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The Sherwin-Williams Co. (SHW)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining The Sherwin-Williams Company's Conference Call to Discuss its Update on Third Quarter and Full Year 2021 Expectations and its Announcements to acquire Specialty Polymers, Incorporated. With us on the call today are John Morikis, Chairman, President, 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. 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 press release issued yesterday evening.

After the company's prepared remarks, we will open the session to questions. I will now turn the call over to Chairman, President, and CEO, John Morikis.

John George Morikis

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

Good morning and thank you for joining us. I'd like to begin with a few brief comments about yesterday's press release. After which, we'll turn to your questions.

Let me start with the demand environment. Demand remains robust across our pro architectural and industrial end markets. Many external indicators remain positive, including housing starts, home price appreciation, the Architectural Billings Index, and the manufacturing Purchasing Managers' Index to name a few. As always, our most important indicator is our customers. They continue to report strong backlog and tell us they are eager to do more. Additionally, our new account activity is elevated. We expect demand to remain strong well into 2022. Demand is not the issue.

We are ready to meet this demand. We continue to invest in stores, sales reps, and our digital platform. We continue to bring innovative products and solutions to the market. We have significant production capacity available today and we're bringing 50 million gallons of incremental architectural production capacity online over the next two quarters. Our capabilities are not the issue.

The issue continues to be persistent and industry-wide raw material availability constraints. As you know, we first began reporting on this issue following Winter Storm Uri in February. Recovery of suppliers in Texas has consistently been slower than has been communicated to us all year with some suppliers still not back to pre-storm operating levels seven months later.

The situation in Texas was exacerbated by Hurricane Ida leading us to decrease our third quarter sales guidance earlier this month. September supply did not improve as anticipated leading us to narrow our third quarter outlook yesterday. While we typically do not provide quarterly earnings guidance; in an effort to remain fully transparent,

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we have opted to do so at this time given the extraordinary and rapidly changing circumstances we continue to see in the market.

After further evaluation, our suppliers are now reporting that the impacts of Hurricane Ida are more severe and will be longer lasting than initially thought. Production of several key resins, additives, and solvents expected to resume by late September had been pushed out likely to the end of October or even longer in some cases. As a result, we now expect raw material availability issues to negatively impact sales by high single-digit percentage in the fourth quarter. With raw material supply still constrained and October being the largest month of the fourth quarter, there's simply not enough time to make up the sales shortfall by the end of the year. For this reason, along with the narrowed third quarter outlook, we are reducing our full year 2021 sales and earnings guidance as described in our press release.

The good news is that we're confident the majority of sales delayed by these conditions will be recovered over future quarters as raw material availability improves. We will continue to partner closely with our suppliers to improve supply while employing all of our best-in-class assets to reduce the impact on our customers near-term.

In addition to the significant supply challenges, raw material pricing remains highly elevated. We are increasing our full year raw material inflation outlook to be up high teens percentage compared to last year. We continue to combat these elevated costs with pricing actions across our businesses.

We are maintaining staffing in our manufacturing facilities to ensure we quickly meet the demand as raw material availability issues subside. While maintaining these costs puts additional pressure on our third and fourth quarter earnings, we are committed to providing the resources necessary to drive our customer's success.

Given everything that has occurred year-to-date, we've also told you that we have been looking at every possibility to further strengthen and diversify our supply chain so that future natural disasters in the Gulf region will be less impactful to us. We're pleased to announce an important step in that direction with our agreement to acquire Specialty Polymers, Inc., a leading manufacturer and developer of water based polymers used in architectural and industrial coatings and other applications. The business operates production facilities in Oregon and South Carolina, and will enable us to expand our existing internal resin manufacturing capability. The transaction is expected to close by the end of 2021. Revenue of the business was approximately $112 million last year, inclusive of sales to Sherwin-Williams as a manufacturer of proprietary polymers. The business will report its sales in the Performance Coatings Group operating segment.

We're excited to welcome Specialty Polymers' 150 talented employees to Sherwin-Williams, including chemists, and engineers, and logistics experts upon the close of the transaction. In addition to Specialty Polymers' significant current manufacturing capacity, we see the opportunity to add millions of pounds of additional capacity to their footprint in the near term with relatively minimal investment. This additional capacity will allow us to better serve the strong demand of Sherwin-Williams' customers while also expanding the ability of Specialty Polymers to serve its external customers.

Sherwin-Williams and Specialty Polymers have had an excellent long-term relationship with Specialty Polymers serving as a key partner for Sherwin-Williams for many years. This deep familiarity and our complementary cultures should ensure a quick and seamless integration. We look forward to significantly growing this business.

In closing, while our updated guidance reflects industry-wide near-term challenges, we remain extremely confident in our long-term prospects. We are the best team in the industry with a proven history of execution, the

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best assets in the industry, and deep customer and supplier relationships that will enable us to emerge as an even stronger company.

And now, we're happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. Our first question is from the line of Ghansham Panjabi with Baird. Please proceed with your question.

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

Q

Thank you. Good morning, everybody. I guess, for my first question, which raw materials specifically are sort of limiting your production in 3Q and is it the same constraints for 4Q as well from a raw materials standpoint or are there new ones?

And then, related to that, the $0.85 EPS reduction in the midpoint, how much do you attribute towards the current raw material scarcity issues?

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

A

Yeah. Good morning, Ghansham. This is Jim. I'll take the first one and then kick it over to Al for your second question. So, as we've said, we've been seeing inflation in the resins, [ph] latex basket (00:08:55), additives, and solvents, and even packaging. So, I'd say propylene, HDPE, cold rolled steel, all of those are highly elevated over last year, and they've increased sequentially for several months. We're also seeing on epoxy resins, they also remain pretty elevated year-over-year. And at this time, TiO2 inflation remains fairly modest.

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

A

Hey, Ghansham. This is Al. I'll compare it to your point, the $8.45 versus the $9.30 as in previous guidance midpoint, I'll [ph] frank (00:09:34) that up as impact for the second half perspective. And as you mentioned, gross profit reduction evolved the reduction in EPS for the second half of the year, partially offset by lower SG&A including admin expense and a slightly lower tax rate. And as you know, volume growth is the biggest driver of profit and operating margin improvement and/or decrement. The sales volume net of incremental price will have approximately two-thirds of the decrease in our gross profit. The other third of the reduction is represented by increased raw material costs which we raised our full year from mid-teens to high teens percentage. And then supply chain inefficiencies with lower production volume. And as John mentioned, we're maintaining our staff – our full staffing in our production facilities so we can convert any additional raw materials quickly. And those two factors are split 75%, 25% of that remaining 35%.

So, just to kind of recap, the volume is about two-thirds of the reduction. Raw material inflation and supply chain inefficiencies are the other third, and that third is split 75% raw material 25% supply chain.

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

Q

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That's very helpful. Thanks so much. And then for my second question, in terms of some of the homebuilders that have reported recently, and the supply chain constraints they've talked about, including materials, including paint, is there a risk that it actually starts to impact your demand as we kind of cycle into 2022, and are you seeing the same supply chain constraints impact some of your customers in the other big end markets within TAG?

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

Well, I'd say a few things to that, Ghansham. First, as a reminder, when you look at the cost of goods, paint represents about 15% in total. So the impact from a cost perspective is fairly minimal. But to your point about the availability, we take very seriously the impact that this has on our customers. And you bring up a very important segment to us, our new residential customers are key to our business. And we realize that the impact here of not just our products, but as you mentioned, the entire supply chain can have impact – can impact families' ability to move into their homes. So, we take it very seriously. I do believe that our ability as it relates to Sherwin-Williams and our ability to be there with our customers in a way that few other suppliers can be differentiates us.

And that gives us great confidence. When we look at adversity right now, we think that it plays to the advantage of the company. We can respond better than our competitors. We do believe that our reps and stores are really uniquely positioned to be responsive.

And we're closer to these customers now than ever. We're forecasting better. The collaboration is better. So, this is a cycle. There's a little bit of bump in the road here. We'll get through this and we are focused on making our customers better through this process. And as we bring these solutions to these customers, we think that we're going to help them. And as a result, our goal is to be a better and more meaningful part in their success.

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

Thanks for that, John.

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

Yes.

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

Thank you, Ghansham.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. You said you were expanding your capacity – your architectural capacity by 50 million gallons. Can you remind me what percentage expansion that is of your domestic architectural capacity?

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

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Yeah. Jeff, we don't want to disclose the percentage of our capacity at this time.

Jeffrey J. Zekauskas Q
Analyst, JPMorgan Securities LLC

Okay.

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

That being said, Jeff, as you can imagine, 50 million gallons is...

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

...is meaningful, yeah.

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

... a significant, meaningful expansion.

Jeffrey J. Zekauskas Q
Analyst, JPMorgan Securities LLC

Okay. You said your raw materials would be up high teens for the year. Does that mean that in the third and fourth quarter they should be up over 20%?

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

Yes.

Jeffrey J. Zekauskas Q
Analyst, JPMorgan Securities LLC

Okay. Great. Thank you so much.

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

Thanks, Jeff.

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

Steven K. Haynes Q
Analyst, Morgan Stanley & Co. LLC

Hi. This is Steve Haynes on for Vincent. Thanks for taking my questions. Just wanted to maybe come back to market share on some comments that you just made in response to a prior question. You're maintaining some service levels, is there any evidence that I guess some of your initiatives are already driving some potential market share gains for Sherwin?

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

A

Yes. We have a number of metrics that we watch. I mentioned in my prepared remarks, our new account activity. I'd also add our Net Promoter Score is at a record level right now. And, as you know, these are customers that are, when asked, promoting our brand versus those that are negative detractors of our brand. So, we look at new accounts. We look at share of wallet. We absolutely do believe, as I mentioned just a moment ago, that none of us hope or chase these types of issues. But a company like ours, we're trying to change and leverage adversity into an opportunity. And we believe right now that when you look at what we're doing, I think it speaks to the confidence that we have. This year, as an example, we're going to open 82 net new stores; 51 of those will be in the back half of the year.

We opened for the year 116 reps, 52 of those will be in the back half of the year. The announcement that we just made in the resin capability, it supplements our existing suppliers, and gives us this capacity. Jeff just asked about the additional capacity coming on, bringing on 50 million gallons of capacity. In fact, we've not talked a lot about it, but we announced the acquisition that we made last quarter in Germany in the Protective & Marine business.

And my feeling is this, your question is a good one. And I think the steps that we're taking and the confidence that we have in the investments and the position that we have should speak volumes. Yes, we're growing market share. We're going to come out of this aggressively with more customers and a larger share of the wallet of the existing customers. And there's a great amount of experience in this company. They all understand, our leaders understand. Our job is not to report results. It's to influence results.

We're talking here today about some issues that have impacted our ability to make paint. But what we do have in control, our ability to get in front of our customers, work with them, stay close with them, and help them solve their problems has not been fazed. And we're committed to doing that.

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

A

Steve, I would just add to that. We believe it's a similar environment that we experienced in 2008 and 2009 when we had the financial crisis and the housing decline. And then, we saw – and we continued to invest in that period; 2010, 2011, 2012, raw material cost increases were significant relative to TiO2. We continued to invest in that period and from 2000 – coming out of 2009 our 3-, 5- and 10-year compounded average growth rates in TAG were at high single-digits, which we believe was a multiple of the market and accelerated our growth.

And from 2013 through 2016, our gross margin expanded almost 600 basis points due to the pricing coming in, raw materials flattening out, and we were able to maintain a significant portion of that price. We expect the same kind of results as we come out of this environment.

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

A

And that's exactly why we commented about given the commitment we made, staffing in our manufacturing, distribution facilities, in our stores. All of these are designed to capitalize on the point that Al just made. There might be uncertainty in when supply comes on, but there is certainty on our ability to deliver and to keep our commitment to our customers. And we absolutely expect to be much stronger coming out of this than we did coming into this challenging time.

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Steven K. Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

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

A

You bet.

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

A

Thank you, Steve.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Hey. Good morning. Thanks for taking my question. This is a very difficult environment. Remember back to 2008/2009, there were three price increases put in and, ultimately, you were able to recoup some of the raw material inflation. When we think about this availability issue, should we assume now that your visibility is better? And I guess I'm just asking the question because, obviously, now you've been able to put out an actual EPS number. So, does that mean, basically, that you know kind of what your sales are for the rest of the year in a range and your customers are basically making commitments and you have enough raws to satisfy that demand? Is that the right read on today's announcement or yesterday's announcement?

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

A

Arun, let me start, and I'll throw it over to Al. I'd say, right now, our visibility is relatively low. There could be some modest improvement in November as the key raw materials – the key raw material sites restore power and nitrogen back into their manufacturing. I'd say, right now, we're utilizing our global assets and our entire base of resources to fill the gaps. And that means getting raw materials and finished goods offshore. We're using our fleet of trucks to pick up and drop off materials, monomers, polymers, everything we can to uniquely position our company in this challenging time, but it is a challenging time, and our visibility is limited. We've had commitments from some of our suppliers that as they got deeper into the startup, they found issues that pushed back their estimates of being able to supply us.

And that's exactly why we're adjusting today as it speaks to the future metrics and the forecast.

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

A

Yeah, Arun. So, we try to take a thoughtful approach when issuing sales and earnings guidance. I mean, we want to follow through any sales impacts whether it's a third quarter where we just gave sales guidance. We felt like it's late in the quarter. We should be able to give you a third quarter EPS guidance.

But on the full year, we want to follow through any of those sales impacts down through EPS, and whether that's the [ph] price raw (00:21:03), cost inflation, supply chain impact. And I know in this uncertain environment, it

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would be easy just to pull guidance, but we don't want to – we want to provide as much clarity and transparency to our shareholders, and the Street as we can.

And as we did last year in that environment, as things materially changed, you can count on us and trust that we'll provide updates to the Street as we see them. On October 26th, we have our third quarter earnings call. The longer we go into the year, we have a better line of sight for the full year. We'll give you an update at that time and then certainly in our January call, we'll give you an update on the sales and outlook for 2022.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thank you. And so, a question on the future a little bit as well. So, when you put in all these price increases, obviously, it does take some time to implement them and your customers have to then pass them on as well. Are you hearing any pushback on your customers being able to pass these price increases on? At some point, I would imagine that they're feeling pressure from supply chain logistics, paint, and several other areas. So, when – how – what's the success rate on keeping these price increases going? And maybe if you can offer any thoughts that that would help us there, that'd be great. Thanks.

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

A

Yeah. Arun, thanks for that question. I receive that question frequently and [indiscernible] (00:22:37) we rarely receive a thank you note as we raise prices. But I would say that this is an environment and we don't take it lightly. I mean, we fight like crazy to keep this to a minimum with our vendors and through our own continuous improvement efforts so that we're not out pushing price. But we do find ourselves in an environment when it's necessary. But the environment goes well beyond paint and coatings. And I think for the most part, our customers understand the situation, it is what it is, and that our goal is to help them to remain healthy, and to grow, and reach their goals, and that we need the same.

And so, our belief is that as long as we're bringing solutions that help our customers to be successful, help them to be profitable, help them to be more efficient; then, we are in a good position to be able to push these prices in. And we believe that we're executing on that.

Now that said, we don't take it for granted. As I mentioned, we're continuously looking at efficiency efforts. We're continuously looking at ways to make our customers more successful. That's the way we gauge our success. When our customers are more successful, we're more successful.

That said, I would tell you we're not running the company for the perfect quarter. The investments that we talked about a couple of times already in our distribution, in our manufacturing facilities, the staffing in our stores, some of these are – we run the company with a long term view in mind. And so, I – my belief is that as the raws come up, and we're better able to serve our customers, that loyalty that we speak to, and what we measure constantly with our customer will continue to improve.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

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

A

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You bet.

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

A

Thanks, Arun.

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

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Sorry if I missed this, but do you still expect price increases to fully offset raws for the full year?

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

A

Yeah, David. No, I think we're going to be – because we've seen a significant increase in the second half of the year and into our third quarter, we're going to be chasing the raw material increases into the first half of next year, and particularly on our Performance – it's across all businesses. But because our Performance Coatings Group has taken probably 60-plus percent of the raw material increase of the company, they're – and they are increasing in the second half rapidly or more rapidly than the other businesses, they're going to chase it. And this is not for lack of effort.

If you look at the second half operating margin, we're going to see some pressure. But if you look at the dollars and work with the strong volume and the price increases, getting close to being – at least to capture the dollars year-over-year in our second half. But there's more to go.

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

A

A lot of determination, though, David. As Al mentioned, the timing as it rolled it here in the back half on the industrial side, we're working that through. But if you look at the history of the company and what we've learned through the Valspar acquisition and the conviction that we have, there's a lot of determination to get this. We will get it.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And just last thing, incentive compensation, can you discuss the impact in the back half of the year, how much the accrual is now lower, and what that could mean for a tailwind or headwind for the next year on incentive comp? Thank you.

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

A

Yes. David, we won't get into the specifics on the accrual. Just understand, we had a very strong second half last year. You look at our sales were up 7% in the second half last year with flow through over 40%, and that was through each segment. So, naturally, we had nice incentives for the teams, but we won't get into specifics on changes in the accrual.

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David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

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

A

Thanks, David.

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

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. It seems like you just finished the capacity rationalization that was the last part of the Valspar integration. How is the new capacity you're adding different from the capacity that was closed?

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

A

Yeah. I think this is the primarily architectural capacity expansion. Yeah. Some of the smaller sites that we took out are a mix between architectural and industrial, but this is primarily architectural. We don't talk about some of the other expansions in capacity we have, but certainly, with the strong demand, we see in packaging, we're investing in capacity expansion there to keep up with that strong demand. But I'd say, John, it's specific to architectural business.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. And then how is the shortage of raws affecting your mix? It sounds like Performance is getting most of the raw material price increase, but architectural has most of the raw material shortage.

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

A

Yeah I think that's true. And in particular, John, TAG is taking a bigger impact on architectural than our Consumer business. TAG represents about 70% of reduction in consolidated second half sales. The rest of that will be on Consumer [ph] and Valspar (00:28:09), pretty much I would say an immaterial impact on Performance Coatings.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

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

A

Thanks, John.

Operator: The next question is from the line of Oliver Wintermantel with Evercore ISI. Please proceed with your questions.

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Oliver Wintermantel
Analyst, Evercore Group LLC

Q

Yeah. Good morning, guys. I had a question regarding the acquisition. Is this acquisition going to help you in the short term with the shortages we're seeing? And if it closes by the end of the year, should we expect that to have like increased volumes again by the first quarter?

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

A

Yeah. Oli, I'd say on the short-term, we expect a very modest increase in capacity. We will employ our continuous improvement programs into SPI as quickly as possible, but we expect a significant increase in capacity in the longer term, and we'll invest. It'll be a minimal investment. We'll invest in additional capacity there with a very attractive ROI.

But this is clearly a longer term view, not only in the capacity, I mentioned in my prepared remarks. It's also a little bit of a diversification from a geographic perspective as well. These plants on the East Coast and West Coast get us out of the heavy reliance on the coast down in Louisiana, Houston area.

So, we're clearly looking long term here, and we actually think that this is going to help us not only with our ability to supply, but it will help our existing suppliers as well. Working with them, we really believe this will be a needle mover for our company.

Oliver Wintermantel
Analyst, Evercore Group LLC

Q

Got it. And my follow up is on the price increases that we saw this year. So, if our math is halfway right, so if you take all the three increases, and use maybe or assume a two-thirds realization, is it fair to assume that that would, combine to basically a 10% increase? And then if volumes would be flat next year, is that a flow through of about 10% just because of price on sales next year? Is that the right way to think about it?

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

A

I think you're – TAG high-single digits is probably what we'll see in the fourth quarter. If we did nothing else with price, it'd be lower than that because you annualize the February 1st, you annualize the August 1st, you annualize the September 20th. That being said, the 4% surcharge we put in place September 20th is likely going to be converted to a price increase early in 2022.

Oliver Wintermantel
Analyst, Evercore Group LLC

Q

Got it. Thanks very much. Good luck.

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

A

Thanks, Oli.

Operator: The next question is coming from the line of Kevin McCarthy with Vertical Research. Please proceed with your questions.

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Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Just a few follow-up questions on the Specialty Polymers deal. What exactly do you buy from them today? And perhaps you could comment on the transaction value and multiple. And should we expect more of this sort of vertical integration deal moving forward, John?

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

A

Well, let me just start with we've been developing and manufacturing resins in Sherwin-Williams for decades. And we'll continue to evaluate acquisitions that fit our strategy and help to strengthen our supply chain while improving our financial results. And there are areas that will make sense. I would say there are areas that don't. We evaluated TiO2 in the past and determined that the financial and operating metrics do not fit our models. So, I don't think that you should expect anything, but the disciplined and thoughtful approach that we've demonstrated in the past.

We have both near-term and long-term targets for SP, as I just mentioned. We don't think that this replaces the volumes that we're currently getting from our existing suppliers. We'll work with them to ensure that we meet our growth targets. They've supplied us on products mainly that go into our TAG and our Consumer Brands Group. But the financials here worked very well. And, most importantly, as we've been talking openly, our strategy is simply understood. We're going to take the steps necessary to serve our customers and eliminate problems for them. And this is an important step in our ability to do that.

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

A

Yeah. Kevin, we're not going to disclose the deal metrics specifically. But you can expect the deal to be accretive in year one with synergies.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you for that. And then, secondly, on the subject of supply chain, a year or two ago, there was a lot of talk about reshoring, moving manufacturing to the US from overseas. Does that make sense for Sherwin or would the opposite offshoring perhaps make more sense given the Gulf Coast disruptions?

And then secondly, are there things you can in terms of reformulation or product substitution? Thank you.

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

A

Well, so let me start with the latter question about reformulation or substitution. We do have a unique customer base, and so close isn't close enough for our customers. So, while we do evaluate solutions and work those, we also work very closely with our customers to understand that any changes that we make have a positive impact on our formulation. So, yes, we do evaluate those regularly.

I would say, as it relates to supply, we are working closely with our existing suppliers. But I agree with your question is that we're also broadening our global reach. And I'd say that as a result of that, we've evaluated and looked at our entire portfolio of suppliers. We obviously want to work with those that have been good suppliers of ours that are capable and willing to supply us. But we have a commitment to our customers, and we're going to take the steps necessary to secure the supply needed to be able to serve our customers.

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Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thanks very much.

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

A

[indiscernible] (00:35:02).

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

A

Thanks, Kevin.

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

Steve Byrne
Analyst, BofA Securities, Inc.

Q

Yes. Thank you. You have mentioned several different forms of capacity additions, and I just want to make sure I understand the motivation behind them. This 50 million gallon number sounds like finished goods formulation and packaging maybe. Is that just simply a reflection of demand growth for your products? Nothing to do really with raw material shortage as opposed to, you also mentioned near-term expansion of resin capacity. Is that really driven to assure you have the supply of resin or perhaps there's some technology there that you'd rather not outsource? Just want make sure we're clear on your motivations here.

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

A

Yeah, Steve. I think the 50 million gallon capacity addition that we spoke to is architectural. And that is in direct response to the confidence and line of sight we have to a growing architectural business, and the commitment that we're making to our customers to be able to supply them, number one. Secondly, Al mentioned increased investments on the industrial side. He named specifically packaging. That is a separate and incremental investment and a commitment to the packaging customers that we have and the commitment that we have in combining our efforts to grow that business aggressively. We have unique technology, unique solutions there that help our customers and we're investing in that business aggressively and appropriately.

Finally, the resin question as you asked is exactly that. We are working – I would describe it this way. This acquisition allows us to work closely with our existing suppliers to holistically look at our supply and ensure that we have available resins to serve our customers. And this additional asset that we're purchasing, as I mentioned, diversifies our footprint from a logistics perspective, but also does allow us to work with our suppliers to ensure that we're favorably positioned to be able to serve our customers with raw materials.

Steve Byrne
Analyst, BofA Securities, Inc.

Q

And just a follow-up on this resin capacity, John, is this – is there more opportunity for you to cut your costs by being back integrated into resin or is it really more a certainty of supply or perhaps there could be a third motivation and that is SPI has some technology, some resin technology or perhaps you have some resin technology that you'd rather build out your own capacity rather than outsourcing it to other suppliers.

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

A

Yeah. So I'd say that that would likely fall more into the longer term thinking, Steve, as to the proprietary technology. The motivation right now, I would say, is the certainty of supply. We want to work with the base of current suppliers that we have in a way that allows the combined and holistic view of the resin market, and our capabilities to be responsive to the needs of our customers.

There'll be a return on that. We'll invest. As I mentioned, it's a relatively minimal investment to increase meaningfully the capacity of SPI, but the real drive here is the commitment we have to our customers. We are going to uniquely position this company to serve our customers. We're out talking regularly with our customers on why choosing Sherwin-Williams makes sense, why an exclusive arrangement with Sherwin-Williams makes sense and we're going to keep our commitment to our customers.

Steve Byrne
Analyst, BofA Securities, Inc.

Q

Thank you.

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

A

[ph] You bet (00:39:14).

Operator: Our next question is coming from the line of Adam Baumgarten with Zelman & Associates. Please proceed with your question.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Hey. Good morning. Thanks for taking my questions. You've talked about a lot of the internal steps you're taking to secure your supply. But you're still going to be reliant, like you mentioned, on third-party suppliers. Can you give us a sense for what your suppliers are doing from a long-term perspective to avoid this type of situation in the future?

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

A

Yeah. I will let them speak to that themselves. I will tell you that we work closely with those suppliers on a number of different approaches. It's – our view had [indiscernible] (00:39:58) in the spectrum, everything from the number of raw materials we're purchasing from them, the simplification of platforms to be able to be a better customer to them and, as a result, ensure supply and efficiency. We're working with many of them on a number of aspects of engineering to ensure that the product consistency improves while throughput improves.

So, we work closely with many of our suppliers, and there are many who we work collaboratively on that help us. Some of our larger customers – I'm sorry, a large of our suppliers we're working hand in hand with on how to efficiently develop our finished products in a way that allow them to be efficient in developing their raw mat – the resins that go into them. So, it's pretty collaborative and, what we understand from them, a very unique approach oftentimes.

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Adam Baumgarten
Analyst, Zelman & Associates

Q

Got it. And then, just looking at the updated Consumer Brands growth guidance implies a more meaningful decline in 4Q than you've previously thought after a bit better growth in the third quarter. Is that solely due to the supply issues or are you seeing a bit weaker demand in that business than you maybe previously thought?

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

A

No, it's solely related to this availability issue.

[indiscernible] (00:41:19).

Adam Baumgarten
Analyst, Zelman & Associates

Q

Thank you.

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

A

Thanks, Adam.

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

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Great. Thanks. You maintained your Performance Coatings sales guidance. Is that mainly a result of higher pricing or are there some end markets that are performing better?

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

A

Volume is good. The demand is good. It's not simply pricing. We do have pricing going in. There'll be more pricing going in. But these teams are doing a terrific job and growing market share right now.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Okay. Thanks. And then the demand side is quite good. I'm just kind of curious what you hear from paint contractors assuming some of the supply chain constraints alleviate into next year. How are they particularly with respect to labor to meet demand, or could there be an extended delay when you see sales recover just because the customers are going to be struggling with such an expansive backlog?

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

A

Well, labor remains a concern for sure. We hear of projects moving out. Many of our customers would be booked through the fourth quarter now into first quarter for sure, commercial and new residential even longer than that. I'd say in the commercial and new residential side, as the question came in earlier, I think it was just about the

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segments, the construction projects in total, the supply chain is under pressure. So, while paint plays a part of that, it's beyond just paint. We want and are working very aggressively to be the poster child for the ones that worked through this the quicker – the quickest, I mean. And so, I would say that the contractors that we're talking to are feeling the pressure and are pushing more and more bids out.

And we actually have – I mentioned earlier about the adversity actually works to our advantage here. I mean, it does give us – the line of sight that we have has actually increased. We've also always enjoyed this controlled model – controlled distribution model. But our teams are working much closer with our customers right now. Everything, on what projects they have coming, when they're coming, what they're going to need. And as a result of that, as I mentioned earlier, we absolutely are certain we're going to come out of this stronger.

But what our customers are telling us really could be summarized in this way. The bids and demand is strong and our customer – their customers are almost understanding of the situation, and are willing to stand in line for their projects.

Garik Shmois
Analyst, Loop Capital Markets LLC
Q

Got it. Thanks for that.

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

Yeah.

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

Thanks, Garik.

Operator: The next question is from the line of John McNulty with BMO Capital Markets. Please proceed with your questions.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Yeah. Thanks for taking my question. I guess the first one is just it seems like the supply chain issues have been an issue all year. And I guess I'm curious what assurances you've gotten from your suppliers as to their ability to bring up real production levels kind of meet your demand as we go into next year? Or is there a risk that this drags on and we may not see kind of the full coating season that we normally would in 2022? I guess, how are you thinking about that and how are you thinking about whether there is some risk around that or not?

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

Yeah. John, I'd like to just clarify one point that you made when you said all year, and I'm splitting hairs here, but I think it's important to call out that we came through last year and even through January all the way into – until the February storm. We think we were kind of defying gravity while many people were kind of limping through COVID and all the challenges there. We were really proud, and have been recognized by a number of our customers for the way that we came through this. It really, really hit us, and we were impacted by the storm in February.

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Nonetheless, it's impacted us now, and things have improved, just not at the expected pace that we had forecasted. And you have to understand these are really highly complex facilities that, in many cases, took literally years to build, and the repair process is complicated. The demand is strong, and these plants will need to run hard when they catch up. We've been, as I mentioned earlier, working very closely with our suppliers to ensure a better line of sight of what's coming on. This hurricane that came in recently didn't help us at all. And the impact that it's had on a couple of key areas, resin, and the impact that that has had on our architectural business has been significant. So, our expectations are that they're going to be – continue to get better, but they're going to have to run hard. And we're working closely with our suppliers to ensure that our position in supply has continued to improve.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Fair enough. And then, is there a way to think about the inventory restock that is going to be necessary just given the outages, and it does look like at least across some of – some of the platform? The shelves aren't necessarily stocked at this point. So, is there a way to think about or quantify what that incremental inventory just getting us back to normal type level might mean in terms of incremental volumes for next year?

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

A

Yeah. John, I think we'll have a better line of sight in January for our first quarter, but our plan right now is to – we're operating in a make and ship mode. So, we're not going to build as much inventory in September or October like we typically have. November, December, as you see the architectural seasonality kick in, we're going to make as many gallons as we can, and push that to the field, whether that's our TAG stores or our retail partners to get the shelves in a better position.

And then in the first quarter, assuming availability does improve, we'll start building inventory at the DSD level. We're still working through those numbers as we speak. So, it's hard to say where we'll be at the end of the first quarter relative to where we were a year ago or two years ago; so, more to come on that as we move closer to end of the year, and then into the first quarter.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Fair enough. Thanks for the color.

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

A

Thanks, John.

Operator: Our next question is from the line of Bob Koort with Goldman Sachs. Please proceed you're your question.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Good morning. John, I was hoping maybe you could talk a little bit about your supply arrangement with your suppliers, like you mentioned, they're helping you take care of these problems or trying to accommodate the problems. I would expect as a consistent and stable buyer, you get the most favored nation

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status with a lot of those suppliers. So, couple of questions around that. When you get to a force majeure situation, are those suppliers then obligated to go and find that extra product in the market for you at whatever cost and they pass it along? Do you do that? And then, how much of this third of your earnings issue here is the exceptional nature of that procurement of having to find spot market purchases or pay more to move product supply, raw material supply from farther away? Because I think from the outside, we can sort of track the cadence of overall pricing and inflation. But it's the exceptional nature of having to scramble when you have all these force majeure is a little tougher for us to calibrate. Thanks.

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

A

I'd say each relationship and approach is different with each supplier. So, I don't want to comment specifically on any one or try to generalize them to represent everything. I will say this that we are aggressively pursuing the raw material necessary to supply our customers. And you're right that you can see some of that pressure in our margins, and our expectations from our suppliers right now include the steps necessary to favorably put us in position to be able to serve those customers. And we have incurred greater cost ourselves as a company to be able to do that, moving product or capturing product on the market – on the spot market or in different parts of the world to get it here in an effort to serve our customers, and we would expect that – we would only expect that our suppliers are doing the same.

We've worked hard for 156 years to secure these relationships with customers. And as I mentioned earlier, we're not running the company for the perfect quarter. And if we have to absorb a little bit of cost short term and securing product to be able to serve our customers, we're going to do that.

The pricing that we're putting in the market reflects what we believe to be the inflationary pressures on raw materials and those – yes, we're going to push through. And as I described earlier, our goal is to put our customers in a position to win, be profitable, and succeed, and we want to be able to put our company in that same position. And our goal is to help those customers to be successful. And as a result, we're in a better position with those customers to ask the price to be able to do that.

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

A

Yeah, Bob, on the cost side, we took about 75% of the remaining third being raw materials. It's – the most significant portion of that is ongoing raw material increases due to input costs. Yes, there's some spot buys, there's some other transportation type things in that number but it's by and large due to ongoing raw material input costs increases.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Got you. And is – can you tell us what share of your revenue base might have a pass-through mechanism where you don't have to argue so much about raw material inflation and pricing?

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

A

We won't give you an exact number, Bob, but it is a relatively small number.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

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Got it. Thanks very much, guys.

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

A

Thanks, Bob.

Operator: Our next question is from the line of Mike Harrison with Seaport. Please proceed with your question.

Michael J. Harrison
Analyst, Seaport Research Partners

Q

Hi. Good morning. Let me ask a couple of questions here on the SPI acquisition. You had gotten some resin manufacturing capabilities when you bought Valspar. Can you walk through some of the similarities and differences with the Specialty Polymers business?

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

A

Well, the similarities would be that they are primarily architectural, some industrial resins that would mainly feed our TAG and our Consumer business. I'd say the Valspar assets have been a terrific resource during these challenging times, and it – and that along with the longstanding capacity and capabilities that Sherwin had long before Valspar gave us the confidence that this would make sense to us. So, Mike, we think that we know these assets really well. They were [ph] toll producing (00:53:41) for us. We know the teams well. We have tremendous respect for the people as well as the assets. And our plan is to invest in these assets with additional capacity given the familiarity that we have and the confidence that it will help us serve our customers while also serving our shareholders with a good return.

Michael J. Harrison
Analyst, Seaport Research Partners

Q

And I guess my second question related to SPI is it sounds like they have been serving you guys as a customer, but also presumably lots of other customers out there. Given the current supply constraints, do you have capabilities to say, well, we're going to shift a lot more of this production toward Sherwin needs, and put the third-party customers on allocation or are you – are they going to be obligated to still serve the other customers at agreed upon volumes?

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

A

Yeah. It's early on, but I would say, in general, we expect to continue to grow the external customer business there in the non-Sherwin business. The focus and the opportunity that we have for growth of this asset will be to support our internal use. But we believe the complementary nature of the existing external business would be – is going to be good for that business.

Michael J. Harrison
Analyst, Seaport Research Partners

Q

All right. Thanks very much.

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

A

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Thanks, Mike.

Operator: The next question is from the line of Ken Zener with KeyBanc. Please proceed with your questions.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Morning, everybody.

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

A

Hey, Ken.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Al, I think you said PCG, if you could clarify. You said it represents 60% of the raw increase. And why would this vary so much from its share of sales?

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

A

Yeah, Ken. It's because the raw material basket on the industrial side has just grown on a faster base, so that epoxy, or solvents, or the metal packaging that they primarily use. So, it's just the type of raw materials that go in industrial have just increased faster than the rest of the basket.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Excellent. Second question. Given the cadence of the material shortage, so it's 3.5% in the second quarter with initial expectations to better in the third quarter which became visible that that was high-single-digit drag which now has unfolded in the fourth quarter. Given the complexity of the whole material chain, isn't it reasonable to assume the drag's reduction might be in step as well, meaning if you have an 8% material drag, could be 4% in the first quarter, something less in the second? And I'm asking you that in reference to shouldn't we think about the business sequentially given that – especially in TAG given that you have those constraints in place?

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

A

Ken, I'd say the wildcard in your reasoning there was the Hurricane Ida. The impact that it had was the disruptor there. I think that our suppliers in the industry has done a really nice job of bringing really complex assets back up and running. And without question, we would like to see it faster, and more efficiently, but you literally do have significant suppliers into our industry right now struggling to get power, struggling to get nitrogen, steam. There are a lot of issues that they're dealing with that are siloed or separate from the February storm, and the impact that that had.

So, the other side of this that I would take – ask you to take into account is that there has been a significant amount of preventative maintenance work that has been completed during this downtime moved up earlier into the process that can help offset what would have traditionally been a cycle down period in the industry. So, there's some puts and takes here. And as I mentioned, the line of sight here is not perfect. Visibility is low but our expectations of our suppliers are high and growing as we go. And again, we're in a very unique position with the

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capacity that we have and the additional capacity that's coming on to be able to serve our customers. So, we're going to deleverage every ounce of that precious raw material that we can get our hands on and turn it to our customers as quickly as possible as finished goods.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

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

A

You bet.

Operator: The next question from the line of P.J. Juvekar with Citigroup. Please proceed with your question.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning.

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

A

Good morning, P.J.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

John, there were a lot – yes. Good morning. There were a lot of questions about raw materials. But can you talk a little bit about sort of increased shipping costs, logistics, labor? That part of the supply chain is also tight. How big is that part in terms of the inflation?

And then related question is a lot of people saying that this was sort of these inflationary pressures are transitory including federal reserves. You guys sit in the middle of it, you guys have great insights. What do you guys think? Is it transitory do you think? Or is it, is it going to continue to last for some time?

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

A

Let me start with your shipping question, the costs and availability I would say that there is an absolute impact on shipping cost and availability without question. We are unique. We do have our own CTS or transportation company that we run that is again, we believe, another point of differentiation in our ability to move product through our 800-plus semi tractors and nearly, I believe, 2,000 trailers.

So, we're able to move products internally as a point of differentiation and competitive advantage that we try to leverage. But that said, we don't move everything inbound. And certainly while we try to do as much as we can outbound, we don't do it all. So, costs are impacting our COGS, as well as our service to our customers.

And regarding inflationary, and if it's transitory or not, Al, maybe I'll ask you to comment on that.

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Allen Joseph Mistysyn

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

A

Yeah, but I won't comment on the cost of goods sold though, P.J. Just as a reminder, I mean, 85% of our cost of goods sold is raw materials. The other 15% is broken out between a number of things, including labor, transportation like you talked about, and other things. But they are – we're feeling pressure. We're analyzing that as we get into next year. And when we look at our cost – total cost basket, we'll look at that as we look at the next round of price increases as well.

As far as transitory is concerned, yeah, I'd love to tell you that, hey, we're not going to see anymore increases going into next year. I think the reality is there's a tight supply chain market or supply chain. There's strong demand. And we expect to see raw materials elevated for a period of time. I mean, I think that's the reality of it. How long is to be determined, but our teams are focused on recouping those raw material increases and other inflationary increases, and we have to keep focused on that until we see something change.

John George Morikis

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

A

Yeah. The actions we're taking would say that we're expecting it to be a longer term than shorter term [indiscernible] (01:01:54).

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

All right. Thank you.

James R. Jaye

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

A

Thanks, P.J.

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

James R. Jaye

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

Yeah. Thank you, Rob. And thank you everybody for joining us today. I hope you heard today in our comments that while we've updated our guidance here to reflect some near-term challenges, just want to emphasize how confident we are in our longer-term prospects. And we're taking many steps to ensure that we deliver solutions to our customers with the best team in the industry, proven history of execution, best assets, and we're leveraging all of those to come out of this stronger. So, thank you again for your interest in Sherwin. As always, myself and Eric Swanson will be available for your follow-up questions. Have a great rest of your day. Thank you.

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

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