THOMSON REUTERS

EDITED TRANSCRIPT

RPM International Inc Investor Day

EVENT DATE/TIME: NOVEMBER 28, 2018 / 5:30PM GMT

CORPORATE PARTICIPANTS

Frank C. Sullivan *RPM International Inc. - Chairman & CEO*
Gordon Hyde *RPM International Inc. - VP of Operations, Manufacturing*
Lonny R. DiRusso *RPM International Inc. - VP & Chief Information Officer*
Russell L. Gordon *RPM International Inc. - VP & CFO*
Stephen J. Knoop *RPM International Inc. - Head of Group Restructuring*
Timothy R. Kinser *RPM International Inc. - VP of Operations, Procurement*

CONFERENCE CALL PARTICIPANTS

Charlie Rose
Clifford F. Ransom *Ransom Research, Inc. - Founder and President*
Frank Mitsch
Ghansham Panjabi *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*
Jeffrey John Zekauskas *JP Morgan Chase & Co, Research Division - Senior Analyst*
John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*
John Patrick McNulty *BMO Capital Markets Equity Research - Analyst*
Kevin William McCarthy *Vertical Research Partners, LLC - Partner*
Michael Joseph Harrison *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*
Rosemarie Jeanne Pitras-Morbelli *G. Research, LLC - Research Analyst*
Vincent Stephen Andrews *Morgan Stanley, Research Division - MD*

PRESENTATION

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

Good afternoon, welcome to the RPM International Inc. Investor Day. We're pleased that we have 100 investors and investment professionals who have joined about 40 RPM leaders, which kicked off with a trade show-like presentation of products to focus on growth and innovation and let those investors who took the time to come to Baltimore for the trade show portion of our Investor Day to really get a sense of our operating leaders and our focus on growth.

That is the hallmark of RPM. And we will touch on it briefly in this presentation. But it was important that we had an opportunity to showcase our products and our operating leaders because the vast majority of our presentation today will be focused on our operating improvement initiatives.

This slide is Reg G, and it's important because we will be making a number of forecasts and projections over a two or three-year period, all of which are subject to all kinds of changes between now and then. But we're very excited to be here and to present our 2020 MAP to Growth program.

I'm going start with a brief overview of where we've been as RPM.

RPM was started by my grandfather in 1947 with his mission statement, "hire the best people you can find, create an atmosphere to keep them and let them do their jobs." This mission statement launched at entrepreneurial culture that has been the hallmark of our growth and success, and that will remain the bedrock of RPM for decades to come.

Slide five highlights RPM's organizational chart at May 31, 2018, with $5.3 billion in revenues organized by six groups in three reportable segments and the key strategic drivers that have underlined our growth for the last 30 years: an entrepreneurial operating philosophy, competitive advantage of leading brands, balanced between consumer and industrial markets, growth balance between internal investment and acquisitions, connections creating value across RPM companies and sustainable shared value.

For our 70 years, we have been fierce believers in pushing down as much decision making as possible to our operating groups and operating companies.

This chart highlights RPM's performance in total shareholder return from the period of 2003, when I become CEO, to 2016. Over this time frame, we more than doubled the return of the S&P 500 and outperformed our peer group by 37%, despite paying out $1.4 billion of our cash flow and capital on a pretax basis to resolve an asbestos liability challenge.

This strong performance resulted from the benefits of our prior reorganization in 1999 to 2001, our consistently top performance in organic growth in our industry and a disciplined product line and bolt-on acquisition program.

The last couple of years have challenged us and our industry. On this slide, Slide seven, are four particular areas that challenged our performance from 2015 through 2017. Foreign exchange headwinds in part because RPM grew from that $1.9 billion business in 2003, 90% of which was in North America, to the $5.3 billion business it is today with 35% of our revenues generated outside of North America. $800 million of that asbestos cost in terms of capital and cash flow was paid out over the last three-and-a-half years. We had two uncharacteristically poor-performing acquisitions that we've talked to investors about in Kirker and Synta. And we in our industry have been facing a deep and prolonged challenge on raw material costs and availability up to and including today.

As a result of these challenges, we were engaged with our board in a dialogue to talk about not only the changes that we needed to make to address near-term challenges, but what changes we should be making to position RPM for sustained future success with a goal of positioning our businesses and our platforms to help drive RPM to a $15 billion or $20 billion business in the coming years.

So with that backdrop, let me tell you where we are going. Slide 10 are the three key elements of our 2020 MAP to Growth initiative. The first and most important is maintaining our entrepreneurial growth culture: the competitive advantage of leading brands, entrepreneurial approach to customers in the marketplace in terms of problem solving, sales, marketing, technical service -- all of the hallmarks that have allowed RPM to consistently deliver one or two points of organic growth better than most of our industry peers.

The second element is organizing to execute. As we reorganize, effective today, from six groups to four. And we moved to a centralized strategy, structure and leadership in manufacturing, operations, procurement, IT, accounting and administration. And then the third element is driving operational efficiency and continuous improvement throughout RPM and as a continuing part of our culture. When we complete this program, we will have saved or improved our margin profile, profitability and cash flow by $290 million on an annualized run rate for the fiscal year ended May 31, 2021. That's a 540 basis point improvement over the 2018 adjusted results for this past year.

As you can see on Slide 11, we plan to do this in three categories: manufacturing, procurement and G&A. And accomplish these in three waves over the next two-and-a-half years.

RPM leaders following me in this presentation will be providing details in each of these categories.

Slide 12 highlights our financial goals when we accomplish the MAP to Growth initiative as of May 31, 2021. Revenues will have grown past $6.2 billion. Our gross profit will get back to a 45% or higher range. And we will have improved our adjusted EBITDA from $688 million to $1.158 billion on an annualized run rate for the fiscal year ended May 31, 2021.

A combination of our cost-saving initiatives and operating improvement initiatives will also drive significant savings in working capital as you can see on this slide. So that by May 31, 2021, we will have annualized operating cash from operations of more than $800 million. Again, we'll provide more details on cash flow later in the presentation.

Over this time frame, we intend to generate approximately $2.2 billion of cash from operations and to deploy $2.5 billion of that, including $1.5 billion of return of capital to our shareholders through a combination of share repurchases and a continuation of our growing cash dividend.

The purpose of our 2020 MAP to Growth program to position RPM for sustained profitable growth, creating superior value for its customers, entrepreneurs, associates and shareholders. And our vision: to transform RPM into a more connected and efficient company focused on operational excellence and continuous improvement while maintaining the strength of its entrepreneurial culture.

To provide details on our operating improvement initiatives and the underlying structure and the leadership that was put in place, I'd like to call Steve Knoop, Head of our Group Restructuring to the podium. But before I do, I'd like to give a little bit of background on Steve, who many of you don't know.

Steve joined RPM in June of 1996. Prior to that he worked in a major law firm doing M&A work very often on RPM deals. When he joined RPM, he was our Director of Corporate Development and then Vice President of Corporate Development and worked on every major acquisition that RPM has completed since.

During the growing asbestos challenge, I became frustrated with the lack of progress after six or eight years. And so turned to Steve Knoop and gave him the responsibility to put together a new legal team and to think of a different way of tackling this rising liability issue. Steve and his team were the architects of the SPHC Bondex bankruptcy process that ultimately resulted in a final resolution of the asbestos liability for RPM.

We not only survived that, but as you saw on that chart on total shareholder return, we thrived during that period thanks to this strategy that Steve was the architect of.

Lastly, during that time, he learned how to be an operating company leader, as he not only led the legal strategy, but was responsible for the $400 million of operating company businesses that were in bankruptcy and ran them until we had our final resolution in 2015.

So Steve is a well-seasoned, vastly experienced RPM leader who has been at the center of most of the solutions of our biggest challenges. And I'm pleased to have him as the head of our 2020 MAP to Growth program.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

Thanks, Frank. We very much appreciate the opportunity to provide details about our operational improvement initiatives that serve as the structural basis for the change underlying our 2020 MAP to Growth program. But before we address these initiatives, I thought it might be helpful to provide some context about the process we went through to get to this point.

The seeds of our program were planted over the past 18 months, as we've strategically realigned from six groups to four more strategically aligned operating segments: construction, performance coatings, consumer and specialty products. These realignments allowed us to begin seeking greater efficiencies in G&A, manufacturing and distribution such that we have or will have closed 30 locations, 12 of which are manufacturing plants, and reduced headcount by over 500 by the end of fiscal '19. In the midst of these efforts, as everyone knows, we came to an agreement with Elliott Management in June of this year to structure and focus more intently on these operational improvement initiatives. We added two new directors, John Ballbach and Kirk Andrews, who together with Bob Livingston and Tom Gross, formed an operating improvement committee of the board whose charter is to work with management to conduct a comprehensive and rigorous review of our operations and provide the board with recommendations from margin improvement.

And in conjunction with the formation of the operating improvement committee, we engaged AlixPartners, a prominent national consulting firm to accelerate our efforts and provide expertise, analysis and best practices benchmarking regarding potential improvement opportunities.

It was also important that we engage every functional area of the company. For manufacturing, procurement, IT, finance, tax and legal and an RPM steering committee to make sure that our process was comprehensive with no stone left unturned.

We drove our functional and consulting resources down into our operating groups. This intensive six-week diagnostic process began in mid-July and culminated in an RPM report with conclusions and recommendations delivered to the operating improvement committee at the end of August. This diagnostic evaluation focused on significant opportunities for improvement in manufacturing, procurement, inventory management, administrative efficiencies and working capital.

This chart expresses the diagnostic review that confirms that our operations and our management and administrative footprint had become too complex and inefficient. We had have 155 plants, 67 of which operate on one shift. We have 218 warehouses, which followed suit naturally from this manufacturing footprint. We had 104 accounting locations, handling 163 auditable entities and 354 legal entities, with 75 separate ERP systems supporting these discrete entities. And at the same time, we had 5,140 suppliers dispersed across the entire enterprise.

So we, together with our consulting partners, saw tremendous opportunity from this data. But to get at these opportunities. And to achieve the greatest benefit in the shortest amount of time, we realized that changes would be necessary.

So as I noted, we have already realigned our businesses into four operating segments that serve common end markets, have compatible manufacturing processes and can drive efficiencies in management and administration. This is step one.

Step two is a more profound change where we are taking a broader strategic perspective and becoming center-led in manufacturing and operations, procurement and supply chain, information technology and accounting and finance. You will hear exactly what those strategic changes mean in the presentations to come from my colleagues.

So taking a more strategic perspective in these areas at the corporate level required us to align resources to that new reality. As Frank mentioned, I have transitioned from President of the Specialty Products Group to full-time leader of group restructuring and have been ably replaced at SPG by John McLaughlin, an RPM veteran, who you met this morning. Gordy Hyde, who'll you hear from later has been elevated to RPM's VP of Operations, focused on driving manufacturing efficiencies.

Gordy has been SPG's Vice President of Operations and has over 30 years of experience in the paints and coatings industry.

Tim Kinser has also been elevated to VP of Operations with an emphasis on building a center-led procurement organization. Tim was the VP of Operations at DAP and has extensive experience in building materials manufacturing and supply chain logistics.

Lonny DiRusso has recently been promoted to Chief Information Officer, and has been the VP of IT at RPM for over 15 years. In that time, Lonny has led over 50 ERP conversions and integrations for RPM.

And then on the finance and administration side, Joe Toula, RPM's Director of Internal Audit will be working with me and Rusty Gordon to seek a more efficient organizational design of RPM's finance and accounting function.

Before running internal audit, Joe coordinated our Sox compliance organization wide and has a keen understanding of our organizational capabilities and our needs in this area.

Finally, what's really important is that we've enhanced our resources at the group level to help drive these strategic initiatives and make sure that they cascade throughout the entire organization.

So with these resources in place, we have already started implementing the detailed projects that build up to our comprehensive program. Each project has dedicated teams attached to it, a time frame for implementation and savings goals. We have a robust savings tracker that is coordinated across functions and across business units to ensure that the benefits are showing up to the bottom line.

We have regular interface with the operating improvement committee to ensure they remain involved in the details and the direction of the program.

So we've made extraordinary progress since mid-July, and anticipate continued momentum as we get fully operational, such that we can meet and exceed the target set forth at year end.

We have the right team and the organizational enthusiasm to tackle this work.

So with that, I'd like to introduce Gordy Hyde to discuss in greater detail our manufacturing strategy.

Gordon Hyde ***RPM International Inc. - VP of Operations, Manufacturing***

Thanks, Steve. And good afternoon to all of you. I appreciate the opportunity to talk to you about our manufacturing strategy as we work to accelerate manufacturing improvement in order to support profitable growth throughout RPM.

I'd like to set the stage talking about RPM manufacturing today or as it was. We've already started to make improvement in order to explain where we are going.

We continue to be highly decentralized and have for many years had our operations cluttered into six groups, which as you heard, have been consolidated now into four. These groups have their manufacturing organized by individual business units for manufacturing capacity, capital allocation and manufacturing strategy. In this decentralized structure, we're able to realize the need from margin improvement and then plan the closure of 12 plants and their associated warehouses early this year, which we are presently on track to implement. However, we recognize this is not enough to return us to the leadership position in both growth and margin. And that we had a need to do more to return ourselves to that leadership position in margin improvement.

So as Steve told you about, we entered into a rapid assessment in this summer as we move from six operating groups to four. And in that change, we found that while we deliver high-value products and services, we do that with brute force manufacturing. And the results of brute force operations are high inventories and inefficiencies and those types of things go forward. So these are findings that obviously scream for a new strategy, not some incremental change. This new strategy, which we call center-led, is intended to support our entrepreneurial culture that delivers high value in the marketplace while focusing on the organization of our facility assets, consolidating our operations into fewer and efficient plants. And when we have historically focus on facilities in support of a single business, where appropriate, we'll deploy our assets across RPM operations and groups.

Asset allocation is in the same context as the plant consolidations. Manufacturing human capital and investment capital. We'll implement this strategy with the collaborative team led by myself that consist of Tim Kinser, RPM's Vice President of Operations, responsible for procurement that you'll hear from shortly; RPM's Vice President of EH&S; and the four Group Vice Presidents of Operations. This group will operate as a team, guiding the implementation of $75 million of manufacturing improvements, which we're targeting for the MAP 2020 growth initiative as well as helping lead the RPM strategy of allocating human and investment capital in support of effective RPM manufacturing.

Essentially, the group will guide the development of the RPM manufacturing system, MS-168 which is the establishment of plant management processes across all RPM facilities where we will employ tier-based and data-driven operational reporting, monitoring and improvement. This tier-based reporting system of standard versus actual establishes the cadence of hour-by-hour reporting on the shop floor to shift-by-shift reporting to the plant manager, who reports out to upper management on a weekly and monthly basis. This cadence of constantly monitoring and addressing performance forms the core of the new RPM manufacturing system, MS 168.

The standards against which we will measure our performance will be safety, quality, productivity and service, and the system would be recognizable to anyone who walks our plant floors. Operators and supervisors and team leaders will be able to talk with facts about the safety, quality and production performance. And this performance will be visually displayed so that corrective action can be taken whenever gap occurs between performance and standard.

Similarly, operators will know their three leading causes of operational equipment effectiveness and yield loss because they are working on improvement hourly and throughout each shift in order to create ever improving standards and establish a culture and a regular cadence of continuous operational improvement.

So what this program is, is a program focused on waste elimination, efficiency and margin enhancement. It's fact-based and data-driven for continuous improvement. And it establishes standards on which performance is based and improvement is measured. What it isn't is some cookie-cutter, check-the-box program. It's not a program focused on some elegant tools that consultants love to sell you or a program divorced from business performance. And we'll implement this strategy utilizing three tactics between now and the end of 2020. The first is the attacking of zero based yield and operational equipment effectiveness, OEE. Implementation of a program of zero based yield in each of our plants will have us address less than world-class process losses that we see across RPM facilities by addressing quality of incoming raw materials, variation in our processes and all points of loss, including yield losses hidden in bills and materials and inventory cycle counts, will deliver $14 million of margin improvement.

Similarly, addressing overall equipment effectiveness, we will improve uptime maintenance, will improve maintenance practices and general equipment operation to deliver another $13 million of margin performance. But besides delivering this $27 million of margin performance, this work will be the catalyst for establishing the RPM manufacturing system.

And it is this new manufacturing system, MS-168, that will prepare our plants to operate more effectively across RPM businesses, developing a culture that executes effectively rather than firefighting. Establishing this ability to execute, driving lower cost and higher quality will allow us in parallel to optimize the utilization of our assets. We'll be moving manufacturing from inefficient small plants to larger plants that effectively implemented the good management processes that we are putting in place within the RPM manufacturing system.

Assets will be optimized in three ways. First, plants are retargeted for closure will be completed. At the same time, we'll be studying all our North American plant systems where we have a single-shift plant whose manufacturing can be accommodated in larger more efficient plants that are bracing our new manufacturing strategy and execution.

Similarly, we'll be creating a European manufacturing footprint in conjunction with G&A consolidations that more efficiently services the businesses needs in that part of the world. In wave two, we'll implement the consolidations identified in wave one. And then continue the consolidations in wave three based on learnings in wave two.

By the end of our 2020 MAP to Growth initiative, we have closed 31 plants and associated warehouses, delivering $48 million in margin improvement.

And finally, I include inventory reduction as the third tactic in our implementation of the new RPM manufacturing strategy and its associated system. Inventory is the number one waste to failing and inefficient manufacturing. Thus, as we improve the execution of a reduced manufacturing footprint, we will see changes in production planning and control that will improve inventory turns. In addition, as we optimize our manufacturing footprint, we have plants that effectively manufacture in small batches. These plants in an asset base that now serves all RPM will be utilized to relieve plants design to manufacture large batches of the burden and complication of small batch processes trying to be performed in a large batch environment.

With low-moving SKUs removed from the complexity of our large manufacturing plants, high-volume SKUs can be manufactured to turn significantly more often. Thus as you will hear when we discuss working capital, we'll first reduce inventory in the consumer group by $50 million, and then spread that across the enterprise, reducing inventory by $146 million by December 2020.

Finally, I'd like to take a moment to summarize our new center-led manufacturing strategy to implement a new RPM manufacturing system that more effectively executes and creates and actually demands plant environments of continuous improvement. This new system will drive three nine-month waves where we will identify and implement incrementally $32 million, $27 million and $16 million of margin improvement that will result in a $75 million margin improvement in fiscal year 2022 versus fiscal year 2018. Significantly hard work that has to be completed by all our operational associates, but we have a plan and a goal that we believe will be accomplished.

Now I'd like to turn the podium over to my operational counterpart, Tim Kinser, who explain to you that it's not only on the plant floor where RPM will be fixing their operations. Tim?

Timothy R. Kinser ***RPM International Inc. - VP of Operations, Procurement***

Thank you, Gordy, and good afternoon. I'm going to discuss the opportunities that we have identified in the procurement area and the structure changes that are being implemented to position us to achieve our savings target. To understand the changes that we're -- are being implemented, it's important to first explain our current procurement structure, which is best defined as decentralize with collaboration.

Although no formal reporting structure is in place in procurement, for years, there has been a collaborative approach to RPM procurement. This collaboration was enhanced greatly last year with the implementation of the business intelligence system, which has allowed visibility across our operating companies to the other purchasing data.

It is our plan to build upon the collaborative culture that exists with a center-led structure. In this structure, we will have a team of RPM corporate associates that will lead the procurement strategy for RPM. Operating group purchasing personnel will have dotted line reporting to the RPM procurement team. This will allow greater leverage, supplier consolidation, controls and consistency in our practices and policies.

In September and October, we finalized the structure and executed the hiring process for the team. We worked closely with AlixPartners to analyze opportunities and assess the category priorities. This month, we onboarded the team members, helped kickoff meetings and have been formulating the category strategies.

I will be leading this team, and we'll have six strategic sourcing managers: three in chemicals, one in packaging, one in logistics and one in indirect. The strategic sourcing managers will be responsible for developing a strategy for their categories, collaborating with the operating group teams, strengthening strategic supplier relationships, maintaining master material lists and controlling the addition of new materials, driving value-engineering activities and maximizing in-sourcing. This is the significant change to how we have approached procurement in RPM. And it will provide a great opportunity for us to leverage our purchases for improved margin and working capital.

In the past, operating groups could choose whether or not to participate in an RPM agreement. Going forward, we will require full participation and compliance with the agreements that are reached by the RPM team.

To drive the activities in compliance through the operating groups, I will be chairing a procurement executive committee that will be comprised of a senior leader from each of the operating groups. This committee will provide guidance to the procurement team and act as advocates to ensure that the strategy is implemented. We will also have two subcommittees that will provide oversight to the value engineering and in-sourcing, as these two areas are critical to achieve our targeted savings.

We've evaluated the categories of materials and quantify the addressable spent in each of the areas. We then assess the opportunities based on the review of our current practices and benchmarking data. In addition to the opportunities identified during the assessment, there were a number of procurement projects that were already in progress. These in-flight projects include distribution consolidation and direct sourcing of materials. As we have done with the manufacturing improvements, the savings projects have been broken down into three ways. We are projecting that the total procurement savings will contribute $145 million to our 2020 MAP to Growth plan. Wave one is primarily in-flight projects and high-priority projects. Waves two and three are a combination of savings projects and commodity cycle recovery and total $60 million and $65 million, respectively.

We are off to a great start with the procurement team and I'm very excited to have the opportunity to lead the transformation of the RPM procurement model.

I will now turn it back to Steve.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

So we're not just attacking the manufacturing and procurement opportunities that we just heard about. From an administrative perspective, our move to four operating groups has helped simplify our management structures and has provided administrative efficiencies already.

As I noted earlier, these efforts have resulted in plans for significant headcount reductions as well as better strategic alignment and coordination among similarly situated businesses. But further material administrative synergies are planned as we undertake our efforts at becoming center-led in many aspects of IT, finance and our legal functions. In our remaining time, we'd like to share the efforts we are making in those areas. And we'll start with IT, and Lonny DiRusso, RPM's Vice President and Chief Information Officer.

Lonny R. DiRusso ***RPM International Inc. - VP & Chief Information Officer***

Thank you, Steve. I'm here to talk about the corporate-driven, center-led IT strategy, and how it will support the Map 2020 efforts going forward.

The overall mission of this strategy is to centralize, consolidate and standardize on our systems, technologies and business processes within our operating segments and across the entire organization. The diamond-shaped graphics depict the two components of this strategy. And I'll talk to each over the next few slides. First, let me provide an overview of the IT executive oversight committee, which I chair, and who consist of our operating segment and corporate IT executives. This committee will drive the execution of this strategy. Their responsibilities include overseeing their respective operating segment integration efforts along with chairing our IT centers of excellence areas. This committee has existed for many years but the objectives have elevated from a knowledge-sharing platform to a committee that will now set and enforce IT policy throughout the organization. As it pertains to our operating segment level component of the strategy, we will expedite our integration efforts, centralizing the entire organization onto one of our four existing platforms, which includes ERP and other ancillary IT systems.

Some of you may ask why centralize on four instead of one? We answered this question early on in this process. We concluded that centralizing on our existing platforms allows us to complete our integration efforts quicker, will be less risky and disruptive to our operations and will be less costly and will allow us to get at our projected benefits faster because the majority of our largest entities already reside on one of these existing ERP systems. Two, each operating segment has very strong IT staffs with many years of experience supporting these ERP systems. Three, the operating segment integration efforts will run concurrently, allowing us to complete these migrations quicker. And lastly, as we integrate each operation, we will continuously collapse and centralize support services thus reducing expenses by eliminating redundancies.

The dots on this map show where our operations are geographically concentrated. It's within these three graphic regions, we have identified additional opportunities to create other back-office support service centers not only in IT but in accounting as well.

As you look at this slide, each operating segment will execute their integration efforts in a similar manner and expect to achieve the same types of benefits as well. One, by developing a global template based on common processes and leveraging standard features, by utilizing internal resources to manage each migration using outside global partners to expedite the process. Lastly, by involving management within each entity to govern the process, ultimately driving efficiency, productivity and improving the visibility in operational performance across their operating segment.

Lastly, regarding our corporate-wide component of the strategy, we have formed centers of excellence teams who will also identify further opportunities to centralize consolidate and standardize across the entire organization. Again, these teams are chaired by the IT executive oversight committee and includes other IT leaders from our operations to fill out the teams. Each team is formed, charters have been developed and immediate areas of focus have been identified. These teams are stoked and feel there's plenty of hidden opportunities we can get at, which will provide additional cost-reduction opportunities across the organization.

Thank you. And I now hand the presentation off to Rusty Gordon.

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

I'm Rusty Gordon, RPM's Chief Financial Officer. And I'm going to talk to you today about our efforts to reduce SG&A expense.

I'd like to start by talking about the picture on the left side of the slide. Our margin acceleration plan really starts with the customer. And there are certain areas when you step back a minute and think about RPM's history where our structure has served us extremely well. Our operating companies are very nimble, close to the customers. And our customers really appreciate the great local sales support, tech service, focus marketing that they receive from our operating companies.

On the other hand, there are certain activities that our customers don't see that they really don't care too much about, such as where we process payroll, or where we accomplish general ledger accounting. There are certain activities that are invisible almost to the customer. And those are areas that we can target for streamlining for more efficiency.

This next slide shows a byproduct of RPM's tremendous growth. As Frank mentioned, when he became CEO, 10% of our sales were outside North America. Today, it's closer to 35%. And as we have grown, whether through acquisition or internationally, we have developed a complicated organization structure. As you can see here, we have a 104 accounting locations, 633 personnel involved with this function. And these accounting locations really blanket Europe, the U.S., the U.K., in fact there's so many dots over the U.K., you can't even see it on the map. Asia-Pacific, I'd point out as well, is only 2% of RPM sales and it's almost 20% of the accounting locations.

So, I mentioned earlier that there's certain areas where RPM's structure has been a challenge, and one of those challenges has come through the way of increased regulation. Increased regulation and Sarbanes-Oxley has not been kind to a decentralized holding company such as RPM. And that we have a number of small business units with small office staff. And they are often overwhelmed with the segregation of duties required under SOX. But there is good news. There's an opportunity to reduce complexity and have better controls at lower cost. And those are not mutually exclusive. We can have our cake and eat it too. We can have better controls and lower cost by breaking down the walls between our business units and better leveraging our capabilities and accounting. We're going to work in partnership with Lonny in IT who's going to be paving the way with consolidating ERP systems. And that will allow us to consolidate accounting locations as well.

And I want to be clear here. We're not talking about centralizing accounting and finance at RPM headquarters. When we discuss center-led, what we're talking about is enlisting our four group CFOs with myself and the council that's going to optimize our finance organization, leverage our best practices and set policy and direction. Our goal here is to help our four groups in their effort towards better controls and lower cost.

And I'm not sure we'll get down to four accounting locations for our four groups. But I'm very sure that we're going to do a lot better than 104 locations.

Speaking of center-led, we've already accomplished this in our legal function at the end of FY '18. We centralized litigation management and corporate with one new hire. And we did the same in Europe with an existing RPM attorney. This has allowed us to have a more consistent and strategic approach to managing our risk. It's also more efficient. We've been able to reduce the number of operating group general counsels from five to three. And eliminate four administrative positions along the way as well. We're going to do the same thing in our compliance function where we're hiring two personnel at corporate headquarters. And this will alleviate the need for our operating companies to hire compliance personnel.

In our legal department, we're also making investments in technology to improve our efficiency and effectiveness. We have invested in a litigation management system that's going to audit invoices, track our spending versus budget and keep updates on our status of litigation.

Also, we've invested in a contract management system to routinize the generation of contracts required by our operating companies and standardize those agreements, such as distributor agreements or commission agreements. Also down the road in the future, we're looking at using artificial intelligence to automate a lot of our compliance and audit tasks. We can use bots, for example, to search through our contracts and financial data for certain red flags that require further action.

Finally, another step we are taking is we're reducing the number of outside laws firms that we use. And by consolidating the number of firms we can better leverage our spending. We can also negotiate better rates and reduce the learning curve, since we'll have the same lawyers working repeatedly with RPM companies.

So, to summarize, SG&A, we're looking at savings of $70 million. Wave one, we've already kicked off. We already disclosed some restructuring and risk activity in our consumer segment in the fourth quarter of FY '18. In the first quarter of this year, we have similar activity in our industrial and specialty segment.

Wave two here shows that we are starting to consolidate the number of accounting locations. That really accelerates in wave three as we collapse ERP systems, and that allows us to consolidate more administration.

So to summarize. As RPM has grown and our four groups have grown, we have reached the point where we have the scale to really improve efficiency. As I stated, our margin acceleration plan really starts with the customer. We're going to do what matters most to our customers. And those things that don't matter are areas that we're going to do as efficiently as we can.

You saw some new faces today. We have some new personnel to help us get this accomplished. And the good news we should also talk about is RPM's growth.

This is going to help RPM's growth and that we're going to have better platforms to integrate bolt-on acquisitions. And we can certainly integrate bigger acquisitions when we get this project accomplished.

We're going to have good ERP systems, good controls. And we can leverage those in the future so that our top line growth can fall through to the bottom line. And the last point I'll emphasize here is that this is more than a project, this is significant cultural change.

So, this will be going on after December of 2020 as well.

I'm going to shift gears a bit. And now I'll talk about that cash we plan to generate over the next three years and what we plan to do with the cash. First of all, I'd like to talk about working capital improvement. We've targeted a reduction of $230 million of improvement in working capital. We've always been higher than our peer group on this metric. And this reduction would get us down to some of our peers' level. As Gordy mentioned earlier, two-thirds of this will come from inventory, the rest from extending payable terms.

Tim is going to lead this on the procurement side in terms of extending payable terms. And as Gordy mentioned, on the operational side, we're going to improve efficiency and reduce inventory as well.

In terms of capital allocation, the first thing or the first priority I should mention is, as we look at how we allocate capital, the number one priority is what we call "protect the house," it's to protect our investment-grade rating. That's very important to RPM. Because we want to continue to do acquisitions year in, year out in good economic cycles and bad. We need to have that access to the capital markets that an investment-grade rating provides. So, we're going to make sure we protect that and protect those metrics before we get to the other ways of allocating capital.

One part of this pie I'd like to direct you to is the orange portion, share repurchase, that has not been significant for RPM for a lot of years. Over that time, there's been a big slice of this pie called asbestos. And I'm pleased to report that we made our last payment to the asbestos trust in May. So that's in the past and now that's been replaced by share repurchase.

Dividends are also part of this. We've raised our dividend 45 straight years, provides the predictable return for our shareholders. We'd like that to continue. And then M&A spending as well. We're going to continue to do acquisitions. We just did a look back over the last five years with our board and saw that our acquisitions yield an internal rate of return of close to 20%. So that's really good. And we'll keep that going.

This slide really shows the amazing impact that we can have by simultaneously improving working capital and improving margin. Our operating cash flow more than doubles from '18 to '21. And for those interested, the tax reflected here reflects about a 25% effective tax rate. Over the three years, as Frank mentioned, we'll generate over $2 billion of cash, $1 billion going towards share repurchase. We made a big step towards that $1 billion yesterday when we redeemed our convertible notes for mostly cash. And as a result of that we're able to remove 3.3 million shares from our diluted EPS calculation. And also do so without increasing debt levels.

We've also done open market repurchases of a little over $80 million this year. So we are well on our way towards the $1 billion of the share repurchase. Also this chart shows the continuation of M&A and dividend and the biggest portion, again, is repurchase. If you look at the $1 billion of EBIT that Frank showed earlier, our stock price today looks like a good investment.

So we will keep that up. So that's all I have. And I'll turn it back to Steve.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

So as we've noted previously, our plan is detailed, comprehensive and implementation teams have been identified to achieve this $290 million in savings that is in -- from manufacturing, procurement and the G&A area.

We are knee-deep in wave one. We expect to have in place $83 million of improvement in fiscal '19 that will benefit 2020. Wave two then continues our progress throughout fiscal 2020, focused most intently on the benefits coming from our efforts in the procurement area.

And then finally, wave three is the combination of our 2020 MAP to Growth program. But what I like to believe is that wave three embeds the notion of continuous improvement and solidifies our efforts around these areas of strategic change. I think as you heard from the team that there's a great commitment and excitement to get after it. And we're on it and ready to go. Frank?

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

So I'd like to conclude with this financial table. This financial table highlights the annualized run rate we expect to be at, at May 31, 2021. And that was also a process that we went through with our board as a top-down check on our MAP to Growth initiatives and goals. As you heard today, this program has truly been built from the bottom-up by these different areas that generated the savings that we will be getting over the next two-and-a-half years.

With our board from the top-down perspective. We looked at the revenue growth, the CAGR here of 5.6% and felt that, that was reasonable in light of the 6.7% compounded annual growth rate that we'd experienced over the last 20 years.

We looked at the compounded annual growth rate of gross margins, which are improving from 41.7% to 45.4%. And felt that in light of the improvements that we've identified and the benefits that we would expect to receive from a commodity cycle margin recovery that this, too, seems to be reasonable in light of our program. And then we finally looked at the SG&A as a percent of sales. And while it continues to grow to support sales, marketing, customer service, product innovation, it will be growing at a much more modest 3.7% pace.

And the rest is simply math. And that math allows our EBIT to grow from $563 million of adjusted EBIT at May 31, 2018, to over $1 billion on an annualized run rate for the fiscal year ending May 31, 2021.

A comment on the EPS range here, a $4.90 to $5.30. Given our forecast, we believe that we will likely be at the lower end of that range on an adjusted basis for the fiscal year end May 31, 2021. But on an annualized run rate, we should be operating at the higher end of that range, which will obviously be realized in the following fiscal years and should be enhanced by continuing growth of the RPM companies.

So in conclusion, we're excited. This has been a very intense, very focused program across all of RPM. As you've heard, it does incorporate some cultural change, particularly in our manufacturing and operations area and back end. We are committed to maintaining that entrepreneurial approach to the market that has been the hallmark of RPM's growth and success. And when we achieve our vision for RPM to be a more connected and efficient company focused on operational excellence and continuous improvement, while maintaining the strength of its entrepreneurial culture, we will truly be tough to beat.

So I thank you for your attention today. And we're going to take just a minute to gather our leaders up here on the stage, after which we'll be happy to answer your questions. Thank you.

QUESTIONS AND ANSWERS

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

Good. Right up-front.

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

Vincent Andrews from Morgan Stanley. (inaudible) But you don't have a range for EBITDA. So what's the connectivity there and also (inaudible) what are you assuming (inaudible) obviously had a big influence on results over the last several years.

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

So we have assumed that foreign exchange would be stable over this time frame. All of the run rates there, except for revenues and that EPS range at May 31 are annualized run rates. So that $1 billion of EBIT is the annualized run rate that we would be expecting to be operating at, not the actual results that we're forecasting for that year. And that's because we will continue to be executing the third wave of our Map to Growth program up through December 31, 2020. So, for the first seven months of our 2021 fiscal year. On the raw material front, you saw those three waves. I think it's safe to say that we expect that the process improvement that Tim is leading will drive somewhere in the neighborhood of $80 million of procurement savings. And that last notion in wave three of $65 million is our best guess at what the benefits of a raw material commodity cycle recovery would be. Obviously, that number's going to be higher or lower based on how raw materials react as this commodity cycle, which is been long and deep winds down, which at some point it will.

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

So that's today's baseline?

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

Yes.

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

(inaudible)

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

Yes, that's from the baseline that we're experiencing today. Yes sir?

Clifford F. Ransom ***Ransom Research, Inc. - Founder and President***

(inaudible)

I'll start over. It's Cliff Ransom. I did a little -- I know Alix well, and I -- but I always get a little nervous when people keep citing cost savings and headcount reductions when you're talking about continuous improvement. Do you have anything that will make me feel better about that?

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

I think the right person to answer that is Gordy Hyde, who's leading our manufacturing efforts, Gordy?

Gordon Hyde ***RPM International Inc. - VP of Operations, Manufacturing***

Yes. And I tried to make it as clear as possible. It is not just all cost reduction and improvements, it's that it is a change in the way we manage our plants from establishing standards and performing against those standards on a daily basis. To understand the difference and the gaps between those standards and improving them and delivering that all the way across our plant management process. Yes, there's going to be some reductions because we have an awful lot of capacity that we don't need, and we're going to consolidate that. But the bottom line, the big thing is, is this manufacturing system is going to create a cadence of continuous improvement. With the resources we have, we're going to do a whole lot more as we grow.

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

I would just add that up until this year, we did not have any RPM-wide manufacturing metrics or measurements to measure performance. And those are being established across all our sites today, and that'll make a huge difference.

Yes, sir?

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

Ghansham Panjabi at Baird. On the working capital reduction, which seems pretty ambitious at $230 million, can you give us some of the buckets associated with that including SKU rationalization if that is part of the bucket? And second, the 3% organic growth you've targeted through fiscal year 2021, how much of that will -- is that net of all the SKU rationalization?

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

Could you repeat the second part of that question?

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

The 3% organic growth, is that net of the SKU rationalization?

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

Sure. As it relates to SKU rationalization, we don't plan anything out of what is ordinary that our businesses would do on a regular basis. In terms of the core of products that you've seen, for instance, this morning. What we have been looking at and are executing is the shutdown of some small operations, typically overseas, seeds that were planted in developing countries that after three or four years are not bearing the profitability that we want to see. So, the reduction in revenues over this time frame, which could be as much as $60 million to $80 million, is going to be generated more by product line or foreign locations that may be closed or rationalized. As it relates to the buckets, again, I think Gordy Hyde and Tim Kinser would be best positioned to answer questions about working capital. Gordy?

Gordon Hyde ***RPM International Inc. - VP of Operations, Manufacturing***

In terms of the inventory, once again, it's a change in our process and the way we're going about manufacturing. So instead of having a business focused on their own business and most low turning SKUs and high volumes, we're able to use all of our assets across. So, we can use small batch plants and large batch plants. And when we get the large batch plants that have those large volume SKUs, we're just going to turn them more often because they're not going to have to be planning to break into a run because they've got a small batch to run. That's going to be run in another facility. And in terms of the breakdown, that's how we're getting to that $146 million worth of inventory reduction.

Frank Mitsch

Frank Mitsch, Fermium Reseach. RPM has been known, I guess, as an acquirer of choice, a preferred party to go to when an executive is looking to sell his family-owned business or what have you. And part of it was you would bring them on board and let them continue to run the company as is. Now you're going to more of a centralized strategy, do you have any concerns as to your ability to continue the impressive track record of acquisitions, like Rusty mentioned the 20% IRR? How do you think about that? And I guess, the flip side of that, as you look at your portfolio today and you've done this review, are you thinking about any possible divestitures?

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

So the first part of the question related to acquisitions, I think we've had a good track record of completing acquisitions that we integrate and still retain the entrepreneur. Rust-Oleum has done that as well anyone at RPM. I was at the Rust-Oleum sales meeting in June and the son and grandson of Miracle Sealants were there. They're going to be product managers for that category in that business and that product line, even though those businesses' back end activities will be integrated into Rust-Oleum. We acquired a company in Minnesota called Citadel, which is the basis for the Rock Solid product line. Patrick Ilfrey, the inventor and the owner-operator is still with Rust-Oleum, driving growth in their floor coatings even though once again, that's been integrated. So, we've had good success in that. We intend to continue to maintain the brands that we're buying and maintain the sales forces, the distribution and innovation that comes with it. And if there are opportunities to integrate production and/or integrate back office like the few examples I gave, we'll do those. And I think we'll still have a significant edge over many of our industry competitors in how we handle acquisitions and the repetition that we have. On divestitures, we do not have our plans for any divestitures at this point in time, but that's something that we look at with our board on a regular basis.

In the back?

Charlie Rose

Charlie Rose with Cruiser Capital. I'd like to understand a bit about how Elliott -- how their involvement here has gone on, how their board influenced. And obviously, you're doing a very -- and I had the pleasure of meeting you, Frank, in Boston about a couple of months ago. We actually intimated that you need to take a fresh look at how the company would function going forward. I'd like to understand the process you've gone through, a bit about how you see that process because you've obviously drank the Kool-Aid. And I like the Kool-Aid, but you're telling a fabulous story, but I'd like to understand how they and you form a relationship and how that relationship will continue in a constructive way. And more importantly, how does the company metrics get influenced in a recessionary environment?

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

Sure. So, the core question was related to our engagement with Elliott Management. And they first contacted us at the end of January. I thought of who would be a good wing man, if you will, to partner with our dialogue with Elliott, and immediately thought of Steve Knoop for some of the reasons I mentioned earlier. And to say that our early meetings were easy and light would be incorrect. They were very challenging to us, but I think they quickly realized that we were on this path already. And I think we both manage the process such that it relatively quickly went from a challenging process to a very constructive process. I'll give you one example. We had, before Elliott introduced themselves to us, already marched down the path of engaging a major consulting firm to do soup to nuts analysis. We had our third meeting with them and we highlighted who that firm was with Elliott. We signed an NDA and shared with them some of the early stages of the operating improvement initiatives that we have been working on. And when we expressed that this was the consulting arm of a big four accounting firm, Elliott suggested that they didn't have very good experience with the consulting arms of the big four accounting firms, that they were expensive and very high level and they had a way of continuing their engagement. So, we asked who they liked, and they said they liked AlixPartners. So indirectly, we connected with AlixPartners and they came and gave us a presentation. And to an earlier question, they very quickly appeared to be more roll up your sleeves, get in your plants with senior people kind of folks, that we -- that in contrast, connected with pretty quickly. And interestingly enough, we engaged Alix before we announced our settlement with Elliott. It was a good suggestion and we were moving in that direction anyways. It would probably take a couple beers and a few hours to talk about the whole dialogue. But I will tell you, contrary to questions we've had or things that people perceive, our engagement with Elliott, including the addition of the two directors that we have has been very constructive and very helpful. I think Steve Knoop jumped to the enthusiasm side of this before I did, but this has been a great process for us. And it's highlighted a couple of things about our business that have been very helpful, and will pay off beyond this 2020 MAP to Growth period.

Charlie Rose

Do they own stock?

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

I don't know how much stock they own. I know that at the date of our settlement agreement, as part of one of the addendums, they highlighted their specific ownership at that time and it was 3.1%, I believe mostly through various derivative contracts. And what amount of stock they own today, I do not know.

Charlie Rose

Can you just come back to the other question about the metrics of the company in a recession?

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

So historically, RPM has managed fairly well through recessions. We've had two down years in revenues in our history, and I would expect us to manage fairly well in recessions. As we've seen over the last couple of years, a risk factor in RPM today that did not exist 10 years or 20 years ago is our exposure to foreign exchange. We've got really good leaders and really strong businesses in places like Turkey, in places like Brazil, in places like South Africa, a relatively small but really well-run and continuing to grow business in Argentina. And all those prices have been clobbered from a currency perspective aside from larger currencies. So, that's a risk that exists today and will continue to exist that we need to communicate more on and figure out how to manage better.

Yes, sir?

Unidentified Participant

I follow your logic on the value of retaining prior owners in driving innovation, but how do you incentivize all your employees to drive productivity? And then a question for you, Gordy. How do you incorporate benchmarking in these metrics that you're setting goals for the manufacturing plants?

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

I guess I can answer the first question and let Gordy answer the question about benchmarks. I think the entrepreneurial culture that we have and the structure that we have, particularly on sales and marketing and how you meet and compete in the marketplace has been very attractive to entrepreneurs and self-starters. There aren't layers of sales and marketing people and nobody's got to wait for a decision to come from the corporate headquarters. And so, we have attracted and internally grown people that like that. John McLaughlin, who Steve Knoop mentioned, who was at DAP for a while and is now the Group President of our Specialty Products Group at one point in a presentation internally, talking about himself. He was prior at USG, he was at a big cosmetic company, and he said that one of the things he found unique about RPM is it's the only place he's been where people that have real ambition don't aspire and conspire to get to the corporate headquarters. In fact, everybody wants to stay away from the corporate headquarters. And that culture has been developed over 30 years and it's a very healthy culture, and we intend to continue that. On the manufacturing metrics, I think Gordy is in a better position to talk about that.

Gordon Hyde ***RPM International Inc. - VP of Operations, Manufacturing***

Well, that's one place where AlixPartners has been very, very helpful. So obviously, they had been in multi and lots and lots and lots of different places so can bring a lot of help along the benchmarking. And then RPM, why it's the best home for entrepreneurs, it's also a good place where people in our industry find that this is a better place to work, and a lot more challenging and a lot more exciting. So, we bring in people from for our competitors who bring with them some knowledge on metrics that exist in the industry, and that allows us to help us set that benchmarking.

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

Kevin?

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

Kevin McCarthy of Vertical Research Partners. Two questions. Frank, I was wondering if you could comment on the total cash cost required to achieve the $290 million in savings that you target across manufacturing, procurement and SG&A and how that will flow through your financials? And then second, recognizing that we're a few days from the end of your fiscal quarter, just wondering if you could comment on the demand trends that you're seeing across the business over the last few months.

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

I think Steve could address both of those.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

So we're expecting between $125 million and, I think, $130 million of cash cost, depending on how things shake out over the course of the period. And in terms of the current business, things are still somewhat difficult in the top line. Raw materials are still a headwind for us. But I think that what Frank has said in the past is coming through, which is sequentially, we're starting to improve and we'll start to see some of that improvement. Low single-digit growth for the quarter, I would say.

Unidentified Analyst

Mike Sison, KeyBanc. So, two quick questions. When you think about -- you have 155 plants, you're choosing plants to shut down. I was wondering if you can give us a little bit a feel of how you're choosing them. Do you know the returns on capital by each plant? Are there certain hurdle rates for plants that survive? And then Frank, in terms of a kind of a macro question, you went from six segments to four. A lot of companies are kind of gone completely the other way. You've seen companies split businesses into three, two. Maybe just spend a little bit of time why these four segments make sense together. And what are the synergies between the four that make these four segments create more value together than separate?

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

So I'll answer the question about segments, and then turn it over to Steve and Gordy in terms of selection of plants and how we think about that. In the four segments, I think they're a natural fit. We have run a very decentralized structure for a long time. Part of the success we had from 2003 to 2016 was the restructuring we did earlier when we reorganized from 40 independent reporting groups to the six-group structure that we had through this past year. So that allowed us to line up companies that serve common markets and common customers and get at some of that manufacturing and administrative efficiency. But it was done entirely at the group level, it had not been driven on an RPM-wide basis. The four groups we have today make sense to us. Paul Hoogenboom is leading a Construction Products Group, and quite sizable and they're very common products, very common markets. And the best-in-class construction products globally today is Sika. We got some room to make up there in terms of products, in terms of innovation and in terms of brands. We go head-to-head with them and compete and win in almost every major market, but we're not efficient on the back end. So it needed a better coordination in terms of how we allocate capital and how we think about competing regionally. And so now, we've taken Euclid Chemical and Tremco Roofing and Tremco Sealants and Flowcrete and a number of other construction products company and put them under the leadership of a world-proven leader and everybody's excited about it. I think the same thing's true in our consumer products group. You've got exceptional brand, it's a great powerhouse at Rust-Oleum, a great business at DAP, good sub-brands in Zinsser and all the other categories there. And so, we would intend to keep the salesforces and the technical service and the customer service and all the marketing independent and focused. The opportunities to coordinate the back end amongst those groups beyond where they are today are significant, and we intend to do that. Same is true in each of the other categories or groups, except for our Specialty Products Group, which is really an interesting collection of entrepreneurial businesses that aren't as well-connected as the Consumer, Construction Products or Performance Coatings groups are. Interestingly enough, one other reason we're going to this and we hope we have the leeway regulatory-wise to get there in 18 months is another Steve Knoop story. As we were dealing with our board more than a year ago about what changes would we have to make, one of the ah-has Steve had as one of six-group presidents was: I'm not only a Group President, I'm your only Segment President. And so, me and my team listened to your investor calls, I think a little more intently and my CFO can provide guidance on what to write in the MD&As to Rusty and his team because I'm running a segment and my people know we're a segment. And when investors ask questions about the specialty products group, which is his segment, I think we're better aligned. So part of what we're doing is moving not only from six groups of four, but we hope by the end of this process, so probably likely sometime around December 31, 2020, we will change our reporting from three segments to four. And we will be much better aligned in terms of how we're led, how we're structured and the visibility and transparency that our investors will see. So that's also a significant piece of why we're moving in that direction. On the how we're choosing what plants and what assets, I think Steve and Gordy are better people to answer that.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

So I'll talk about it from a 10,000-foot level and Gordy can chime in. We think about it in two separate ways, which is we think about it from common manufacturing processes and technologies in terms of combinations, and then we also think about it from a geographic perspective. And so, that's really our guiding principle and obviously, the plants that have greater room for growth with less investment. And so, we are really kind of evaluating that in terms of plant efficiency and frankly, the investment it's going to take to bring a plant up to the next level. And so, I'll let Gordy kind of talk about it maybe at the next level down, but that's the evaluation process we're going through right now.

Gordon Hyde ***RPM International Inc. - VP of Operations, Manufacturing***

I guess the only thing I would add to that is, it's also just back to this focus on the customer that we want to be able to maintain. So, it's delivering the lowest cost. I mean, while we have high-value products, we also want to deliver the lowest possible cost to those customers. And so, while we add a lot of businesses that have very high value products, they can get away with that for a while until they start to mature. And so, we need to take a look at those common processes and take those products and put them in plants where we can deliver to the customer at a lower cost to manufacture, and also deliver effectively and have that product available to them. So, an awful lot of focus on where customers are, what their demands are and how do we get those products to them most effectively.

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

Yes, John?

John Patrick McNulty ***BMO Capital Markets Equity Research - Analyst***

John McNulty, BMO Capital Markets. Frank, it seems -- certainly by the presentation, it seems like there are a lot of opportunities with the taking the divisions down to less silos or having a less siloed approach, and it certainly seems like the opportunities are there on the cost side. Do you see any on the revenue side as well when you think about the taking -- breaking down the silos a little bit and having the divisions work a little bit more for the total corporate good?

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

Oh, the answer is yes. We see tremendous opportunities there. I think you saw today with Ronnie Holman in the Wood Finishes Group and what they're doing on behalf of Rust-Oleum, not just in terms of production, but in terms of the color development and having a product that can really go to -- they can take it to the market and be really competitive. The acquisition that we just did with Nudura for the insulated concrete forms with Dryvit is a powerhouse in terms of combining those opportunities. So, breaking down those silos work between Tremco and Dryvit is commencing. And so, our goal is that not -- the groups that these companies are in shouldn't be a limiting factor in terms of what they can do for each other. And so, also I think that, that cultural change is in the infancy, and we're already starting to see the benefits of it. And so, I think that's a real powerful thing.

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

So one other example. We've talked about the tremendous growth in the restoration -- group restoration coatings that Tremco has developed, proprietary products, they've gone, in about five or six years from single millions to $100 million. And Ed Voorhees, President and CEO of Rust-Oleum and his team, and Paul Hoogenboom and JK Milliken who are here at Tremco Roofing and their team are cooperating on bringing that technology into some of the customer base of Rust-Oleum. And what's interesting is traditionally, we shared technology on a cooperative basis such that a Tremco technology would go to market in a Rust-Oleum can, that's happening. But Rust-Oleum is also introducing Tremco to some of their customers to sell the Tremco brand in the channels Tremco can't get to on its own. So, I would expect more of that to happen in the coming years, and it's exciting when it happens. And when it happens and we celebrate it, it leads to more cooperation. And again, that's the good part of our culture on the front-end side that I see continuing to enhance our ability on the revenue side. Yes?

Unidentified Participant

A quick question on the earnings per share forecast. That does not include share buybacks, right? Just wanted to make sure.

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

That does include buybacks.

Unidentified Participant

That does include share buybacks?

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

Does include share buybacks. When you look at the compounded annual growth rate of EBIT of about 21.5%, it's on the slide and then the earnings per share would be in the low to slightly better, slightly worse. The principal reason for that is fiscal '18, I think we had an 18% or 20% tax rate, and we're assuming a 26% or 27% tax rate for fiscal 2021. We have, as of today, including the redemption of the convertible bond and 1.3 million shares in the open market already repurchased or eliminated on a fully diluted basis, about 4.6 million shares, and we'll continue that.

Unidentified Participant

The second question I had was on CapEx. It doesn't look like your run rates are coming down in spite of so much plant consolidation that you're doing. Why aren't you getting higher returns on your capital spend?

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

Gordy, do you want to answer that question on the questions on CapEx run rate over the next three years?

Gordon Hyde ***RPM International Inc. - VP of Operations, Manufacturing***

That's a hard question to answer. So basically, we're looking at our CapEx spending to be pretty much the same as it is. Now we're going to have less facilities, less roofs, less things to maintain, but we're also starting to consolidate manufacturing into other facilities. So, as we spend on equipment or infrastructure so that we can move and close one facility which keeps us from having to spend CapEx, our CapEx run rate is pretty much going to be the same through this 2020 MAP to Growth initiative.

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

But I think we'll have a better answer to that on a go-forward basis as we better develop the manufacturing footprint that we're moving to. Yes, Jeff?

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

Jeff Zekauskas at JPMorgan. Just two brief questions first. How much is the IT spending to -- or the IT outlays to bring you down to four platforms? Second, of the wave one cost reduction for this year of $83 million run rate, how much will you realize in 2019? And then lastly, are management's compensation -- is management's compensation now tied to these targets?

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

Go ahead, Lonny, answer the IT question. Go ahead, Lonny.

Lonny R. DiRusso ***RPM International Inc. - VP & Chief Information Officer***

The cost of the IT conversions and migrations over the next three years is at a run rate of about $40 million to $50 million and it's included in the total capital assessment of $420 million. So, it's already inclusive of that.

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

On the compensation piece, the answer is, yes. We've -- I think we've done a pretty good job, I'd certainly love --to get your feedback, of tying compensation to performance. My compensation reflects that over the last two years, and I'm not terribly happy about it. And so we have a equity compensation piece that covers about the 30 top leaders of RPM, and that and a couple of elements of what's been an ongoing, what we call PERS, performance-earned restricted stock piece, for the first time for a broader group of people, will be tied to the consolidated -- not just these targets, but the consolidated results of RPM. So traditionally, a group president was paid based upon the performance of that group, including their participation in our equity programs. And so, we have tied a significantly larger number of RPM leaders, including operating leaders, equity compensation to these RPM-consolidated targets, not just to their individual group or operating company targets. And we think that's appropriate, particularly in the face of the program that we're undertaking.

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

And then the third piece was, what's the achieved cost synergies you expect this year versus the $83 million run rate?

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

I was -- I didn't hear the question. Could you repeat the question, Jeff?

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

In your slide deck, you say this year you're going to knock out on a run-rate basis $83 million in costs, so what this -- how much do you feel you've actually achieved this year?

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

Do you want to comment, Steve.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

Sure. we've...

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

Roughly.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

What's that?

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

Roughly.

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

Yes, roughly about, call it, $25 million or $30 million this year, mostly in the third and fourth quarters.

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

Rosemarie?

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

Rosemarie Morbelli with Gabelli. When I look at the numbers and your projections and just stopping at the EBITDA level, all of this is calculated assuming you are going to make acquisitions and grow the top line at 5.6%. So, let's pretend for a second that we are -- you are not going to make any acquisitions and top line will be 3%, can you still achieve that 560 basis points improvement in the EBITDA margin if you don't have the top line and the accretive acquisitions, which you usually do?

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

So two things on that. In the model, we modeled in the acquisitions at $605 million at a 40% gross margin and at a common EBIT margin. So, we'd actually serve to bring down the gross margins, and we just modeled them in a steady-state basis without getting too cute. Secondly, I can tell you definitively that not we or anybody else can achieve the margin enhancement we're targeting here if we don't keep your top line. You cannot cut costs fast enough to chase a declining revenue base, and there is lot of examples of that in the marketplace today. And we're very confident in those revenue targets, as I said, our compounded annual growth rate over the last 20 years has been 6.7%. I think you'll see -- I know you'll see this year and next year, some enhancement to what we consider organic growth through price, which is not been a critical element prior to the last year in our organic growth. But executing on our competing and winning in the marketplace with our companies and our products, and continuing to pursue good acquisitions like Nudura is critical to our achieving these results. The cost savings will be there, but the margin enhancement requires that we maintain or grow the top line. Yes, sir?

Michael Joseph Harrison ***Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

Mike Harrison with Seaport Global. Wanted to ask you a little bit about visibility and -- your current level of visibility on your business versus what you expect in the future? I would think with all of these ERP systems, all of these different P&Ls you're dealing with, and in a lot of cases right now you're the last to know when something is going wrong. Do you expect that when all this is said and done, that you are able to manage the business more effectively on a go-forward basis?

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

I think we will be able to manage the business more effectively. I don't think we have -- there's any visibility problem in terms of what is happening in our business. We don't have very good visibility out beyond three or four months in terms of what's happening in the marketplace. And so hopefully, as we get a little streamlined, that will improve -- and some of our businesses, we do operate on a backlog, so they do have good visibility as to what's coming over the next six or nine months, but in many of our businesses, we do not. But I don't think it's a control issue. Rusty Gordon referenced this. It's the regulatory environment that's not kind to a decentralized structures. You got too many accountants addressing SOX controls in small operations, and it's not productive. So, we've got a good visibility. We have a good control environment, but it's too costly. And I think we can both, streamline, be more efficient, spend less money than the process, have an even better control environment from that perspective. Yes, sir.

Clifford F. Ransom ***Ransom Research, Inc. - Founder and President***

Cliff Ransom. One of the things that happens in the creation of a continuous improvement culture is the behavior characteristics of the leadership has to change. Have you come across any major challenges to how you manage this business? And as you look forward, how you will manage this business?

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

So, I think with cultural change, that's certainly true. I guess the best way I can answer that and then have Steve tackle that as well, there are some longstanding RPM leaders that a year ago people might assume would be up here who are not, because they were impediments to the change that needed to be made. And so, we have made a number of changes of leaders of some of our businesses. Most recently in Europe, we made a senior leadership change in our corporate office. We accelerated leadership change at Rust-Oleum, and all those were necessary because we had great leaders that could step in those roles. And in many instances, the people they replaced were impediments to the change we needed to make.

Clifford F. Ransom ***Ransom Research, Inc. - Founder and President***

(inaudible) new change -- any new material changes, how (inaudible) each day process (inaudible)

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

So the question is, do we make changes about how we go about each day. We're making significant changes that are process driven on the plant floor everywhere. And I suppose it's the equivalent of Gordy showing up with his friends from AlixPartners and saying I am from corporate and I'm here to help, which has not been normally part of our culture, but in our manufacturing culture it's true. And Steve Knoop has developed a different rhythm that works for him. And I'll let him address that in terms of how he manages our operating leadership and manages the process of this reorganization. Steve?

Stephen J. Knoop ***RPM International Inc. - Head of Group Restructuring***

Yes, it's -- that's been a big change. I mean, the fact of the matter is, we've got the people up here who have risen to a new role and a more strategic role and thinking about that. And I think what we didn't really get into was at our operating groups too, we've been elevating these resources to focus on these systemic changes. And so ,whether it's in the Construction Products Group or Consumer, we have elevated resources there to focus on this, on a daily basis. And so the rhythm of working on these issues with our operating groups is embedded in our daily life now, and whether it's monthly or weekly reviews, I mean, the changes in the strategy and the issues of this program are in the forefront and the things that we have to overcome. And the fact of the matter is, I've been really happy with the attitude and the cultural change that's happening at our organizations. I think that, that was one of our major concerns about this type of program, but it's been embraced and Gordy can explain at the shop floor. I think that we've seen that, that people want to get better. And they understand that there is a lot of challenges out there in the world, and they see this as an opportunity to maintain the aspects of our culture that are really, really positive and yet become world-class in other areas that we have otherwise said, we weren't really touching. And so, I think that, that's -- it's a real opportunity for us. Gordy?

Gordon Hyde ***RPM International Inc. - VP of Operations, Manufacturing***

Yes, I think if you get on our plant floor, you get with plant managers, and there they've waiting for this. So, they have embracing this opportunity, it's supported from the top down now, they see it across RPM. And for the first time, we are going across the groups, across the businesses. And we're communicating from one plant to the other plant best practices, benchmarks and those types of things. And people are embracing that and people like to improve. It's exciting for them.

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

John?

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

John Roberts, UBS. I think it was mentioned you had a 20% IRR on recent acquisitions. And I assume that it excludes Kirker and Synta. And maybe you could break that down? Your small ones, I'm perceiving must do better than your big ones, but you say you want to do more big ones in the future.

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

So the question relates to acquisitions, and our board asked us to go as we looked at capital allocation in face of this and comparing internal investment with share repurchases or acquisition program, to do a five-year look back. And we did, but we also did a reassessment, because we spent plenty of time looking at Kirker and Synta for the board. They didn't ask for it in the five-year look back, because it turned out that Kirker and Synta had been done six years ago. So, we didn't touch that. Here's the outcome of that. The IRRs that Rusty talked about over that five-year period on these small- and medium-size deals on a collective basis is 18.8%. We're good at it. It's a really important part of our growth, and we're good at getting product lines that our companies can accelerate the growth on even more. And so that becomes part of our organic growth. There were two takeaways from that where we've not been very successful, and again these are Kirker and Synta aside. Number one, this is Kirker, and the other one that's not been very successful for us, and we're working on it from an operating perspective may end up being a key manufacturing point for us, is SPS, okay. What do Kirker and SPS have in common? This is my fault. They were both high margin, they were both unique, but neither of them had a brand. They were private-label producers. It broke every rule that we've been talking about since my father started doing acquisitions. So, rule number one is, don't talk yourself into nonbranded private-label producers, because they happen to have high margins for a particular reason. And the other rule or a lesson that we learned is, the small ones that haven't succeeded have tended to be very small in far away locations that are freestanding. So, if we do an acquisition in Norway, and it's $5 million or $6 million, and it's a great strategic fit, but the operating company isn't paying much attention to it, it tends not to do very well. We've had a handful of those. And so, the lessons from that review with our board --are: small, bolt-on product line acquisitions and -- where it's appropriate -- having a family business, choose RPM is working great. And those are unlevered IRRs. So, I would tell you that we're doing as well as most of the private equity firms who compete in that space. But we ought to stay away from -- we ought to stick to our rules that we tell people for 40 years, and we broke them twice in the last six years and we paid the price. And we can't fritter away capital in small chunks by buying small freestanding locations that are far away that people don't pay attention to.

That appears to be the last of our questions. I want to just conclude by thanking everybody for being here. It's awesome that we had 100 investors and investment professionals come. Most of you were here for our trade show, demonstrations with our companies, and we greatly appreciate your interest in RPM. We particularly appreciate your investment in RPM. And I also want to thank all the RPM leaders that showed up to man the trade show. We had a fun dinner last night, and quite candidly, these are the people that drive our growth, drive innovation in our industries and make RPM what it is today. And we are all excited about this. When we combine that entrepreneurial approach of RPM with a world-class back-end from a competitive standpoint, we're going to kill everybody. We can't wait to get there. So, thank you very much for being here, and thanks for your investment in RPM.