, and we're very focused on driving improved operating leverage throughout the entire industrial segment. And this will involve future realignments to generate additional cost savings and efficiencies.

Next, I'll move to the consumer segment. In the first quarter, we got significant contribution to sales from acquisitions, and this offset some weaker organic sales growth that you heard about earlier. The economic conditions continue to be favorable for the consumer segment when you look at residential housing, employment numbers, consumer confidence. So for the balance of the year, we would expect our consumer segment to grow sales in the mid-single-digit range.

Next, moving on to the specialty segment. As we talked about, we had a nice balance of acquisition and organic growth in the first quarter, driven by higher restoration equipment sales. We expect to get additional good volume in that business in the second quarter. Powder coatings have been growing nicely as have our wood protection products, which include preservatives and wood treatments.

On the negative side for the rest of the year, we are going to be affected in our edible coatings business by a patent expiration, but nevertheless, for the balance of the year, we expect our specialty segment to grow sales in the low to mid-single-digit range.

So overall, we are maintaining our full year fiscal '18 guidance for EPS in the range of $2.85 to $2.95 a share.

Now we will be pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first comes from Frank Mitsch from Wells Fargo.

Aziza Gazieva ***Wells Fargo Securities, LLC, Research Division - Associate Analyst***

It's Aziza on for Frank. So with such an array of raw materials, can you guys elaborate on which specific raws give you most concern at this time?

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

Sure. The raws that have had the greatest impact on us in the quarter were in the neighborhood of acrylic resins, epoxy resins, silicones, some isocyanates. We had some, actually, shortages, which interrupted our ability to deliver sales in categories like MMA. Most of the shortage issues have been corrected, and that's good news. We had a backlog in some of our MMA product categories for sealants and flooring building because of supply. And I think there was some anticipation that raw materials would be easing. I think the hurricane activity and its impact on the North American chemical industry suggest it'll still be an issue for the coming quarter or 2.

Aziza Gazieva ***Wells Fargo Securities, LLC, Research Division - Associate Analyst***

Okay. And within consumer, could you provide an update as to what you're seeing with the Kirker business?

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

Sure. We have talked a lot in the past about Kirker and its decline in sales and earnings, and the Kirker business has new management. It's stabilized. And it's, in the grand scheme of things, not very material. And these contributed to sales or earnings growth or decline in the quarter relatively flat and stable and a rebuilding business with a better leadership team.

Operator

Our next question comes from Rosemarie Morbelli from Gabelli & Company.

Rosemarie Jeanne Pitras-Morbelli ***G. Research, LLC - Research Analyst***

Frank, I was wondering if you could touch on the consumer side. The trends are negative for the paint categories. We have heard that from everyone. But you are not in architectural paints. You are focusing mostly in small projects. So can you give us some details as to what you are seeing in your neck of the woods? And why is it down?

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

Sure. I think in the consumer DIY segment for RPM, our results have been relatively flat for the last couple of quarters. And that's in comparison to strong results of a year ago, but also in comparison to our most directly comparable public peer whose consumer segment is about $1.6 billion. And for each of the March 30 quarter and June 30 quarter end for them, their organic sales were down 11%, where ours were down 1%. So not only are we holding our own, we're gaining some share in certain areas. I think, in general, there has been a challenge weather-wise in terms of a very wet spring and a very wet June and some questions as to whether some of the painting season this year was lost a little bit to weather. I can also tell you at the big-box retailers, I think Barry has an interesting trend relative to statistics they put out just broadly on their categories by dollar amount.

Barry M. Slifstein ***RPM International Inc. - VP of IR***

Yes. The same-store sales at our large retailers has generally been in the mid-single digits. But when you scroll down a bit deeper, you discover that it's the ticket items that are $900 and above that are driving a lot of that growth. They're up in the close to double-digit range, whereas items $50 and below are only growing in the 1% to 2% range.

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

So those are some of the statistics we look at, but in terms of market share, in terms of new product introductions and comparatively to the public peers that we can see data on, we're more than satisfied with the results in our consumer business on a comparative basis. On an internal basis, we are not achieving the sales growth that we consistently like to see, and we are working on that.

Rosemarie Jeanne Pitras-Morbelli ***G. Research, LLC - Research Analyst***

What do you think you can do? I mean, if -- vis-a-vis your peers who are talking mostly about architectural paint, are projects being given to contractors. So are you seeing that your small projects like spackling and other type of small products that you are selling are also going to contractors as opposed to the individuals doing it?

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

No. We're not in the architectural paint business, and so I don't know that we're directly impacted by the competition there between the movement between DIY and paint stores. I think it's interesting that the largest paint company in the U.S. talks about the strength of its paint store model versus its competitors, which happen to be our biggest customers in terms of home centers, discounters and hardware stores. So we continue to serve our customer base quite well in the small project paint, patch and repair and sealant and adhesive categories, in which we compete.

Rosemarie Jeanne Pitras-Morbelli ***G. Research, LLC - Research Analyst***

Okay. And then lastly, if I may, on the industrial side. You mentioned there were some areas performing well and others being weak. Could you give us a little more in terms of those factors in each category?

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

Sure. We've had pretty solid strength in construction, North American construction, and it's been a little choppy. I suspect most of that is related to the hurricane activity. Texas and Florida are two huge states for us, both at the consumer level relative to the population and the number of customer stores we serve, but also very much in the construction markets. And so there's some choppiness there. The backlog of activity that our businesses like Tremco or Dryvit indicate they have would suggest that it's temporary and that we've got pretty solid performance coming up. Europe is doing better -- and Canada are doing better relative to where they were. And as you noted, FX -- noted in our results, FX was essentially neutral, so first time in 3 years where we haven't had a negative impact of FX on sales and earnings. The biggest weakness for us regionally was in Latin America. Almost universally, Latin America has been a challenge for us. Obviously, our biggest presence there is Brazil, and that continues to be a troubled economy.

Operator

Our next question comes from Steve Byrne from Bank of America.

Ben Gottesdiener

This is Ben Gottesdiener on for Steve. Quick question about the SG&A commentary. Can you just discuss in more detail some of those SG&A reduction initiatives? Are they still ongoing? And how are you approaching this?

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

Sure. We had a number of initiatives that I think were known last year. We closed an underperforming operation in the Middle East. We closed an underperforming operation in Europe. We had a year-end RIF that affected about 250 people across different parts of RPM. And as we look into fiscal '18 and a little bit into fiscal '19, we have continued efforts, particularly focused in our industrial segment where we will be combining some businesses and realigning some businesses in ways that will allow us to be both more globally competitive in certain markets and address our SG&A expense base at the same time.

Operator

Our next question comes from Ghansham Panjabi from Baird.

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

So first off, how are we thinking about core growth for '18 by segment? And how should we sort of think about that breaking out between volume and price? I mean, you obviously have a lot of initiatives on the pricing side underway, just trying to figure out the cadence of that as the year progresses.

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

Sure. In the industrial segment, we're generating core growth of about 3%. And I suspect it might be a little weaker in the fall months and a little stronger afterwards just because of some of the choppiness we're seeing relative to the hurricane activity, it's hard to know. But there was almost a standstill in Texas and Florida, and we're starting to see things pick back up there. Our specialty segment businesses, with the exception of the edible food coating business because of the patent expiration, so the good news there is the management team has maintained so far 100% of their market share but obviously on a lower sales dollar base and a lower profit base, so that will be a year-over-year negative. The rest of our specialty segment will be kind of in the low single-digit organic growth rate, with the exception of Legend Brands, who is selling almost everything they can make in relationship to their water restoration and air handling and dehumidification equipment, which is in heavy demand right now. On consumer, we see that beginning to pick up modestly in the coming quarters. And I think in the second half, we'll be staring at much easier comps relative to some of the weather issues, rain issues that we talked about in the spring of '17. And so, hopefully, that gives you a sense of how we're thinking about organic growth. On a consolidated basis, I think across RPM and -- most of the pricing action was in August. Some of it was initiated as of September. On average, it's in the 2% to 3% range. On a segment basis, for competitive reasons, we would not provide that data.

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

Okay. That's super helpful. And just as a follow-up, on the second quarter impact from weather and higher raws, et cetera, how should we think about the net impact on the quarter specifically as it relates to the progression through the back half of the year from an earnings standpoint?

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

Certainly. So I think we'll continue to see gross margin challenges in the coming quarters. You should also expect to see SG&A year-over-year improvement as a percent of sales. As Rusty indicated, I think we're comfortable with the guidance that we provided even in light of some of the unanticipated disruptions around hurricanes, and we'll certainly keep people up-to-date if that changes throughout the year.

Operator

Our next question comes from Vincent Andrews from Morgan Stanley.

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

Maybe just another question on the SG&A programs. Frank, just curious if -- you haven't quite quantified what your goals are for this year, so I'm just wondering if there's a range of outcomes that you have in mind depending on how the year progresses and whether you have the potential to pull some things forward from '19 or push some things out into '19 depending on how things play out. But [any] more detail you can give us numerically on what's going to happen from an SG&A perspective in terms of the programs you're working on?

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

Yes. We're, I think, a, not really in a position to do that; and b, over time, have gotten smarter about being better about announcing what we did when we do it, as opposed to what we might do in the future. And accounting regs certainly support that. I think we look at singles of millions of dollars a quarter in terms of the type of activity that we're looking at, mostly focused in industrial. So nothing worthy necessarily of calling out. If there are specific items that are sizable enough over the next 6 to 8 quarters to call out specifically in terms of restructuring or cost-reduction activities, we will call them out, and we will adjust them out.

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

Okay. And then just as a follow-up. Obviously, you had a very successful year in M&A last year. How is the pipeline looking now?

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

Sure. I think we've completed a couple of small acquisitions here in the first quarter. And there's a pretty good backlog of kind of the small- to medium-sized acquisition activity out there. And then, of course, there's a lot of -- across all industries, a lot of multibillion dollar transactions, and I think also in most industries, not much in the middle. And that's kind of the M&A landscape that we see.

Operator

Our next question comes from Kevin McCarthy from Vertical Research.

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

So your gross margin declined 160 basis points in the first fiscal quarter. Based on the price actions and discussions that you're having now and your view of raw materials, do you think you can close that gap? And if so, when might that occur?

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

Not until the second half of the year.

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

Okay. And is that based on price flow-through or an expectation that the raw material profile will ebb as the hurricane effects ease? Or both perhaps?

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

I think it's a combination of both. I think it's a function of the impact of rising raw materials, which has been happening pretty significantly across our industry, and in some cases, surprisingly, and that impacted us and some we anticipated in the first quarter. I think that the easing of that, which in terms of easing up the capacity and the elimination of some of the shortages we saw, is not happening as quickly as we and others in our industry thought, in part because of the impact of the hurricanes. So I suspect we're going to be fighting gross margin issues certainly through the second quarter.

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

That's helpful. And then last one, if I may, for Rusty. What would your expectation be for the tax rate in the second quarter and beyond?

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

Sure, Kevin. Yes, our outlook on the tax rate really hasn't changed for fiscal '18. We're still expecting the tax rate to be in line with last year's rate, so in the 26% to 27% range. We did have a better -- slightly better-than-expected rate in the first quarter due to some tax planning that's gone on with all the talk about tax changes going on in the media. We did that. But overall, for the year, we're still the same as we were in July.

Operator

Our next question comes from Arun Viswanathan from RBC Capital Markets.

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

Just a quick question on the acquisitions. So it looks like acquisitions were about a 5%-or-so contributor to the top line in the quarter. Is that the right level that should affect the rest of the year? And then it looks like the margins were slightly below our modeling. Was that potentially because of the acquisitions-related charges? And so should the margins pick up through the year? Or is that more raws driven?

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

First of all, the revenue base will mitigate after the second quarter as the largest chunk of our acquisition activity happened in the second half of last year, so kind of January through the spring. So it won't have much of an impact at the end of the third quarter and almost zero impact in the fourth quarter. But it should have a comparable impact in Q2. The performance to the bottom line of our acquisitions has been as expected. Certainly, there are good strategic businesses that we've integrated. That is ahead of schedule in every case. But they were also impacted like the rest of our businesses by raw material issues. But in general, those have been well integrated and they're performing at/or above our original expectations.

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

Then you also noted that you do expect some increased volume from hurricane rebuilding efforts. It seems like you're expecting that to come through in the back half of the fiscal year. Is that right? Or is it coming through earlier than you expected? Or how do you expect that to kind of flow through?

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

It's hard to say. We have a seeming growing backlog in certain of our construction businesses. And I think the challenges are timing in terms of when certain things are ready and staging. And I can tell you across the construction industry and like commercial construction, one of the other bigger challenges is capable contractors and labor. And so those are the 2 biggest factors in terms of the timing of any impact of rebuilding or remodeling or renovation.

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

And just as a last one. I mean, I appreciate your comments on consumer and the DIY environment. Maybe you can just kind of reiterate what you're seeing there and your outlook for the rest of the year, specifically as it relates to the DIY environment. Is there anything that you think is structural in the DIY environment versus, say, a couple years ago? Has it increased or slowed down materially?

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

No. Again, we are facing big comps from last year, certainly, in our fourth quarter, which was disappointing. A year ago, we had 9 -- almost 10% organic growth. Last year, in the first quarter, I think we had 2% or 3% organic growth. And so that's part of it. Part of it's weather. And it's also the statistic that Barry ran into reading some of our major customers where big ticket items were up in the high single digit and items below $20, in our category and others, are relatively flat. There's a lot of discussion around architectural paint, which is not an area that we're in. But I do think that there is a pretty interesting food fight amongst the major architectural paint producers, both in terms of channel and share and to the extent that that's impacting us, it's hard to say, it would be peripherally, but it certainly could be. But I think those are the issues. We continue to focus on new product introduction and being a partner to our retail customers versus some of our larger competitors who are in their own retail paint businesses.

Operator

(Operator Instructions) Our next question comes from Silke Kueck from JPMorgan.

Silke Kueck-Valdes ***JP Morgan Chase & Co, Research Division - VP***

I was wondering if you got any price or how much price you got in your -- in fiscal 2017? And in general, as you announced like a 2% or 3% price increase, do you normally end up getting everything, you get like half of it? Or what's sort of like the track record? And I was also wondering whether there were any negative gross margin effects from the acquisitions.

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

So I'll take your questions in reverse order. There were no negative gross margin effects from the acquisitions. One of the negative factors on our gross margin was mix. So we had some higher revenues in some construction chemical businesses in Europe that carried lower margins than, for instance, some of the roofing and waterproofing product lines that carry higher margins in the U.S. So it wasn't just a function of raws. Particularly in our industrial segment, mix was a big issue, but that was in essentially our core businesses both in terms of product categories and geography. In terms of price, again, given the breadth of RPM and the number of product lines and the number of businesses, it really depends. We had virtually no price increase on a consolidated basis to point to in '17. And on average, I think what we would hope to see across RPM beginning in August and September and then carrying throughout the year, year-over-year, is about a 2% to 3% increase. Obviously, there may be a need to do more than that depending on what happens with raw materials from where we sit today. And then circumstantially, in some cases, there have been raw material increases of 5% to 7%; in others, it's been relatively modest. And it really truly depends on the specific raw material, its availability and the price increases that we're facing in those circumstances. And I think we've learned over the years competitively that while it's appropriate to provide investors some color on price increase activity on a consolidated basis, it does more competitive harm than good to do so by segment.

Operator

Our next question comes from Richard O'Reilly from Revere Associates.

Richard O'Reilly

Two quick questions. The first one is your comments about freight and distribution expense being higher. And I'm just asking, is this a normal cyclical rise in expense? Or is there something else going on in the trucking industry, distribution industry, something secular, that's changing?

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

No. I think the biggest challenge, and this is not unique to us, I think the biggest challenge in the freight area, particularly trucking, is the onset of new regulations over the last couple of years as to miles that can be driven and electronic clocking of hours and different odds and ends that have, in general, risen some freight costs. And then the other issue around freight, which is a little choppy, again, is the disruption of the hurricanes. And so that's caused a couple of things. Number one, it's caused some dislocation in terms of the number -- the normal distribution model for us and for many of our customers. And secondly, in some instances, we have had some less than truckload shipping to meet some emergency [who] requests to move sealants or waterproofing products or some of the water restoration products, really, just to position or meet customer needs around some of the hurricane restoration and renovation issues. So that's caused some freight issues, but that's temporary.

Richard O'Reilly

Okay. Second question is related to your oil and gas-related businesses. I think the press release says you expect these businesses to turn positive in the second half of the year. Is that just the comps allow you to turn positive? Or do you see something changing or improving in the end markets?

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

I think at this stage, it's mostly the comps. We've been through 2 years of low double-digit earnings -- not earnings, low double-digit sales declines. You could guess in any of our categories, if your sales are declining by double digits, so are your related earnings. And we're now seeing more mid-single-digit contractions in that business. And as we get to the second half of the year, I think we're seeing things stabilize and we'll be facing easier comps. And that's the right way to think about it. We're not seeing or anticipating any robust pickup in those markets.

Operator

I will now turn the call back over to Frank Sullivan for closing remarks.

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

Thank you for participating in our first quarter investor call today. We are pleased with our performance in the quarter given the challenges in the raw material area as well as some of the unexpected issues around hurricanes. We anticipate continued solid performance for the balance of the year, both in terms of organic growth and as we work through the year in terms of some of our SG&A and cost-reduction initiatives. And appreciate your interest in RPM.

Tomorrow, we will have our Annual Meeting of Shareholders at the Holiday Inn in Strongsville, where we will greet about 1,000 RPM shareholders and talk to them about our first quarter results and our outlook for the year as well.

Thank you for your interest in RPM and for your time in our call today. Have a great day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.