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# The Sherwin-Williams Co. (SHW)

Q3 2021 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. Thank you for joining The Sherwin-Williams Company's review of third quarter 2021 results and our outlook for the fourth quarter and full year of 2021.

With us on today's call are: John Morikis, Chairman, President and CEO; Allen Mistysyn, CFO; Jane Cronin, Senior Vice President, and Corporate Controller; and Jim Jaye, Senior Vice President, Investor Relations & Communications. This conference call is being webcast simultaneously in listen-only mode by Issuer Direct via the internet at [www.sherwin.com](http://www.sherwin.com). An archived replay of this webcast will be available at [www.sherwin.com](http://www.sherwin.com) beginning approximately two hours after this conference call concludes.

This conference call includes certain forward-looking statements as defined under US federal securities laws with respect to sales, earnings and other matters. Any forward-looking statements speaks only as of the date on which such statement is made, and the company undertakes no obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise. A full declaration regarding forward-looking statements is provided in the company's earnings release transmitted earlier this morning. After the company's prepared remarks, we'll open the session to questions.

I'll now turn the call over to Jim Jaye.

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### James R. Jaye

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

Thank you. Good morning, everyone. Sherwin-Williams remained focused in the third quarter on solving customer challenges, combating rising costs with pricing and investing for future growth in a difficult and highly fluid environment that is impacting the entire coatings industry. Demand remained generally robust, but raw material inflation remained persistently high and raw material availability failed to improve. While these conditions challenged our quarterly results, we continued to strengthen our customer relationships and take actions that strongly position us for the long term. We're confident in the demand outlook and even more confident in our strategy, our people and our position in the market.

Let me briefly summarize the quarterly numbers. All comparisons in our prepared commentary this morning are to the third quarter of 2020 unless otherwise specified. Starting with the top line, third quarter 2021 consolidated sales increased 0.5% to \$5.15 billion. Raw material availability negatively impacted sales by an estimated high single-digit percentage with about 75% of the impact in The Americas Group. The remaining impact was largely in the Consumer Brands Group with an immaterial impact to Performance Coatings Group.

Consolidated gross margin decreased 630 basis points to 41.6% driven by lower sales volume, raw material cost inflation outpacing our price increases near term and supply chain inefficiencies. SG&A expense decreased 2.7% in dollars and decreased 90 basis points to 26.6% as a percent of sales. Consolidated profit before tax decreased \$264.1 million or 30.2% to \$611.5 million. The third quarters of 2021 and 2020 included \$70.3 million and \$76.4 million of acquisition-related depreciation and amortization expense respectively. Excluding these items, consolidated profit before tax decreased 28.4% to \$681.8 million.

Diluted net income per share in the quarter decreased to \$1.88 per share from \$2.55 per share a year ago. The third quarters of 2021 and 2020 both included acquisition-related depreciation and amortization expense of \$0.21 per share. Excluding these items, third quarter adjusted diluted earnings per share decreased 24.3% to \$2.09 per

share from \$2.76 per share. EBITDA was \$834.2 million in the quarter or 16.2% of sales. Net operating cash grew to \$2.1 billion or 13.5% of sales in the first nine months of 2021.

Moving onto our operating segments, despite strong demand, sales in The Americas Group decreased 0.4% as volume and mid-single digit selling price increases could not fully offset the decrease related to raw material availability. Segment margin decreased 3.8 percentage points to 21.3%, resulting primarily from lower sales volume and higher raw material costs, partially offset by selling price increases. Segment SG&A remained basically flat year-over-year in dollars and as a percent of sales as we continued investing in strategic growth initiatives.

Sales in the Consumer Brands Group decreased 22.8% against a very strong comparison a year ago. The decrease included approximately 5 percentage points related to the Wattyl divestiture, lower volume and the negative impact from raw material availability, partially offset by selling price increases. Adjusted segment margin decreased 11.7 percentage points to 14.7% of sales, resulting primarily from lower sales volume, higher raw material costs, and supply chain inefficiencies, partially offset by selling price increases, and good sales and marketing cost control. Sales in the Performance Coatings Group increased 17.4% driven by volume, price increases and favorable currency exchange. Adjusted segment margin decreased 5.5 percentage points to 10.5% of sales as operating leverage from the higher volume, selling price increases and good cost control were more than offset by higher raw material costs where inflation was the highest among the company's three operating segments.

Let me now turn the call over to John Morikis for additional commentary on the third quarter and our year-to-date, along with our guidance for the fourth quarter and full year 2021. John?

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## John George Morikis

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Thank you, Jim, and, good afternoon, everyone.

Let me begin by reiterating the themes we provided on our September 29 update call. First, the demand environment remains robust across our pro architectural and industrial end markets. Many external indicators, and more importantly, our customers remain highly positive. Demand is not the issue. Second, we are ready to meet this demand. We continue to invest in growth initiatives. We have significant production capacity available today, and we are bringing 50 million gallons of incremental architectural production capacity online over the next two quarters. Our capabilities are not the issue.

The issues that impacted our third quarter and have persisted in our October continue to be industry-wide raw material availability constraints and inflation. Let me be very clear on how we are responding. Nobody has more assets and capabilities than Sherwin-Williams. We're employing all of these to keep customers in paint and on the job better than our competitors. We will continue to focus on customer solutions. We are aggressively combating raw material inflation with significant pricing actions across each of our businesses. We implemented multiple price increases in the quarter. We will continue to do so as necessary.

We continued to work closely with our suppliers on solutions to improve availability sooner rather than later. At the same time, we're exploring every avenue to better control our own destiny going forward, including our recent announcement to acquire Specialty Polymers, Inc. There's no shortage of confidence on our team, which is deep and experienced. My deep thanks goes to all 61,000 members of our global family. We fully expect we will emerge from these current challenges a stronger company with stronger customer relationships, and with continued strong value creation for our shareholders.

In just a moment, I'll add some color to Jim's third quarter results summary. But first, I'd like to make a comment on our results year-to-date. While events largely outside of our control have forced us to adjust our expectations, we have still delivered a solid performance. 2021 year-to-date consolidated sales were up 9.4% or \$1.31 billion. Despite high-teens raw material inflation, adjusted PBT increased 1.5% or \$33.1 million, and adjusted diluted net income per share increased 4.8% to \$6.80 per share. Adjusted EBITDA is \$2.73 billion or 18% of consolidated sales. Even in this unusual environment, we've continued to make investments that will drive our momentum over the long term, and we are confident we will see significant margin expansion as availability and inflation headwinds eventually subside.

Now, returning to segment performance in the third quarter. In The Americas Group, raw material availability challenges were a significant drag on sales. The good news is that underlying demand remains sound and reported backlogs are strong. We expect growth rates will improve significantly, commensurate with improvement in the industry supply chain. Sales growth in the third quarter was led by a Protective & Marine, which was up by high single-digit percentage. We're seeing good demand in this business from customers in oil and gas, flooring and steel fabrication markets.

TAG's largest business, residential repaint, grew by a low single-digit percentage against a strong double-digit comparison. As industry supply chain issues are resolved, we would expect this business to return to its prior growth levels where we've delivered double-digit growth for the last five years. New residential sales increased by a low single-digit percentage. New housing permits and starts have been trending very well since last summer and our customers are reporting solid order rates. We're seeing a number of projects being pushed out as a variety of building materials, beyond paint, are in short supply.

Property management was up slightly in the quarter. Improving apartment turns along with the return to travel, the workplace and school are tailwinds that should support higher growth when raw material availability improves. Our commercial business was down slightly in the quarter. Similar to new residential, projects are taking longer to reach the painting phase due to short supply of multiple building materials. And finally, as expected, our DIY business was down double digits versus an extremely difficult comparison, which was exacerbated by the raw material availability issues.

From a product perspective, interior paint sales performed better than exterior sales with interior being the larger part of the mix. We realized a mid-single digit increase in price in the third quarter resulting from our February 1 and August 1 price increases and our mid-September surcharge. We would expect the combination of these pricing actions to result in a high single-digit percentage price realization in the fourth quarter, putting our full year price realization for TAG in the mid-single-digit range. We will continue to evaluate additional pricing actions as needed. We've opened 50 net new stores year-to-date. Along with these new stores, we continued to make investments in sales reps, management trainees, innovative new products, e-commerce and productivity enhancing services. We are not taking our foot off the gas on these growth initiatives.

Moving on to our Consumer Brands Group. Sales decreased by a double-digit percentage driven by difficult comparisons to the prior year, consumers returning to the workplace, raw material availability issues, and the divestiture of the Wattyl business. Overall, DIY demand continued to moderate to more normal levels compared to 2020. This was partially offset by growth in the North American Pros Who Paint category, which was up strong double-digits in the quarter and year-to-date.

While sales are down in all regions, sales were less impacted in North America, our largest region, compared to Europe and Asia, where COVID restrictions were more impactful. Pricing was positive in the quarter, though

below the level of The Americas Group. As you know, our global supply chain organization is managed within this segment. This team continues to work with suppliers to navigate the industry-wide raw material supply chain disruptions caused by Winter Storm Uri and Hurricane Ida. We stand ready with ample capacity and are adding more to serve customers at a higher level as raw material availability improves.

Last, let me comment on the third quarter trends in Performance Coatings Group. We continued to see momentum as this is the fifth straight quarter of growth for this business. Group sales increased by more than 17% in the quarter including a currency translation tailwind of 2%. Price was in the high-single-digit range, and all regions and all divisions generated growth. Regionally, sales in the quarter grew fastest in Europe and Latin America followed by North America and Asia. Every division in the Group grew, the majority by double digits, driven by robust underlying demand, new customer wins and share of wallet gains.

I'll start with Packaging, which generated strong double-digit growth against a high single-digit comparison last year. Sales were up double digits in every region. Demand for food and beverage cans remains robust and our non-BPA coatings continued to gain traction within existing and new customers. Next is General Industrial, the largest division of the Group, which posted its third consecutive quarter of strong double-digit growth. Sales were up double digits in every region. Sales were strong across most of our customer segments led by heavy equipment, containers and general finishing. Our Coil coatings business remains a consistent performer. Sales grew by a double-digit percentage for the second consecutive quarter and were positive in all regions. This team continues to do an excellent job at winning new accounts in all regions. Construction and appliances led the growth.

Automotive Refinish sales increased by a mid-single digit percentage. Miles driven are nearing pre-pandemic levels. New installations of our products and systems in North America remained strong. The Industrial Wood division generated low-single-digit growth. Growth in North America, our largest region, was up strong double digits, but was offset by Asia-Pacific where COVID-related shutdowns had a significant negative impact on sales. New residential construction continues to drive robust demand for our products in kitchen cabinetry, flooring and furniture applications.

Before moving to our outlook, let me speak to capital allocation year-to-date. We've returned a little over \$2.5 billion to our shareholders in the form of dividends and share buybacks. We've invested \$2.1 billion to purchase 8.075 million shares at an average price of \$265.88. We distributed \$442.9 million in dividends, an increase of 20.4%. We also invested \$248 million in our business through capital expenditures, including approximately \$36 million for our Building Our Future project. We ended the quarter with a net debt to adjusted EBITDA ratio of 2.5 times. We also announced the Sika and Specialty Polymer acquisitions, which are expected to close in early 2022, if not sooner.

Turning to our outlook, we expect robust demand to continue in North American pro architectural end markets. We expect DIY demand to continue normalizing as consumers return to the workplace. We expect industrial demand to remain strong. Raw material availability challenges will remain a headwind in the fourth quarter, but the situation is improving. We believe we have weathered the worst of Hurricane Ida, and supply should continue to come back online. We expect to be in a make-and-ship mode, and do not anticipate building any inventory until the first quarter of 2022.

On the cost side of the equation, our raw material inflation expectations for the year moved up to the low 20% range from the high teens given additional pressure we've seen since our last guidance. We do not see any meaningful improvement until well into 2022. All businesses remain aggressive in implementing price increases as necessary to offset these costs. We recognize that the timing of price realization will continue to put pressure



on margins in the near term. And as we've said many times, we expect margin expansion over the long term and maintain our gross margin target in the 45% to 48% range.

Against this backdrop, we anticipate fourth quarter 2021 consolidated net sales will be up by a mid to high single-digit percentage compared to the fourth quarter of 2020. We expect The Americas Group sales to be up by a mid to high single-digit percentage, with pro sales at or above the high end of this range and DIY sales returning to a more historic level. We expect Consumer Brands sales to be down by a mid-teens percentage, including a negative impact of approximately 7 percentage points related to the Wattyl divestiture. And we expect Performance Coatings sales to be up by a mid-teens percentage. Embedded in our guidance is a similar impact to our architectural businesses as a percent to sales from raw material availability, as we experienced in the third quarter.

For the full year 2021, we expect consolidated net sales to be up by a high single-digit percentage. We expect The Americas Group to be up by a high single-digit percentage, Consumer Brands Group to be down by a mid-teens percentage, including a negative impact of approximately 4 percentage points related to the Wattyl divestiture, and Performance Coatings Group to be up by a low 20s percentage. We expect diluted net income per share for 2021 to be in the range of \$7.16 to \$7.36 per share compared to \$7.36 per share earned in 2020. Full year 2021 earnings per share guidance includes acquisition-related amortization expense of \$0.85 per share and a loss on the Wattyl divestiture of \$0.34 per share. On an adjusted basis, we expect full year 2021 earnings per share of \$8.35 to \$8.55.

Let me close with some additional data points that may be helpful for your modeling purposes. We expect to see a slightly improved sequential gross margin in our fourth quarter as additional price increases are implemented in the quarter. We expect to see contraction in our fourth quarter operating margin due to the contraction in gross margin, partially offset by leverage on SG&A due to the strong sales growth. We will continue making investments across the enterprise that will enhance our ability to provide differentiated solutions to our customers.

We expect to have around 80 new store openings in the US and Canada in 2021. We'll also be focused on sales reps, capacity, and productivity improvements as well as systems and product innovation. We also plan additional incremental investments in our digital platform and the home center channel. These investments are all embedded in our full-year guidance.

We expect foreign currency exchange to be a tailwind of approximately 2% in the fourth quarter. We expect our 2021 effective tax rate to be slightly below 20%. We expect full-year depreciation to be approximately \$270 million and amortization to be approximately \$310 million. We expect full-year CapEx to be approximately \$370 million, including about \$70 million for our Building Our Future project. The interest expense guidance we provided last quarter remains unchanged at approximately \$340 million. We expect to increase the annual dividend per share by 23.5% per share for the full year. We expect to continue making opportunistic share repurchases. We'll also continue to evaluate acquisitions that fit our strategy.

We are on track to deliver solid full-year results even with the considerable supply chain and inflationary headwinds we are experiencing. I remain extremely proud of our team and their focus on providing solutions to our customers. Demand remains strong, our customer relationships have strengthened, and we continue to invest in our capabilities. We expect to finish the year with significant momentum that will carry us forward in 2022.

That concludes our prepared remarks. With that, I'd like to thank you for joining us this morning, and we'll be happy to take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] And our first question is from the line of John McNulty with BMO Capital Markets. Please proceed with your question.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Good morning, thanks for taking my question. So when you look at the impact that you had in terms of raw materials holding back the ability to deliver in some cases and in particular in the TAG business, I guess can you speak to your confidence that that business comes back versus it moving into other channels, whether it's possibly even to your Consumer Brands Group or somewhere else?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

John, this is an important area that we really do want to stress and feel very comfortable and confident about this. We have tremendous confidence in line of sight quite frankly in the view of the customer and the demand that they have. We have great confidence that as we're exiting this chapter that the relationships that we have with our customers are growing deeper. And I would point to how we're working through this experience with our customers as kind of the backbone of why we have such confidence. We're blessed to have a controlled distribution model that has our stores in the markets that our customers are living in and working in and reps that are partners in their business.

Through this experience, those relationships have grown deeper because we're working closer with our customers. The line of sight that we have on the projects that they're working and the needs that they have is only increased. And so you're right. There might be some shifting from here to there, and we've always said that. We always expected the DIY to normalize and that the business would begin shifting into other segments of the business as people return back to business – I'm sorry, back to work. So we always expected that while DIY shifted down, other areas would go up, and we expect that. We've worked hard, very hard strategically to position the company to be in position to be able to capitalize on whichever segment grows and whichever segment the market might turn to.

So when you look at residential repaint or DIY or new residential versus property management, we've worked very hard with products, services, and quite frankly, the people in those markets to be able to capitalize on them. So I'd say our confidence is probably as high as it's ever been for me. I see what's happening with our customers from a Net Promoter Score at a record level, our new account activity at record level, our share of wallet activity, record level. Every metric that we look at, I would describe as almost a coiled spring ready to expand. And so we're excited about this chapter as I referred to it as ending because we believe we'll be the ones that are really going to accelerate quickly to take advantage of that.

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Hey, John. This is AI. The other comment I would make is, as John talked about, as DIY normalizes, if we look at our combined architectural businesses with TAG and Consumer, we're up low double digits in our first half. If you exclude the raw material availability issues due to Hurricane Ida, due to the Winter Storm Uri that we talk about



being the high single-digit impact on our third and a similar impact on our fourth quarter, we'd be up high single digits on that combined business. So to John's point, we're going to capture it on either channel of where that customer falls.

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**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

**Q**

Got it, that's helpful color, and then maybe just one follow-up question. In terms of inflation, I know there's been a lot of issues around labor scarcity issues. And Sherwin's really never had a problem with that in the past. It's always been kind of a destination for a lot of employees. But I guess can you speak to the environment that you're seeing there, how to think about wage inflation for your professionals, and also some of the labor efficiency measures that you spoke to that may be helping to offset some of that?

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

**A**

Hey, John, I want to make sure I'm capturing your question. Are you talking about wage pressure that we might be experiencing?

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**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

**Q**

That's right, wage pressure and just even the ability to get employees in the store.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

**A**

Terrific, and I'll start with that one. We have had to make some wage rate adjustments in some of our factories, distribution centers, and fleet drivers to I'd say attract and retain some of our employees. I'd say I'm really excited about this fact that – and I point to all our employees as critically important. But I would say that those customer-facing employees, the store manager and the reps that I just spoke about, are absolutely critical. And both of those employees, the turnover rate is in the range between 6% to 8%. And I would say that most in our space or that operate 4,700 stores would kill to have a ratio like that.

So while we've experienced some pressure in other areas, those customer-facing employees we've been able to retain, and we believe it speaks to the terrific culture that we have. Our ability to recruit and retain employees comes down to a number of areas that we consider key to that culture. The ability to come in. We hire 1,400 college graduates a year. We bring people in. We give them a career opportunity that they can accelerate in. When you look at the opportunity to come in and run a business out of school within a couple of years and own a P&L, we think that's a terrific opportunity for these people that have worked hard to come in and really make a difference.

When I look at the impact of that, the 1,400 to 1,500 college graduates that come in and what that means to our company over time, we have nearly 10,000 graduates of that MTP program throughout our company. And I want to spend a little bit of time on this, John, because I think it's such an important element. We call it our secret weapon. And that is the fact that we've got these employees that have come into the organization. They understand our culture, our strategy. They understand our expectation. Importantly, they understand our aggressiveness. And when they stick with us, which is an important element of that strategy, those employees move through the organization, and they grow in their experience. They grow in their understanding.

And now when you look at, for example, our rep force, 80% of our reps in TAG came through this program. And so when you're looking at the opportunity to promote from within and what that means to retention, they're looking up, if you will, into the organization. 70% of the TAG field leadership come from our MTP program. And that drives more and more retention. When you look at our employee turnover then and what it means to the broader organization, 7,000 of our employees have greater than 20 years of experience with our company. And so when we're in front of customers and we're talking about trying to bring solutions to them, to make them better, these are experienced people that help us differentiate from our competition.

And so when you look at the external recognition we've received from Forbes, the fact that we've been recognized in the area of diversity and recruitment and internships and places to begin a career, all of those are really important to us. We don't fight for those awards. What we do is fight to make a wonderful culture that people want to be a part of, and as a result, we're better positioned to take care of our customers. So I'd say, it's working. It's working really well, and it's an area we'll continue to be focused on.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Great. Thanks very much for the color. Appreciate it.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

You bet.

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Thank you, John.

**Operator:** The next question is from the line of Ghansham Panjabi with Baird. Please proceed with your question.

**Ghansham Panjabi**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Thank you. Good morning, everybody. John, I mean, supply chain chaos has been persistent along the supply chain including obviously your customers, including one that reported this morning on the home building side. As you kind of think about the various sub-verticals within TAG, how should we kind of think about air pockets of demand? Just because even if you have raw material accessibility, maybe there's other bottlenecks that your customers are cycling through. And I guess specifically I'm referring to new resi and commercial.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah. I'd say those are a couple of really interesting examples that you use in new residential and commercial, because you're right. It's not just paint that those customers are dealing with. There's a lot of raw materials or materials that go into those projects that they're impacting the pace of those. Those two markets, though, I would say remain very strong. Permits up in new residential. We're expanding in multi-family as well. And I would add this. It's not just the raw material or the materials, Ghansham. It's also labor that's impacting that. So there are some challenges there. What I would encourage our shareholders to understand is the commitment that we have

not only to grow with our existing customers to begin with. But I mentioned just a moment ago about the share of wallet and the new customer activity.

And so we look at this on a number of different fronts. We're excited about our penetration there, but there is terrific opportunity for growth in there. And I'd say that as this market begins to recover, the position that we have we think not only with those existing customers, but with new customers will position us favorably in the market. So I feel as though when this customer that has been pushing projects back further and further as a result of some of these supplies, first, we will out-supply, we believe, our competition. But we're also looking at a broader net that we're casting than just our existing customers as well.

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**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Hey, Ghansham, I'd just add to that, if you look at our working capital and where we're at today, we're significantly below our planned quarter in inventory gallon. So as raw material availability improves, you can count on us to kind of keep our pedal – foot on the gas on building architectural inventory. We're going to be in a make-and-ship mode through the fourth quarter. And we plan on building inventory in our first quarter of 2022.

If those jobs get pushed back, with the additional 50 million gallons of architectural capacity we have coming on by the end of the year, we'll convert every pound of raw material we can get to be in a better position to serve those customers when those jobs are ready.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah. And let me just build on it, because it's a great point that Al makes. It goes back to the point that I made earlier, Ghansham. We don't discriminate to which segment drives our results. So if new residential is moving, we're going to be there. And if it shifts into another segment, we'll take those raw materials, we'll make the product in there and we'll push it out. The fact that we have a leadership position in these segments is something that we'll leverage aggressively to be able to convert every precious ounce of raw material into sale and profitability for our shareholders.

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**Ghansham Panjabi**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. And just for my second question, can you just give us a characterization of how raw material availability has sort of evolved over the past few months and thus far into the fourth quarter maybe as a measure of force majeure or however you want to define it, supply allocations, et cetera. I'm just trying to get the cadence just because at the end of September versus now, which is just around four weeks later, you have raised your guidance. So I'm just curious as to how you're sort of thinking about the velocity of the raw material curve. Thanks.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah. I'd say it's improving. We'd like it to come on faster. And I'd say that we've had strategy for many years on not only working with our current suppliers and working to make them as productive as possible.

When we bought Valspar, we said all along that there were opportunities for consolidation in raw materials. We're working aggressively to accelerate that as that will help us to become an efficient customer, if you will, for our suppliers. I'd also say that the same strategy that we've had includes bringing on alternative suppliers. And that's

a goal of ours to ensure that we have the quality and consistency in our – of our products for our customers through qualified suppliers.

So I'd describe it as it's getting better. We expect it to continue to get better. And we're taking very proactive steps on our side to ensure that we're best in show and supplying our customers.

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**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

And Ghansham, I'd just add to that we did take up our raw material cost outlook up from the high teens to low 20%. Back on September 29, we expected certain things to happen. They didn't happen, as you can imagine, exactly the way we thought. So it pressured the raw material costs on our Performance Coatings business and in our other businesses.

And if you look at our second half, our second half increases in raw material is more than double our first half. I talked about on the September 29 call that we were going to be chasing raw material costs through the end of this year and into the first half of next year. And I want to make sure you understand our commitment to doing that. Our teams are in third waves, fourth waves. TAG has been out, just as a reminder, February 1 of this year with 3 to 4; came back out again August 1 with 7. And put a surcharge on September 20 at 4% that we fully expect to convert to a full price increase early in 2022. I could say that about each of our groups and regions, we are committed to offsetting these inflated raw material costs, and we're disciplined about our approach.

As John talked about in the past, we're not losing customers over these discussions. We may have to delay a little bit. But we are going to get the price increase to offset the raws, and as they moderate, we'll start seeing our margin improve. And as we've done in the past, we'll see expansion above where we came into this cycle when we come out of it.

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**Ghansham Panjabi**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Thanks so much.

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**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Thank you, Ghansham.

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**Operator:** Our next question is from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

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**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Thanks very much.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Good morning, Jeff.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Hi. Your DIY volumes were down sharply year-over-year. Is the Consumer Brands' volumes today in the third quarter of 2021 pretty similar to what it was in the third quarter of 2019?

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Yeah, Jeff. If you back out the impact of Wattyl, we'd be up low single-digits, flattish to low single-digits. You'd expect a similar kind of comparison in our fourth quarter.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Right. So if you can offset raw material cost inflation with price increase, which I think you say that you can, like order of magnitude in the third quarter of 2022, should you be earning roughly, I don't know, \$140 million in adjusted operating profit? Even if you don't grow very much because that's what your returns were like in the third quarter of 2019 and you now will have offset the raw material inflation. Is that right?

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Yes. In the sense that Consumer is in a lag. So our expectation with our TAG group is to be up high single-digits in price in the fourth quarter. Consumer is lagging that. And it's just timing. So they're going to come back and catch that up. The other part is the supply chain efficiencies. We do expect to get better, as we flow through next year and raw material availability gets better. Because as you know, our global supply chain is embedded in our Consumer Brands Group results and that's having a negative pressure on our margins.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Jeff, I'd add to the point that Al made just a moment ago regarding price. It's certainly consistent across all groups and as well in Consumer Brands. We've gotten some price. We need more. It's coming. We will get it.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Okay, great. Thank you so much.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Thank you, Jeff.

**Operator:** Our next question is from the line of Chris Parkinson with Mizuho. Please proceed with your question.

**Christopher Parkinson**

*Analyst, Mizuho Securities USA LLC*

Q

Great. Thank you very much for taking my questions. So it's clear your pricing efforts are rolling through as the industry continues to navigate the inflationary environment. But can you quickly comment as to the overall competitive landscapes perhaps by US region as it stands today? And your ability to continue to gain share in pro

and trade into 2022 and even 2023? Just any comments on what you're hearing from your staff and customer base will be greatly appreciated. Thank you.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah, Chris. I'd say this. First, I want to reiterate the determination and confidence that we have in getting our price. We're not a commodity. We bring solutions to customers that help them make more money. We're determined to continue to do that across every business that we have.

So we're not asking for something to get fatter or to take advantage of the situation. We're trying to stay consistent in our model, which is solutions that help our customers to be profitable and successful.

If you go back to 2016, I think from an industry perspective, when there's some different dynamics in the marketplace and people didn't go out with price, Sherwin, we felt the brunt of that as well. And our people, I would tell you, we talk regularly about the experience and kind of the scar tissue of this leadership team. It's a long-lasting leadership team that's been through a lot. And we've learned from that, and I think – I suspect others did as well. And what it means is that when the raw material price bucket moves like it does, you have to get the pricing or it's brutal. And it's brutal for a long time. We learned from that. And so when you hear the conviction, determination, and confidence that I hope you hear from me and AI on this topic, it's exactly that. We're going to get this price.

And we're not trying to be arrogant with it. We know we have a responsibility to our customers to help make them more money in the process. We will do that. But our ability to do that we think is very high.

As far as what our competitors are doing, yeah, we're hearing about pricing in the marketplace. But what we're really focused on is that value proposition to our customers. And as long as we're doing our job, we expect to continue to grow our business and to do it profitably.

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**Christopher Parkinson**

*Analyst, Mizuho Securities USA LLC*

Q

That's very helpful. And just as a follow-up, it's a little bit off the radar screen as it relates to some of the headwinds in today's release. But when we're taking a step back and thinking about PC margins, the 13% to 20% thesis, so to speak, can you just quickly break down any updated thoughts on the progression back to that goal across perhaps price costs, general op improvements, and market mix? Just any color on how you think that's going to evolve across an initial recovery and how to conceptualize the long-term opportunity, will be greatly appreciated. Thank you once again.

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**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Yeah, Chris. We still are confident. And I'll echo what Justin said on our September 29 call. Justin Binns, our PCG Group President. We made good progress in 2020. Second half operating margin was up 100 bps to 15.2%. Flow-through was strong with sales up 4%, and our flow-through was up over 40. So now we're seeing stronger volume, but the rate of increase of our raw materials has been dramatic. And I said, it's two times in the second half versus the first half for raw material increases. So we're out with third and fourth waves of raw material – or of price increases.



On top of that, this team is continuing to look for efficiencies on platform consolidations, SKU rationalizations, and they also have a lot of projects to improve our profitability outside the US.

And what I would say is, depending on the time of the raw material moderates and our pricing catches up, we'll get the operating margin moving positively again. And the one piece that we talk about is we still have facility rationalizations in the pipeline. We're not going to comment on those until our employees know and we get those public, but there's opportunities there. And I talked about maybe \$100 million incremental margin improvement from facility rationalizations, SKU rationalizations, platform consolidations. COVID set us back a year, no doubt, and we're fighting through it. But in the midterm, we expect to see short term improvement, midterm, longer term, get to that high-teens, low-20s.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

But I think, Chris, adversity brings out the best. AI just mention the facilities and some of the opportunities there, but the other point that he mentioned about the platforms and the point that I made earlier about the raw material consolidation, there are opportunities there that we've identified all along. The strong proliferation of resins through our organization, the opportunity to consolidate those, be more efficient. All of those will have a significant impact on this march to 20% range of operating margins for this industrial business.

We're confident in our ability to be able to get there. We're going to do it the right way, though. We're going to get there with our customers, and by bringing them value.

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**Christopher Parkinson**

*Analyst, Mizuho Securities USA LLC*

Q

Thank you.

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**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Thanks, Chris.

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**Operator:** Our next question is from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your question.

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**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Q

Great. Thanks for taking my question. I guess my first question is on demand. There's obviously been a lot of different dynamics in the market the last couple years with COVID and DIY resurgence and now with potentially lost sales because of lack of raw material availability. Maybe if you could help us maybe in TAG and PCG, is there a way to quantify what your backlog has grown to? Or do you have visibility on that? And when you do not make the sale because of lack of raw material availability, does it go into that backlog? Or is it just potentially lost? Maybe you can just comment on that. Thank you.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah. Arun, I'd say we're – again, not to beat a drum here too hard, but the fact that we've got this controlled distribution model gives us insight into a CRM system that gives us confidence and insight as to what's happening with our customers.

And what I would tell you is that across nearly every one of these professional segments that you mentioned about in TAG, there is a growing backlog. The confidence that our customers are working with us and how we approach their business and the collaboration that we have gives us insight. I mentioned earlier about the fact that our teams are working closer, far closer than we ever have, ever experienced, in understanding what they have going and when it's going to be.

So yes. We have great confidence. We're not going to lay out any kind of numbers with specifics as to what that looks like, but I would tell you that if you talk to any painter right now, they would probably tell you that the bidding that they're doing is further out now than they probably have ever had. And they're winning jobs. People are understanding and comfortable with getting in line for next spring, next summer. And so there's an absolute understanding of what's going on. I mean, people are turning on the TV and listening to the news and understanding that there are some issues.

Ours is unique from a supply chain perspective. When you think about our architectural products, since you asked about TAG, the supply chain issues that we're facing primarily go back to the points that we made earlier about the Winter Storm Uri and the Hurricane Ida in February and September. Those are the two issues that impacted us the most. And our confidence in getting on top of that as the year progresses and as we begin next year is high.

And our customers are learning that the fact that they do business with us, our people can scramble and get product from different stores or different distribution centers, keep them in paint better than most of our competitors. So we'll come out of this stronger and with more loyalty. And yes, there is quite a bit of backlog that we're going to enjoy filling for our customers.

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**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Q

Great, thanks. And then if I could just get your thoughts potentially on 2022, so it looks like you will have some demand recovery here assuming raw material availability improves, especially for the second half of next year. You'll have a full year or so of Specialty Polymers, but you also may see some stability in DIY. Is there any kind of initial markers you can give us for 2022 on how to think about each segment's growth?

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

I think I'd just point back at this point, Arun, that we're very comfortable, very confident that there's a growing backlog. We're not going to give you any kind of data points right now other than when we're talking with our customers, that backlog is longer than it's – longer, deeper, and probably growing faster than any rate than they've seen. But I don't think we want to share any kind of numbers yet. We'll provide that information at a later date.

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**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Q

Okay, thanks.

James R. Jaye

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

Thanks, Arun.

A

**Operator:** Our next question is from the line of Vincent Andrews with Morgan Stanley. Please proceed with your questions.

Steven K. Haynes

*Analyst, Morgan Stanley & Co. LLC*

Hey, this is Steve Haynes on for Vincent. I guess just back to your comment about having to build some inventory in the first quarter and maybe just pairing that with the overall amount of deferred volume that you had, how do we think about the phasing of actually playing catch-up on some of that deferred volume? Can it happen in the first half? Or what are some of the key watch-outs there?

Q

Allen Joseph Mistysyn

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

I think, Steven, we have to keep an eye on the availability not just of our existing suppliers, but we're looking under every rock we can find alternate suppliers to help us meet the significant demand expectations that John talked about. So our ability to build that inventory in the first half is going to be somewhat dependent on the increase in raw materials to get to the true forecasted demand, which is a lot higher than where it was entering this season this year.

A

Like John talked about, we have the capacity to make the gallons. We kept our factories fully staffed. That's an investment on our customers to make sure we can convert every raw material as quickly as possible, to get it in the field in the fourth quarter, and then build inventory both on the TAG side and the Consumer side to make sure we can meet the demand head on.

John George Morikis

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

And I think that's an important point that AI just made. The fact that we made that conscious decision on – and it did impact our gross margins, keeping the labor in our manufacturing distribution centers so that we could respond. When we're talking about why is it that we have confidence in our price, that's a great example. Our customers – we talk openly about that, the fact that we're making investments here so that we can supply. And as AI mentioned, as the raw materials become available, we'll convert those quickly.

A

Steven K. Haynes

*Analyst, Morgan Stanley & Co. LLC*

Thank you.

Q

James R. Jaye

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

Thank you, Steve.

A

**Operator:** Thank you. The next question is from the line of Truman Patterson with Wolfe Research. Please proceed with your questions.

**Truman Patterson**

*Analyst, Wolfe Research LLC*

Q

Hey. Good morning, guys. Thanks for taking my questions. And, John, I'm sure you were excited that Johnson looked like Nick Chubb out there last week. So great performance.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

He did.

**Truman Patterson**

*Analyst, Wolfe Research LLC*

Q

So it sounds like the supply chain is improving modestly recently, but you all mentioned that some petrochemical facilities were still shut down from the winter storm in Texas on your prior update call. Could you just compare and contrast Hurricane Ida? Are there any major differences that would allow the Ida facilities to recover relatively quicker? Or on the flipside, maybe they take a little bit longer to come online than the Texas storm.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

I think the Ida situation is a little bit different. Why don't I have Jim talk about that briefly? Then I'll come in if there's any gaps there.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Good morning, Truman. As we talked about throughout the year here, if you look at Texas, that was more I would say physical damage to facilities based on the freezing of pipes and just all the damage that we've talked about at length.

I think Ida, what was more at play there was a lack of power to facilities, which has recovered significantly. You also had other utilities that were offline, for example, water supply, steam, things like that that are really important in production. And even we saw a lack of nitrogen in some of these facilities, which nitrogen is a key element to preventing explosions. People that produce that nitrogen had diverted to producing oxygen to help out with the COVID pandemic. So a little bit different dynamics in the two. I'd say we're still not fully recovered in either of those, Texas or Louisiana, but making progress as we go forward.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

I think you're exactly right, Jim. The key point here is that there were a couple of key facilities in the painted coatings space, particularly resin manufacturing and other thickeners and rheology products that ended up impacting the ability to make paint, again, not for just The Sherwin-Williams Company, but for the industry.

**Truman Patterson**

*Analyst, Wolfe Research LLC*

Q

Okay. And then in TAG, you all had sales growth I believe in Canada and the Southeast divisions, but you all had sales declines in the Southwest, East, and Midwest divisions. I'm just trying to unpack this a little bit. Was it due to regional supply chain differences, directing product to more profitability areas? I'm just trying to understand the dynamics there.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

I would say, Truman, that it's just the availability issues are across the chain. I think what you see going on in Canada is a determined team with the right focus on the right segments and really doing a great job of increasing new account activity, gaining share of wallet, and having a focus on growth. And you can say didn't you have a focus on growth in the past. Yes, we did, but I think this team is executing at a higher level than we have in the past.

And I would argue the same thing in the Southeast, different mix of customers' impact, availability as well. But our Southeast division has performed well through all cycles, and I'll take a shot at our Southwest division. They'll outpace the Southwest division, and we'll see if the Southwest division can pick it up and get back at the Southeast and outgain them.

**Truman Patterson**

*Analyst, Wolfe Research LLC*

Q

Fair enough. Thanks, guys.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Thanks, Truman.

**Operator:** Our next question comes from the line of Mike Sison with Wells Fargo. Please proceed with your question.

**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

Q

Hey, guys. Good morning. If I did the math right for sort of the sales shortage from raw materials, it's coming in maybe somewhere a little over \$900 million. And if you actually were able to get all the raw materials you need heading into 2022, would you be able to, or would your customers be able to do all that work given how strong demand is in other areas?

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

So, Mike, just to be clear, you're quoting a full-year impact on the \$900 million?

**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

Q

For the full year. Yeah.

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

I agree with that.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

As it relates – so your question is really a labor question. And I would say this that there are some challenges there for sure. Again, I keep coming back to this controlled distribution model on our strategy. But, Mike, I think these challenges work to our advantage. When our customers are challenged with where to be, what to do, and we're the ones having the stores in the marketplace so that we can be responsive and serve them, the fact that we're developing products to help their productivity, what we're experiencing right now is a positive mix shift where customers who may have used a middle grade product are stepping up into higher grade available products. And you know what? They're finding out that they are more productive and they're learning more – and they're earning more, I'm sorry. So I'd say there'll be some challenge. But I also think that we're uniquely positioned to be able to capitalize on that.

Again, we mentioned new accounts and share of wallet. So we're not just – I'm going to be very clear. We're not just a retailer that opens doors and hopes people come in. We're out aggressively pursuing people every day. We're trying to help those customers that are doing business with us to be more productive and make more money. And we're out attacking other people's hills. We're not just trying to protect ours. And so the programs that we have, everything from the customer programs, the incentive programs, everything we have is about growing. And that's what we're committed to. And we have great confidence as these raw materials become more available, and they will, and they're converted through capacity that we have which is available, we'll grow our business, and we'll grow it faster than our competitors.

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**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

Q

Got it. And just a quick follow-up, just curious how excited you are for a big win on Sunday. That's not for Al. Thank you.

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**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Thanks, Mike.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah. Yeah, a Steeler fan amongst us. I don't know how we let anyone from Pittsburgh in here.

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**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Thank you, Mike.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Next question, Al.

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**Operator:** Next question is from the line of P.J. Juvekar with Citi. Please proceed with your question.

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**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

Q



Yes, hi. Your Protective and Marine business was up high single-digits. And the oil prices are approaching, what, \$85 today. What do you expect from the Energy business? How strongly do you think that comes back in terms of coatings demand?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

We think it will be an important part of our future, P.J. We enjoy a very strong position there. Demand is picking up there. We do believe though that it's not just oil and gas. We've been working very hard and we've been very transparent about the need for that business to further diversify beyond oil and gas. So we've been focusing on some of these other key segments. And when you look at the infrastructure opportunities that might be coming down the pike as well as our penetration into other areas such as flooring, such as water – wastewater. I mean, there's a lot of key areas that we have been really working hard on. So our position in oil and gas, we expect to continue to penetrate. But you can rest assured in these adjacent markets, other markets in the Protective and Marine business, we're focused very hard and we're having very good success there as well.

**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Great. And then different paint companies are expecting to catch up fully with raw materials at different times based on their product mix or raw materials. If oil and raw materials were to remain here and not go up from here, when do you think you will fully catch up? Would it be like early 2022 or would it be by mid-2022?

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Yeah, P.J., I talked about on our September 29 call that with the increases we've seen and plus the additional increase we just updated our guidance with on raw materials that we'd be chasing it through the end of the year. Earlier in the year I thought we'd offset it dollar for dollar. I think, what we would like – or plan to do is go out early in 2022 with the idea that if nothing, if we saw no other increases, we'd get on top of it in 2022 early. That means you can offset the dollars. It's going to take some moderation in raw materials before you start seeing material change in our -improvement in our gross margin. But yeah, you would – our expectation is early 2022.

**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Thanks, P.J.

**Operator:** Thank you. The next question is from the line of Bob Koort with Goldman Sachs. Please proceed with your questions.

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi, guys. Thanks for the question here. I'm going to – I'm curious about you guys had to short some customers or didn't have a product available. Similarly, your suppliers on the raw material side. I'm wondering in both cases; do

you make that up at the pricing that was there at the time of the order. Or do you get to sell it in the future to where you might actually have a richer mix on those deferred sales or deferred purchases?

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah. Probably some of both, Bob. I think, we try to do the best we can to honor quotes that we have in the pipeline. It's such a wonky year, though, that it's hard to completely do that in this environment. So we're trying to be as transparent as we can with our customers, understanding that some jobs get moved but not just because of the paint side of it but because of the other supply chain issues that some of our customers are having. So it's – I would say we're transparent. We work closely with our customers to figure out what that pricing looks like.

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**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

You noted the backlog is quite healthy. You're going to build into that. Is there any anxiety that the labor pool of your customer base won't be there to be able to handle that surge? Do you fear maybe you're going have some missed sales because of that?

---

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

We're going to work with our customers. And that's why I think, Bob, it's important to understand that it's not just our existing customers when we talk about working with our customers. So it absolutely is incumbent upon us to help them be as efficient as possible. That's not just the way in which we run our business. It's helping them to run a more efficient business and the products that we sell to make them more efficient. And at the same time, we are out there growing a number of accounts that we do business with and growing the shared wallet with new customers.

So I think we are uniquely positioned in the market. And I call it the stickiness, if you will, these customers that realize that we're working really hard for them right now. That's why this Net Promoter Score, not just on the DIY side but we do a wholesale look at that as well to understand the view from the customer. It's actually growing in this market. And I think many people might be surprised by that.

But the loyalty that we have during these challenging times is actually increasing with these customers. So we have a lot of customers that we're doing business with, some that we're growing. And those that we're touching in fact for the first time or maybe we've had a little bit of their business and we're the ones working with them to get through this, we expect that that's going to play favorably to our future. And we're going to take every step possible to make sure that happens.

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**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

Terrific. And I'm not sure what sport people are talking about. I'm looking over to baseball stadium where the World Series is starting tonight, so. I'm going to root for those Astros.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Fair enough.

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Thanks.

Q

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Thank you, Bob.

A

**Operator:** Our next question is from the line of David Begleiter with Deutsche Bank. Please proceed with your question.

**David Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Thank you. Good morning, or afternoon. Sorry. John, Nippon just bought Cromology in France. Could that be of any interest for you guys?

Q

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

No.

A

**David Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Very clear. And just on Q4, would you expect TAG earnings to be down again or maybe – or flat or up in Q4?

Q

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

Yeah. When you look at Q4, it's really dependent on the availability issues. We are experiencing more of those issues as the quarter starts off. We certainly are going up against a tougher comp, and our fourth quarter last year was up 9%. But based on the current outlook, fourth quarter will have a similar impact of availability. We'll have more price in the fourth quarter.

A

So I think it's going to be hard to get on top of last year's number from a margin standpoint. The dollars will probably be close to flat if not up slightly, but from a margin percent it's going to be hard to get on top of last year.

**David Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Understood. Thank you very much.

Q

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

Thanks, David.

A

**Operator:** Our next question is from the line of Steve Byrne with Bank of America. Please proceed with your question.

**Steve Byrne***Analyst, BofA Securities, Inc.*

Q

Yes. Thank you. I wanted to drill in a little bit on how you drive share gains within TAG. It would seem that several of those end markets like commercial developers, new residential developers, property managers, these are not customers that are walking into your stores. You have commercial relationships that are much higher than that. And, John, you talked about driving stickiness with your pro contractors. It seems you do a lot of things to make the lives easier for those pro contractors, so they don't have to go in your stores to get product.

So my question for you is, one, on the value proposition of your stores, is it primarily for your homeowners to be able to have a store nearby to maybe select product? And then secondly, what is the key driver for driving market share gains into these end markets that you really have higher level commercial relationships with?

**John George Morikis***Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah, Steve. I think maybe a healthy way to look at this is an ecosystem. I might take exception to the idea that the stores are simply there for do-it-yourself. They play a very important role in commercial, new residential, every aspect of our business. We leverage that location. And we do believe it's a competitive advantage in the marketplace. And so let me just give you a little bit of highlight there and then I'll talk about the drivers of the market share gains beyond that. I'll give you some of that. But I'll tell you that they are a lot more than I'm willing to talk about here.

So let's talk first of all about the stores. When you look at any given market, and you have a store locally there, and if you remember that the cost of labor represents roughly 85% of the cost of goods for a painting contractor. We have a rep and a store in a market that's responsive to that customer in that market.

And particularly right now as you look at something like COVID where you might have – you use commercial as an example, you might have a commercial painting contractor on a project who is directed by the general contractor to move from one floor to another because of the number of people in a given area. Or because of some delay there might not be the product that – the substrate to paint because whatever, drywall taping wasn't done on time or whatever it might be. That painting contractor is turning to our rep and our store manager. And he realizes right now, he's got men or painters on the project that he's paying a considerable amount of money to. And without that local store and the responsiveness, that day might be lost. A couple of days might be lost. Whatever situation that they face, our store and our people are there to be able to respond.

And so when a customer calls and says I need something right now and our store's 10, 15 minutes away and we can respond, that's a significant advantage that we try to leverage with our customers. And we try to help them to be more efficient. And that goes across every segment. And anyone that would believe that you could accomplish what we do with the stickiness and the loyalty that we work so hard to gain without those stores, probably doesn't understand what we do yet. And when you speak to these customers and the role that we play, it goes well beyond just the van showing up with product. They're in our stores. There's relationships that are built. There's questions that are asked. There's training that takes place. And that's, I think, a big part of who we are.

I go back to the secret sauce that I talked about, where we're recruiting college graduates in many cases to be assistant managers and managers that come in to run these facilities so they can talk intelligently about what it is that these contractors are facing and how to help them through that. That local representation is absolutely a key part in our being a part of that customer's business, not just a supplier. And when we talk about our ability to work with our customers, in areas such as the compression of margins short term, that's a demonstration of our

partnership and how we work with them. And as a result of that, we do believe that we're blessed to earn more and more loyalty from our customers.

As it relates to the commercial contractor, new residential that you mentioned and how we grow that, you're right. This ecosystem that I talked about is very broad. Very broad. It's everything from architectural reps, color reps, it's specifying, it's having technical people that can be in the field to help in situations like this. One product may not be available. But another one is. Do we have the technical people close to the customer to be able to help them with the application start-up so that the project goes smoothly? We do. Very few people, if anyone else does in any given market.

And so when we're talking with a customer, we're not just talking about can we deliver a gallon of paint? It is an entire ecosystem. And when I say we just don't open a door and hope people come in, we're very aggressive in getting all the way through the decision-making process from owner to architect, to specifier, designer, to applicator, all the way through. And we're covering each one of those bases in a variety of ways to make sure that those customers know and understand the value that we bring.

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**Steve Byrne**

*Analyst, BofA Securities, Inc.*

Q

And, John, you mentioned this example of a store being 10 to 15 minutes away. I'm sure you've analyzed in excruciating detail whether there is a value to it being 5 minutes away versus 30. And thus the question is, when you look at your footprint of stores, how much – how many more do you think that you could put in North America and still drive revenue growth before that starts to plateau?

---

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Yeah. So you're right. We've looked at that in great depth, and I would tell you this. We've not reached saturation in any market yet. And these large markets where we have considerable representation, if it's Cleveland or in Atlanta or Dallas or some of these markets where we might have 100 stores, we're still looking at more and more facilities there.

And what happens, Steve is, is that when we grow these stores and the volume goes through these stores, we look at adjacent markets. We'll add a store in those markets. We'll grow that new market. But we'll also take some of those customers out of the existing store, and we'll move it over into the new store. And as a result, the comp store grows faster as well as the new store.

So when you look at store count, we can see the next mile marker that I talk about frequently is 5,000, but that's not to signal that we think we hit 5,000 stores. When we hit 5,000 stores, the next mile marker for us will be 5,500 and then 6,000. And we'll continue to add them as long as it makes sense, but we're decades away from a point of saturation that we're concerned about.

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**Steve Byrne**

*Analyst, BofA Securities, Inc.*

Q

Thank you.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

You bet.

**Operator:** Our next question is from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your questions.

**Kevin W. McCarthy**

*Analyst, Vertical Research Partners LLC*

Q

Yes. Good afternoon. Just wanted to peel the onion maybe one more layer on raw materials. I'd be interested to hear if you're seeing examples of cost relief here in October across your basket? And on the flipside, which inputs might be getting worse sequentially into year-end?

And then related to that, I was curious as to whether or not you're seeing tightness in specialty chemicals? Seems in the wake of Uri and Ida you had a lot of disruption upstream among commodity chemicals. But lately we've been hearing more examples of specialty categories that have been disrupted, and I was curious to know whether you're dealing with that as well.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Yeah. Kevin, I'll take a shot at that. So I'll begin maybe with the third quarter and what we talked about in the third quarter was raws were up over 20%. That was a sequential – got worse in the third quarter versus the second quarter. Was really monomer resins, solvents, packaging materials. All of those moved.

If I fast forward, some of the more recent data that we have in terms of prices that have settled, if you look through September, all the major categories that we look at are still highly elevated year-over-year. If you look at whether it's propylene, ethylene, epoxy, HDPE, all of these feed stocks well elevated year-over-year and not a lot of improvement so to speak sequentially. I think propylene may have ticked down \$0.01 or \$0.02, but most of these have not moved sequentially a whole lot. We're also seeing steel and TiO2 have increased a bit as well.

I think AI might have said earlier in October we've seen – in terms of the availability we've seen some improvement there but still probably not enough to let us build inventory in the fourth quarter. You look to the fourth quarter on inflation, again, it's going to be a similar type of level, 20%-plus in the fourth quarter, and I don't really see a whole lot of meaningful improvement until we're into 2022, first couple of months in 2022.

**Kevin W. McCarthy**

*Analyst, Vertical Research Partners LLC*

Q

Okay. Thanks very much for the color. Appreciate it.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

A

Sure.

**Operator:** Our next question is from the line of Edlain Rodriguez with Jefferies. Please proceed with your question.

**Edlain Rodriguez**

*Analyst, Jefferies LLC*

Q

Thank you. Good afternoon, guys.



**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Hi, Edlain.

A

**Edlain Rodriguez**

*Analyst, Jefferies LLC*

Just wondering, like can you talk about the visibility you have for the fourth quarter? Like, you give the guidance? So how much visibility do you have? Are you more or less set based on your order book, or is volume still in flux and can change depending on what happens over the next two months, especially in November?

Q

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

Edlain, I think it's dependent on how all [indiscernible] (1:19:24) during the quarter, improves through the quarter, and there's no other disruptions. As John and we've talked about, we have the capacity. We have the people in place. So our capabilities are there. The demand is there. So we believe every gallon we make, we'll ship to the customer and get it into the field. So it's just about availability right now.

A

**Edlain Rodriguez**

*Analyst, Jefferies LLC*

Okay, thank you. That's all I have.

Q

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

Thanks, Edlain.

A

**Operator:** The next question is from the line of Mike Harrison with Seaport Research Partners. Please proceed with your question.

**Michael J. Harrison**

*Analyst, Seaport Global Securities LLC*

Hi. Good afternoon. You noted some sales and marketing cost controls that you put in place in your consumer business. Can you elaborate on that? I'm assuming that it does not make sense to spend money on advertising when you don't have enough product to sell, but maybe help us think about how much higher those sales and marketing costs could be next year if we're assuming normalized products availability?

Q

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

Yeah. I would say we consistently look to be more efficient on noncustomer-facing items. We did get leverage in the quarter. I should say we have reduced spending in the quarter, but much of it is volume driven and what our outlook is.

A

And you're right. If we can't get product, doing more advertising, marketing and things of that nature, you don't have. I think just giving you a one-off on SG&A for 2022 would send a mixed message. I think we've got to look at the totality of the Group, how sales and margins progress. That really gives us a better idea how we're going approach our SG&A spend for next year.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Yeah. We'll invest as it grows and the position of the market. And we'll work closely with our customers to do that.

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

That being said, Mike, even though our dollars were down, we continued to invest in the Pros Who Paint at some of our retail partners to make sure that opportunity is getting off the ground as quickly as we want and need it to.

**Michael J. Harrison**

*Analyst, Seaport Global Securities LLC*

All right. And then my other question is on mix. John, you mentioned that you're seeing some positive mix shift from some of your pro customers shifting to higher-grade products to improve productivity. But at the same time, lower DIY probably hurts mix. So as we think about the margin right now and the effective mix within your TAG business, is it pretty neutral? Or is there a little bit of a headwind from the DIY decline?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

I'd say it's neutral. Mike, the takeaway for you on that one should be that you've got professional contractors that are learning that they can make more money with higher quality products, and they're likely to continue to do that. And quite honestly, that helps, we believe, the relationship between Sherwin-Williams with these customers because they're more successful, more profitable, and we're playing a part in it.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

Thanks, Mike.

**Operator:** Our next question is from the line of Duffy Fischer with Barclays. Please proceed with your question.

**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Good afternoon. Raw materials had a bigger impact on TAG and consumer than PC. Is that because of specific raw materials that go into those types of paints, and if so, which ones? Or is it because you prioritize scarce raw materials to go into PC and kind of made a structural decision to grow that business faster?

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

Duffy, it's not because we are prioritizing TAG over other customers. It's related to the specific raw materials that were impacted by Hurricane Ida that impacted TAG more than consumer and PCG. I don't think getting into the specifics of what raw materials and what products is appropriate, but it did impact us more on TAG.

**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Fair enough. And then on the 50 million gallons of new capacity you've got coming up, does that, I guess, maybe do one of two – or maybe one of three things? One, are you short capacity today so you'll get a nice volume bump

as soon as that's running? Or B), does it displace third-party product where you'll get a better margin on that? Or is that really just kind of a multiyear grow-into project?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

We're growing into and want to fill that as quickly as possible.

**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Great. Thank you, guys.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Okay.

**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

Thanks, Duffy.

**Operator:** Our next question is from the line of Greg Melich with Evercore ISI. Please proceed with your questions.

**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

Hi, thanks. I really just had a follow-up as to the progression of the guidance and the raws availability. So it sounds like the headwind you expect in the fourth quarter will be similar to the third quarter from a volume standpoint on raws. Did I get that right, high single digits?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

That's correct.

**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

And so if I back into the guidance, it looks like it could be a 400 or 500 bp acceleration in sales in the fourth quarter year over year. So is it fair to say that that's all more of the realized price or a mixture of price and mix combined?

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

Greg, I'd say it's a mix of price and volume combined. TAG will have a full quarter of the surcharge as well as the August 1 price increase. Availability impacts are flattish, but I do think it's a combination of both.

**Gregory Scott Melich**

*Analyst, Evercore Group LLC*

Okay, great. And then I guess if we think about the acquisitions you've made, and I know they don't help this year, but is this a key part to really getting the capacity or some of the bottlenecks fixed early next year? How important I guess are they to getting back to that not having a headwind from raws availability?

**John George Morikis***Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

No, I don't think it's going to be the magic key to the door here. I think it's going to help us. We'll bring some best practice, if you will, to the acquired companies. But we're working with our suppliers, and we expect that we'll look at this. As I mentioned, Greg, during the call, it's a holistic view that we have on this. We're looking at this Specialty Polymers as well as the current supply base, and it will allow us to ensure that we can be as productive as possible while improving the productivity of some of our suppliers that will help us get more raw materials as well. We'll add capacity to the Specialty Polymers asset base. And that will allow us, on the one side, to continue to supply the external customers that they have while continuing to ramp up our supply as well.

**Gregory Scott Melich***Analyst, Evercore Group LLC*

Q

Would it be fair to characterize it as it's less about getting the capacity per se and more about derisking maybe next spring that you have – that you need?

**John George Morikis***Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

I think in the shorter term it may be a little bit de-risking. But in the longer term, with the capacity expansion that we have, it will be a relatively inexpensive investment to give us more flexibility and capacity going forward.

**Gregory Scott Melich***Analyst, Evercore Group LLC*

Q

Thanks, good luck, and have a good time, guys.

**John George Morikis***Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Thank you.

**Allen Joseph Mistysyn***Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Thanks. Greg.

**Operator:** The next question is from the line of John Roberts with UBS. Please proceed with your questions.

**John Roberts***Analyst, UBS Securities LLC*

Q

Thank you. In TAG, Commercial new construction is a longer-cycle business, so you usually can see out a lot further there. Do you think this is the beginning of at least four quarters of down results until we anniversary the drop in new starts in Commercial that's at the depth of the pandemic?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

Actually, if you look at the Architectural Billing Index, John, it's been positive for eight straight months. You're right that projects started in late 2019 or early 2020 are reaching the painting phase now. But what we're hearing from our customers is that these projects that were pushed back are starting to see daylight. And we have confidence that; first, we have a terrific position in the Commercial front. The relationships that we have with our customers, and the question earlier about our stores in the right place. So we're in the right markets where a great deal of the commercial activity is taking place. We think that this will be an area of growth for us, and we're excited about capitalizing on that.

**John Roberts**

*Analyst, UBS Securities LLC*

Q

Okay. And then in Consumer, Pros Who Paint, was that up similar to TAG's Residential Repaint? And should we think about those tracking together, or will Pros Who Paint within Consumer grow faster since it's growing from a smaller base?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

It should grow faster, as it's a smaller base. And we're excited about that. There are some terrific partners that we're working with on that segment that we've been able to ticket that a little bit through our stores. But there are customers that prefer that setting, a home center setting, if you will, that has a broader offering of products, that actually just prefer that setting. And we want to make sure our customers are positioned very well to capitalize on those opportunities. They have a number of customers in their stores right now maybe for the first time. As customers might be looking for product or availability, we want to make sure that experience is a good one and the quality of the product and the services they receive.

**John Roberts**

*Analyst, UBS Securities LLC*

Q

Okay, thank you.

**Operator:** Our next question is from the line of Garik Shmois with Loop Capital. Please proceed with your questions.

**Garik Shmois**

*Analyst, Loop Capital Markets LLC*

Q

Great, thanks for having me. My question is on Pro and the growth that's expected to be at or above the high end of the TAG guidance. Is the growth more of a function of the COVID comp a year ago, or are you seeing an accelerated return here?

**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

A

Our comp last year in our North America paint stores was 9.7%. Third quarter was 3.5%. So I think it's more around just better availability even though the impacts are the same, but smaller from a dollar standpoint just because the quarter is smaller. And I would say this, we typically see a seasonal slowdown in Architectural in our fourth quarter coming out of our third quarter. I would say, based on what we're seeing, is you won't see – we're not seeing as big of a seasonal slowdown, if you will. So that's kind of why you see a nice uptick in TAG.

**Garik Shmois**

*Analyst, Loop Capital Markets LLC*

Great, thank you.

Q

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Thanks.

A

**Operator:** Our next question is from the line of Eric Bosshard with Cleveland Research. Please proceed with your questions.

**Eric Bosshard**

*Analyst, Cleveland Research Co. LLC*

Two things. First of all, John, you commented about loyalty increasing for your company during this period of time. I'm curious. As you're putting through these price increases at a period of time where service levels are kind of below your standard, how are the price increases being received? Is the uptake or are these taking longer to stick, or is it following the historic normal path?

Q

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

No. I'd say either historic or maybe even a little bit faster right now, Eric. It is odd. I could understand the question about the loyalty increasing while prices are going up and availability is challenged, but I think it does speak to the point I made earlier. There was a question about our store locations, and I kind of marveled at that question because it does get to the heart of what we have, which is this unique point of differentiation, where if we didn't have the stores and you're trying to put pricing through and trying to build loyalty and you don't have product, I get it. But the fact that you're walking into a store and, in many cases, these are your friends that you've now built a terrific relationship with that are working with you. I need this product. I need it as soon as possible. And the person on the other side of the counter is in it with you. And we're trying to empower our people to make decisions. We're trying to get them product as quickly as possible. And, as a result, the customers are understanding the efforts that our people are putting in, and the pricing is the pricing.

A

Again, we're under a lot of pressure from a raw material standpoint. We're helping our customers improve their profitability, and we need to stay healthy. And that's the discussion that we're having. And that healthiness includes a price increase for the products that we're getting you. And as a result – and the metrics and the numbers are all right there. I mentioned the Net Promoter Score, and people are familiar with that. There are a number of other metrics that we look at internally. They're all pointing in the right direction. So it gives me great confidence that what we're doing is working.

**Eric Bosshard**

*Analyst, Cleveland Research Co. LLC*

Great, that's helpful. And then secondly, AI, you commented about catching up on raws in early 2022. Based on where you are now and you've obviously, within that statement you got some visibility on cost and pricing into 2022, is it reasonable from where the world sits now that next year is a year where raws are up 10% and price is up 5%? Is that the right initial way to think about 2022 kind of linked to that statement that you made on 2022?

Q



**Allen Joseph Mistysyn**

*Senior Vice President - Finance and Chief Financial Officer, The Sherwin-Williams Co.*

That would be all else being equal, Eric, and we don't see additional increases that would obviously make us go out again like we did this year. But you're directionally accurate.

**Eric Bosshard**

*Analyst, Cleveland Research Co. LLC*

Okay. That's helpful. Thank you.

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Thanks, Eric.

**Operator:** Thank you. Our final question today comes from the line of Christopher Perrella with Bloomberg Intelligence. Please proceed with your questions.

**Chris Silvio Perrella**

*Analyst, Bloomberg LP (Research)*

Good afternoon. A quick question on China. With the energy issues that are going on over there, also issues in the property market, have the risks gone up? And have you seen any issues getting raw materials supply or even on the demand side over in China?

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

Well, I'd say China has been a challenge. You're right. I think the – so let's talk first on the demand side, on the Architectural side we had a decent performance last year and there's a lot of pressure this year, it's obviously a very, very small percentage of the overall Consumer Brands Group results. So it's under pressure, but not meaningful in the sense of what it does to our results.

On the industrial side, we've had some challenges there, in not just China but Malaysia and Vietnam. Our customers as well as our plants have been under pressure as a result of COVID. We believe we're beginning to work through that locally and we're in a position, we think, to be able to capitalize on that.

But if you look at our businesses in China specifically, we've had some really strong performances. We've had strong performance in our packaging. We mentioned we had strong double-digit growth in every region. We continue to grow market share there. We're proud of that. I think if our president of our general industrial business was in the room, he'd want to point out the performance they've had there. So good strong performance.

Our coil business. In fact, just about every industrial business we have is doing well in China. But there's pressure in that market and again, our focus on solution is what – solutions is what we believe will be the differentiating factor.

**Chris Silvio Perrella**

*Analyst, Bloomberg LP (Research)*

And, John, real quick. The wood coatings business, if Southeast Asia reopens and moves through the lockdown, should we expect a sharp uptick in that business in the fourth quarter or is that – with seasonality how would that work out?

---

**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

No. We would expect an uptick there. Our plants in Malaysia were shut down to only the people that were there, they had to be quarantined in a hotel and shipped into the plant in and out. So there's a lot of – many of our customers were shut down completely.

Vietnam, very similar challenges. So the – it is – there has been a lot of pressure there. We would expect that to ramp back up and we're in a position to be able to do that. We've been utilizing inventory, having it shipped in from other plants, nearby plants, into Malaysia and Vietnam to try to make sure that we had the inventory as they ramp up. So we've been thinking ahead about how to best position our customers as they re-emerge. But it should be good for us.

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**Chris Silvio Perrella**

*Analyst, Bloomberg LP (Research)*

Q

All right. Thank you, John. I appreciate it.

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**John George Morikis**

*Chairman, President & Chief Executive Officer, The Sherwin-Williams Co.*

A

You bet.

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**Operator:** Thank you. At this time, we've reached the end of our question-and-answer session. I'll turn the floor back to Jim Jaye for closing remarks.

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**James R. Jaye**

*Senior Vice President - Investor Relations & Corporate Communications, The Sherwin-Williams Co.*

Yes. Thank you, everybody, for joining our call today. If I had to summarize the key takeaways that I hope you walk away with today is that we remain very confident in our demand environment. Our pricing initiatives are very well in place and continuing to move forward. Our overall strategy and our people, we feel very confident about that as well.

So we appreciate your interest in Sherwin. As always, we'll be available for your follow ups later today and throughout the week. And I hope you have a great rest of your day. Thank you.

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**Operator:** Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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