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The Sherwin-Williams Co. (SHW)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining the Sherwin-Williams Company's Review of Second Quarter 2022 Results and our Outlook for the Third Quarter and Full Year of 2022. With us on today's call are John Morikis, Chairman and CEO; Al Mistysyn, CFO; Jane Cronin, Senior Vice President, Corporate Controller; and Jim Jaye, Senior Vice President, Investor Relations and Communications.

This conference call is being webcast simultaneously in listen-only mode by Issuer Direct via the internet at www.sherwin.com. An archived replay of this webcast will be available at www.sherwin.com beginning approximately two hours after this conference call concludes.

This conference call will include certain forward-looking statements as defined under US federal securities laws with respect to sales, earnings and other matters. Any forward-looking statement 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 will open up the session to questions.

I will now turn the call over to Jim Jaye.

James R. Jaye

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

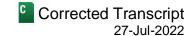
Thank you, and good morning to everyone. Our second quarter results came in below our expectations and conclude what we knew would be a challenging first half to the year. On the top line, the quarter was characterized by strong demand in Pro Architectural and North American industrial end markets, partially offset by softness in the North American DIY channel, which we first described at our Investor Day on June 8, and tight supply of certain resins, particularly alkyd resins, which impacted our North American non-paint sales, namely aerosols and stains.

Internationally, demand deteriorated faster than anticipated than Europe, and we saw no real recovery in China following the lifting of COVID lockdowns, both of which meaningfully impacted consumer brands and Performance Coatings Group sales. Our earnings per share were impacted by multiple factors, including no meaningful improvement in raw material costs, supply chain inefficiencies incurred in serving our customers, the sales shortfall in North American DIY, slowing European and Asian demand and higher other and interest expense.

I'll go through just a few of the numbers at a high level and then turn it over to John, who will talk about the demand and cost trends we are seeing, how we're responding and our revised outlook for the year, including what we expect will be significant earnings per share growth in the second half. Comparisons in my comments are to the prior-year period unless stated otherwise.

Starting with the top line, second quarter 2022 consolidated sales increased 9.2%, slightly below the low end of our guidance and driven by the shortfall in Consumer Brands Group. Pricing was in the low double-digit range. Consolidated gross margin decreased to 41.7%, driven by cost inflation. On a sequential basis, gross margin improved by 60 basis points, reflecting our pricing actions. SG&A expense decreased to 25.9% of sales. Consolidated profit before tax decreased 9.7% to \$739.9 million. Diluted net income per share in the quarter was \$2.21 per share versus \$2.42 per share a year ago. Excluding Valspar acquisition-related amortization expense,

Q2 2022 Earnings Call



second quarter adjusted diluted net income per share was \$2.41 per share versus \$2.65 share a year ago. EBITDA in the quarter was \$976.1 million or 16.6% of sales.

Moving on to our operating segments, sales in The Americas Group increased 8.1% against the 22.6% comparison. High-single digit pricing and higher professional architectural sales volume was partially offset by lower volume in protective and marine and DIY. Segment margin decreased to 21% resulting primarily from lower sales volume and higher raw material costs, partially offset by selling price increases and good cost control.

Sales in the Consumer Brands Group increased 0.9% inclusive of a high-single digit price increase. Demand was soft in all regions, particularly outside of North America, and tightness in alkyd resins impacted North America non-paint sales. Adjusted segment margin decreased to 11.2% of sales, resulting primarily from lower sales volume, higher raw material costs and supply chain inefficiencies, partially offset by selling price increases.

Sales in the Performance Coatings Group increased 15.2% against a 41.3% comparison and were driven by double-digit price increases and low-single digit sales from acquisitions, partially offset by a low-single digit FX impact. Adjusted segment margin increased 80 basis points to 13.8% of sales due primarily to higher selling price increases and good cost control. Additionally, I'll point out the Admin segment this quarter where we had a headwind of \$45.1 million year-over-year or about \$0.13 per share. This was driven primarily by investment losses and gains, higher interest expense, a gain on disposition of assets last year, and higher SG&A expenses, partially offset by lower compensation expense.

Let me now turn the call over to John for additional commentary on the second quarter along with our outlook for the third quarter and full-year 2022. John?

John G. Morikis

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

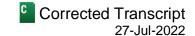
Thank you, Jim, and good morning, everyone.

Let me be clear that we are not satisfied with our results in the quarter. Our job is not to just report results, but to influence results. We fell short of our expectations this quarter as we continued to operate in a highly inflationary cost environment coupled with ongoing regional challenges impacting demand. Saying that, we continue to see positive trends in much of the business, and we expect to deliver a strong second half of the year. We have confidence in our strategy, we have confidence in our business model, and we have incredible confidence in our people.

Let me start by describing how the quarter played out following our June 8 Investor Day event. Pro architectural demand remained strong. Encouragingly, sales have been particularly strong month-to-date in July, and contractors are reporting strong backlogs, which bodes very well for our second half. The lower demand for DIY that we described continued, and tight alkyd resins supply negatively impacted North America non-paint categories. Europe significantly softened further, and there was no meaningful recovery in China post the lifting of the COVID lockdowns. This impacted Consumer Brands and portions of Performance Coatings.

There was no improvement in raw material costs. While some key feedstocks have come down sequentially, the issue is timing as resins, solvents and other key inputs are taking longer to reflect this trend than anticipated. Additionally, the rest of the cost basket remained highly elevated including labor, transportation, fuel, and other costs. While the supply chain for raw materials continued to improve, it remained tight and subject to shocks. Notably, certain specialty resins crucial to several of our industrial coatings products were in short supply.

Q2 2022 Earnings Call



With the tightness in the supply chain, we continue to have inefficiencies in our operations, but have chosen to continue serving our customers albeit at higher cost. While the cost and regional pressures we are seeing are real, there's no sense of panic amongst our team, which is deep and experienced. We continue to operate with urgency and great determination, and we're taking the following actions. We've announced and are implementing a 10% price increase in The Americas Group effective September 6. Significant pricing actions are also being taken in our other two groups. We remain highly focused on capturing demand and gaining share. We are managing our expenses tightly across all our businesses. These are focused on general and administrative spending rather than growth.

Before moving on to our outlook, let me provide some additional color on our second quarter. In The Americas Group, sales growth was strong, and volumes were positive in Pro Architectural market segments. Excluding DIY and protective and marine, sales were up 8.7% in North America paint stores. Against very difficult comparisons and as we expected, sales gains for the group were driven by price, as total volume was down slightly.

The sales growth was led by property management and new residential, both of which increased by a double-digit percentage. Residential repaint was up high-single digits and commercial was up by a mid-single-digit percentage. DIY was down low-single digits. Limited availability of certain resins impacted us in protective and marine, which was up by a mid-single-digit percentage. We've also begun to see margin recovery in the business as segment margin expanded sequentially.

From a products perspective, exterior paint sales grew faster than interior sales, with interior being the larger part of the mix. We opened 19 net new stores over the first half of the year and still plan 80 to 100 for the year. We also added sales reps in territories in the quarter along with ongoing growth investments in management trainees, innovative new products, e-commerce and productivity-enhancing services.

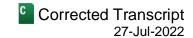
Our Consumer Brands Group had a very difficult quarter. Sales in North America were up by a high-single-digit percentage, but well below our expectations given a favorable comparison. This slowing demand we cited at our Investor Day did not improve over the remainder of the month, and we experienced tight supply in certain resins, particularly alkyd resins, that have significantly impacted our North American non-paint sales. On a positive note, the Pros Who Paint segment, while small, again grew by a strong double-digit percentage.

Sales in China were down by a very high double-digit percentage due to COVID-related lockdowns and a challenging comparison. Europe was also down high-double digits due to the slowing macroeconomic environment and a challenging comparison. Pricing was positive in the quarter and in the high-single-digit range. Segment margin decreased significantly due to lower sales volume, increased raw material costs and supply chain inefficiencies.

In contrast, our Performance Coatings Group had a very nice quarter. Sales were up mid-teens including mid-teens pricing. Low-single-digit sales from acquisitions were more than offset by FX headwinds. Adjusted segment margin improved 80 basis points year-over-year and 200 basis points sequentially, indicative of executed pricing actions. Regionally, sales increased strong double digits in North America and Latin America against difficult comparisons.

Sales in Europe were up low-single digits. Sales were backward in Asia largely related to COVID lockdowns. Nearly every division in the group grew, led by coil and packaging, both of which were up strong double-digits against double-digit comparisons. We are clearly gaining share in these businesses. Sales in general industrial and auto refinish increased high-single digits against very strong double-digit comparisons. Industrial wood sales decreased low-single digits mainly related to Asia and COVID lockdowns and a slowdown in Europe.

Q2 2022 Earnings Call



Before moving to our outlook, let me speak to capital allocation in the quarter. We returned approximately \$453 million to our shareholders in the quarter in the form of dividends and share buybacks. We invested \$296 million to purchase 1.1 million shares at an average price of \$269.46. We distributed \$156.2 million in dividends. We also invested \$129 million in our business through capital expenditures, including \$89 million in core CapEx and \$40 million for our building our future projects.

Additionally, the acquisition of Gross & Perthun and Dur-A-Flex closed on July 1. We ended the quarter with a net debt to EBITDA ratio of 3.4 times, as we increased short-term borrowings to fund our recent acquisitions. We expect to end the year around 3 times and will drive the ratio to our long-term target of 2 to 2.5 times range in 2023. We will use cash in the second half of 2022 to manage debt and share buybacks will be done to offset option dilution.

Turning to our outlook. As we've communicated multiple times going back to January of this year, we expected 2022 would be a year of two contrasting halves, with difficult first half comparisons easing in the back half. We expect to deliver a strong second half, with sales up low-double-digits to mid-teens percentage and diluted earnings per share up by 35% at the midpoint of our guidance.

Within The Americas Group, we continue to see extremely strong demand across all of our Pro Architectural markets, including new residential, despite higher interest rates, with customers reporting strong backlogs that will take them through the end of the year and likely longer. We also see a unique opportunity to win new business, as competitors transition their pro contractor business models. Within the Consumer Brands Group, we expect more modest growth, as the North American DIY consumer faces inflationary pressures, and Europe and China remain challenging. Within Performance Coatings Group, demand remains strongest in North America, our largest region. European demand has slowed in the second quarter, and we do not expect a meaningful improvement in the second half of the year.

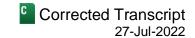
In Asia, the pace of recovery from prior COVID lockdowns in China and prospects for additional lockdowns make it difficult to assess demand trajectory. From an industry supply chain perspective, we're getting the raw materials we need, with some exceptions such as alkyd resins, which remain choppy. At the same time, it's not optimal. In our own operations, we expect inefficiencies to continue near term, as we've decided to take the necessary steps required to overcome these challenges and ensure that we are serving our customers with product where and when they need it. Exiting this era with our customers will prove beneficial to our shareholders.

On the cost side of the equation, we're raising our mid-teens raw material inflation guidance to high teens, as expected cost moderation did not materialize in the second quarter and appears to be pushed out a quarter or two. To be clear, while the timing is not precise, we do expect raw material cost to moderate. We do expect to hold onto our pricing based on the value we deliver and the customer-facing investments we've continued to make, and we do expect margins to expand.

There is considerable short-term volatility in the market, and our visibility beyond a quarter or two is limited. Our pricing actions remain on track. Additionally, the highest rate of inflation we've seen in 40 years is affecting the other elements of our cost basket, including labor, transportation, fuel and other costs. We're combating these increases with additional selling price increases in all three segments in our second half of the year.

So, specifically for the third quarter of 2022, we anticipate our consolidated net sales will increase by a low-to-mid-teens percentage, inclusive of a low-double-digit price increase. We expect The Americas Group to be up by

Q2 2022 Earnings Call



a high teens percentage. We expect Consumer Brands to be up by a low-single-digit percentage, and we expect Performance Coatings to be up by a high-single to low-double-digit percentage.

For the full-year 2022, we are maintaining our consolidated net sales guidance based on the momentum we're seeing in Pro Architectural and North American industrial. We continue to expect consolidated net sales to increase by high-single-digit to low-double-digit percentage. We expect The Americas Group to be up by a low-double-digit to mid-teens percentage. We expect Consumer Brands Group to be down by a low-single-digit percentage and Performance Coatings Group to be up by a low double-digits to mid-teens percentage.

We are decreasing our earnings guidance for the full year based primarily on the headwinds we described previously. The incremental pricing actions and general and administrative cost reductions I described earlier will not fully offset these headwinds immediately. We now expect diluted net income per share for 2022 to be in the range of \$7.65 to \$7.95 per share compared to \$6.98 per share earned in 2021.

Full-year 2022 earnings per share guidance includes Valspar acquisition-related amortization expense of approximately \$0.85 per share. On an adjusted basis, we expect full-year 2022 earnings per share of \$8.50 to \$8.80, an increase of 6.1% at the midpoint over the \$8.15 we delivered in 2021. This implies a second half adjusted diluted net income per share of \$4.63 per share at the midpoint, an increase of 35% over the same time last year.

In addition, we provided updated guidance on several of our full-year data points in our slide deck, including our expectations for FX, CapEx, interest expense, depreciation and amortization. We expect our full-year tax rate will remain in the low 20% range.

While we continue to operate in an uncertain macroeconomic environment, we remain confident in our strategy. We expect to deliver a strong second half of the year and, more importantly, create shareholder value over the long term through the following actions. We will continue leveraging strong Pro Architectural volume demand in North America paint stores while investing in future growth with incremental new stores and sales reps. We will continue implementing appropriate pricing actions across the company to offset persistently higher input costs with a focus on regaining our gross margins back to our long-term target range of 45% to 48%.

We'll continue to invest in the Pros Who Paint initiative in Consumer Brands Group and in products and services that customers value in the Performance Coatings Group. We will continue investing in acquisitions that accelerate our long-term strategic plan, add topline growth, and expand our operating margins, as we have demonstrated recently through the Specialty Polymers, Sika, Gross & Perthun and Dur-A-Flex acquisitions.

We will continue appropriately managing our general and administrative costs, while investing in future growth initiatives. We will continue to review our portfolio of businesses, brands and customer programs to ensure they are adding above market growth and long-term shareholder value. We will maintain our disciplined capital allocation philosophy. We will not hold cash, while investing appropriately in CapEx, paying a dividend, targeting acquisitions that accelerate our strategy and absent M&A, buying back our stock. Our leadership team is experienced. Our 61,000 employees are focused on the task at hand, and we expect to win.

That concludes our prepared remarks. We'll be happy to take your questions at this time.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen the floor is now open for questions. [Operator Instructions] Your first question for today is coming from Ghansham Panjabi. Please announce your affiliation then pose your question.

Ghansham Panjabi

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

Hi. Hello, everyone. Robert W. Baird. I guess first off, I mean obviously, John, a lot has changed over the past few months given the increase in interest rates and concerns over construction end markets here in North America. Can you first off just update us with your view, if it has changed, as it relates to the various subsegments within TAG?

John G. Morikis

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

Well, Ghansham, I'd say our confidence in TAG remains as strong as it has always been. If you look at what's happening within those segments, maybe I could just run through them briefly here. You look at new residential, our position there is strong and getting stronger. As a matter of fact, we've been very transparent in sharing that we had these exclusive relationships with 18 of the top 20 national homebuilders. And in fact, we've gotten a few inquiries because of some specific wording at our financial community presentation slide on if we've been able to maintain those relationships. The fact is that we've actually grown them.

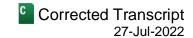
Proud of our team for hanging onto the 18 of the top 20, but we've actually now grown that to exclusive relationship with the 23 of the top 25, and we're selling the majority of the remaining two in the top 25. So, customers in this space are telling us they have confidence in the balance of the year, demand is strong, based on just a simple supply and demand. And so, as we work with our national and regional homebuilders, the creativity that they're displaying to ensure that they keep building is high, but market demand here is high as supply is below the demand space, and we think it's pretty visible to those of us in the industry that there is a strong level of demand.

Now look at residential repaint, here is an area where the job itself is growing in size and value. Part of that is a continued positive mix shift into higher-quality products. These higher-quality products help our customers with productivity, with their appearance, touchup, just the whole ease of application. Our customers here, again, are very confident through the balance of the year with demand, and our position here is growing.

And I do think that it might be interesting to point out that, if you go back to the 2008 period where last we really faced significant challenges in residential, that was really the catalyst for our residential repaint business that we have now. So, it is a uniquely different position, and I think much more favorable position, for our company right now because if there is a slowdown in new residential, we have a much stronger residential repaint business now than we did during the last slowdown. So, it's an area of focus that we've had strategically to offset any puts and takes in the market, and we think that the stronger position in res repaint that we have now will be a strong position going forward.

The other area, if you're following new residential with concern, would be, well, what happens if people are not buying new homes? Again, we still think there's demand, strong demand there. But property maintenance would be the other area that we would expect to benefit. And here again, we've spoken about the relationships that we

Q2 2022 Earnings Call



have. In the past, we've talked about the 18 of the top 20 that we have exclusive relationships. We now have exclusive relationships with 21 of the top 25.

In fact, in the top 350, we have solid agreements with 70% of them, and exclusive relationships with 45%. So, that 45% exclusive of the top 350, while we're pleased with that, it still offers a terrific opportunity and, again, room for growth for us. In property management CapEx, our teams would describe that as an area that's off the charts right now. There's considerable amount of investment taking place as well as in the churns which is very robust and almost acts as a bit of an annuity in the business in many ways.

In commercial, I would describe it, Ghansham, has historic backlog. The pipeline here is strong. We're seeing a lot of activity here in tilt-up and distribution, data centers and some might even include multifamily in the commercial space as well. We run a good part of our business, protective and marine business, as you know, through our TAG business. This is a business where demand has been strong particularly in petrochem, water and wastewater, also high, other value area infrastructures I mentioned, data centers, also battery plants is another area. This is an area that we were impacted negatively. We talked in our prepared remarks about the alkyd resins. We felt a lot of pressure here. We could've really sold a lot more product if we could have gotten more of the alkyd resin that was in short supply. But our position here is very good and one that we believe has tremendous runway ahead of us.

Allen J. Mistysyn

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

Hey, Ghansham. This is Al Mistysyn. And building on that confidence in the strong demand, this is what gives us confidence in our second half adjusted EPS guidance to be up 35%, the strong volume in TAG plus we announced, as John mentioned in his opening remarks, a 10% price increase effective September 6 along with the pricing actions we're taking across the rest of the groups. Our expectation is that we're going to see nice gross

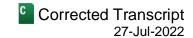
margin improvement year-over-year starting in our third quarter and trending through our fourth quarter.

And I'd like to highlight a couple other points, just to reiterate that confidence. If you look at our operating margin in TAG at 21% in the second quarter, yes, it was down year-over-year, but I think the strong volume and the pricing actions that we're taking are going to help us get into a strong improvement in our second half. As it is, our second quarter was sequentially better by 420 basis points and better by 90 basis points versus the fourth quarter.

And I've got to talk about Performance Coatings Group. Because as you know, that has historically been our lowest operating margin business to date, and we have a lot of confidence in attaining our target operating margin of high teens to low 20%. I think that'll move the needle on our overall results, and we're making good progress. Our second quarter operating margin improved 80 basis points year-over-year and improved 200 basis points sequentially and improved 490 basis points compared to the fourth quarter of 2021. And this came on gross margin expansion and SG&A leverage.

And even with the macro challenges that we're facing in Europe and Asia that we can expect to continue in our second half, the pricing actions, the market share gains that we're experiencing in packaging and coil in particular gives us great confidence that we'll be able to expand our margins in the second half in that business. And that's including the acquisitions that we made that John talked about, which are going to give us modest tailwind in our second half on operating profit. But as we integrate and realize synergies next year – and we'll talk more about this on our year-end call – we expect margin accretion with those acquisitions.

Q2 2022 Earnings Call



And then finally, I'll talk about our Consumer Brands Group, which we absolutely understand and agree, we're under pressure in our second guarter. Still sequentially down, but better by 490 basis points than our fourth quarter. Even though the volumes are down, our expectation is that business returns to 20% operating margins as we improve our operating efficiencies, as we focus on our continuous improvement initiatives and we drive shareholder value and generate cash flow. And that's going to be part of this portfolio review that we do, and we look at, as you know, profitable gallon growth, operating margin expansion, RONA and cash flow. And we're committed to driving the businesses within Consumer to the targets that we've set. And as you know, we haven't and don't believe we have a path to hitting those targets. We are committed to making those changes, and that includes, as you recall, the ANZ divestiture and the ACE private-label business that we walked away from.

Ghansham Panjabi Analyst, Robert W. Baird & Co., Inc.	Q
Okay. Thanks. I'll turn it over in the interest of time. Thank you.	
John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.	A
Thanks, Ghansham.	
Operator : Your next question is coming from Christopher Parl your question.	kinson. Please announce your affiliation, then pose
Christopher Parkinson Analyst, Mizuho Securities USA LLC	Q
Great. Mizuho. Gentlemen, just going – and to take a look at Tademand on the resi repaint side, likely commercial, even some	·

demand on the resi repaint side, likely commercial, even some stuff in multifamily I imagine. Price costs, we know where your pricing is. We're all taking a stab at where we think the raw material basket is going to go over the next couple of quarters. Al and John, when we take a step back from everything, I mean, where do you ultimately think the TAG margins can go? I mean, there's been a lot of focus on the 13x24 CB and PC. And obviously, it's going to take a little bit to get there. But on the TAG side of it, just how should we think about your business? How should we think about, in terms of like how they're falling into place in the back half of the year and into 2023 and even 2024? Are there any updated thoughts there? Thank you.

John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.

Yeah, Chris. This is going to be a little bit of a diversion from what you talked about. And let me just highlight that

we're probably not going to be talking about 2024 yet. So, bear with us here.

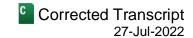
Christopher Parkinson Analyst, Mizuho Securities USA LLC

Fair enough.

John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.

But I do want to mention – and I'll ask Al to get into the details – but I do think that maybe as a preface to your question, I think it's important to understand why we have the confidence that the margins improve the way that we're projecting. And I think, to highlight it is, it's specifically focused on our ability to make our customers more

Q2 2022 Earnings Call



successful. It's through products. It's through service. It's through our people. It's the adversity that's in the market right now that we feed on. This is actually when we're at our best in servicing those customers.

And I think you could see that right now as we come through this second quarter. And while TAG hit the number, it was on the lower end of the sales expectations, the fact is that we probably missed by less than a couple of weeks what we were projecting because we are experiencing that now. As June went on, sales continued to grow, the momentum continued to increase. In fact, we don't normally share this level of color, but I will tell you that coming out of June with a double-digit gain in nearly every segment, now as we enter into and finish up July, our average day in TAG right now is averaging high teens, low 20s.

So, the momentum that we projected is in fact there, and we believe it's because of the value that we're helping create on the part of our customers to help them to be more successful in what it is that they are doing. They've got a lot of challenges in labor. They've got challenges in projects starting and stopping. And our people, our stores, our products are helping them to do that better than anyone else. And as I mentioned on numerous calls, what we evaluate the most is the research that we do, who helps you make more money? And by a wide margin, we have a great distance between us and our competition here on the professional side. Let me have Al walk you through our projections on margins.

Allen J. Mistysyn

Senior Vice President-Finance & Chief Financial Officer. The Sherwin-Williams Co.

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Yeah. Chris, I mean we saw nice sequential improvement in our margins. Our pricing that we put in place to date did actually – was over what the raw material cost increases were plus other input costs, but just not up to the expectations we had. And with the outlook that we have on raw material costs being above the high end of our range, the cost to serve our customers, as we talked about, the supply chain is not ideal, so we're moving product around the platform, if you will, to make sure we have the right products in the right place where our customers need them. And that's really is what's driving this additional 10% price increase, September 6, which we do believe will have a similar effect we've witnessed to previous price increases.

And as you recall and know, you go back to 2010, 2011 and 2012, and we were out with six price increases in 22 months. Our margins in TAG were under pressure. And coming out of that as raw materials moderated, our gross margins grew almost 600 basis points from 2013 to 2016. And we believe we're in a similar environment. And it's because we can hold onto that price, because we continue to make investments even though we're experiencing these headwinds.

And if you go back full year 2020, we were at 22.1%, second half was 23.5%. I don't believe we quite get to those levels, but we're starting on a much better base than we were in 2010. So, we have a lot of confidence that as the market turns and raw start to moderate, we'll hang on to that price and we'll see a nice snap back to our gross margins and operating margins in TAG going forward.

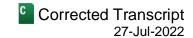
John G. Morikis

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

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And let me just top it off with the key driver behind that, we believe and will always believe that it's our people. The message on our differentiation here, I think is probably as strong or stronger, particularly given the environment that we're finding ourselves in. We're going to war with store managers that average 10 years of experience, sales reps that average 12 years, our district managers averaging 22 years, our vice presidents averaging 24 years. So, there's a lot of experience that we're leading with. And the fact that we've got this training and the experience that we have allows us a customer engagement we feel that's a clear differentiation point between us and our competitors.

Q2 2022 Earnings Call



And the fact that we are now able to get back into in-person training as opposed to virtual training, the way we're engaging with our people, we think is just an outstanding element to what we call our secret weapon, our people. And our ability to right now attract talent is probably as strong as ever. We've been open about our management training program, which is entering its 40th year. We're recruiting anywhere from 1,400 to 1,500 college graduates. And this high-caliber, talented employee joining our family helps us to do exactly what Al laid out as far as the financials. It's the people that set us apart.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Just a – and then just a real quick follow up as a corollary of Al's comment on the price increase, it seems as though in the past, and understanding it's a small part of TAG, we've all thought of the price increases of the DIY crowd, once again small, short-term contractors, long-term contractors and kind of the progressions to getting that. And typically, the realization was 60%, 70% plus of the initial price increase. Can you just give us a real quick comment on how we should be thinking about that as it will ultimately pertain to 2023 of do you think you'll get the expeditious pace of what you're realizing recently or kind of going back into the past? And then is my assumption on the actual net realization a fair one? So, just pace and realization would be very helpful. Thank you.

Allen J. Mistysyn

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

Yeah, I – first, I'd say that we expect that momentum to continue, I think for all the reasons. I don't want to belabor the services and everything that we believe we bring and the value creation for our customers. But I'd say that it's a market where people are probably more understanding. I mean, they can go to the gas pump and see what's happening. And so our execution on these prices are nothing that we – we're not arrogant with it. We're determined because we want to keep our organization healthy so that we can help our customers remain healthy. And so, the balance is important there.

We continue to invest in products and services, innovation, programs that'll help our customers on every part of our business. And it's easy to point to the TAG business and recite that 85% roughly of their cost of goods is labor, and everything that we can do to help make that labor more efficient helps their profitability. So, the cost of the gallon of paint is a lower percentage there, and they are themselves deciding to move up in quality because they see that a higher-priced high-quality product helps drive their success.

But that logic actually carries through to every element of our business. We're driving our customers' success. That's how we gauge our success. When our customers are successful, then we know that we're going to be a better part of their programs and their success. And so that's what we're focused on, and we believe we'll be able to execute on these prices accordingly.

Christopher I	Parkinson
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Analyst, Mizuho Securities USA LLC

Thank you.

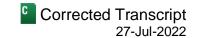
John G. Morikis

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

Thanks, Chris.



Q2 2022 Earnings Call



Operator: Your next question for today is coming from Greg Melich. Please announce your affiliation then pose your question.

Gregory Scott Melich

Analyst, Evercore ISI

Hi. Thanks. I'm with Evercore ISI. My question was a follow on, I think, Al, to some of your points there in terms of the margin inflection. It sounds like now you are on top of raws, just not as much as you would've thought. And remind us, last year, of that 450-basis-point or 500-basis-point margin decline at TAG, how much of that was raws versus price as opposed to the volume declines that you saw?

Allen J. Mistysyn

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

Yeah. It's the – it would be the majority of the raws, but there's other input costs that are coming through, Greg, but that would be the majority. As you know, volume is always – when our volume is backwards, it's always the biggest driver of operating margins. It's always, when it's positive and as we expect it to be strong in our second half, going to be the driver of operating margin. But even if you offset raw-material-cost increases with selling-price increases, your margin takes a hit, and it takes moderation, a little bit of moderation, on raws and increasing that last price increase effectiveness to start seeing the recovery. And we believe we're going to start seeing that in our third quarter.

Gregory Scott Melich

Analyst, Evercore ISI

And so, maybe the back-up question of that then is, if you look at the third quarter guide, if sales are going to be up low to mid-teens and that presumably probably has price that's also low to mid-teens, are you assuming flat volume year-on-year in your third quarter guidance?

Allen J. Mistysyn

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

On our third quarter, I think, when we look at the second, that September price increase – I probably have high single digits. You have to annualize the August price increase last year. You start annualizing the surcharge, so I have volume up high single-digit, and then that would tell you volume would be up in that high-single-digit range.

Gregory Scott Melich

Analyst, Evercore ISI

Okay.

Allen J. Mistysyn
Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

I'm not as heavy on price as what you're saying.

John G. Morikis

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

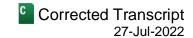
Greg, for the company on the back half, architectural gallons, I could give you a little color there. We're expecting low- to mid-single-digit gain for the company with TAG up in the high-single digits.

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The Sherwin-Williams Co. (SHW) Corrected Transcript Q2 2022 Earnings Call 27-Jul-2022 **Gregory Scott Melich** Analyst, Evercore ISI Got it. On volume. John G. Morikis Chairman & Chief Executive Officer. The Sherwin-Williams Co. Right. **Gregory Scott Melich** Analyst, Evercore ISI Got it. And then the rest is price. Great. I'll leave it there. Good luck, guys. John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Thanks, Greg. Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co. Thanks, Greg. Operator: Your next question for today is coming from Vincent Andrews at Morgan Stanley. Vincent, your line is... Vincent Stephen Andrews Analyst, Morgan Stanley & Co. LLC Thank you, and good afternoon, everyone. Maybe just following up a bit on the consumer brands piece. Obviously, we've seen what your volume was in the guarter. Can you talk about whether you think that is indicative of what the retail takeaway is, in line with it, or worse? And where do you think your retail partners are in terms of their own inventories? Or sort of doing the destocking that seems to be going on? And I guess really what I'm asking is just sort of you just mentioned you're expecting TAG gallons to be up more than total architectural gallons, but you're obviously expecting consumer gallons to be up it would sound like then. So what gives you the confidence that consumer gallons could actually be up in the back half of the year? John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Yeah, Vincent, I think there's that careful line here that we are always cautious in crossing and talking about too much of our customers' business. I will say this, that as it relates to our customers' inventory, we made great progress in filling our customers' shelves in the second guarter, and there's still opportunities for additional channel fill. And we're going full speed to put everything we have behind us. We mentioned specifically some of the key areas of the Oil Stains, Minwax and Krylon that have been impacted by the alkyd resins. That's going to impact the ability to fill inventory. But as it relates to our customers and their inventory levels, I think it's only appropriate that that comes from them and not us. Allen J. Mistysyn

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

Q2 2022 Earnings Call

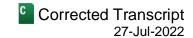


Yeah, Vincent, just to clarify. What John said is our second half architectural gallons are going to be up low-to-mid-single digits. TAG would be up high-single digits. That tells you that consumer is actually going to be backwards by a mid-single-digit percentage. And it's driven by the continued trends we talked about with softer North America DIY.

And I would say we did not see a significant destocking in our second quarter. It remains to be seen going out, but we didn't see in our second quarter. And then Europe and Asia, we expect to see continued softness in Europe and really choppiness in China as the rolling lockdowns continue.

Vincent Stephen Andrews Analyst, Morgan Stanley & Co. LLC	C
Thanks so much.	
John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.	Д
Thanks Vincent.	
Operator: Your next question is coming from David Begleiter at Deutsche Bank.	
David Begleiter Analyst, Deutsche Bank Securities, Inc.	C
Thank you. Good morning. John, AI, just going back to slide 7 looking at what changed s FX in the slide. Was that a headwind versus what you were expecting earlier? Or was it numbers?	
Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.	Д
Yeah. It is going to be a little bit of a bigger headwind. But, David, 80% of our sales and America. So we're not as impacted, but we do expect it to be a slightly bigger headwind	
David Begleiter Analyst, Deutsche Bank Securities, Inc.	C
Got it. And, John, just on North American DIY, did it – did demand soften versus your Ju not get better versus that expectation?	ne 8 expectation? Or just
John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.	Д
I'm sorry, can you repeat that? I'm sorry.	
David Begleiter Analyst, Deutsche Bank Securities, Inc.	Q
Yeah. Looking at North American DIY, you call out softer demand versus maybe the ear does it get worse versus June 8? Or just not improve? Or how should we think about that	-

Q2 2022 Earnings Call



John G. Morikis

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

Yeah, I'd say that it did get worse. And we were expecting some improvement as we went into the holiday for the July season. We were expecting more improvement than we saw. And maybe it would be good, if I could. I think I'm sure there is lot of questions here regarding this topic. And I want to just make we sure that we cover this completely and openly.

Again, as Jim opened in his prepared remarks, we were disappointed with the way that everything came together. But I would think that it's helpful for everyone if I put it in perspective. Two of the three businesses performed within the range that we expected, and I'm going to jump to CBG in a moment, but I do think that it's worthy of just taking a couple seconds to talk about the other two and then spend a little bit of time on CBG or Consumer Brands.

I'll start very quickly with Performance Coatings. A pretty nice quarter, sales were up mid-teens, expanded margins year-over-year, which reflects our pricing actions taking hold, as Al mentioned. And the cost environment remains a challenge. And again, we're responding with additional pricing actions accordingly.

TAG, we talked briefly about here. And as I mentioned, we hit our guidance, albeit at the lower end. Demand here remains very strong. I mentioned very pleased with our sales trends right now averaging in the high teens to low 20s per day. In this space, DIY is an area that remains softer. And I talked about the Protective & Marine that remains strong, the demand in the areas – only areas that we're feeling softness is in our ability to supply, mainly in the alkyd-resin area. Here again, as Al mentioned, we're putting price in through TAG.

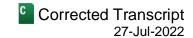
But getting to the heart of your question on the CBG on our Analyst Day, that business was trending softer. It did further deteriorate as the quarter went on, and the deterioration mainly focused on four areas that I briefly talked about in our prepared remarks. The DIY demand was disappointing. You asked about it. We'd like to see a stronger performance there. There was no improvement in China, Al mentioned, the COVID lockdowns, as they were lifted, we saw virtually no improvement after those lockdowns were lifted. The European deterioration was further and faster as the quarter progressed than we expected.

And again, not to overplay it, but there was virtually no improvement in the alkyd-resin availability, and that had a significant impact on our ability to serve areas that are underserved right now, which is the ability to supply our stains and aerosols to the market.

And as I mentioned, the other two, pricing actions in CBG is going to be an important piece as well as a we're responding to the cost issues in this business just as we are in TAG and the other businesses.

The largest parts of our business, they delivered. We're executing on our strategy going forward. This second half of the year, we're going to drive earnings up by 35% at the midpoint of our guidance. Every business we believe has the leadership and the people to do it. Our group presidents are outstanding, Justin Binns, or Todd Rea of Consumer Brands, he's carrying a heavy load right now but he's, we believe, delivering, Karl Jorgenrud, running our Performance Coatings Group and our COO, Heidi Petz, each one of them are out there every day driving, doing what's right. And while this was a softer quarter than what we expected and we don't take it lightly, we've got a lot of conviction, a lot of determination, but mostly confidence in what it is that we're doing. And we're going to deliver it. We've got it.

Q2 2022 Earnings Call



David	Beg	leiter
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Analyst, Deutsche Bank Securities, Inc.

Thank you. Very helpful.

John G. Morikis

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

You bet.

Operator: Your next guestion for today is coming from Arun Viswanathan with RBC Capital Markets.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Great. Thanks for taking my question. I hope you guys are well. I guess I wanted to drill down into North American housing dynamics a little bit. So, we have seen many of the builders start to report slowdown in sales and potential cancellations as well, permits also. Even though the housing reports are okay, the actual numbers from the builders aren't as great. So could you just elaborate on how you see kind of TAG playing out over the next little while and maybe even the DIY side?

I guess my specific questions are you noted strength in R&R and Residential Repaint, but it seems like architectural gallons are still kind of 80% correlated to existing home sales. So if we do see a big slowdown there, how does TAG really kind of manage through that? And is it through share gains? Or what do you expect kind of for positive growth as we move forward just given the housing backdrop? Thanks.

John G. Morikis

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

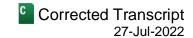
Let me take a run at it, and then I'll have Jim get through some of the metrics on the housing that you mentioned. But it absolutely focuses on share gains. We've got great confidence in this team. I will highlight that the majority of the home builders that are out there, even the few that have lowered their numbers, their numbers have been lowered, but there's still an increase over the prior year. So, it may not be as robust as expected initially, but there is still good growth there.

And the reason that I highlighted the fact that we're expanding our exclusivity rate, it wasn't to pound my chest, it's to demonstrate exactly the fact that we know that if it's slowing down, we've got to have more customers we're doing business with to offset that demand and so we're continuing to push hard in new residential, in Residential Repaint and property management. Commercial is very strong. We've got a great position there, and the momentum is very strong behind that. But our view is, is that the work that we're doing right now in establishing ourselves with these customers is what's going to pay off.

Let me just give you a little bit of background on that. So let's just talk in our TAG business. Our outreach effort right now executed by our TAG team is as strong as it's ever been. Our face-to-face call activity was at an all-time high last quarter. We've never made more sales calls in a quarter than we did last year. So it should be no surprise that the number of active accounts in our stores also hit an all-time high. We've never had more active accounts in our stores than we do right now.

Second quarter new account activity is very strong. These are the seeds that we're planting for the future. So clearly, our people are focused on the productivity of our customers, and this is how and when we're at our best.

Q2 2022 Earnings Call



So, we're capitalizing on the choppiness in the market by offering this consistent, and reliable solution through the very best team that we have. And we believe that the products, the store managers that I mentioned, the reps, the services, the innovation that we're bringing, the whole specialty-store format, we think, is very unique. And we believe that controlled-distribution model allows us to respond to the variables in the market.

Whichever way this market tilts, we're going to be there, and we're going to do whatever we have to do to lead in each of those segments that are benefiting. And we'll gain share in those areas that might experience some softness.

Let me turn it over to Jim to walk through his thoughts on the new residential question that you had.

James R. Jaye

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

Yeah, Arun. This is Jim. I'd agree with what John just said there. And what we always do first and foremost is in front of our customers. And recently, Al and I were traveling, and we visited with several of our national home builders. And while the pace may be slowing little bit, there's still a lot of confidence out there that I think takes them through the end of the year and well into next year. Completions right now are up year-over-year, and where you look if it's single-family or multifamily, maybe multifamily is trending a little bit stronger now. But wherever it may be, we're there and ready to capitalize on that.

You talk about mortgage rates, maybe a little bit of impact there, but they're still low in comparison to other periods. And again, we're still seeing very strong demand there. And I think it's underpinned by what we've talked about for a couple of years now, this overall shortfall between houses being built and household formation. So, I think that feels good.

On the Repaint side, as you mentioned, customers are telling us strong backlogs. Home price appreciation continues to be really strong. You look at some of the third-party metrics, LIRA, the NAHB remodeling index, all those are pointing in the right direction. And I'll remind you that Res Repaint, while it's our largest segment, it's our biggest opportunity. So we feel good about that. We made comments about property management and commercial as well. I think our teams are primed and ready and the demand is out there, and we're going after it.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Great. I appreciate all the detail, guys. And then if I could just quickly on DIY. So, we've been kind of weak here, and looks like you guys are expecting that to continue. What would it take for DIY to turn around? In the past, I guess you guys have seen some improvement there with unemployment when it goes higher. Is that what we should be thinking about? Or what else are we expecting for either a bottoming and maybe a turnaround in DIY? Thanks.

John G. Morikis

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

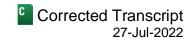
I think if your question is how do we see DIY or what do we see DIY driving? Is that...

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Yeah. How does DIY turnaround from here, I guess, just given the weakness that we've seen here recently?

Q2 2022 Earnings Call



John G. Morikis

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

Well, I think first and foremost, I think it's fair to say that our focus through our stores is the professional painting contractor with 85% of our business focused on the contractor. We're focused on a very isolated DIY customer, those that prefer a specialty-store format. Our outreach there is through various methods of advertising through social media, and few levers that we pull to drive that business. It's a good business for us, but our focus primarily is on the professional side through our stores.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

No, understood. I guess I was asking more about the Consumer brands, DIY piece. Sorry, John.

John G. Morikis

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

Oh, I'm sorry. I thought you were talking about the DIY through our stores. Through our Consumer brand piece, I think, the focus there obviously is on helping our customers to win. Here you look at making sure that we have the right product, the right product assortment, ensuring that we have it at the right price.

We participate in helping to drive traffic through activities including, as I mentioned, brand advertising, the training in the store, as an example, so that we want to help our customers convert shoppers into buyers. The innovation that we're bringing there will help to do that, and the training that we have inside the company and the centers of excellence that we have, we want to share that with all of our customers.

There's a great deal of effort right now in the rep activity through this Pro Who Paints initiative. We want to continue to invest in that as well. We believe that customer, going to a Home Center, is a customer that we have been really not focused on through our own stores. And those are the customers that kind of balance between DIY and Pro Who Paints, and the Pro Who Paints, by definition in our world, is a contractor who's doing remodeling or some element of construction that's also painting at the completion of that project. We're supporting our customers' efforts there, as well as various loyalty programs that our customers are initiating. We want to support those initiatives there.

So there's a lot that we want to do actually with our customers to drive every category in the Home Center Store that ultimately can come back to help drive the Paint Department as well.

Allen J. Mistysyn

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

Yeah, Arun, I'd just add to that. It would be helpful if we see some moderation in gas prices, some moderation in food prices that have been very - have hit the consumer very hard over the last few months. So, I think you have to start seeing some moderation in those costs to help get back to some of these discretionary projects.

Arun Viswanathan

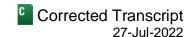
Analyst, RBC Capital Markets LLC

Got it. Thanks.

James R. Jaye

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

Q2 2022 Earnings Call



Thanks, Arun.

Operator: Your next question is coming from Mike Leithead at Barclays.

Michael Leithead

Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning. Just one for me. I guess, why do you think there's this big divergence or at least some level of divergence between DIY and pro painters right now? I guess I'm just trying to square the weak North American consumer you're calling out in Consumer Brands with the pretty strong demand outlook in your Pro business.

John G. Morikis

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

Well, I think Al touched on it just now. I think right now as gas prices spiked up, I think many consumers who might choose to do some of those projects might be more influenced by the price of a gallon of paint and other areas of inflation than some consumers that can afford and want to have painters in their homes to do projects. And so those prices, as they moderate over time I think will have a more positive impact on the do-it-yourself customer. And those that are now working from home, that are in an environment where they're saying, hey, you know what, to have a painter come in and freshen up my home is a relatively inexpensive but very impactful – impact on my environment at home. And it's something that I want to invest in.

Michael Leithead

Analyst, Barclays Capital, Inc.

Thanks, John. Thank you.

James R. Jave

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

Thanks, Mike.

Operator: Your next question is coming from Jeff Zekauskas at JPMorgan.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

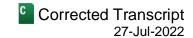
Thanks very much. You have a slide where you say softer demand is hurting you by \$0.50 a share. So, \$0.50 a share is about \$163 million in operating profits. So, does that reflect, I don't know, \$400 million in lower sales than you expected or \$1 billion in lower sales? And could you break it up between North American DIY, China and Europe?

Allen J. Mistysyn

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

Yeah, Jeff, this is Al. You're closer on the \$400 million than the \$1 billion. And the way I look at it versus our expectations, which is what this is comparing, let's say about half is Europe and then the rest is pretty evenly split between the other two.

Q2 2022 Earnings Call



Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Great. And in the first half, Al, is your raw material price spread about negative \$250 million? In other words, \$250 million was unrecovered in the first half by prices versus raw materials?

Allen J. Mistysyn

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

It's not quite that big of a delta. It's almost flattish to down, but not quite to the \$250 million that you talked about. And this is why – versus our expectations, when we talk about this higher input cost, being down a dime, it's definitely heavier in the first half than the second half with additional price increases that we're taking and the actions we're going to be taking to help moderate some of those costs, but also on the other input costs that we can influence to drive those lower or at least flatten those out so that we can start seeing the improvement. And like I talked about, our gross margin should start seeing year-over-year improvement in the third quarter and then again in the sequential – or then again in the fourth quarter and then. So yeah, it's kind of a tale of two halves versus our expectations on that price-cost line.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Okay. Great. Thank you.

Allen J. Mistysyn

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

Yeah.

Operator: Your next question is coming from Mike Sison at Wells Fargo.

Michael Sison

Analyst, Wells Fargo Securities LLC

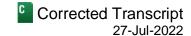
Hey. Good morning, guys. Just a quick question on sort of the price of the paint can given September increase. And I know that the cost of the paint in a project is the smallest portion. But if you think about labor inflation and how much the paint can is now, do you think are we getting to the point where a paint project becomes – starts to impact demand and could impact sort of Pro demand as we go forward? Or is it still a fairly affordable project, I quess, in terms of renovation?

John G. Morikis

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

We see the latter. It's a very affordable and impactful project, and as labor increases in cost, it's actually more beneficial to the contractor to use a higher-quality product. And we clearly see that in our product mix shift, a definite shift into higher-quality products, helps the customer's efficiency, productivity, even the opportunity cost. If they have to come back and rework or touchup or whatever it is, they're clearly recognizing that, moving up in quality. So, it's counter to – it's a good question, Mike, but it's counterintuitive to what's happening. People are standing in line, the bid list, as I mentioned, throughout the balance of the year, our contractors are referencing a very full year, and they're moving up in quality.

Q2 2022 Earnings Call



Michael Sison

Analyst, Wells Fargo Securities LLC

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Great. Thank you.

John G. Morikis

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

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You bet.

James R. Jaye

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

A

Thanks, Mike.

Operator: Your next question for today is coming from Kevin McCarthy at Vertical Research Partners.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yes. Good afternoon. John, can you speak to labor-cost trends? How much might your labor costs be running up on a year-over-year basis? And is the trend any better, worse or stable if we think about it sequentially? And is labor having an impact on your sales internally or your customers' ability to execute at this point?

John G. Morikis

А

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

Well, I'll take a swipe at the first piece, and I'll ask AI to talk about the specific impact. But yeah, I think, many of our contractors would tell you that if they could hire additional labor, they would certainly hire, and they frequently are now paying more for that labor than they were in the past.

In our stores and even in our distribution centers and plants, we've made some adjustments to ensure that we're in market because, as I mentioned earlier, you don't achieve the retention rates that we have purely on the culture that you have. Well, we have a wonderful culture, but we also know and respect and want to pay our employees a competitive wage in the market.

And, Al, maybe you can talk a little bit about that.

Allen J. Mistysyn

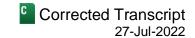
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Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.

Yeah. So, Kevin, we do expect our labor costs to be up high single digits on a consolidated basis. And I would say that's higher in our global supply chain. As you can imagine, it's – there's less desire to work in a factory environment, a distribution environment. Drivers have been a challenge to get, although I would give the team a lot of credit in global supply chain. They've been able to attract drivers. They've been able to improve their attraction and retention rates in their plants and distribution centers and really have a well thought out plan for the future as it relates to automotive.

We have not had issues within our TAG organization, just to comment there. We've added 3,500 management trainees over the last two-and-a-half years, and that pipeline is strong. So, I think, we're shoring up the markets. We need to shore up to retain people because turnover, as you know, is very costly. So, it's sometimes – and I

Q2 2022 Earnings Call



think, it's leveling out. That doesn't mean there's not a market here or there where we'll have to do more, but we seem to be leveling out at this point.

John G. Morikis

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

It does seem to be leveling out. But as Al said, we'll take the appropriate steps to ensure that we keep our great team.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Okay. That's helpful. And then secondly, if I may, I wanted to ask you about raw materials and alkyd resins in particular. I'm cognizant that there was a major outage of an alkyd resin manufacturer about a year ago. But in your commentary I'm sensing that the shortage there has become more acute recently. Is that true? And if so, maybe you can talk about allocation level, what products are affected and what sort of impact that may have had on your sales.

John G. Morikis

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

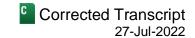
Well, you're right. It does date back to the OPC fire in Columbus in 2021, and that impacted the entire industry, as about 130 million pounds of resin disappeared from the market. The important piece here, Kevin, is that there has also been an additional fire in St. Louis at an Allnex plant that will clearly be more pressure in the market, something that we don't need. And my understanding, as of just this morning, was that there might have been another one here that, in the same space, that could also have a negative impact. So, we're trying to work through that. That's real-time stuff. Since we've come into the Boardroom here, I've not heard anything. What I'd say is we've been working hard to make monthly progress towards improvement, but it's likely going to be towards the end of the year before we're out of the woods. The solution here is going to be a combination of the internal utilization of assets, and I would say that the recently acquired SPI resins business, again, is proving its value in many ways. This is one of them. But we'll also utilize external assets through arrangements and agreements there as well.

But it is safe to say that our plans, our efforts, we were planning on better supply rates than what we experienced, and we think it's going to be a lot of work by our team to continue to gain ground. But it's going to be in small increments that we believe that by the end of the year or as we enter into next year, we'll be in a much better situation than we are today.

But the issue here, I think, is – and again, maybe just speaking openly and transparently, a couple of guarters or a quarter ago, we talked about that we didn't believe that the raw material issues were going to be an issue that we faced. And to the largest degree, that's not. We've built inventory and architectural inventory. We supplied our Consumer brands customers at a growing rate of inventory. And so, to the largest extent, everything we said we stand behind.

That said, we also said that it was going to be very tight and hand-to-mouth, and in times like this, any shocks or any shortages are far more impactful than they normally would be. There's no width - there's no inventory in the system to absorb any shocks or anything. So literally, in some cases, if one of our suppliers have something that goes down for a shift or two, where in the past, we would never feel that, now we're dispatching in some cases our own tanker trucks to offset those. Or we're producing, as Al mentioned, we might produce a batch in one plant and deliver it -freight - from one part of the country to the other to serve our customers. And as I had mentioned

Q2 2022 Earnings Call



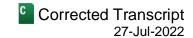
in my prepared remarks, all of these are very conscious decisions. We're not out just spending money here. I mean, we're trying to drive it to the bottom line, but as I mentioned, we believe with our hearts that coming out of this era of challenges with our customers, many of whom understand completely what it is that we're doing to serve them, will ultimately be in the best interest of our shareholders.

And so, while in a quarter or two we are going to feel this pressure, there's a reason why our exclusive relationships, as an example, are increasing, because our customers see what we're doing. And we'd like to drive it to the bottom line faster and better, and we will. But some of these challenges and shortages are real, and we're responding real-time to them, and we're going to serve our customers, and as I said, we'll come out with these customers on the backside.

Kevin W. McCarthy Analyst, Vertical Research Partners LLC	Q
Thanks. I appreciate the color.	
John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.	A
You bet.	
Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.	А
Thanks, Kevin.	
Operator: Your next question is coming from Truman Patterson at Wolfe Research.	
Truman Patterson Analyst, Wolfe Research LLC	Q
Hey. Good afternoon, everyone. Thanks for taking my questions.	
John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.	А
Hey, Truman.	~ `
Truman Patterson Analyst, Wolfe Research LLC	Q
Hey. John, Al, I'm hoping you can give just a lay of the land for your supply chains and TAG in inv Are you all still manufacturing as quickly as you can kind of get it out the door? And March-April timentioned that architectural volume production was at the highest levels in history. Should we ass July is still at the highest levels?	meframe, you
Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.	А

Yeah, Truman. I would say we are absolutely utilizing the 50 million gallons of our architectural production capacity. And we are – as John mentioned, we actually built inventory in our second quarter related to architectural, and that was both on TAG and CBG where historically, as you know, we build inventory in our fourth quarter and our first quarter and we see inventory reduction in our middle two quarters, our highest-volume

Q2 2022 Earnings Call



quarters. So, we're keeping pace with the level of sales, and we're very confident that — I'd also tell you, to John's point, the architectural availability issues, although may not be ideal, we're getting the raws we need to meet demand. And we'll be able to feel confident that we can meet the second half strong high-single-digit demand from TAG and also build inventory in our fourth quarter this year and our first quarter next year to be ready for next year's spring and summer selling season.

Truman Patterson

Analyst, Wolfe Research LLC

Q

Okay. Thanks for that. And then new residential, if you look at builder orders, it's definitely decelerated, and we'll see if that goes into the repair and remodel market as well. But if I look back at kind of 2008-2010 time period, clearly different dynamics, but you all did slow your net store openings, according to our data. I'm just trying to understand, if we see an economic downturn, would you all continue to try and open up anywhere, we'll call it, I don't know, 80 to 100 stores? Or would you guys maybe kind of cull that back a little bit? Just trying to see how you all are thinking about the next couple years.

John G. Morikis

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



Yeah, Truman. That's a good observation. I think, if I recall, we lowered our store count at that time to around 60 new stores. And I would say this, that we have confidence in that model, particularly what's happening in the market right now with some of the changes. Some of our competitors choosing to change their model creates terrific opportunities for us. And so you should expect us to continue to leverage that opportunity to the fullest.

Might we adjust down a little bit? Maybe. I mean, we're going to take a disciplined approach. My right-hand guy here, Al, and while she's not in the room, our COO, Heidi, I mean, those are conversations that the three of us along with Justin that runs our stores have on a regular basis. I think, the takeaway I'd like for you to have is that we've seen this movie before. Investing in the face of adversity is something that we've done. We've not done it without discipline. We will invest. And the rate, if it drips down a little bit below 80, we might do that. But we see the value long term. We're actually getting continually better at opening new stores. The focus that we've given Justin in TAG and all his division teams is to continue to drive that profitability faster so that we can continue to invest and get those stores contributing faster. So, I guess the quick answer is, yeah, we might in some of those situations drip down a little bit, but it won't be my much.

Allen J. Mistysyn

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



Yeah, Truman. The only thing I would add to that is, if you think about 2008 and 2009, we were more heavily weighted to new res to commercial. And over that last – coming out 2010 through 2020, our Res Repaint 10-year compounded average growth rate was low double-digits. That was not at the expense of new res, which was also low double digits, but on a smaller base. So, if you look at our mix today – Res Repaint is our number one segment, the fastest growing, does offer maybe a slightly different view of how we invest in new stores this year and going forward into next year, and maybe being even more aggressive than we were back in 2008 and 2009 just because of that mix of segments.

John G. Morikis

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



It's a great point. Our Res Repaint business now is much stronger, much bigger part of our business than it was at that time. It's a great point, Al.

The Sherwin-Williams Co. (SHW) Corrected Transcript Q2 2022 Earnings Call 27-Jul-2022 Truman Patterson Analyst, Wolfe Research LLC Perfect. Thank you, guys. I appreciate it. James R. Jave Senior Vice President, Investor Relations & Corporate Communications, The Sherwin-Williams Co. Thanks, Truman. **Operator:** Your next question for today is coming from Josh Spector at UBS. Joshua Spector Analyst, UBS Securities LLC Yeah. Hey, guys. Thanks for taking my question. Just to follow up on the Consumer brands. I mean, if I look at the performance in the quarter, your ex-US sales were maybe down 30%, volumes down a bit more. Obviously, China is a factor in there. But curious if you could comment on Europe. I think some of the peers' volumes were down maybe 15%, mid-teens-ish. Were your volumes down similar to that in Europe? Or down much more? And if it's more, what would be the difference? Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co. I'd say they were similarly impacted. And then we were impacted by all the same issues, which you read in the news, everything from inflation to energy costs, certainly the war. Despite that pressure, we believe we're with the right partner there. Our tinting program has been very well received, and we'll fight to continue to grow share. But there's clearly some pressure in the market there that we're not immune to. Joshua Spector Analyst, UBS Securities LLC Okay. Thank you. James R. Jave Senior Vice President, Investor Relations & Corporate Communications, The Sherwin-Williams Co. Thanks, Josh. **Operator**: Your next question for today is coming from Adam Baumgarten at Zelman. Adam Baumgarten Analyst, Zelman Partners LLC Hey. Good afternoon, everyone. Just curious, in Res Repaint, do you have a sense for how much the demand is related to kind of a larger remodel project, such as a kitchen renovation or an addition, versus just a refresh,

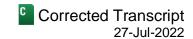
something like someone just painting a few rooms in their home?

Allen J. Mistysyn

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

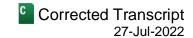
I would say that in our TAG business, a relatively small percentage is tied to kind of a major remodel big-ticket. It's much more likely, it's going to be either an exterior or interior paint repaint. Certainly, we participate in those larger

Q2 2022 Earnings Call



projects, but the largest percentages are painters pulling up and jumping on the exterior of a home or knocking off the interior, the Res Repaint. Adam Baumgarten Analyst, Zelman Partners LLC Okay. Got it. And then just given the slowdown in DIY Japan... John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Adam, if I may – Adam, if I may. Adam Baumgarten Analyst, Zelman Partners LLC Okay. John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Maybe just, where we would see more of that kitchen remodel and some of the other areas that you talked about would be through our Pros Who Paint program on the consumer side. The painters that we focus on through our stores would be the guys that are – or gals that are coming in and focused on painting as the largest percentage. We like to think of our customers as 90-plus percent focused on painting through our stores. Adam Baumgarten Analyst, Zelman Partners LLC Got it. That's helpful. And then just on DIY, just given the slowdown, do you expect to see promotional activity pickup going forward? John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. No. I think, there's more in the area of branding and kind of awareness. I think, there will be some promotional supply levels get back into more normalized levels. But with inflationary issues that everyone is facing, it's a pretty disciplined industry because of the percentage of cost of goods in the total cost keeps everyone pretty honest. So, it's not likely something that's going to - the floor is going to fall out, I would suspect. Adam Baumgarten Analyst, Zelman Partners LLC Got it. Thanks a lot, John. John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. You bet. **Operator:** Your next question for today is coming from John Roberts at Credit Suisse.

Q2 2022 Earnings Call



John Roberts

Analyst, Credit Suisse Securities (USA) LLC

Great. Thank you. Gallons in TAG were down year-over-year in the quarter. So how do you square that with the record number of customers and record number of sales calls? Is the average gallon per job down? Or is there some other mix effect that's going on?

John G. Morikis

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

Well, I'd say part of it is the really strong comparisons that we had last year, John, I don't have those on the top of my head. Al, if you can get those, that'd be great. But, John, I'd say that with what we've seen from a comp standpoint, we knew going into the year that the first half was going to be a challenge. But I'm glad you brought that up because it's part of why we have the confidence that we do, not only in the results, the fact that we have more accounts now and more call activity.

But I think, as Justin mentioned at the Analyst Event, our ability to focus on this effort and then see the actual results. There's a lot of people that talk about what they want to do, but the fact that we already have this controlled distribution model gives us POS data, gives us – we have over 3,000 reps, and our store manager call activity is easily logged as well. So, what I'm really proud of is not only can people say, hey, we're going to go do this, but we're really seeing the impact in the results. And the fact that we have the number of calls taking place and the number of active accounts really points to the level of execution of this wonderful team.

Allen J. Mistysyn

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

Yeah, John, I would just highlight, last year in the second quarter, TAG sales were up 22.6%, same store sales was up 19%, Res Repaint was up 36%, and Commercial Property Maintenance new res were up all high double digits. So, really tough comp. And what we commented on in our press release is our Pro Architectural volumes were actually up low single digits. So, I think that goes – points to the calls and the activity that's happening to help drive us year-over-year on volume.

John Roberts

Analyst, Credit Suisse Securities (USA) LLC

And then, John, I think you mentioned that interior was a bigger part of the TAG mix in the June quarter. Is that unusual, seasonally in the June quarter? I would think exterior might be bigger in that quarter. And weather I think was uneventful essentially. It was just hot, but we didn't have unusual rains or anything.

John G. Morikis

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

Yeah, John, you're right in that exterior does ramp up during the season. But interior is, by far, a much larger percentage of total gallons. But you're right for recognizing that during this time of the year, exterior does rampup. But it's – interior is a pretty significant load of the gallons.

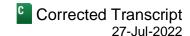
John Roberts

Analyst, Credit Suisse Securities (USA) LLC

Okay. Thank you.



Q2 2022 Earnings Call



John G. Morikis

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

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You bet.

Allen J. Mistysyn

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

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Thanks, John.

Operator: Your next question is coming from Garik Shmois at Loop Capital.

Garik Shmois

Analyst, Loop Capital Markets LLC

Oh, hi. Thanks for squeezing me in. I'm sorry if this is redundant, but just on DIY, just to be clear, did it slow sequentially late in the quarter? Or did it just not come in the year to your initial expectations. I'm just wondering if there was a material weakening in DIY demand.

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John G. Morikis

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

Garik, I would say that it kind of bounced around. We had been working on trying to drive that. We expected a little more positive gallons than we actually saw. And so, it was bouncing around without the gain that we had projected.

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Garik Shmois

Analyst, Loop Capital Markets LLC

Got it. A follow-up question. Just on the portfolio review you cited, just to be clear, is this just normal course of business? You look at your portfolio regularly? Or are you perhaps accelerating some plans, given some of the macro challenges that might be popping up?

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John G. Morikis

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

No, Garik. This is part of what our normal operating process is. We set market share or sales growth targets, ROS improvement targets, RONA targets and cash flow targets for each of our significant businesses, programs, regions, customer programs even. And midterm and longer term, and it's an ongoing thing because the environment has changed.

You look at just even the last two-and-a-half years, the differences from the beginning of 2020 to today, so trying to look at macroeconomic trends and how that's impacting our investments and how that's impacting different businesses. And then, their path forward and action plans to still meet those targets regardless of what's happened in the macroeconomic environment? We have tremendous opportunities for market share growth in Europe, in Asia, across each of the businesses. So, I'd just use that as one example.

Okay. What's the value proposition that we're presenting to these customers that gives us a clear line of sight to attaining those goals midterm and longer term? And as an example, I highlighted our commitment. If we don't believe we can hit those goals, Australia was an example, the Ace private-label program was an example, maybe those programs are better for somebody else.

The Sherwin-Williams Co. (SHW) Corrected Transcript Q2 2022 Earnings Call 27-Jul-2022 **Garik Shmois** Analyst, Loop Capital Markets LLC Understood. Thank you. John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Thanks, Garik. **Operator**: Your next question is coming from Chuck Cerankosky at Northcoast Research. Chuck Cerankosky Analyst, Northcoast Research Partners LLC Good afternoon, everyone. John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Hi, Chuck. Chuck Cerankosky Analyst, Northcoast Research Partners LLC John and AI, when you talk about some of these raw material shortages and transportation interruptions and all the other things that seem to be randomly getting inventories and the supply chain back on track, well, how do

you deal with allocating the limited inventory of raws between different markets? And I'm thinking mainly the professional, architectural and the DIY architectural?

John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co.

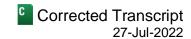
Well, oftentimes, Chuck, what we find are we're making the products that we have the raw materials for. So in our Consumer Brands Group, as an example, we have primarily a different resin system then we would in some of our - in most of our TAG business products. So as those raws are becoming available, we're converting those as quickly as possible to what's available.

But I'll go back to the point that Al made and what I tried to highlight earlier. On the architectural front, the availability of raw materials now has really diminished. To your point, transportation is an area of concern, and mainly the issue is in rail. If we point to the two areas most impacted then by rail, it would be TiO2 and by resin.

And we previously mentioned that we brought on a number – I think we ordered 400 tanker wagons to be able to - I think maybe we've gotten 200, I think we ordered 400 tanker wagons to be able to bridge any gaps. We think that's – we're uniquely positioned in our industry to be able to do that given the fleet that we have.

And so, Chuck, we make what we have. We try to get what we need as quickly as possible through our suppliers. And worst-case scenario is we work with them to send our own tankers to get there, make it as quickly as possible and ship it from whatever plant we can get it to and convert it as quickly as possible.

Q2 2022 Earnings Call



Allen J. Mistysyn

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

Chuck, the only thing I'd add to that would be, certainly within TAG as we're experiencing the severe raw material shortages in our fourth quarter and into our first quarter, we clearly emphasize the Pro versus DIY segment within TAG.

So we certainly can do it when we're in a specific business, and similar kind of decisions had to be made in Consumer. So when you're within a segment or a group, you can make those calls, and we did, the best utilization of those precious raw materials we had.

Chuck Cerankosky

Analyst, Northcoast Research Partners LLC

All right. Thanks, guys, and good luck in the second half.

John G. Morikis

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

Thanks, Chuck.

Operator: Your next question is coming from Steve Byrne at Bank of America.

Steve Byrne

Analyst, BofA Securities, Inc.

Yes. Thank you. John, this initiative of yours to grow the business in Consumer with Pros Who Paint, do you feel that it's necessary to offer those Pros some of the services that you provide in TAG such as large-volume shipments to the jobsite, the ability to place orders without having to call the Lowe's store, are those functions that you're considering? Or do you consider it not necessary?

John G. Morikis

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

No, Steve, we're in this to win it. And so we're working with Lowe's on the services and fulfillment that will help that targeted customer be more successful. And so, say Lowe's, it's the entire Consumer brands initiative is to align the – our customers with the needs of their customers. So pricing and those types of things, we don't control that. Our customers would control that.

We're working with them to ensure that they have the complete offering – everything from the power brands that attract customers to the innovation in the can itself. We have reps that are working with their teams to drive their loyalty programs and other initiatives that they have.

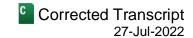
So, yeah, I mean, if we can do things to help attract those segments, it's a wonderful win for both of us. Those are customers that we're likely not penetrating through our own stores. They want a broader selection of products that are available in home centers, and we have great partners that we're trying to help to win and we'll take the steps to do that.

Steve Byrne

Analyst, BofA Securities, Inc.



Q2 2022 Earnings Call



And maybe one more drill into the TAG expectations for the third quarter. Is the improvement in volume that you're expecting, are those on an underlying improvement from the second quarter? Or is that a year-over-year improvement in that the comp isn't as challenging in the third as it was in the second? So just a question about underlying trends in those Pro end markets. And do you have any concern about any challenge or pushback from those – in those end markets for your price increase that's on the table?

Allen J. Mistysyn

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

A

Yeah, Steve, it's both a sequential improvement in gallon growth, and it's also a year-over-year significant improvement in gallon growth. And no, we do not expect – we talked about expecting our price increase to be a similar effectiveness as previous price increases, and I believe that's going to be the case.

John G. Morikis

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

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I agree. You don't judge the effectiveness of a price increase on the 30-minute discussion you have on, we need a price increase. We have to earn that every day. And so every day, our reps are out there. Our store people are delivering. The products that we have, every single day we have to go right back to the point I made earlier, which is do we help you make more money?

And if the answer is no to that, then we don't deserve it. But we're working really hard to make sure that we do, obviously. And I think the fact that we're seeing the metrics and the activity that we are experiencing, we think that bodes well for our efforts. There's no complacency here at all. We want to get better every day, and we feel as though the activities that we are taking as well as the environment in which we're in will support the increase that we need.

Steve Byrne

Analyst, BofA Securities, Inc.

Thank you.

John G. Morikis

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

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You bet.

Operator: Your next question for today is coming from Eric Bosshard at Cleveland Research.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Thanks. Al, just a point of clarification I felt like earlier on this call, you talked about the pricing realization in the quarter not being up to expectations. Is that – again, I'm not sure if I heard you right, but could you just talk about how pricing relative to your expectations behaved in the quarter?

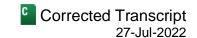
Allen J. Mistysyn

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

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Yeah. So, Eric, what I – I'm glad you asked that question just as clarity. Our pricing actions themselves were where we expected them to be. The price cost differential was not quite where we wanted it to be – was not quite where we wanted to be on our expectations. Our costs were higher. Raws were a little bit higher. Our cost of

Q2 2022 Earnings Call

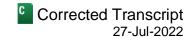


freight, transportation, labor, those types of things were higher. And then, the cost to serve our customers. As we came into getting our inventories built at the end of the first quarter and coming into the second quarter, we thought we'd see less of that gallon movement around our distribution network than we actually saw.

So there's higher costs related to that. So that's what drove that price/cost dynamic I thought would be better in our second quarter than it actually was.

Eric Bosshard Analyst, Cleveland Research Co. LLC	Q
Okay. And then within that, the pricing effectiveness, I think you'd commented earlier in the quarter, was at not better than the historic trend. That was the experience on pricing in the quarter and is that the same expectation for this coming increase?	least if
Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co.	A
That's right. And we actually did get on top of the pricing and our second quarter was better and got on top those costs, just not to the expectation we had.	of all
Eric Bosshard Analyst, Cleveland Research Co. LLC	Q
Okay. Thank you.	
John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Thanks, Eric.	A
Operator: Your next question is coming from Ken Zener at KeyBanc.	
Kenneth Zener Analyst, KeyBanc Capital Markets, Inc. Afternoon. And appreciate your guys' patience today.	Q
John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Hey, Ken.	A
Kenneth Zener Analyst, KeyBanc Capital Markets, Inc.	Q
I think you made a comment earlier on slide 7, the \$0.50 share reduction, I believe you said, for the softer demand, you said 50% was Europe and then it was equal parts North America and China. Is that correct?	
Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co. It's directionally accurate, yeah.	A

Q2 2022 Earnings Call



Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Okay. Yeah. Not exact. And I raise this because it seems obviously with just 9% in line with kind of the earnings revision, it seems as though roughly half the revision is tied to what I would consider lower-multiple non-core US businesses, which is to say TAG, the pricing, your \$0.10 hit on the higher input costs is not that much. Is there something about the operating leverage that is different in Europe and China on that DIY? Because not as a large piece of Consumer, but it seemed to have really outsized impact on the guidance.

Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co. Yeah. The Europe and Asia comment not only includes Consumer but has an impact on our certain businesses within our Performance Coatings Group as well. So it's a combination of the two. It's not just Consumer in Europe and Asia. Kenneth Zener Analyst, KeyBanc Capital Markets, Inc. Thank you very much. Allen J. Mistysyn Senior Vice President-Finance & Chief Financial Officer, The Sherwin-Williams Co. Yeah. **Operator:** Your next question is coming from Adrien Tamagno at Berenberg. Adrien Tamagno Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom) Hello. Good afternoon. John G. Morikis Chairman & Chief Executive Officer, The Sherwin-Williams Co. Hey, Adrien. Adrien Tamagno Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom) Hello. It looks like you repurchased \$700 million of shares in H1, and your 3 times end-of-year leverage target seems to leave very little space for more M&A in H2. So I am taking the view that, with the current environment,

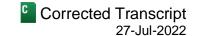
Allen J. Mistysyn

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

you are better off growing organically and not adding complexity to your business.

Yeah, Adrien. I think what we talked about, and what John talked about in his opening comments, our leverage ratio ticked up net debt-to-EBITDA 3.4 to 1 times, due to the acquisitions. The acquisitions aren't – because we only have a half a year, because we have amortization and inventory step-up, we're not going to be able to cover the increase in debt, the interest that goes with that.

Q2 2022 Earnings Call



But what we're committed to doing is using excess cash in our second half to pay down debt. We'll offset option dilution with share buybacks, but as you know, that'll mean a lot more cash available for us to pay debt down.

And I would just highlight our second half net operating cash is going to be slightly different than what we've experienced in the past. As you know, we generate almost 70% of our cash flow in the second half, and it really flips from first half to second half. And you'll see that in our second half this year and maybe even a little more aggressively because we built so much inventory in our first – had to build so much inventory in our first half of the year. So you will see a flip in a much stronger second half in cash flow maybe than even you've seen in prior years.

Adrien Tamagno

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

All right. And just a second one on the cash flow still. I've seen you reduced CapEx by around \$100 million. So how are you able to find this savings without harming the future work?

Allen J. Mistysyn

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

Yeah. That's primarily due to the new headquarters and R&D projects. We've maintained our core CapEx because, you're right, we are absolutely moving forward with our architectural capacity expansion. And another part of that that we're moving forward with is the packaging capacity expansions just so we can keep up with the mid-teen compounded average growth rate that we've seen in packaging volumes. So that's going to be a continued investment.

And then the final one, as we've talked about, labor and labor rates and the challenges around the labor market is the continued investment in our automation activities within our global supply chain.

Adrien Tamagno

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Thank you.

Allen J. Mistysyn

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

Thanks, Adrien.

Operator: There are no further questions in queue. I would like to turn the floor back over to Jim Jaye for closing remarks.

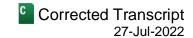
James R. Jaye

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

Thank you, Holly, and thanks, everybody for listening to our call. Obviously, second quarter a little bit challenging, but we're very confident about delivering a strong second half to the year. And I think that's really led by the strong demand we're seeing across our Pro Architectural business and TAG.

We're responding to ongoing cost pressures with additional pricing in all of our segments. We're continuing to invest in growth initiatives. And we're going to continue to manage our costs tightly. We're very determined, and I hope that came across, and we expect to deliver value.

Q2 2022 Earnings Call



So thank you for joining us, and we'll be available for your follow-up calls. Have a great day.

Operator: Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.

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