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The Sherwin-Williams Co. (SHW)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining the Sherwin-Williams Company's review of Fourth Quarter 2023 Results and our outlook for the first quarter and full year of 2024. With us on today's call are Heidi Petz, President and CEO; Allen Mistysyn, Chief Financial Officer; Jane Cronin, Senior Vice President, Enterprise Finance; and Jim Jaye, Senior Vice President, Investor Relations and Communications.

This 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 statements speaks only as of the date on which such statement is made and the company undertakes no obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

A full declaration regarding forward-looking statements is provided in the company's earnings release, transmitted earlier this morning. After the company's prepared remarks, we will open up this 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. Sherwin-Williams delivered solid fourth quarter results that concluded a record year for the company where sales grew 4.1% to $23.1 billion and adjusted earnings per share grew 18.6% to $10.35 a share.

Sales in the fourth quarter increased by a low single-digit percentage against a tough comparison and we generated significant year-over-year gross margin improvement. As we previously described, we also continued our deliberate and accelerated investments in the business as reflected by the low double-digit, year-over-year increase in SG&A in the quarter. These investments are being made to take advantage of current market uncertainty and are aimed at driving the success of our customers and above-market growth across all businesses.

Adjusted earnings per share in the quarter decreased by a mid-single-digit percentage related to higher non-operating costs. We maintained our disciplined capital allocation approach and returned $641 million to our shareholders through dividends and share repurchases during the quarter.

Sales in all three of our reportable segments were within or better than our guidance. In our architectural business, commercial and residential repaint were the strongest performers, while DIY remained challenging. In our industrial business, growth was variable by division. Sales grew in Europe, in Latin America with softness in North America and Asia.

Let me now turn it over to Heidi who will provide some commentary on our fourth quarter results by segment and a few full year highlights before moving on to our 2024 outlook and your questions.

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Heidi G. Petz

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

Thank you, Jim. I'll begin with the Paint Stores Group where sales increased 2.3% against a mid-teens comparison. Volume drove the increase as our previous price increase annualized in September. Segment margin improved 210 basis points to 19.3%.

Protective and marine, commercial and residential repaint drove the growth. Strength in these markets was partially offset by decreases in new residential and property management. From a product perspective, exterior and interior paint sales both increased by low single-digit percentages. Exterior sales grew faster but were a smaller part of the mix. We opened 35 new Paint Stores in Paint Stores Group in the fourth quarter and a total of 76 new stores in 2023. We also announced a 5% price increase to our customers in the quarter effective February 1.

Moving on to our Consumer Brands Group. Sales decreased by 7.1% in the quarter, which was better than our guidance. Sales increased mid-teens percentage in Europe and Latin America. Sales decreased in North America by a low double-digit percentage as customers managed their inventories lower due to soft paint demand, partially offset by an increase in the Pro Who Paint sales. Adjusted segment margin, which excludes acquisition-related amortization expense, an impairment charge related to trademarks in Europe and the negative impact from the significant devaluation of the Argentine peso in December was 10.8%. The decrease from last year's fourth quarter was driven by lower volume and higher non-operating costs.

Sales in the Performance Coatings Group increased slightly with continued choppiness across each of our businesses and regions. Acquisitions and favorable FX were offset by lower volume. Adjusted segment margin, which excludes acquisition-related amortization expense and the Argentine devaluation impact improved to 17.3%. This is the fourth straight quarter this team has delivered year-over-year segment margin improvement. This performance reflects execution of our strategy, moderating raw material costs and the ongoing value we are providing customers.

Industrial Wood led the growth, including the impact of recent acquisitions. Coil and Automotive Refinish also delivered solid growth. Packaging was down as expected. General Industrial was impacted by lower demand in all regions. PCG sales varied significantly by region with growth in Europe and Latin America and decreases in North America and Asia-Pacific.

From a full year perspective, I'll provide just a few highlights before turning to our 2024 outlook. At this time a year-ago, you'll recall an environment of tremendous macro uncertainty with single-family housing starts down an average of more than 20% for seven consecutive months. Existing home sales down a similar percentage, soft PMI manufacturing indices in all regions and most economists predicting a hard recession. Against that backdrop, we provided guidance that we believed was appropriate.

We also said that if conditions improved, our performance would be better than our initial guidance and that is exactly what happened. I could not be more proud or thankful for the efforts of our 64,000 employees throughout 2023. On a consolidated basis, our team delivered record full year sales, adjusted EBITDA, adjusted diluted net income per share and net operating cash.

We returned a total of $2.1 billion to our shareholders in the form of dividends and share buybacks in 2023. We delivered these results while reinvesting in the business by design, and at an accelerated rate to drive continued above-market growth and enhanced profitability.

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In terms of CapEx, we invested $590 million, including approximately $205 million for building our future R&D lab projects. We expect to begin occupying these facilities by the end of 2024. We ended the year with a net-debt-to-adjusted EBITDA ratio of 2.3 times.

Looking at our reportable segments on a full-year basis. Paint Stores grew sales by a high-single-digit percentage and expanded its margin. Sales increased in all end-markets, except new residential, which was down less than 1%. This new residential performance was remarkable given the state of the market and reflects our share gains.

Performance Coatings also grew its top-line while further integrating recent acquisitions and achieving a high-teens adjusted segment margin. The full year adjusted margin performance is the best since the Valspar acquisition in 2017.

Consumer Brands had a challenging year on the top-line, with lower sales resulting from soft DIY demand but adjusted segment margin expanded. We're confident our aggressive portfolio adjustments completed during the year including the divestiture of noncore aerosol product lines and the China architectural business should result in improved future profitability. I am confident that we further separated ourselves from our competitors in 2023 and that's exactly what we intend to do again in 2024.

Our success in 2023 stemmed from executing on our strategy, which remains unchanged. We provide differentiated solutions that enable our customers to increase their productivity and profitability and for which they are willing to pay and stay. These solutions center on industry and application expertise, innovation, value-added services and differentiated distribution.

We also have momentum in the enterprise strategic priorities that are illustrated in our slide deck and that I first described at our Investor Day last August. I am confident the continued execution of our strategy and our enterprise priorities will spur the next era of profitable growth for Sherwin-Williams.

So, turning to our outlook. We enter 2024 with confidence, energy and a commitment to seize profitable growth opportunities in our targeted end-market segments. We expect to outperform the market just as we have in the past. And while the macro environment feels better today than it did a year ago, it still contains a number of uncertainties.

On the architectural side, US new residential sentiment has improved. Single-family starts have been up year-over-year for six consecutive months. Mortgage rates are expected to begin moderating but will remain well above historic levels.

In residential repaint, existing home sales drove a portion of our sales and have declined year-over-year for 28 straight months. The trajectory of recovery is not clear here and the LIRA index is forecasting negative remodeling spend in 2024. However, there are numerous other drivers for repaint and our investments and our model give us confidence that we will continue to grow share.

In new commercial, starts slowed considerably in 2023 which we expect will impact completions starting midway through 2024. Commercial lending standards have also tightened, and the Architectural Billing Index has been negative for five consecutive months.

On the DIY side, we'll remain in share gain mode as we do not currently see a macroeconomic catalyst driving meaningful improvement in consumer demand, so any improvement in existing home sales could be a tailwind.

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On the industrial side, the PMI numbers for manufacturing in the US, Europe and Brazil, have largely been negative for multiple months, with China being slightly better recently. We expect Automotive Refinish to be our most resilient business in this environment and we expect to see ongoing benefit from recent share gains.

Industrial Wood is likely to benefit from recovery in new residential, given the furniture, flooring and cabinetry end-markets it serves. We expect coil will grow driven by significant new account wins over the past year. Protective and marine should continue to have momentum but will face challenging comps. We expect general industrial demand to remain choppy.

In Packaging we expect industry volume for food and beverage cans to be flat-to-down in 2024. We will also see a negative short-term impact related to temporary volume shifts, which occurred as a result of our Garland production plant incident last August. We fully expect to recover this volume in stages in 2024 and 2025 while also winning new business.

Longer-term, we remain bullish on our Packaging business and our differentiated non-BPA solutions. Our Garland plant is fully back online and we are bringing on additional capacity in other locations during the first half of the year. We continue to have excellent new account and share of wallet opportunities in every business and in every region. The continued growth investments we have made over the past year give us tremendous confidence in pursuing these opportunities and gaining share.

Moving to the cost environment. Our outlook assumes our raw material costs will be down by a low single-digit percentage in 2024 compared to 2023. We expect to see the largest benefit occurring in the first half of the year as comparisons become more challenging in the back half, where the entire basket decreased low double digits.

While raw materials will likely be a benefit for us, other costs, including wages, health care, energy and transportation, are expected to be up in the mid-to-high single-digit range in 2024. I will remind you that these categories also inflated in 2023. Working with our customers, we delayed additional Paint Stores price increases last year, given the pricing actions that we took in 2021 and 2022. We cannot, however, ignore these escalating costs indefinitely.

As I mentioned earlier, Paint Stores Group is implementing a 5% price increase effective February 1. The Performance Coatings and the Consumer Brands Group are also likely to have some targeted pricing activity in 2024, though at a more modest level than Paint Stores.

As for our specific outlook, the slide deck issued with this morning's press release includes our expectations for consolidated and segment sales for the first quarter of 2024. The deck also includes our expectations for the full year, where consolidated sales are expected to be up a low-to-mid-single-digit percentage and diluted net income per share is expected to be in the range of $10.05 to $10.55 per share.

Excluding acquisition-related amortization expense of approximately $0.80 per share, adjusted diluted net income per-share is expected in the range of $10.85 to $11.35, an increase of over 7% at the midpoint compared to 2023's adjusted diluted net income per-share of $10.35. We've provided a GAAP reconciliation and Reg G table within our press release.

Let me provide some additional data points and an update to our capital allocation priorities. Given incremental 2024 pricing, raw material deflation and Paint Stores Group, our largest and highest gross margin segment, growing sales faster than the other two segments, we would expect full year gross margin expansion. We expect SG&A dollars to increase by a more typical level and increase by a mid-single-digit percentage in 2024, a

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moderation from the low double-digit percentage increase we reported in 2023. We expect the investments we made last year and those we plan to make this year will enable us to grow at a multiple of the market. We plan to control costs tightly in non-customer-facing functions and we have a variety of SG&A levers we can pull depending on a material change to our outlook up or down.

We expect to open 80 to 100 new stores in the US and Canada in 2024. We'll also be focused on sales reps, capacity and productivity, system improvements and product innovation. Next month, at our Board of Directors meeting, we will recommend an annual dividend increase of 18.2% to $2.86 per share, up from $2.42 last year. If approved, this will mark the 46th consecutive year that we've increased our dividend.

We expect to continue making opportunistic share repurchases. We'll also continue to evaluate acquisitions that fit our strategy. We have a manageable $1.1 billion of long-term debt due in 2024 and expect to refinance the debt at higher rates. We expect to be within our current long-term target debt-to-adjusted EBITDA leverage ratio of 2 to 2.5 times.

In addition, I will refer you to the slide deck issued with our press release this morning, which provides guidance on our expectations for currency exchange, effective tax rate, CapEx, depreciation and amortization and interest expense.

Our team is operating with great confidence as we begin 2024. We are extremely well positioned to continue delivering shareholder value and I want to thank John Morikis for the incredibly strong foundation he leaves with us as he moves into his role as Executive Chair. I'm also grateful for the outstanding executive leadership team surrounding me.

Given that there's still a considerable amount of uncertainty in the global economy, we believe our initial 2024 outlook is an appropriate one. Should the demand environment prove to be stronger than we are currently assuming, we would expect to do better than the guidance we are laying out today.

Our first quarter is a seasonally smaller one. For that reason, we will not be making any updates to full year guidance until our second quarter is completed and we have a better view of how the painting season is unfolding.

Our strategy is clear. Our priorities are focused and our people are ready. We will continue to win by providing innovative solutions that help our customers to be more productive and more profitable. We expect to deliver meaningful earnings growth in 2024. This concludes our prepared remarks.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question for today is coming from Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning everyone. Heidi, I'm wondering if you could sort of break down the Paint Stores Group top line guidance for us. I see low-single to mid-single digits and maybe there's 3% of net price in there. And I guess what I'm really trying to get at is, where do you think that sales guidance would be if you hadn't made these significant growth investments in 2023? What are you anticipating you're going to get from that this year?

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

Well, I'll tell you right now, I'll start this off and then I'll hand it over to Al to give some color commentary as well. I would start by, and you said this beautifully, as you look at the drivers of what's making us effective and the investments that we're laying in, we'll talk to this in a minute, but we've made some very significant choices relative to some of these segments, and I'll start with residential repaint. We talked about, despite some of the choppiness out there, we are continuing, rather, to take share based on some of these investments that we laid in.

It's interesting, in this environment, there's a lot of people that are out there talking about market share gains, and I would say that no one's really posting the mid-single-digit gallon gains that we're seeing versus our mid-teen comparison last year. So not everyone's able to grow share. I'm confident that we are.

And I would also say, given some of these investments, no one is better positioned in the market than we are to help these contractors. Specific to residential repaint and some of these investments, we're really able to demonstrate our model. We're interacting with these contractors that are looking to move beyond just painting, but becoming business owners. So if you can imagine some of the investments that are allowing our teams, our reps, to help them in real time in terms of marketing, customer acquisition, even as they look to expand in a different substrate.

We launched our Gallery Series last year, helping these contractors move from just walls into other surfaces in the home while they're there, kitchen cabinets being a great example. And all of these areas are really our sweet spot.

So in this environment, while we're laying these investments in and we're clearly posting results, I would also say and characterize this as the residential repaint contractor has never been more receptive to all that we can bring them in terms of our consistent store-to-store experience as they're traveling and growing, access to our highly trained reps that are helping them not just plan work, but helping them in real time to troubleshoot. So the accessibility, that's really important.

So there's a list of items here that are really paying off for us. And I'm going to hand it over to Al to give a little bit of specific color on the numbers.

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

A

Yeah, Vincent, this is Al Mistysyn. Yeah, when you look at the 2024 volume number up low single digits, if you go back to coming out of the second quarter of 2023 and looking at the indicators that we were, we were talking about our volumes really being flat. And as John and Heidi like to say, we got to influence the numbers.

So with our line of sights being better than or better, the investments we made in res repaint. And what you'll see is we expect res repaint to be at the high end or above the high end of that range. In the fourth quarter, you saw a low single digit volume growth. And again, our res repaint volumes were up mid-single digit. So even in the short term, we're seeing the benefits of those investments, and we fully expect to realize those benefits in 2024 to accelerate our volume growth in res repaint.

Operator: Your next question is coming from John McNulty with BMO Capital Markets.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah, good morning. Thanks for taking my question. So there was a lot of focus on the SG&A jump and administrative jump and I guess when you think about the roughly $300 million of the 20% investment that you had there or growth that you had there, I guess how would you break it out in terms of just general inflation versus investment for growth versus management comp because, look, admittedly the team did pretty darn well this year. So I guess how would you break that out and can you help us to think about on the growth investment side the types of investments that are I guess grabbing those costs or grabbing those dollars.

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

A

Yeah, John. If you look at the adjusted, I'll use the adjusted increase in SG&A. Almost 70% of that is attributed to our operating segments with the majority of that being in Paint Stores Group. And as Heidi mentioned in our opening remarks, we added 35 new stores in the quarter, 76 new stores for the year, as well as additional reps which with the additional investments that we've made in the second-half, our rep count is up a multiple of that and the remaining increase is evenly split between our Consumer Brands and the pro paints reps increases and also with our Performance Coatings Group sales and tech service reps.

And, John, I believe the teams have done a really good job at driving the metrics and monitoring the metrics to make sure we're going to get a return for those. And then as you mentioned, the remaining portion of the increase is really related to the admin segment and primarily compensation, including stock-based comp, which as you know, is typically heavier in our fourth quarter. It's really driven by the stock price. We had some deferred comp and wage inflation, but I'd say those are the primary drivers of the SG&A. And just I'd just add one more comment to that.

Those will annualize on our first half next year but we do expect, as Heidi, again, mentioned in the opening, to be back to more typical investments in SG&A investments in 2024. So we'll see a bigger increase in our first half and at or below the range in our second-half to get to that mid-single-digit range for 2024.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

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John, one thing I would add to that too. I think when you've got significant points of differentiation and you believe in your strategy you're going to invest in them. So while we're growing faster than the market and we're confident, as Al pointed out, on the return we're going to get here our heads are not in the sand. We absolutely know that it's an expense and we expect to get a return. There's no doubt about that but we do see this also as an investment to make sure that we continue to outpace the market.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, John.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. In your remarks, you said that your raw materials I think in the second half of 2023 were down more than 10% and that makes sense, your cost of goods sold in the fourth quarter was down 10%, you have higher people costs, but next year in the first quarter you have your easiest raw material comparison and the second quarter is pretty easy too. So if the first quarter, continuing the pattern we've seen, is down again low double-digits and the second quarter is down high-single-digits, shouldn't your raw material base case for next year be down mid-single-digits rather than low single-digits?

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

Yeah, Jeff. The way we have the raw material benefit rolling out in 2024, about 85% of that benefit is in our first half. And the assumption we're making is that we're not going to see another material drop as the year goes on. So essentially, we're annualizing the benefits that we saw through the second half of 2023.

That being said, the market is driven by supply and demand and the raw material costs are driven by supply and demand. And as we see how demand unfolds, certainly, there's plenty availability of supply in the market. That may change, but our low single-digit outlook is based on the indicators we see today.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, Jeff.

Operator: Your next question for today is coming from Mike Sison with Wells Fargo.

Michael Sison
Analyst, Wells Fargo Securities LLC
Q

Hey. Good morning. Nice end to the year. Heidi, I think you noted that resi repaint would be up or is tracking mid-single-digit volume growth in 2024 and at this point I suspect that's what you're looking at for the first quarter. I just wanted to be clear. So the market for resi repaint would that imply it would be flat or maybe slightly up and that mid-single-digits is your outperformance. And then what are you looking for in terms of any indicators that would help you would suggest that the market growth could be better or worse in 2024?

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Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

So just to clarify. The mid-single-digit reference was relative to 2023, so I think yes, we would expect it to be flat. Now having said that I'll go back to my earlier comments that the investments that we placed in, we're not waiting for the market, and we don't think the markets going to help us this year, so the team was very diligent. We were very clear on putting those investments in long enough ago last year so that we were in a position to take advantage of this.

So in this environment, while I would characterize the demand is flat, you can absolutely count on our ability to take share. We've got the right positioning in the market. We've got a model that allows us to absolutely understand largely not just through our stores and our reps, through our data, our ability to follow these customers, to partner with these customers, and helping them not just to get by with their current projects. Helping them travel, helping them grow, and really helping partner with them as they're looking to grow their business. So the characterization would be flat, but I would expect us, absolutely, to outpace the market there.

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

A

Yeah, Mike. The only thing I would add to that is you talk about indicators that might help drive the market, existing home turnover would be one of those as interest rates moderate and we do expect that to happen as we progress through the year. Existing home turnover does have an impact as well as home price appreciation which is still up, the aging housing stock in the US, baby boomers staying in place, all of those are driving res repaint. But your comment about the market being flat, we believe that to be true but if existing home turnover would pick up that would be a tailwind for us and likely second-half view of that.

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

A

Thank you, Mike.

Operator: Your next question is coming from Ghansham Panjabi with Baird.

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

Q

Hi, everyone. Good morning. I guess first off on the Paint Stores Group pricing, maybe you can give us a sense as to how to think about the timeline of the price realization specific to the segment. And I'm just asking because historically it took a couple of quarters to realize increases and then during the COVID supply chain chaos it was of course much faster just given the extent of inflation. And then also related to that what do you expect productivity to be in 2024 in context of the non-commodity inflation such as wages and also with all the investments you have been making? Thank you.

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

A

Yeah, Ghansham. The 5% effective February 1, I do think there's a lay in, that'll be similar to past price increases. I do expect to get to a similar effectiveness. Mind you, as a consolidated basis we talk about price being up low single digits. There's some headwind for customers that are on contracts with index pricing. Small amount but a headwind and I do expect, and Heidi mentioned this, the raw basket is down low single-digit. Still highly elevated over the three-year period that we're looking at.

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We didn't go out with price increase in 2023 and if we look at wage inflation, the health care, energy, transportation cost on that two-year stack is mid-to-high single-digits, so to continue to offer the services and that we do and the convenience and the differentiated solutions, we need to recoup some of these costs.

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

A

Thanks, Ghansham.

Operator: Your next question for today is coming from Aleksey Yefremov with KeyBanc Capital Markets.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. Good morning, everyone. I just wanted to ask you about the property maintenance subsegment. You're showing negative low single-digit number there, down from double-digit growth earlier in the first half 2023. Can you just address what's going on in this segment?

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

Yeah, property management right now, I would characterize this, similar to how we look at new residential. So this is going to be a segment that's going to be extremely exciting to watch. We are growing share through some additional agreements, with customers at all sizes, all the way through. So it's been I think clear out in the market there's been some incremental capacity that's been entering the market, which we benefit from during construction. And then these terms become an annuity for us which is a significant part of our business so we're looking at this on both sides.

There's another piece of this and I think if you look at the dynamics between what's happening with new commercial property management, we're also benefiting from the upgrading of properties that are competing with these new units and investing in keeping their properties current and fresh. So our teams are touching certainly both the CapEx projects and maintenance as well as color and design support, trying to make our customers successful. So we're going to catch them on either side. People are going to live somewhere so we're going to make sure that we're meeting our customers where they're at regardless of what's going on with the economy and you can expect that we'll take share in this current environment.

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

A

Yeah, Aleksey, you mentioned the fourth quarter, so property maintenance was down low single-digits in the quarter but that was against a really strong fourth quarter a year ago where we were north of 20%. If you look at property management for the year, it was up mid-to-high single-digits so we continue to feel good there and the investments that Al and Heidi are talking about, many of those are aimed at growing our position there and continuing to add to what we're doing in that property maintenance segment.

Thanks, Aleksey.

Operator: Your next question for today is coming from Mike Leithead with Barclays.

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Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning, team. I wanted to ask on the 2024 EPS outlook. It looks like you're guiding for low-to-mid single-digit top-line growth. You mentioned you expect some degree of gross margin expansion and you should also have a good amount of cash flow to deploy. So even with SG&A up a bit, I would think that leverage itself through the P&L may be greater than 7% EPS year-over-year. So can you maybe just walk-through some of the key offsets around the items there that maybe I'm missing?

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

A

Yeah, Mike. The biggest variability is on volume and we talked about the choppiness in demand across different segments, different businesses and different regions and an example of, well I'll use Paint Stores Group and you look at what volume assumptions we kind of have embedded in our guidance, and I mentioned I think res repaint, the market being flat but the investments we make being at the high-end of our low single-digit volume, so low single-digit to mid-single-digit. You'll get new residential. You've seen the positive new single-family starts for the last six months. That takes time to get through the market and our expectation is going up against a really strong first quarter last year, our first half will be softer and then improving in our second-half and that'll be timing more than anything.

Conversely, commercial, we expect to be exactly the opposite of that where we have a line of sight to a stronger first half and then softening in the second half based on the dynamics and indicators that we see. We just talked about property maintenance on the CapEx side being softer than we have, and as interest rates improve and lending standards get a little more open, we'd expect that to continue to improve and P&M we expect growth to continue.

When you get into industrial, we feel very good about Auto Refinish, Coil, Industrial Wood returning with new res, but there is choppiness across each of those and including GI and we talked about Packaging in the opening. So I think as I've mentioned in the past, volume is the single-biggest driver of operating margin and leverage. If the volume is better than what we have in our guidance today, we would expect to do better than that EPS.

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

A

Thanks, Mike.

Operator: Your next question is coming to David Begleiter with Deutsche Bank.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Heidi and Al, in terms of your plants I believe you ran your plants below your volumes in 2023. If so what was your earnings hit from that under-absorption and should they all reverse in 2024? Thank you.

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

A

Yeah, David. I would say that we saw the bigger impact of that through the first three quarters of 2023. Our expectation is we're going to see a headwind in the fourth quarter. And even though we had volume down a low

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single digit, I think the team did a really nice job of controlling their costs. And we actually saw little bit of a tailwind in our fourth quarter which allowed us to be a little bit stronger in gross margin in our fourth quarter.

For 2024 my expectation is that because we're getting back to what I would call a more normalized bell curve when you look at inventories and how we build inventory coming into the spring selling season, we'll drop inventory in our second and third quarters and then build inventory again in our fourth quarter and I'll talk specifically about our architectural plant, it really allows us to schedule those plants more efficiently. Plan our staffing the right way, and I do expect to see an improved performance from our global supply chain and our supply chain in general in 2024. We're not going to talk specifics on dollars on that, but we certainly expect a better performance as we get into 2024.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, David.

Operator: Your next question for today is coming from Mike Harrison with Seaport Research Partners.

Michael J. Harrison
Analyst, Seaport Global Securities LLC
Q

Hi. Good morning. Within the Consumer Brands Group, curious if you can talk a little bit about your expectations around customer order patterns into the spring paint season. It sounds like as of Q4 they were maybe still managing their inventory levels lower but I'm just curious if right now, you're expecting kind of a more normal seasonal improvement or if there's still going to be some caution on inventory management.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

Yeah, Mike. Normal is exactly how I would characterize that. And I think as we've all come through the last few years, I would also tell you that the alignment and the partnership has never been at a better place.

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

Mike, can I just add one thing about that? That we're talking specifically DIY. On the Pros Who Paint side of that, I know it's not a huge portion of that business but I think the team has invested in that, working closely with our partners and we have been taking share and growing faster in the market. We expect that to continue going into 2024.

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 Greg Melich with Evercore ISI.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Hey, Greg. You might be on mute. Greg?

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Operator: Greg, your line is live.

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

A

Greg? Come back to you, Greg? We'll come back to you, Greg. Thanks.

Operator: Your next question is coming from Chuck Cerankosky with Northcoast Research.

Chuck Cerankosky
Analyst, Northcoast Research Partners LLC

Q

Good morning, everyone. Great quarter. When you look at the do-it-yourself business at Paint Stores and Consumer Brands, you marked that it was weak in both areas. Can you sort of contrast the reasons for that weakness, especially at Consumer Brands, because it's the bulk of the business, whereas the Paint Stores it's a smaller part of the business, but still, significant. Thank you.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

Yeah, Chuck. It's certainly an interesting environment right now. I'll start with our stores. I know you want to get to the consumer piece. As you know in our stores it's a small part of the business, and we are catering to a unique, I would call it a subsegment which is a higher end customer that really values more of that high-touch that we can provide.

And candidly, this time of year it's even smaller and we'll need to see how the consumer is going to react to the macro conditions during the paint season so I would say that it is early and we're certainly watching that. But you talk about the Consumer Brands Group, which is obviously our focus on circling the market from every angle. So you've got more price-points, certainly within that environment. And Al mentioned the Pro Who Paints already but in terms of the DIY, it certainly is, it's a choppy market right now. We're trying to stay really close to it and being in lockstep with our retail partners to look for opportunities, to continue to build strength in that end segment.

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

A

Yeah, Chuck. The only thing I would add is we beat guidance in the fourth quarter and I would say a couple things that drove that is less destocking than what we expected. As you typically see in the fourth quarter architectural, the seasonality you see some destocking in the fourth quarter but also, I give our Latin America and Europe teams, they grew low-teens in the quarter which was better than our expectations, so little bit of positivity there.

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

A

Thanks, Chuck.

Operator: Your next question is coming from Greg Melich with Evercore ISI. Greg, your line is live.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Hi. Hopefully this is working now.

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Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

Yes. We hear you.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Okay. Great. Yeah, I know, it's good to be back. So I just wanted to frame a little bit differently how important, I mean the gross margin is back up to the middle, upper part of your range. And if I take your guidance it seems like there's another 100 bps of gross margin expansion assumed this year. How important is volume versus price raws and mix for that 100 bps improvement this year? And I guess how long do you wait before you end up raising that long-term goal?

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

Well, first and foremost, it's volume. I'll go back to Al's comments earlier. We certainly are looking at the margin expansion and ultimately operating margin, but volume is no doubt the key focus. Al, I know you – Al and I are both sitting here wanting to jump out to the answer so I'll share this with him.

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

A

Yeah, and, Greg, in 2024, price will be a little heavier than raw materials as we talked about. Raw materials will be down low single digits, certainly nowhere near where it was in 2023. But I think Heidi said it, volume is specifically our pro architectural volume and our Paint Stores Group is what's going to drive that gross margin. It's our highest margin segment. It's growing the fastest and has the biggest opportunity. Don't get me wrong, all our segments have great opportunity in the targeted segments they play in but certainly, res repaint as we've talked in the past, largest segment, fastest-growing, biggest opportunity.

And like we've talked about in the past, historically, we challenged the teams pretty hard. We set a tough goal for them, and as they have consistency achieving or above that goal, we'll raise the target. And we've done that in the past and I need to get some comfort and consistency, but yeah, we'll take the target up when appropriate.

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

A

Thanks, Greg.

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

Stephen Byrne
Analyst, BofA Securities, Inc.

Q

Yes. Thank you. I'd like to ask you a couple questions about price/mix. When you look at your paint stores and you look at your end-markets, which of them do you think you have the greatest ability to drive a mix shift? If you strolled through any of your stores, one of the characteristics that just jumps out is the huge range of price-points. And I'm curious, do you see the ability for your investments to not just drive share gains and volume but can you drive a mix shift up in price. And just conversely to that, is there any risk that you've seen in the past when you raise pricing, does it cause any of your pros to shift down to a lower-price point?

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Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

Well, Steve, I'll start and I would say that there's absolutely opportunity to drive some improvement here in terms of mix shift. And if you look at this through our view, it's very much segment-driven, and I'll go back to my earlier comments on the res repaint, that it's such, and Al said this just a few moments ago.

We have opportunity to gain share in every one of our targeted segments and residential repaint in particular, so as you think about the opportunity for us to help this contractor, we talk a lot about helping them be more productive and more profitable. But your point is spot-on here that it is in our best interest to help partner with them to make them as productive as possible, so the role of premium products, making sure that they understand that the timesaving, the labor cost saving that correlates to the use of some of those products is a great, it's a win-win for them and for us.

That's a great example given where the macro is right now so absolutely expect mix to be a significant part of that. Having said that, as we watch new residential come back, the teams are working hard on our simplification efforts there to ensure that we continue to put the right products in the hands of the right contractors on those jobs as well. So I would expect across-the-board, a focus on those premium products is a critical part of our strategy.

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

Yeah, Steve, the other part of your question. We typically do not see contractors go down in quality in an inflationary environment. Typically in an inflationary environment we've talked about [ph] the path and the path (00:50:47) we tend to do better on converting contractors to a higher-quality product with the idea they're going to pay more for the product anyway, so try this better quality product and to Heidi's point it's going to make you more efficient and effective and you'll get on and off jobs faster.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, Steve.

Operator: Your next question is coming from Josh Spector with UBS.

Joshua Spector
Analyst, UBS Securities LLC
Q

Yeah, hi. Good morning. So I wanted to ask on resi repaint kind of revisit that a little bit and maybe just test the downside scenario there. So if you look over the last couple of years and say existing home sales are down 30% plus, typically that has some impact on resi repaint. Your volumes reflect generally they haven't declined at all over the last couple of years. So I know initially that was higher contractor backlogs and then it was remodel people put in place or stuck in their homes. In a scenario where you don't see a decline in interest rates, how would you think that that will play out for resi repaint? Is this a new higher base where you don't see the downside risk or would you see some catch up there? Just curious on your thinking there. Thanks.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

I will tell you that we don't see a downside here and the level of, again, if we didn't have access to we talk about leading indicators, the data that helps us to really understand our contractors and I'll give you a little bit of color

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here without going too far is what they're buying, what they're not buying. What their projects are, current and their future pipeline, where they're looking to travel, as they're looking to grow and expand in the different territories. And so we're able to then, Josh, take our data, sit down with our reps and our sales managers and make sure that they are armed to truly help bring value to these contractors in a way that a competitor that doesn't have a specialty paint store just doesn't have those levers to pull, so I don't see a downside in this environment.

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

A

Thank you, Josh.

Operator: Your next question is coming from John Roberts with Mizuho.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. Heidi, I think on John's first earnings call as CEO, he used the who lurk, meet the new boss same as the old boss. Is that still on the playlist at Sherwin-Williams? Do you think, you came up through a different career path than John, so do you bring a different perspective to the role?

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

I do, and I also think I really find your question very interesting because I think there's a commonality of certainly first and foremost the belief that our strategy is working. I think John has contributed, we say his fingerprints are all over this company and they absolutely are. So I have the fortune of inheriting an incredibly rock-solid foundation on which to build and when we talk about just getting started, I couldn't agree more that we are just getting started.

I think in terms of having a different background and bringing perspective into the business, I think it's important to share that my values and John's values are spot-on in terms of culture, customer focus, desire to grow, determination to win. And so bringing a perspective from outside of only a paint category, I think only helps to continue to put our foot on the gas in what's working and I would characterize more maybe as a healthy challenge on where we might have opportunity to strengthen our model and just continue to grow.

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

A

Thanks, John.

Operator: Your next question is coming from Arun Viswanathan with RBC Capital Markets.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. Good morning. I guess I had a couple questions around Paint Stores Group. So first off, is there any way that you could help us understand the magnitude of share gains? It would seem that given the strong growth in resi repaint that you've enjoyed share gains for a little while. So is there any mechanism to keep those going, or maybe even just help us understand how much share you've gained over the last couple-years?

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And then furthermore, on the sales guidance, low-to-mid single-digits usually PSG is at the upper end of that. So is that still your expectation for 2024 and would you expect that to improve as you go through the year, i.e. maybe second and third quarter at the upper end of that mid-single-digit range or even above, thanks?

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.

A

Yeah, hi, Arun. I'll start with your first question then I'll kick it over to Al for your second one. You mentioned res repaint so I won't touch that but in terms of, won't get into the numbers but you asked about the magnitude of share gains. And I would point to candidly the rest of the segment, so new residential here is what we're obviously playing the long game, but we're continuing to take share by expanding the number of agreements that we've secured. Even in these very challenging times, we've been able to secure incremental agreements and we're doing that at a time when there's a lot of pressure on starts. And so as you fast forward and play this out and as the cycle plays out, and it will, our position here is going to be even more significant as these new agreements begin to really pay off with the acceleration of housing starts.

Property management, we hit on that a bit. I hit on that a bit earlier, but I would say that it's very similar in terms of our ability in this environment to demonstrate our value and secure some of these incremental agreements, again, in property management that will be true certainly at the national, regional and the local level. Our teams have been able to really penetrate based on a lot of the data that we've got access to there.

Certainly, a lot of benefit commercial, protective and marine, two segments that I would say are largely focused on product technology, specifications and really great distribution. These businesses are both strong and we're working very hard every day to put distance between ourselves and our competition. And I would go maybe a step further on commercial where we're confident is we're well-positioned in every subsegment within commercial. So when Al mentioned we've got stronger view in first half, it might look more soft in the second-half. We're prepared to meet these contractors where they are looking to shift and transition within subsegment. So I'm confident that even despite where the market goes we're going to intercept them.

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

A

Yeah, so Arun, with our consolidated forecast being up low-to-mid, I would tell you on a consolidated basis we expect volume to be flat to up low single-digits. And to your point, res repaint certainly would be above low-to-mid. Where we think the second half will play out and could we be above that range is really what Heidi just said on new residential. The timing of that recovery and the timing of projects on commercial through our first half into our second half, and that'll dictate how our second-half outlook will be determined.

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

A

Thanks, Arun.

Operator: Your next question for today is coming from Duffy Fischer with Goldman Sachs.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

Q

Yes, good morning. A question on SG&A. So historically, you guys have had positive leverage on growth in SG&A growth. That changed last year. It still seems like it's going to be negative in the first half of this year, maybe going to neutral in the back half. Structurally has something changed in the market or with your model, or will that revert

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back to positive leverage in 2025 and 2026 and what this will be is just kind of a short-term bump maybe to kind of push through the high pricing that you pushed through on raw materials. But just structurally, SG&A versus sales longer-term, do we get back to a positive leverage there?

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

Yeah, Duffy. I think what you've heard us talk about in the past and going forward is our focus at driving operating margin leverage and that's either going to come through gross margin expansion or SG&A leverage and you're right. As we see stronger top-line, stronger gross margin expansion than we were planning, we are going to take the opportunity, because of our confidence in our strategy, to add incremental investments or accelerate investments in our long-term growth strategies because we know based on our history from our data, from our metrics, that we're going to get a return for those investments. And ad nauseam you've heard me talk about 2008 and 2009 are continued investments through that cycle in the high single, low double-digit 10-year compounded average growth rates and we believe we're in a very similar environment.

So there are years where we are going to get SG&A leverage and I believe you're right. We're going to annualize the investments, the strong investments we made in the second-half and maybe have some deleveraging in our first half, but as we get back to the more normal cadence of investments, we'll see deleveraging and then as the market normalizes, and demand normalizes and we take an out-sized share of that demand, we'll see leverage on our SG&A going out.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thanks, Duffy.

Operator: Your next question is coming from Kevin McCarthy with Vertical Research Partners.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Yes, thank you, and good morning. About two weeks ago, the trade press reported that one of your competitors, Kelly-Moore, is essentially going out of business as I understand it. And so my question would be, does that open the door for Sherwin to gain a little bit more share than you otherwise would, perhaps on the West Coast? And if so, are you allocating resources any differently, or might anything change operationally to take advantage of that void before your competitors act to do so.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

Well, Kevin, I would tell you that that void is absolutely our opportunity, and I won't get into details here, but I can share with you that you should expect us to be very competitive with that announcement.

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

Yeah, I think very aggressive approach as Heidi says. We've been making the investments and I would tell you, Kevin. Kelly-Moore, amongst all of our competitors, we're competing with all of them all of the time, and so they've certainly been on our radar. Certainly been aggressively going after them for many years. We're going to continue to accelerate here and see that as a great opportunity.

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James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, Kevin.

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

Garik Shmois
Analyst, Loop Capital Markets LLC
Q

Hi. Thanks. Just a clarification question for me. It sounds like you have the Paint Stores price increase in your guidance in advance of the Feb 1 implementation date. Just hope you could confirm that. And then maybe just speak to the pacing of gross margin expansion as the year unfolds.

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

Yeah, Garik. We absolutely have the price increase for Paint Stores as well as targeted price increases across each of the other segments in our full year guidance. When you look at our gross margin, and the expansion we expect, it's probably going to be a little heavier in our first half with like I talked about the stronger raw material deflation that we're going to see in our first half, plus the pricing in our first half. And so we'll see a little bit more expansion in our first half and then although we do expect our second-half to continue with the expansion, it just won't be as much year-over-year plus we're going against a tougher comp on our second-half when it comes to our gross margin.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thanks, Garik.

Operator: Your next question is coming from Adam Baumgarten with Zelman.

Adam Baumgarten
Analyst, Zelman & Associates
Q

Hey. Thanks for taking my question. Just on the new res market, can you maybe remind us what the typical lag between a start and when the paint sale gets made and I guess beyond that, have you at least been seeing the declines in that market for you guys moderate as you move through the back half, and into the first half of next year?

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

Yeah, Adam. The lag that we've traditionally described would have traditionally been about four months, and I think that's elongated a bit. Probably another two months and largely due to the labor shortages and some other factors that are weighing in there.

In terms of the other piece, Al, I'll hand it over to you, you can make some comments on that.

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

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Yeah, Adam. I think what our expectation is as new single-family starts continue to improve, our first half will be one, just to be clear, you look at 2023, the new single-family home starts were down significantly. As Heidi talked in the opening, we were down only slightly, which tells you we are taking share in that market, and we expect to continue to take share in that market. Our national account team, along with the field of – Paint Stores Group field organization do a terrific job at servicing those customers and adding tremendous value to those large national, regional builders and even local custom-builders. So that being said, we are going to go up against a tougher comparison in our first quarter. So we do expect to be not as strong in our first half but then as we see these starts coming to completion where painting is at the end of that project, or that house, we expect to see a stronger second-half.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, Adam.

Operator: Your next question is coming from Eric Bosshard with Cleveland Research Company.

Eric Bosshard
Analyst, Cleveland Research Co. LLC
Q

On the price increases, I appreciate the headline, Al, you're pretty clear of the price increases in the guidance for Paint Stores and in the other segments. I'm just curious in terms of implementation of this. Heidi, as you get started and take a price increase to market, the feedback on that. And I'm also curious related to that. I know over the cycle that the mix gets better but I'm curious if you have any observation of a different mix experience in any of the areas now in the current environment.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

Yeah, I would say the conversations as we mentioned, in the earlier prepared remarks, we do this with our customers. And so as we took this out towards the end of last year, it was making sure that they understand why we're going out with this but also making sure that they're prepared to pass this along and make sure that they're not absorbing that. I think the conversation here quickly becomes, making sure that there's a greater outcome here for a focus on the premium products, and that's what we're going to continue to focus on.

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

Yeah, Eric. I think to your point on the mix. We can point to across each of the segments and the opportunity that each of our painting contractors have. As you know, paint is a small portion of a painting project and that goes for, you think about the cost of paint in a new house or the cost of paint in a commercial job. So it's like really, a small portion of the overall cost but as you elevate to the higher-qualities, they get such a great efficiency improvement. They can get on and off jobs faster and over the last three or four years that we've been talking about, labor shortages, it really, really is a big driver of that mix shift. So again, opportunities across all of the segments and our painting contractors are understanding, boy, I can get more top-line and bottom-line growth with the same number of workers by moving to a higher-quality product.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

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The other piece I would mention on that is we talk about value and that we're out demonstrating our value to these contractors every day. And so when we bring a price to them, Eric, it's not, we're not having a price conversation. We're making sure they understand holistically, again I'll go back to my earlier comments in terms of access to the reps, the store-to-store consistency, and our ability to help with them with leads, help them with bidding activity, so it's a very different discussion than I think many others in our industry are having.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, Eric.

Operator: Your final question for today is coming from Patrick Cunningham with Citi.

Eric W. Zheng
Analyst, Citigroup Global Markets, Inc.
Q

Hi. This is Eric Zheng on for Patrick. Can you provide an update on contractor backlogs and repair remodel activity for the quarter? And where do you see levels for both in 2024 relative to 2023? Thank you.

Heidi G. Petz
President, Chief Executive Officer & Director, The Sherwin-Williams Co.
A

I would say they're normalizing. Don't have a lot of color. I think as you look at some of the visibility into backlog, it's not as long as we have with other segments such as commercial. So to Al's earlier comment, like everybody else, we'll know more in the next quarter or two but at this point it's pretty limited in terms of future visibility so the base characteristic would be that it's normalized at the current state.

James R. Jaye
Senior Vice President-Investor Relations & Corporate Communications, The Sherwin-Williams Co.
A

Thank you, Patrick. Eric, I'm sorry.

Operator: We have reached the end of the question-and-answer session, and I will now turn the call over to Jim Jaye for closing remarks.

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

Well, thank you again, everybody, for joining us today. Hope you heard today that we're very confident in our strategy and we're going to deliver an increase in sales and earnings this year, even as the environment continues to be choppy. So, as always, we'll be available to answer your questions over the next few days, and thanks for joining us today. Have a great day.

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

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