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The Sherwin-Williams Co. (SHW)

Investor Meeting - Financial Community Presentation

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MANAGEMENT DISCUSSION SECTION

James R. Jaye

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

Good afternoon, everyone. Welcome to Cleveland, Ohio. Glad you're with us as well as all those that are listening in via a webcast. We're really glad that you're with us and welcome to our 2023 Financial Community Presentation. My name is Jim Jaye, I'm the Senior Vice President of Investor Relations and Corporate Communications for the company. And on behalf of our entire leadership team, we're really pleased that you've taken the time to come to Cleveland and be with us today.

We have an excellent program for you today. I will kick it off with a brief overview of the market. Our Chairman and CEO, John Morikis, will follow with a company overview, and then you're going to hear from multiple members of our leadership team in a fireside chat format, something a little different for us this year. You're going to hear them share why they are so excited and confident about the many profitable growth opportunities that we have in front of us. Following those prepared sessions, we'll have a moderated Q&A session, take your questions. And for those who are here in person, we'll have a reception afterwards where you'll have a chance to engage with our management team. The slides that you're going to see today will be available on our website after the program.

And before we really dive in, I would like to just recognize a couple of people, putting on an event like this is no easy task. So, first I'd like to recognize Eric Swanson, our VP of Investor Relations. Many of you know Eric, he does a great job for us. In the back, Mandy Pavlich, who's running point for us and producing this extravaganza. And then last is Natalie Darr, our Admin Extraordinaire, who many of you speak to our admin extraordinaire, who many of you speak to and interact with when you're looking for me or Eric. So, thanks to my great team here. I'd also like to point out a cautionary statement for us about forward-looking information and any third party market data that we're going to cite today. And so without further delay, why don't we jump into some industry data and some current trends?

So, let me begin with the US Architectural Paint Industry. And most of you know that this makes up about 60% or so of total Sherwin revenue. Chart on the left shows you total US gallons. And I'd say that the data here is not an exact science. It's based on multiple sources, our own market intelligence. And you'll notice that in 2021, that number has been revised a little bit lower from some of the previous presentations we've given. As we got additional data from the American Coatings Association and others that showed the impact from the supply chain in 2021 was maybe a little bit bigger than people originally thought. And 2022 also saw some of that. So, we know that over the last several years, it's been a turbulent time, right? We've had COVID, these supply chain disruptions, inflation. But if you believe this chart is accurate, gallons from 2019 to 2022, it's basically flat. The good news is, if you look at our Paint Stores Group, we've been much, much better than that. And over that same period, we've grown at a CAGR of about 2.5%.

And we clearly believe we're outgrowing the market. We expect that to continue. And you're going to hear from our team today why we think that's the case. The only truly significant period where you've seen a sustained industry decline over the last 20 years was related to the housing led Great Recession. And in that period, single family starts were down, which impacted new residential. You also had a huge increase in foreclosures, which meant a lot of homes were not maintained, i.e. painted exterior or interior. And the overall pace of growth and square footage also slowed. But the takeaway is that square footage did continue to grow. And so today, if we look at this, we got about 25% more square footage out in the market in residential and non-residential since the

prior peak, 25% more. So, what's the takeaway there? A lot more to paint than there was and in addition to that repaint, there's a lot of new construction to come as well.

So, the next slide here shows each of our major architectural end markets and also an estimated industry percentage of the gallons on the top of those columns there. To be clear, those are industry percentages, not necessarily sure when percentages of the total. But as you look at this chart, the real strength of our company is that we're super well positioned in all of these and we've deliberately structured the company that we can pivot between these as different market conditions emerge. So, if I take a quick look at a few of these in new residential, we've got softness in single-family starts which are now impacting the completions. We've been very open about that. Starts maybe bottoming. We don't know that yet, but we're starting to see some momentum. Homebuilders are a bit more optimistic. Builder incentives and lack of existing homes are driving demand. And over the long-term, household formations are going to drive that long-term view.

On res repaint there's been some slowing in remodel demand, but low cost, high impact projects like paint are likely going to hold up better, they have in the past, we expect that to continue. Existing home sales have been weak, but at the same time, there's many other drivers which I'm going to touch on and all of those are intact and moving in a positive direction.

On the commercial side, strong starts in 2021 and 2022, leading to strong completions for us in 2023 and into 2024.

Property management, apartment demand is strong, driven by rising home prices, higher mortgage rates and fewer existing homes that are available for sale. And higher rent is also driving some churn in the apartment market. We're also seeing modifications of office space as a tailwind.

And then in DIY, we've seen some softer demand as consumers are impacted by inflation and the end of the COVID stimulus, but at the same time, those DIY projects are also fairly low cost and more highly impactful.

So, if you believe that US demographics are important, then this next slide is going to be meaningful to you. We believe that US demographics are going to support demand for many years to come. You have baby boomers aging in place and remodeling. You have Gen-X and Millennials moving up. You have waiting in the wings, the largest generation in US history, Gen Z, who's going to drive another wave of household formation.

So, we see all those demographic trends as a real tailwind for us. So, maybe just a few more details on new res, if you go to the next slide, here's the recent dynamic. Now as we've said before, new res painting begins 3 months to 6 months after a start. And when you look at the starts data, I think it's important that you look at single family and multifamily.

So, when we talk about our new res business, we're largely talking about single family, and multifamily falls a little bit more into our commercial side. But from October through April, we saw single family starts down anywhere from 20% to 35%. And that's the yellow line that you see on this chart. So, as we've been very transparent, talked about, we're going to see some slower completions from that. And our guidance for the year reflects that. But at the same time, we are and we're going to continue to outperform the market as we gain share. You're going to hear our team talk a little bit about that in just a few minutes.

Our homebuilder customers, you see many of them are publicly traded. You read their reports. They're a little bit more optimistic than they have been. And we also believe that mortgage rates eventually are going to start to

moderate, maybe not necessarily to the 2% or 3% that we saw a few years ago, but something less than today. And that should help drive demand as well.

So, if those single family starts pick up later this year and start to move forward, that could be supportive for us into 2024, but we'll have to see how that market unfolds. I think the better news if you move to that next slide is while the near-term is choppy, household formation has remained very strong since the Great Recession. And we've significantly underbuilt homes during this period of time. And at the same time, we've lost hundreds of thousands of homes because of demolition or natural disasters.

So, you talk to and you read various pundits, they will tell you there's a deficit of anywhere from 2 million to 7 million housing units out there. It's going to take some time over many years to fill that gap. So, the takeaway is, I think that the strong demand in new resi is going to be there for a lot of years and nobody is better positioned than Sherwin-Williams to support those homebuilders.

If I look at the res repaint area, I'll remind you that it's our largest segment, but it's also where we have the most opportunity, even after seven years of double-digit percentage growth. It's also the area, res repaint, where we've been investing over the last several years in terms of stores and reps to go after and attack this market, so we feel very good about where we're at.

One of the data points that we look at in res repaint is the leading indicator of remodeling activity, which is here. And you see that slowing a little bit in 2023 and they're thinking that it might dip into negative territory in 2024. But again, I would tell you that painting, as you know, is an affordable high-impact type of project. And so, what we've seen in the past is paint has held up better than this and outperformed this. We expect that to happen again.

Existing home sales, no secret here, it's been challenging on existing home sales. They've been down year-over-year for 23 straight months and that's the green line there. But I think there's three silver linings if you look at this chart. So silver lining number one would be people who are locked into their homes because of low mortgage rates and don't want to move into a higher mortgage rate, they're repainting or remodeling in place.

I think silver lining number two is people who are tired of waiting to find an existing home or moving into new res, they're talking to builders and looking for that. And I think silver lining number three is that existing home sales, it's just one element that drives repaint. There is a number of other elements that make up the bigger portion and those are intact.

So what are some of those other drivers? We'll walk you through just a few of them. Number one, America's homes are getting older. There's about 42 years old as the median age of a home in the US. Meaning they need more repairs. Home price appreciation that gives homeowners confidence to remodel and invest and home prices have generally gone up since 2012.

Some other drivers, the Baby Boomers and Gen Z, as I talked about, they want to age in place and that often means modifications for entryways, bathrooms, stairwells, all of which often require paint. And the home office trend also appears to be here to stay. So with more people working from home, many are creating or modifying those spaces and that's what there's paint.

Another couple that I'd point to as well that are more emerging. The increased frequency of extreme weather events drives repair spending, and we're actually seeing more people move into disaster-prone areas than moving out of those areas. So, again, many factors beyond existing home sales that are driving repaint. And

when those existing home sales eventually do recover, that's going to be a nice tailwind for us as you'll hear, there's nobody better positioned to go after that repaint business.

Switching to the new commercial market, touch on that quickly. As you know, there's a lag of anywhere from 12 to 24 months from the time a commercial project starts to when it ends. We've seen a sustained period of commercial starts, which you see on the chart in the yellow there from mid 2021 to 2022 and that's been driving the strength of our commercial business.

We've been up strong double digits in new commercial for four straight quarters and we see the strength in new commercial continuing well into 2024 for us. You're seeing the same sentiment. If you look at the Architectural Billing (sic) [Billings] (00:13:42) Index, strong in 2021 and most of 2022, and that's leading to strong completion activity here in 2023 and into 2024.

So, it is little bit softer more recently. It could mean little bit of turbulence as we get into 2025, we'll see. Should that occur though, we're going to offset that with continued share gains, we're going to offset it by pivoting to other parts of the market, repaint property maintenance and if we start to see new res come back, that would be helpful for us as well.

Overall, if you look at the market on architectural pro continues to become a larger and larger part of the market than DIY. But the good news is whichever way this table tilts, whichever way it goes, Sherwin is there, Sherwin is well positioned.

Let's move on to the industrial side of the business briefly and we're continuing to build a strong and differentiated industrial business here. Very excited about what we're building and you're going to hear more about that. Since we're in a variety of different end markets in our industrial business, we look at a lot of different drivers, but one of them that gives us sort of an overall directional view near term is the industrial purchasing managers industry and as a reminder, the largest part of this is new orders. And the red lines on this chart show you what's happened here in 2023.

No surprises in the US, our largest region, PMI has been in contraction. Eurozone has been soft for 13 consecutive months. Brazil's been choppy and China, the recovery that we thought we might see coming out of post-COVID was very short lived. But we know that our job here is not to accept these charts or merely report these numbers. But our job is to find areas where we can grow share and those areas are really numerous.

So let me share just a couple of high level trends in our industrial business, which give us great confidence in the long-term of that business. So first if I look at our Packaging business, we've been very clear about some near-term choppiness, some destocking in the channel is occurring. But longer term, we're very bullish on the trends, including a shift from plastic to cans and the adoption of non-BPA coatings where our V70 product is a leading solution in the market. We and our customers are investing in this business.

In Auto Refinish, the near-term and the long-term outlook is strong. Industry consolidation of multi shop owners is creating opportunity for Sherwin. We believe our waterborne technology is differentiated and installations of our systems have been robust over the last couple of years.

We move to our wood business. The near term is a little softer. Driven by new residential cabinets, flooring and furniture. But as I say, if you look at the longer term trends on US housing, it's strong. And the recent acquisition that we've made in ICA is going to add to our momentum here.

For coil, the Americas right now are a little bit stronger than Europe and Asia. But longer term, again, if you look at US housing and other drivers, I think our Coil business is positioned really well. Extrusions, appliances, window frames, decorative metal products, these are all great opportunities for our coil group. And in both of these businesses, customers are looking for sustainable products. They're looking for color expertise, and they're looking for productivity solutions, all of which play to our strength.

I'll end with our last two pieces of our industrial business, General Industrial, our largest, lots of different end markets there. And we're uniquely positioned with our small batch capabilities, which let us differentiate and provide solutions for general finishers of all types. And on our Protective & Marine business, that's our strongest industrial performer right now.

Manufacturing plants of all types, onshoring, chip fabs, electrical vehicle plants, these are all opportunities for high-end coatings. And then you also have wastewater infrastructure, pharmaceutical plants and oil and gas infrastructure, all of these are great opportunities for us. We expect the strength of demand here to continue into 2024 and the acquisitions that we've made in this division are actually hitting it out of the park.

So if I had to summarize everything I would say, Sherwin-Williams, we are really built to thrive. And what I would tell you is that in choppy and difficult macro environments, we're going to focus on serving our existing customers. We're going to focus on growing our share of wallet. And we're going to focus on winning new accounts.

In robust and growing environments, we're going to focus on serving existing customers, we're going to focus on growing share and winning new accounts. In all macro environments, you're going to see us continue to invest in strategic growth initiatives. It's really simple, you either believe in your strategy or you don't. And in all macro environments, we expect to outperform the market. That's a quick snapshot of where we are in the market. It's now my pleasure to introduce Sherwin-Williams' Chairman and CEO John Morikis.

John G. Morikis

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

Thank you, Jim. Welcome to all of you here in person and to those of you that have joined us virtually. It's really exciting time for Sherwin-Williams, as you've heard from Jim, there are a lot of opportunities ahead of us and we're really excited about those. There's no shortage of those opportunities for Sherwin-Williams. And he mentioned a few of the things that the company has faced and I'd say it's not just the company, it's the industry, in fact, the world, things like pandemic, our industry, supply chain issues. But I think through each of those, we've taken an opportunity. And as he mentioned, we continue in the face of adversity to invest in our business. We continue to learn during those times, and quite frankly, we get better during those times.

I'd say this, in my nearly 40 years now with this company, I don't think that we've ever been better positioned to drive value for our shareholders, to drive value for our customers and to drive opportunities for our employees. And over the rest of the day here, as you're going to hear and see our team up in front of you, they're going to explain to you why we feel Sherwin-Williams is a very compelling investment thesis. To level set, though, I'd like to begin with a quick overview of the company and our reportable business groups.

As you can see here, Sherwin-Williams – and most of you know this – is a global leader in the manufacturing, distribution, development and sale of paint and coatings and related products across our professional, our industrial, our commercial and our retail partners. We didn't, quite frankly, set out to be the biggest. What we have been keenly focused on and will continue to focus on is to be the best. Revenue last year grew to a record \$22.1 billion. We also set records in gross profit, EBITDA and earnings per share. We operate in over 120 countries with

nearly 5,000 stores. We have manufacturing and distribution around the world and an industry-leading portfolio of brands.

But the most important number on this slide, 64,000. 64,000 wonderfully talented, dedicated employees. 64,000 employees that understand what it is that we're trying to do. 64,000 employees that execute our strategy every day. And quite frankly, it's a very simple strategy. Our focus every day is to differentiate ourselves from our competitors and align with our customers, to bring them solutions that help their productivity, to help make them more successful, to help make them more profitable. That creates value, creates success and opportunities for our most important stakeholders, for our customers, for our shareholders, for our employees and for the communities in which we operate.

At Sherwin-Williams, we measure everything, but our most important metrics are our growth, our ROS, our return on net assets employed and our cash generation. We know if we're driving these numbers, we're working on and executing on the right things. And the strategy, you know, Jim mentioned what we do in these different frames or situations in the world or in the market. And the reason that we continue to invest is because we believe in that strategy. And the strategy is the same across all our business units. We continue to invest in it because we believe in it.

Let's take a quick look at our business groups and why we believe in it. First, our Paint Stores Group, our largest group, our most profitable group, focused on the needs of our painting contractors and the niche DIY business. We have a terrific platform of nearly 5,000 stores, nearly 4,000 highly trained fantastic reps. And we've been very deliberate on positioning ourselves to be able to capitalize on these end markets listed on this slide. We use our controlled model to ramp up and attack the opportunities that exist in the market. As the markets change, we're there. And that's on display right now. Jim talked about new residential. I think it's a great example. As new residential slows down, we know household formations continue. And when that proverbial table tilts one way or another, we want to be the ones that capitalize on the market whichever way that market shifts.

Next up our Consumer Brands Group. Largely focused on DIY. However, I will say that our growing position in the Pro Who Paints is an exciting investment and an endeavor that we're really determined to continue to accelerate. We mainly serve the markets through our premier group of retail partners by offering hero brands and terrific services. And you're going to hear about those here in just a moment. Largest part of this business is here in North America, but we also have a number of businesses that are growing profitably in both Europe and Latin America. You'll hear shortly about the momentum that we have in this business and the steps that we're taking to accelerate both our growth and profitability in this business.

In addition, in our Consumer Brands Group, we roll up our global supply chain. It's embedded in there. And here is another area that we're working very hard to differentiate. Our global supply chain, we believe, is a competitive advantage. And we differentiate by bringing up services and the quality in ways that many can't. In this operation, we continue to drive for more efficiency and more resilience through every link in the chain.

Next up our Performance Coatings Group is our global industrial business. The industrial coatings space, as you just heard from Jim, are large, extremely diverse, very fragmented. We are unique at Sherwin-Williams in that we're not chasing everything. We're not trying to be everything to everyone, everywhere as it relates to opportunities. We choose to focus on specific end markets. Those markets that value solutions, that are looking for true partnership, that provide a win-win opportunity, where we drive the profitability and success of our customers, we expect that our shareholders participate in that. We avoid commodity specs.

Where price is often the only differentiator is likely not where you're going to find Sherwin-Williams. We're going to be aligned with customers that when we help speed up their line, increase the quality, make them more productive and make them more successful. That's where we'll be focused. And there's opportunities, terrific opportunities quite frankly, in both new accounts and share of wallet as it relates to our Performance Coatings Group. And that's in every division, in every business, every region around the world.

Additionally, I think it's a callout that needs to be mentioned, this team is doing a terrific job in optimizing and simplifying this business as we drive towards our range of margin that we've been talking about. We're confident we're going to reach and maintain this targeted margin of the high-teens and low-20s in our industrial business.

Most of you that are here in person today and those of you that have joined us virtually are likely here because you are either current shareholders or you are considering becoming shareholders. We know that in that space we're competing for investment dollars. Not just amongst coatings companies, but across all sectors with really good companies. We think Sherwin-Williams is a really good company.

This slide summarizes why we believe Sherwin-Williams is a compelling investment. We have the strategy. We have the people. We have the competitive advantages and the discipline to drive profitable growth for years to come. We absolutely believe in our business model, we believe in our strategy, and we continue to invest in it. We aim to continue to win and to exceed and outperform the market. And I am absolutely convinced and confident that we're just getting started here at Sherwin-Williams and that the best for Sherwin-Williams truly is ahead.

And with that, we're going to break into a little fireside chat where you're going to hear a little more about that. So, I'd like to ask our President and Chief Operating Officer, Heidi Petz; and our Chief Financial Officer, Al Mistysyn, to join me here on stage. And while they're coming up, I'll tell you a little bit about them.

Heidi, as President and Chief Operating Officer, runs all operations in the company. So, in 123 countries, those operations all report into Heidi. She's previously – prior to this position, she was the President of our Paint Stores Group, and prior to that, President of our Consumers Group. She joined Sherwin-Williams in 2017 as part of the Valspar acquisition.

And we talk a lot about these challenges that the industry has been through, Heidi has been the tip of the spear for many of those. And while I talk about our company learning and getting better, I've watched this terrific executive herself get stronger and better with each of those challenges that we've worked through, and having watched how she leads this team has just been terrific.

Next, Al, our Chief Financial Officer, Al has been on my side as CFO since basically I became CEO and he's been here since 2017. He joined the company in 1990. He's held a wide variety of operational and corporate finance positions in the company. Whilst I have both of these two executives on my side as we run the company, there's no one else I'd rather have. So, let me step over here, we'll get into a little discussion on some of the key exciting enterprise-wide opportunities for the company.

Welcome.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Thank you.

Allen J. Mistysyn

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

Thanks, John.

John G. Morikis

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

You guys made it up here without stepping on the stairs and tripping here, always my concern, as you're talking here. So good.

Allen J. Mistysyn

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

Dodged your bullet there.

John G. Morikis

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

There we go. All right. First, we have some slides here that these areas that we're going to talk about, I think are important. These key strategic priorities cut across the entire company. So, as we get through this discussion here, we're going to tick through each one of those. And I think I'll start with this first question and I'll ask it maybe, Heidi, you can start now and you can jump in here.

So, when we think about enterprise priorities, which we're going to be talking about here, in my mind, it always starts with talent and our culture. Our number one differentiator is our people. We just talked about our secret weapon here. So, maybe, Heidi, you can start. When we talk about this important strength and building our talent, I mean, what in your mind comes to mind as those important levers that you think about?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Well, first of all, good afternoon. And absolutely, talent, culture is at the core of everything that we do, and I start with a few comments about where we are and then, importantly, where we're going. I will tell you, this is a very deliberate area of focus for us. It all starts with hiring the right talent, the right hires. As we think about talking to potential talent, we don't wait for day one when a new hire is onboarding with the company. But day one is the first time that this talent is in front of our company. We like to have a best-in-class candidate experience. So, we're really intentional on making sure we have the right talent coming in. But I want to talk about what happens on day one.

And we talk a lot as a company, many of the leaders in the room, about success by design. We don't want to leave it to chance. So, day one, we're getting this talent or new hires in front of our products, exposing them to rolling products out, making sure that they're up to speed on our technologies and our differentiation, getting them in front of customers – we'll talk a lot about customers here later – and listening to what they're saying, observing what they're not saying, and certainly exposing them to our culture. And we spend a lot of time making sure that day one, we don't want to wait until 30, 40, three months later that they're catching all of that. We want them to come in really well prepared.

Justin's going to talk a little bit about our Management Trainee Program in our Paint Stores Group, and I won't go into detail here, but if you look up here, you can see roughly 1,400, 1,500 trainees that we bring through the

program annually. And if you look at our 64,000 employees that John shared, one in six of those employees graduated from our Management Trainee Programs. So, about 10,000 of those employees. We're really proud of that.

And then, as we look at some of the depth of experience, once we brought the talent in – and we'll talk about engagement and retention here in a moment – we've got a lot of depth of talent here in the room. We've got many of our division presidents in the back. I'm sure many of you spoke to them last night and today. And across the organization, that same 64,000 group of employees, we've got 7,000 of those employees have over 20 years of experience. And so, we're really leveraging not just how we're onboarding, getting the right talent, but how we're taking advantage of a lot of that tenure and experience.

We just completed a recent engagement survey and 85% responded that they would recommend Sherwin-Williams as a place to work. So, we're going to go find those 15%. But we're really proud of that. And again, we don't leave that to chance.

And so, that's where we are at. I do want to take just a brief moment to talk about where we're going. There's three key areas that we're really focused on here. The first is making sure that we are filling that talent pipeline, not with numbers and bodies, but with the right focus on what we need to solve problems for our customers and what we believe is the right cultural fit. So, that's a really key area of focus.

The second area is making sure that we are driving engagement and retention of this talent. I don't think we're unique here. I think a lot of people are taking new, creative, different approaches. But increasing the level of communication, making sure that we're really instilling in our organization the sense of belonging, that we'll talk a lot about diversity and inclusion, but everybody belongs, and we want people that come into Sherwin-Williams to know that regardless of your background, your education, your age or ethnicity, there's a role for you here and a place for you here. So, we're really excited about that.

John G. Morikis

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

No, that's terrific. Al, from your perspective, CFO, you see a lot of opportunities, Heidi talked about a lot of those, but you're driving the financial piece of this, maybe the intersection between CFO and how that helps us to lead a culture and retention of these great employees?

Allen J. Mistysyn

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

Yeah. I'd start with, we're very excited about our new headquarters and R&D facility, which many of you saw this morning and we expect to get to begin occupancy towards the end of 2024. And these facilities will allow us to bring our employees together in a world-class environment, and we believe that will help us attract and retain talent. So, we are a 157-year-old company, and as Heidi mentioned, we have a lot of long-term employees, including myself with over 33 years of experience. But we're not complacent. And I think what we're trying to do is get the right resources in the right environment, we're trying to create an environment that challenges the status quo and embraces change with really a focus on driving a better employee experience that we believe drives shareholder value.

John G. Morikis

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

Yeah. Terrific. And I've seen your support in that is unwavering, it's terrific. Heidi, earlier I talked about this point of differentiation that we strive for in our strategy and how we try to align with our customers. Maybe it'd be good as Chief Operating Officer for you to talk a little bit about what that vision looks like to you?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Well, differentiation, you mentioned a couple of times earlier is key, I think if you look up here, I'm going to talk about the customer, of course, and talk about our unique distribution platform, certainly product and services, but I'll start with the customer and a relentless focus on our customer – you've obviously heard that repeated throughout – and making sure that we're looking through our customers' lens, understanding not just what their pain points are, their challenges, many times helping them plan for upcoming work, helping them find ways throughout their business, if it's helping them to look at hiring, staffing, recruiting, how to be more productive on their production line.

So, there's a whole host of things that we're doing to try to help them, deliver a customized solution to make them more productive. But I want to start with, after the customer, our unique distribution platform because I think if we're honest, we could have the best products and the best services. But without being able to leverage nearly 4,800 stores, 3,600 reps, we're able to really customize by segment using that store platform how we can show up and help these customers in a way that wouldn't be – allow us to outperform the market if we were just relying on our products and services.

So, we're really proud of that platform. I know we're going to talk about supply chain here shortly as well and things that we're doing to continue to build strength. But I'll hit briefly on products and our thoughts on innovation and I think demonstrated in a lot of discussion earlier on the R&D facility. It is an acknowledgment of where we are today and importantly, where we're going and being able to combine top talent and all these technologies across our architectural businesses and our industrial businesses will allow us to accelerate how we think about technology across and leverage talent across.

So, we're really excited to continue to go down that path because there's a lot of potential in the future there. And then, of course, from a services standpoint, this is an area that we're really continuing to focus in on and hone and add to. You'll hear a lot from the group presidents today where there are nuances and how we show up with services, so different in our Paint Stores Group than it is with Karl in the industrial side and the role of tech services. We're leveraging our field out there, our [ph] tinting (00:39:33), our blending facilities and allowing ways for us to reduce time in which we're serving customers. So I would say our competitors probably have one, two, maybe even three of these, but nobody can match what it is that we're able to do to truly tailor solutions to our customers.

John G. Morikis

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

Yeah, I think that's the key is tailoring it to the individual customer. You mentioned earlier, let me follow up on your comment. You mentioned global supply chain. And I mentioned in my prepared remarks about how we learn as we go through these different experiences. Maybe, maybe can build on that.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah.

John G. Morikis

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

Just the global supply chain resilience, what that means to you?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Well, resilience, I think, is probably the new word that we all have been hearing about a lot, too. I think, first of all, it is about looking at the turbulence and the disruption over the last few years. It's about an honest self-assessment, you know, where do we need to strengthen every link of that supply chain.

And it's making sure that we're not going back to where we were, but coming out stronger. So I'm going to touch on what we're doing there to build resilience. But just want to maybe take a moment here to hit on the Garland, Texas, incident over the last week or two. It came up in some discussion. And I think, first and foremost, if I'm putting myself in your shoes, we are absolutely a safety culture. It is the core of who we are and what we do. In fact, we usually start every meeting with a safety grabber. We probably should have started that today but we were very fortunate that we did not have any loss of human life.

We had one minor incident and the gentleman was released the same day. So we're very fortunate there. We did take that as an opportunity to recast a message of safety to our entire global footprint. So through the group leaders, we were able to do that the same day. There was no impact to our architectural business and where we did have some disruption on the global industrial side. Lot of the people in this room are working very closely with our customers and we're activating some contingency plans so that we're going to minimize those disruptions as much as possible. But I want to get back to the question.

Allen J. Mistysyn

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

I would just add to that...

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Oh, yeah. Please.

Allen J. Mistysyn

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

...just because I think it's important. This incident will not have an impact on our third quarter consolidated sales or full-year consolidated sales and earnings guidance, just to be clear.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

And when we talk about resilience, there's a lot up here. I would maybe just share a few areas. I think if you start with procurement, there are four key areas of focus for us here. The first, not a surprise, is around cost management, making sure that we've got continuity of supply both from our suppliers to us and from us, obviously, to our customers. And I would also say that a lot of focus on complexity reduction, and that isn't just true for global supply chain. It's certainly not just true for procurement, but it's a big opportunity for us that Colin Davie and his leadership are helping us to really sort through.

And then when we talk with our suppliers, there's a lot of turbulence, as I mentioned over the last few years. And we've really been able to separate out where we've got transactional relationships and where we have strategic partnerships and making sure that there's a clear understanding across the supply base that we don't just want to be in line for the next technologies. We want to be at the front of the line so that we can continue to stay on the cutting edge of innovation for our contractors.

Next, if you move into production, four areas here. This is more about both, product and process simplification. So truly looking end-to-end where we can create some opportunities. Execution, we've just come online on our Orlando expansion at the end of 2021 with incredible capacity down there. And we're seeing that right now, which has been fantastic. Statesville, North Carolina, another big capacity expansion will be coming online officially in 2024.

And then on top of the additional capacity, focus on making sure, from a production standpoint, the resilience that we're building in and making sure that the assets that we do have, we talk a lot about flow through and make sure that we get the working capital as tight as possible. So, we're really looking at what we call hidden factory to make sure that those assets are as productive as possible.

And lastly, I'll just briefly hit on logistics, certainly an important component of how we go to market. And there's a lot of data that we extrapolate not just from our stores, we have thousands of transactions every day that Justin and his team are able to help our teams there. But the data that we have and the analytics that we have from a logistics and a supply chain standpoint are really helping us to be more planful from end-to-end. So we really believe we're creating some further competitive advantage here and simplification and digitization are embedded in that.

John G. Morikis

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

Well, let's build on that, simplification and digitization. Maybe I'll ask you both to comment on that as we look forward maybe talking a little bit about what are some of the largest opportunities that you see in this space and how they can translate into business results. Maybe Heidi...

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah. I'll start and then...

John G. Morikis

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

You're on a roll, why don't you continue and, Allen, you can jump in.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

I'll give the easy one and hand Al the rest of that. In all seriousness, so, the simplification when we talk about, I mentioned it in supply chain and procurement, but it really is enterprise wide and it really is looking end-to-end. Our goal here is to improve not just our cost position, but we want to start by proving our quality position and our ease in which we're working, not just internally, but with our customers. So we think there's a lot of opportunity here and Al, I'll give it to you.

Allen J. Mistysyn

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

And I think, Heidi, you said it earlier, everything we do is from the lens of our customers and what adds value to them. And, for example, as we continue to improve our cash flow, we take that cash, reinvest it in programs and services our customers' value. That drives top line growth. And we have a similar mindset with digitization and we're focusing on improving and simplifying our data systems and processes that drive better decision making and making it easier for us to interact with our customers. And I think that's very important for us to continue to drive as we go forward here.

John G. Morikis

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

Terrific. Well, let's move on to another key area. And I think ESG is a topic that while we're traveling with investors, we get a lot of inquiries and maybe Heidi you can take this one as well. Maybe what should our shareholders and investors understand about our position as it relates to ESG?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Well, I think the first is, it's not an initiative, it's just how we operate. And there's key pillars up here that we're setting really ambitious goals towards, and we're well on track to deliver that. I think there's certainly more work to be done and there's a long journey ahead, but we're really confident that we're at pace on working towards these goals. We're fully engaged with our board, as you would expect from a governance standpoint. And if you're interested in learning more about specifics, we've just recently published our sustainability report. I encourage all of you to go on and – online and check that out. You can see more of the specific goals and projections that we have. But I would go back to maybe what we're talking about here, John, is we're committed to building on the good that we've already we've already begun.

John G. Morikis

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

Yeah. So, Al, maybe turning to you here. We put this list of enterprise wide priorities and maybe you could just talk a little bit about how, how these all roll up into what it is that we're driving for from a financial perspective, the goals that we set and what we're striving for. And then I'm going to follow up just to get you thinking a little bit about how that, how that drives your thinking from a capital allocation standpoint which is also...

Allen J. Mistysyn

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

Yeah. So...

John G. Morikis

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

...a question we [indiscernible] (00:47:38).

Allen J. Mistysyn

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

Let me go through each of these numbers in exhausting detail, which I think everybody would enjoy, but...

John G. Morikis

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

We will not, they would, but...

Allen J. Mistysyn

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

We're not going to do that, though. So, let me start with – you look at the timeline from 2019 to 2022, and we've continued to invest in our long term growth opportunities through some pretty difficult times in our company's history, including a pandemic and an industry-wide supply chain shortages. And you can see from this slide the aggressive investments we've made which is driving strong financial performance over these years.

So, as you mentioned, John, I think we are very focused on how we drive shareholder value. And the metrics that drive shareholder value is above average market share growth, ROS and EBITDA margin and RONAE improvement in driving strong cash flow.

And if I talk to the next slide and let me highlight a couple of these mid-term financial targets and I always start – any of the investors, the analysts in here, I always start with volume. And if you look at our sales target and this is very consistent what we've said in the past. We expect to grow a multiple of the market – of market growth. Paint Stores group, our largest segment, will also continue to be our fastest growing segment and growing mid to high single digits. Consumer Brands Group, we expect to grow a low single digit percentage. And then our Performance Coatings Group, we expect to grow mid-single digits, including acquisitions which may mean you have periods of time where it's high single digit, low double-digit depending on the acquisition, and I think that you'll hear from the group presidents later on their confidence in plans to achieve these targets.

The other one that is gross margin and our current target is 45% to 48%. But let me be very clear here, 40% is not a long-term ceiling and I'll talk a little bit more about approach here in a second. And then you can see the other financial metrics and I'm not going to go through all of them, but our approach is very simple. We set challenging targets. We execute on our strategy to achieve these targets, then we raise the target. Our group presidents over here and their teams, that's the expectation of all of them and they all understand that. So, I think that's what drives our performance over the long-term.

John G. Morikis

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

Then maybe AI to capital allocation, maybe how this all rolls into your thinking on capital allocation?

Allen J. Mistysyn

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

Yeah. We have a consistent capital allocation philosophy, hasn't changed. We don't hold cash. We hold CapEx less than 2% of sales. We pay a dividend of 30% of prior year EPS and 2022 was the 44th consecutive year of dividend increases, and then for M&A, we target companies that accelerate our strategy and it could bring us new technologies. It could be fill a geographic gap but I'd also like to say, equally as important for us is we continually review our portfolio of businesses and programs. We set targets and sales, ROS, cash flow and if we don't believe those businesses or programs could achieve those targets, we take action. And a recent example is that is our recent divestiture of our China architectural business that we closed in the second quarter.

So, over time our strategy has led to returns that [ph] have (00:51:33) outpaced the market and our peers and we expect to continue that as we execute our strategy and drive improved performance. And we continue to build on our strong foundation and focus on our core operating disciplines. We're confident in our strategy and about delivering strong results in the long term in all economic environments.

So, just to kind of recap and put a bow on this, we're just very focused on driving these financial metrics and I'll hit them again because it's in our DNA and how we drive our decision making, above average market share growth, driving ROS, driving RONAE and driving cash generation. And I'm really excited for you all to hear from our group Presidents on their confidence in their strategy, driving the right customer solutions to drive volume and then certainly their confidence in expanding their operating margins.

John G. Morikis

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

Yeah, I think that's the key, right?

Allen J. Mistysyn

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

That's right.

John G. Morikis

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

I mean, you can have these goals, but we achieve them by executing the strategy that we keep referring to that's driven on this uniqueness and differentiation. And I think it's going to be great. We are going to take a short break here and I'm going to leave you with Heidi and Al, and we're going to bring our Group Presidents up to share some insight with you on how these corporate priorities roll through into each of the businesses.

And I'm really proud of these Group Presidents, the two key executives here to my left, but also to our Division Presidents in the back. Each of our business unit Division Presidents are here. And I think what's very unique and maybe an overused word here today. But that's how we think, this uniqueness goes well beyond just the products and services and the customers that we focus on.

I think another element that's very unique about Sherwin-Williams is this. I'll use these two terrific executives to my left as an example. I'm blessed to have them individually. Same with the Group Presidents, same with the Division Presidents. But I think what's so unique about it is, is that you can field a team of All Stars, but if they perform as individuals, you don't reach the level of success that you can when people work as a team like Sherwin-Williams' leadership does.

I'm really proud of the individual leaders that we have, but I'm even more impressed and proud of how they work together, how we work together as one. Sherwin. I believe that when we face challenges and we seek opportunities, it's the way that we work individually and together that sets us apart. You're going to see it on stage here in just a minute. Going to take 10 minutes. I see it's 2:25 Sherwin Time. We're going to start exactly in 10 minutes, so if you can calibrate accordingly. I look forward to having you spend some time with our key leaders. Thank you very much.

[Break] (00:54:32-01:07:40)

Unverified Participant

Are we ready, [ph] Jane (01:07:47)? [ph] Jane, Craig (01:07:48) are we ready? Everybody, I think we're ready. So, [ph] Jane (01:08:01)?

Unverified Participant

All right, we're ready.

Unverified Participant

Yes, let's go.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

All right, let's do this. All right. Well, I'm pleased to introduce Justin Binns. He's our President of our Paint Stores group. Justin has been with our organization for 26 years. Most of that time he's been within our paint stores group in a number of roles, starting from all the way to the very early days, all the way through, progressed as a Vice President Sales, ran the Eastern Division, and obviously now he's in this role. Before this role, he was in our industrial side. He spent some time over there automotive [indiscernible] (01:08:38) and running Performance Coatings Group. So, I'm really happy to have Justin here with us today. Welcome, Justin.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Thanks for having me.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Okay. We'll get right into it. We talk a lot about our differentiation. John hit on some of it. I hit on some of it. Justin is going to walk you through. We're going to ask him a series of questions so that you have an appreciation of what our differentiation really looks like. So, Justin, maybe, why don't we start with what gives you confidence that we will outpace the market?

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Yeah, I think starting off, what I would say is, is you either have a strategy or you don't and you either believe in your strategy or you don't. And we believe in our strategy. When you look out, it's about clarity of mission. And if you went through our entire organization and talk to our people, what they would talk to you about is that our top priority is to help our painting contractor make more money and be more successful. I think one of the things that we'll talk about today, about that ecosystem and how that looks for us. But realistically, one of the key components that's in that ecosystem is unique. I think I've heard that word a couple of times today.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah. [indiscernible] (01:09:45).

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

I'll add another one, unmatched. And that's our controlled distribution model. And we're excited about that controlled distribution model. You hear us talk a lot about it. Our customers value that. As part of the ecosystem that they value, and that's part of the ecosystem that they will pay for. And the other element would be is that we uniquely own everything from start to finish, from the time that, that gallon of paint is made through the process of it going to a store, being tented at a store or being put on to a wall, run through our POS, which we own the data there too. [indiscernible] (01:10:22) that gets available a bit later. We own it. We own it from start to finish. And I think that element in and of itself is absolutely critical to what we offer.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

That puts us in a really unique position. Maybe we go on to, can you walk us through some of the elements of the model that you think differentiate us.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Yeah, I think first and foremost, the first one I would talk about is the one thing that I enjoy talking about the most. And that's our people. When you go out into our stores, you see what type of relationships our people have formed with their customers who are coming to the store day in and day out. The multiple touch point that we have and the depth of the relationships how we actually become integrated and embedded into that customer's business and it's not just about being business partners, it's friendships that are formed there as well and I would say the level that we operate up in that space is just unbelievable.

You touched a little bit on the MTP side of it, that Management Training Program for us. I mean, we bring in roughly 1,400 manager trainees in a year. And when you look at it, I think that onboarding process starts essentially on day one. We work diligently on day one to get them in front of customers embedded and integrated into customers businesses, so they better understand what those pain points are and what proven solutions we can provide out to that contractor to help them be more profitable.

And then the other one that I would touch on too, would be our sales reps and they're kind of the unsung heroes. We don't talk about our sales reps, I think enough. We have 3,600 reps that are out in the market day in and day out. And one of the [ph] neatest (01:12:04) things about those reps is that they're segmented.

So, I have residential repaint reps, we have property management reps, commercial reps. And when you look at what they do every single day by being segmented, they become experts within those segments. And again, embedded in the customer's business, but embedded with knowledge that they can provide to their customer that helps them become more successful in their business.

And lastly, I think what I would touch on is, is our stores and I've already touched on it with talking about our unique distribution model and unmatched distribution model. But when you look at those stores, those 4,600 stores across the platform of United States and Canada, I look at them a little bit differently. I don't look at them as

a distribution platform, which they are. But I look at 4,600 knowledge centers. They're really the epicenter of that ecosystem that I touched on earlier that includes the premium products, the premium suite of tools that we offer from a digital perspective. They're the epicenter.

But I think the other element with those stores is that they are segmented well, they have mission. You might visit some stores and as you get into the market, you'll see one with maybe a little bit stuff smaller footprint up front in the front room, but a larger backroom. And those are set up to service our commercial paying contractors. And what they deliver to those commercial painting contractors is speed, quality. Keep them on the job, help them with their throughput. You get into a residential repaint store, you might have a little bit larger footprint on the sales floor, but a different product portfolio, different resources for those stores, maybe more area for the contractors to gather. Because as I talked about being the epicenter, if you go to any of our stores in the morning, you'll see that, you'll see the networking taking place. But ultimately, those stores are the core of what we do.

Allen J. Mistysyn

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

Yeah. Yeah. So, Justin, you mentioned data and I think data for us is huge. Maybe you can talk and highlight how this paint storage group use that data to drive next best action to drive volume through your segment?

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Well, I think you hit it right there is when you look at it, we own that point of sale. We own that data that goes through that point of sale. And I think what's absolutely critical is if you go into any distribution model that doesn't have controlled distribution, one of the things they constantly talk about is we wish we had more end user data. Well, we have that end user data. And I think the way in which we use it is absolutely critical to how we grow.

I talked about our CRM system, our unique CRM system well, all that data that we get on that end user that comes through our store ends up in that CRM and ends up being pushed out as next best actions to that sales rep force that I talked about earlier. It's also pushed out to our store managers, our assistant store managers who make calls or interact with those customers on a daily basis, hundreds and thousands of transactions that they run every single day.

So, ultimately, it's a key driver and we recognize how important it is that we own that. A couple other elements too that I would just touch on real quickly just to kind of run it out and finish it out would be, our distribution, we talk about the distribution model, but in addition to that, it was a delivery service that we offer up. We do millions of same-day delivery services every – same-day deliveries every single day, and – every single year. And when you look at what that encompasses and what it gets us is, it keeps that contractor on the job. And if you take all the statistics and add them all up, we know that our customers that frequently use our delivery service, same-day delivery service or delivery service, stay on a job site for an extra day a month. And when you look at that number, I think that truly separates us in the way that we go to market.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

And the last thing I would touch on is innovation. I think we touched, you talked a little bit about it already. And what's interesting for us with innovation is we really have it coming from two sides for us, from our perspective, we obviously have the R&D aspect of it and we challenge our suppliers every single day. I think [ph] you said to be first (01:16:29) and why, that's exactly where we want to be is first in line on that side.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Right.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

But those 3,600 reps and 4,600 stores day-in and day-out are close to a customer. And I want to highlight the fact that a lot of our innovation on our side comes from that customer feedback, comes from where their pain points might be and how we can bridge that gap. And that connectivity that our teams have with that customer absolutely drive those decisions.

A couple that I would highlight, you look at our gallery cabinet paint, that opened up. It's a high-quality premium finish. There's some technology there that we've leveraged from other business units. You talked about how we work together and you look at it. That opened up in a completely new market for residential repaint contractors, which are highly profitable. Where we set ourselves apart is how we return to servicing those projects, and it helps the customer be more profitable, more successful. Another one would be our Latitude, our exterior product line, which ultimately takes the painting season and extends it. So, allows our exterior contractors to be in paint longer, which allows them to make more money and have better seasons.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

It's a great example. You mentioned the gallery series with industrial wood, having some softness, being able to partner, leverage some of those technologies. So, our res repaint going and painting the walls of a room, they're now able to go to the next project and offer nearly a factory finish for the kitchen cabinets because we're seeing new res come down. So, it's a great it's a great example.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Absolutely.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

I think another piece here is we talk a lot about outperforming the market. And I have a lot of confidence in the Paint Source Group and what you're doing, Justin. But I think for you to share with the audience what your thoughts are on our ability to outdeliver and to hit a multiple above the market?

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

We're extremely confident that we can outdeliver. And I think it comes down to when you look at our breadth of solutions and back to what I started with, we own it from start to finish. We talked a little bit about that new

residential market. Jim had that in his slide deck as to where it goes and where it's been headed and it's been a little choppy. We talk about that table [ph] tilt (01:18:46) all of the time. And we truly believe that.

We're not relying on one single market to deliver results. We know that when one single market maybe down, there's other markets that we can lever up. And ultimately, if you talk to the teams in the field where we have been focused as a top priority is what we can do from a share of wallet perspective, utilizing some of that CRM data. Examples of that would be a contractor that buys a specific product where we know maybe there's a brush or roller that works better, that makes them more productive in that product, we get queued up and can see that. And we work towards [ph] or (01:19:23) they're not buying brushes and rollers from us, we can work towards that share of wallet number.

And the other element would be our new account focus. And we've been hyper focused on that for multiple years. That continues to be a key driver to our overall success in our top line performance.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Excellent. [indiscernible] (01:19:41).

Allen J. Mistysyn

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

Yeah. So, let me just build on that a little bit, Justin, because we often get asked how do we incentivize our people to ensure they're focused on the right things to grow our business? Maybe you can just weave that into this discussion here.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Yeah, we don't talk a lot about that. It's a great question, Al. We do incentivize our people to act like business owners. I mean, they own that P&L. And they have the autonomy within their markets to make decisions for their customers and make decisions for their business to help them grow. And I think it's absolutely critical that we give them that opportunity. They own the decisions that they make to go-to-market. They own the culture in those walls. They own that team atmosphere and environment that they create. And I think it absolutely, positively, it differentiates us from the competition. Because of those environments that they create, I would tell you, it also allows us the opportunity to hold on to that price without losing that customer [ph] growth (01:20:45).

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Demonstrating value.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

It's that value.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah. Yeah.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

And on that price piece of it, why we hold onto it, it's not about that, that data we go out and have a pricing conversion, the day that the price increase goes into effect, it's about what we do the 364 other days of the year to demonstrate that value to the contractor and to the customer. That's how we did it.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah. True.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

I think the last thing I would touch on there too, would just be something we talked about a little bit earlier as well is the digital side. And we get asked that question a lot. And I would tell you the epicenter of what we do is the store, that's the epicenter of that premium ecosystem. But we definitely have the opportunity on that digital side to intersect the customer digitally and interact with them any way that they'd want to interact and...

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

It gives them choices.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Gives them choices and we're confident that we have the right tools. I talked about that suite of tools of them to be able to go find knowledge in the digital space that we offer our PRO+ app and it puts us into a different space.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Great.

Allen J. Mistysyn

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

So, Justin, I wore my green cash tie...

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

I noticed that.

Allen J. Mistysyn

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

...to signify also operating margin expansion. And I often talk to the street about our ability to expand our operating margins and sustain them over a long period of time. But maybe you can talk to why you believe in your

confidence and being able to do that and what are the levers that you have to make sure it's sustainable over the long-term?

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Yeah. Well, first thing I would say is that value is what drives volume...

Allen J. Mistysyn

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

Yeah.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

...and volume is what drives those sustainable margins. And we are focused on volume growth. There's absolutely no doubt about that, that our focus is there.

I would also tell you too our team excels. It does a phenomenal job is our mix and driving customers to those higher value and products. If you take a look at when a contractor comes into a store or when we go out and acquire one of those new customers, I talk a lot about that premium ecosystem and our people at our stores, our people at our territories know how to talk to a customer and get them into a product that's going to make them more productive and make them more successful. And it's that premium space.

The other element on the simplification conversation that you've already had this this afternoon is how we simplify our portfolio and we optimize it. I mean, if you take a look at where we are now, comparatively speaking, to maybe two to three years ago, from a regional product to a national product standpoint or footprint, we're much closer to a national product footprint which allows better optimization, right, better use of raw materials, purchase of raw materials, but ultimately helps with the throughput in other spaces of our business. And the last thing from a confidence factor that I would touch on now would be take a look at our past history.

Allen J. Mistysyn

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

Absolutely.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

We've seen this movie before.

Allen J. Mistysyn

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

Yeah.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

And if you go back to 2008 or 2009 in the Great Recession and you look statistically of how we outperformed the market coming out of 2008 and 2009, we're confident that we can do that again. You look at our growth and our investment, as we've talked a lot about, from 2020 to 2022, we had seven – or five price increases in 32 months. We continued to add stores, 193 stores, 263 territories. So, we've seen the movie before. We're confident that we're going to be rewarded for our efforts as we move forward. And we know that we provide that value that the contractors will cherish.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

That's a really good segue. We've seen the movie and I'm going to tee up a discussion on res repaint here so...

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

If there's a res repaint [ph] Heidi (01:24:49).

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

In...

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

[ph] That is in (01:24:51) my world.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

...that is, that is. 2008, 2009, when we saw what was happening with new residents and Jim shared some of those slides. But our ability to see that coming and then lay those reps and invest to your point, making sure that our capital is aligned with what our strategy is, residential repaint is biggest area of focus for you. It's also the biggest opportunity for you. If you could share how you're focused and where you've got the team targeted to make sure that we continue to take share here?

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Yeah, there's absolutely no doubt that, it is our biggest growth opportunity. And those investments that I just talked about on the store side and the sales – and sales rep and territory side are very heavily weighted to that segment. And I would tell you, I talked a little bit about what our sales representatives do, what our people in our stores do every single day to earn the business, one thing that I definitely want to highlight with this group is our people are not gatherers, they're hunters. That's what they do.

So, if you were to go work or travel with them, they're constantly hunting. They're hunting for opportunity and they're hunting for opportunities specifically in this space and that share of wallet, this new account growth, it's success by design. And when they get that customer and they hunt that customer and they get them into the premium ecosystem, it's about the solutions that we provide for that res repaint contractor.

We've been hyper focused in this segment since 2008, and the suite of tools that we've provided and created and developed with their input is second to none. Whether it's virtual color consultations, it's webinars or education process on how they can better manage their business that's available to them. Bidding tools online or in markets like we're currently in or economic markets like we're currently in, how they better market their business. It's those types of things that I would tell you give me confidence in the fact that we'll continue to outperform in this segment as we move forward.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

It's definitely a form of differentiation that [indiscernible] (01:26:58) our competitors are taking that level of focus and care for the business side, not just the product side.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Certainly. And I think that's – speaks to that segmentation side mission of store like we talked about.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

So, why don't we do the same and hit on new residential? Just your thoughts there in terms of where you're directing the team and how is it that we continue to win there?

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Yeah, I'll stay relatively brief here, Jim covered a lot of data earlier. Just to level set, it's a mid-teens percentage of our number of Paint Stores Group. And there is that three to six month lag that Jim talked about. He also talked about the mortgage rate side of things and, we saw [ph] that was (01:27:37) inflated mortgage rates, they paused the market a bit. But we truly believe that those rates will moderate. That one – couple of items that I would say are good indicators as well. There's a very low availability of existing homes in the market, as we all know. And because people are still moving and want to move into different homes, their options right now currently are really to buy new. And I think we've seen that across our Homebuilder Network. We'd seen that in different pockets across the United States as well. But we continue to stay focused on how we differentiate here as well.

So, even when a segment is down and I talked pretty heavily there about residential repaint, where segments down, we're still looking for growth opportunities. And I think how we differentiate with some of those relationships that we've earned with the exclusives, with some of our national homebuilders is just the way that we take care of them. You can take some national homebuilders across the country and we run more than 200 plus transactions for that homebuilder across the country every single day.

When you look at the consistency that we provide, whether it's on the color aspect, price aspect, all the way through that ecosystem, it's a differentiator. There's no doubt. And I would say this, I think that near-term, in the last 60 days, we've started to hear that sales activity has started to pick up in some of those sales centers for those national homebuilders, which gives us a good indicator of where we're headed. And again, that three to six months lag, that's all in front of us. But what I really want to hit on here is we haven't sat back, right, we [indiscernible] (01:29:14).

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Right.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

And the opportunities exist out there from a regional and custom perspective and – custom homebuilder perspective. And we're going to stay diligent there.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Because as [ph] time slow, we learn (01:29:25), as we face adversity, we get better. And it's like that in every single segment that we operate.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

No. It's well said, and I think there's opportunity here with some good, signs of good signals in new residential, we won't see it this year but plan to see it next year, so.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Absolutely.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

So, Justin, as you've covered a lot of ground here, just maybe your highlights that you want investors walking away with, what's in your mind as the key summary takeaways here?

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Well, I think, I hit on it to start. And you either have a strategy or you don't, you believe in it or you don't. And we believe in it. We differentiate. That's what we do at Paint Stores Group, and we become true partners with our contractors. And we've delivered above-market performance and growth in the past, and we're going to continue to do that in the future. Because, we all have faith in the model and we truly are the destination for the professional painting contractor.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Great. All right. Thanks, Justin. Appreciate it.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

Thanks.

Allen J. Mistysyn

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

Thank you.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

All right. Now we'll welcome Todd Rea, Group President of the Consumer Brands Group. Todd has been with our organization for – how many years now, Todd, 26?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

A few more.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

He's on his 30th year with the organization, and spent a lot of time with Todd working together and he's fantastic leader and couldn't be more confident in having Todd at the helm here. So, we're going to do with you what we just did with Justin and walk through a series of questions that I'm sure are top of mind for everybody. So, there's no doubt this has been a challenging I would say year or last few years for the Consumer Brands Group because it's been weathering a lot of storms. And despite all of that, you guys are still working through a few key important decisions that you've made, some highlights in your business. So, maybe talk about what you've done in the last few years to strengthen kind of the CBG portfolio, some highlights?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Sure. First of all, good afternoon. It's great to be here. You're right, it's been a challenging few years for Consumer Brands Group, but I just want to level set first and start talking about our volume performance. I look back at our volume in North America specifically between 2019 to 2022. Despite a lot of the industry impacts that everyone's very familiar with as well as some strategic portfolio adjustments that we've made with our business, if I factor those into our volume performance, we saw our volume grow from 2019 to 2022. I think it's important to start there in terms of the performance, but more importantly, how we're positioned going forward from a volume standpoint.

But, to your question about highlights, Heidi, first, despite a lot of the challenges in the environment, we launched some new products that were critical to our business over the last few years. And I'll start with, at Lowe's, we launched HGTV HOME by Sherwin-Williams Everlast, which has innovation, self-cleaning technology in it. And I'm pleased to announce that in 2022, at least, we won Lowe's Innovation Partner of the Year because of that, and I'm really proud of the team there. We also launched a new exterior stain line at Menards, which was new for us, was an expansion of the Dutch Boy brand, at Menards, and we're really pleased with that. And then, finally, we launched a new and improved Valspar line in our independent dealer channel this year, and we're really excited about what that will bring us going forward.

In addition to some new product launches, some additional highlights, you've heard us talk about this Pro Who Paints segment, we're a couple of years into our journey here on this particular segment. What I would tell you is great progress over the last couple of years, we've established some terrific momentum, but we're getting better every single day in this segment. And there's a ton of opportunity in front of us. The teams are executing very, very well. I'm confident in this particular segment and what it's going to mean for us going forward. We strengthened our brands. We've got a stable of brands that we really lean into, and we strengthened those brands by investing in our media strategies. We've done a lot to enhance our digital capabilities. And so, all of this will pay off for us going forward.

And then, last but certainly not least, and I know we'll talk about this more, is we've taken a lot of cost, the complexity out of our business over the last couple of years. We've simplified it. And this will pay off in the returns of improved operating margin. And I know we'll talk more about that.

Allen J. Mistysyn

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

We'll talk about operating margin, don't worry. Let's start with – maybe we could start with – I said earlier, my expectations were that this segment would grow low-single-digit percentage. And maybe you can talk about your confidence in not only achieving that number, but exceeding it?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah. Well, also like our Paint Stores Group brethren, we expect that we'll outgrow and outpace the market. And it all starts with our brands. I mentioned we have this portfolio of brands. Many of these brands are top in their respective categories, and just a couple of them here I'll mention. So, we have Valspar that's been at a kind of leading position at Lowe's since 2007. So, it's had great traction there. We also have HGTV Home by Sherwin-Williams. It's also at Lowe's and we've established some really good momentum with that brand.

We have Dutch Boy that's been at Menards since the mid-1980s and really established some great following there, an important brand for us. We also have brands like Purdy, which is the number one applicator brand for the pro, which has terrific distribution across all of our channels, and we're really proud of that brand. We also have important brands like Minwax, Cabot and Thompson's, also leading brands in their respective categories. They're all positioned for growth based on the distribution platforms.

We also go to business through some really important partners. And let me just start with, we go to business with partners that believe in a model that we bring, which is a value-add model, and I'll talk about that more in a second. These are companies that are positioned for success long term. They're investing in their business, both in the short term, but also for long-term sustainable growth. And these are companies that have a right to win in this home improvement space.

Lowe's is an example. I can tell you that I've been around the Lowe's partnership for seven or eight years now, and I can say for certainty the partnership has never been stronger.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Great.

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

The teams are collaborating better than ever, executing at a high level. I just point to the momentum that's been established with the pro paint business at Lowe's, high levels of execution, plenty of opportunity for more. Also, proud partnership with Menards. This is a retailer that has terrific loyalty from a consumer base and they're always poised for growth, and we think there's tremendous opportunity there. And then, finally, we've got some great partnerships with companies in the independent channel. Companies like Orgill, Do-it-Best and Ace, which also are investing in their business and present terrific opportunities for distribution of our brands.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Well, you guys have done a nice job with the, say, taking a lot of complexity out with that Valspar line in the industrial channel where there was a lot of fragmentation earlier. So, with that, you've got the right brands and the right partners. What services and solutions are going to also help you to support driving that growth?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah. So, it starts with, as I mentioned, we focus in on bringing value to our partners, and that comes in the form of high-quality products, differentiated services and solutions. And John talked about it a minute ago. But, we determine our success based on our partners' success. So, they're not achieving success, then we don't find success in what we're doing. So, we really focus in on differentiated model.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Sounds like a really familiar theme that you just talked about.

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

So, we do this in a number of ways. First, as category experts in paint, we take the role of category management really importantly, and so that comes in the form of making sure that the right product line designs are in place and we do a lot of data analysis to make sure that inventory positions are there. We work closely with them on what does the in-store experience look like and how does it connect to the online experience so that there's a seamless experience between the two, omnichannel, if you will. We work closely with them on promotional and advertising strategies that drive traffic and ultimately convert customers.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

And you've been driving strong growth with the Pros Who Paint. We've talked about that a little bit here. I think just for the sake of – as you look at the differentiation between this segment and the segment that Justin mentioned, how would you talk about how they're different or how they complement each other?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah. So, I think an important word is they complement each other. I think this complements what Justin and his team are doing. This is a different type of product. This is not the pro painting contractor that's going to work every day and painting. This is a pro that's remodeler, handyperson, maybe a general contractor, and they're using paint as a part of their job. They're buying – they're sort of cross-shopping in our retail partners. They're buying plumbing, electrical, drywall, lumber. So, they're cross-shopping that store and paint is a part of their project. It's maybe a smaller part of the project, but it's a very important part of their project. And so, that's the target customer that we're going to...

[indiscernible] (01:39:12)

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Remodelers, handyman, house flippers. Yes.

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Remodeler, yeah, handyperson, all that. So, that's who we're targeting here. And they prefer a different shopping experience. Their preferred shopping experience is that one-stop shop value proposition where they can go in, they can pick up some lumber, some tools, and then of course paint, and they buy that. And I would say that the partners that we go after this segment with are well-established and they have a right to win with this particular customer, and there's a lot of momentum here.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Let's turn in on the Pro Who Paints, you had a lot of excitement about what we're going in and the momentum here. Maybe just talk about what your focus is with your team and the organizations that we can continue to chase the growth that we know is in this segment?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah. So, let's start with, as I mentioned earlier on in my comments, it's a newer initiative for us and we've seen this business grow by double-digits the last three years or so. And so, we've absolutely been outpacing the market. We absolutely expect that type of growth rate to continue. There's tremendous upside for us here, and I'm confident in our plans.

But it all starts, first of all, with understanding the customers' needs, making sure that we understand what products they need that have the right attributes that they desire for the job. It involves understanding their service expectations and what we need to do to meet their expectations as well as how we can support their business so they can be successful. Number of ways we do this.

First, we've been investing heavily in pro reps. Over the last couple of years, we've added over 225 reps solely dedicated to driving this initiative. These reps are key to our growth here. They understand the customer. They're experts in this segment. And let me be very clear, we're not done yet with this investment. It's one of our top priorities.

So, we've invested this year. We're going to continue to invest in the back half of this year. We have plans to invest in more pro reps in 2024, and we're prepared in 2025 and years to come to keep the momentum going.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Great.

Allen J. Mistysyn

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

With that, I would say, we've got to get a return for those reps. So, how do you make sure they're being productive, they're driving volume?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah. So, rep productivity is an important part of what we work with our team on. And this is something that we leverage across the enterprise. So, we use some of the best practices that we've learned from other parts of the company. And one area I'll point to is how we utilize our CRM tool. We've built a robust CRM tool that we're now able to push data. So, we're using data analytics to push data through to our sales organization so that they have the right cut. So, lead generation is pushed down so that they understand the right customers that they should be going after. They prioritize, they can see the opportunities with those customers and then they can work as fast as possible to drive profitable sales and gallons there.

And I just want to comment one more time – one more thing on the Pro Who Paints business. Our customers are investing in this space as well. They're investing in their infrastructure to support the pro. They're investing in their service model. They're investing in programs and tools like rewards and loyalty to really build out that experience.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Good alignment.

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah.

Allen J. Mistysyn

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

So, Latin America architectural recently moved under your leadership. Maybe you can remind the audience why that change was made and the confidence you have in building the successes of that group over the recent past?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

First of all, it was the right decision to make, and I'm highly confident that we can continue what's been terrific momentum in this region. But if you look at the Latin America business, the model is very similar to the model we have in Consumer Brands. So, they go to market through some controlled distribution depending on the country

that you're in, but it's home centers, it's dealers, it's distributors, which is very similar to the Consumer Brands Group model. And we have deep experience in these channels. And so, as that continues to trend more and more like our business, we moved it over.

Just simple example is home centers is a terrific opportunity in that region. We have deep knowledge of home centers here in North America, and so we're going to apply that knowledge in the teams already running with some best practices. And so, it's going to present opportunities. They go both ways. So, synergies will go both ways there. That team has done a terrific job, and they've had low-single-digit – I'm sorry – high-single-digits or low-double-digit gallon growth over the last few years.

And that comes through a disciplined execution of their strategy around channel segmentation, new account growth, rep productivity, and they've done an exceptional job. They implemented multiple price increases as they've had to offset inflation, like the rest of us across the world. And then, I'd say, their operating margins have hit a point where they're high-teens, and that's what we believe is a sustainable target for us and with room for growth.

But going forward, we expect to keep the momentum going. We're going to invest in stores. We're going to invest in bringing in more dealers and new territories. I'm confident in growth there.

Allen J. Mistysyn

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

Yeah. I think that team has done a terrific job over the last number of years. And so, switching gears to Europe and building on that Latin America answer, how are you leveraging best practice across not only Latin America and North America, but now into Europe and driving margins there?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah. So, first, I'll start with our market, our business in Europe, I'd say, it's stabilized, it's been a tough couple of years, which is encouraging. We think we've kind of hit the bottom and now we're starting to see that stabilization return. And we're leveraging a lot of the same best practices, whether it's home center business or some of the dealer business. So, a lot of the same type of best practice sharing. In Europe, we go to market through Valspar and Ronseal brands.

And we've got a lot of terrific partners over there. But I'd highlight that we're partners with Kingfisher, who's the largest home center organization in Europe. And we've got terrific positions with B&Q in the UK, Castorama in France and Poland, and that market's a little different. It's very packaged color-oriented unlike North America where it's very heavy custom color mix. And we're the exclusive partner or sole partner with Kingfisher in those banners on their custom color program. And we're excited about the opportunity to grow our footprint.

They've also done a lot of really good work in that region to simplify their business, to your point, about operating margins. So, simplification with taking complexity out as well as adding – getting price in that region, we're starting to see the operating margins get back to more acceptable levels.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

We've already talked about the China architectural divestiture, but maybe, Todd, just share some of your thinking on criteria or how did you get to things like the aerosol, the non-strategic part of that business, and what implications does that have on CBG in general?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah. So, we conducted a – and this is a continuous disciplined process for us, looking at our portfolio and we look at our brands, products, region, segments that we do business, and if we don't feel like we are getting the right shareholder value and returns out of it, then we have to make some tough decisions. And so, it's a disciplined approach to optimizing our business to drive more acceptable returns.

And so, in the case of China, we did a deep dive and for a number of reasons didn't feel like we had a long-term path to achieving it, and that could have been for a lot of different reasons, but we felt like it wasn't for us. And so, we made the decision to divest that business.

And I'd say, ultimately, same thing with the aerosol business, it was too complex, it wasn't core to what we do and just it was added cost that was a drag on our operating margins. And we have resources that we have to deploy and AI has thresholds that he has for us to hold us to.

So, actually, I think the goal line constantly moves, but that's okay. So, we just...

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Another theme...

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yeah, right. So, we've – we're not going to be all things to all people, and that's okay, and we're going to make decisions that are going to have a positive impact on our returns and those decisions will have that.

Allen J. Mistysyn

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

Yeah. And I give you a lot of credit, that's not easy to do, but you've stayed focused on that top line, bottom line. And I wasn't going to bring up operating margins, but since you brought them up earlier. I've spoken a lot about my confidence of getting this segment the high-teens, low-20s. And maybe you talk again about your confidence, what levers are you pulling to make sure we not only get there, but it's a sustainable for the long term?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Well, I am confident we can get there because we've been there before, and it all starts with volume, that's our number one lever here to drive operating margin improvement. And it's all about the volume in the right segments, the right volume in the right segments, that's where our team is focused on. That goes back to our decisions that we've made with our portfolio, very disciplined about the right volume. So, it all starts right there.

We're continuing to invest in innovation and drive in best-in-class new products, which are accretive to us. We talk about price and that we have to hold price. We bring a value-added model to our partners. And in order to support

the business and invest in the business for growth, we have to have price, and we expect to hold onto the price that our teams have worked very hard to get across all regions.

We focus in on taking complexity out. Just a couple real quick high-level stats here. In North America, we've reduced our SKU count by 45% over the last number of years, which is a ton of complexity that we've taken out, that our supply chain team doesn't have to manage. We've reduced our direct shipments in North America by 35%, which is just a lot of extra strain on our distribution centers.

We're also looking at doing some of the same things in Europe and LatAm, but we're making steady progress already in 2023, and we're heading in the right direction.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

So, Todd, anything from your mind key takeaways that you want all of our investors to understand about the Consumer Brands Group?

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Yes. We have a portfolio of leading brands that are positioned well for growth, both in the short and long term. We've partnered with the right companies that are investing in their business that are also positioned both for short term, but long-term sustainable growth. We're being smarter than ever with how we're using our dollars. We're constantly measuring against are we getting the right return on our investments and the right shareholder value. We've adjusted our portfolio in North America and we have upside in both LatAm and EMEA.

And also, would be remiss if I didn't mention the talent that we have in our organization. As you said, I've been with the company for 30 years and I can honestly say in my humble opinion, our team has never been this talented, this deep and this diverse in my time. And I can say going back to 2014, when I was put into a position, in executive position, I can tell you we have a strong bench and they're ready to make sure they continue to deliver.

But finally, our leadership team is aligned. They understand our targets. They know what we need to achieve, but more importantly, they know how we're going to achieve it. And I'm confident in their ability to deliver.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

It's the clarity of mission we always talk about. Right? So, one comment here, just I think for the – as you all are listening along – to what Justin and what Todd covered. We take a lot of thought to understand how we look at the entirety of the architectural market. And so, the word complementary I think is the perfect word to summarize what you heard in terms of these unique segments that, candidly, we are designed and set up in the Paint Stores Group to really focus on a DIY customer that's coming in once every five to seven years. We want that frequency and that loyalty. And the pro who paints, to your point, is buying a whole host of other categories. So, it really allows us to capture a broader view of the architectural market between these two models.

So, thank you, Todd. I appreciate your comments.

John G. Morikis

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

Thank you, Todd.

Todd D. Rea

President-Consumer Brands Group, The Sherwin-Williams Co.

Thank you.

Allen J. Mistysyn

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

Thanks, Todd.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

All right. Now, we'll bring Karl Jorgenrud up from the Performance Coatings Group. So Karl is a 29-year veteran of the company, comes from the Valspar acquisition, as did I. So welcome, Karl.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. Thank you.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Karl's had multiple leadership roles over his 29 years, including running our Protective & Marine business, our General Industrial business before becoming President. Karl is a wonderful leader, great followership. I'm excited to have him here today and we're going to just jump right into him.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Perfect. Thank you.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

All right. So, Karl, you've got a lot of different segments and your leadership at the back here, one of the most complex businesses that we have. When you think about end markets and how you look to define a common value proposition across these segments, if you can talk about how you look at that and use that as a point of differentiation?

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. So how we differentiate versus our competitors, really starts with our people and that includes our now famous division presidents back there that have had numerous callouts, I think, all afternoon. Really top to bottom though within our organization, all the way down from our sales reps, our tech service team, our R&D experts. We

really promote this customer first culture, and that's our North Star. That's what drives everything that we do every day and including our value proposition. And our value proposition across the businesses is really finding and differentiating solutions that drive customer productivity, profitability within their organizations.

So how we're able to really deliver on that promises to our customers is leveraging, what I call, our kind of four key core competencies. And the first one that I would highlight is this essence of customer-driven innovation. You know, we really listen to our customers to understand what's important in their processes and how we can add value and again, come back to driving productivity and profitability within their operations.

You know, kind of, building on what John mentioned earlier is we don't have to be all things to all people. And we take that notion from an innovation perspective. We really find solutions that are going to allow our teams to differentiate that customers are willing to pay for, and then ultimately that we can generate a return for ourselves and our shareholders. So that's how we kind of take a look at it from that side. And, you know, these innovations are really about share gain, right, and looking for opportunities to grow our business.

And I could highlight just a couple of here today. The first one would be our valPure V70, a BPA free coating with our Packaging business. Jim, I think, mentioned that really exciting innovation there. This is technology that has really allowed the teams to differentiate in that coding space and it really focuses on our customers and the brand owners and helps them navigate kind of the ever-changing regulatory and environmental challenges within that space.

Another great example is in our automotive finishes business. We've got our Ultra 9K, which is a waterborne refinish solution that really delivers what every collision center is looking for and that's improved productivity and efficiencies in the shops. So again, these are great examples of where we're really focused on driving value and productivity within our customers to drive share for the company.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

And how do you tie all these together? [ph] You've listed (01:55:48) people, technology. How do you how do you [ph] pool all (01:55:50) this together?

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah, well, I mean, the second one, you [indiscernible] (01:55:53) up as people. So, we look at our connected global expertise. And I started talking about how important our people are to our value proposition that you heard Justin talk. I think every one of us talk about how core our employees are to what we do every day at Sherwin-Williams. And it starts from how we attract, retain, develop and really in this business, in particular, it's their skillsets really that allow us to differentiate with our customers and understand our solutions. And then ultimately, just as importantly, how that applies to our customers in driving value.

And I would highlight our sales reps, these folks are not order takers. They don't deliver donuts every Monday morning. I mean, these are really professional business development individuals that are working with our customers up and down their organizations, looking for value, driving value and allowing them to be more profitable in the value proposition.

So we've got 120 countries, I think you saw on the slide that we operate in within Performance Coatings Group. And I think that's important because we're able to meet our customers where they are anywhere in the world, but

still have that segment level expertise and value that that we kind of bring within that organization. Our third area that we – within our core competencies is color and kind of the design element of that. And we've got some of the best tools, experts, processes when it comes to color in the entire coatings industry and it starts from the inspiration of color early on in the process, all the way down to execution at our customers' locations when they develop and apply it to their products.

And just a couple of examples that we can point to within our divisions. I'll come back to our Automotive Refinish's group. We're really investing a lot of time and energy in our solution, our tool, which is called Collision Core and we haven't talked a lot about that externally about this, but it's really exciting because it's a set of tools that allow our customers to be more productive and more efficient in their shops with our coatings. And we're going to continue to invest in that area, particularly, in this Refinish segment where color efficiency is such a key component of painter efficiency. So making sure that we work together with our customers and driving that forward.

Another examples in our Industrial Wood business. We've got a really exciting new platform that we've launched called Color Express. And why that's exciting is historically for that industry, it might take you up to a couple of days or maybe even a week to get product produced for that segment. But this system and platform takes that down to hours. So you think about that if each and every one of you were running your own operation, and your current supply chain was days to weeks to order material, and now you're down to hours. You can see the efficiencies that you gain in your processes that's being delivered by Sherwin-Williams and our team. So another great example of that.

And probably the last one I would point out on the color side is our traditional kind of brick-and-mortar design houses. And the interesting thing here is this allows designers and color experts within our customers to come into our studios and work with our experts on color trends and really developing that new color for each of their businesses. So we get brought in on the early part of that process. And again, really tying it back to the value proposition of how we're helping them drive their efficiencies.

Allen J. Mistysyn

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

When I get excited about how we differentiate with facilities and branches and maybe you can dig into that a little bit more?

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. So that's our fourth pillar, is the facility side. And if I bring you back to that example, I just gave you with Color Express and the ability to get products in hours versus days, it really doesn't matter if you can't distribute the product to your customers, right? And that's where we step in and we have the capabilities to do that far better than any other competitor in the space. And I think if – why that's important is that local connectivity, that fast turnaround and ability for us to serve that small to midsize customer that needs again that rapid delivery and quick response, that's a huge differentiation for us.

And you look at our customer breadth, right, we've got large customers that take tank wagons, large quantity shipments, right from factories. But there's a huge part of that population that's in that smaller – it requires that smaller and faster turnaround time and again. So we have the ability to service up and down that that entire supply chain.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Okay. Local connectivity scale.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. So I guess, Heidi, you asked a little bit about how we tie these together. You know, these are why we win, right. These are the core competencies of what allows us in that right to win. But I just want to pile on a little bit more to this, the people that are driving it. We've got 1,700 sales reps that are driving this value proposition across our businesses, by the way, that 1,700 has an average tenure of 15 years. So these are people that know what they're doing. They're highly trained and I'll tell you what, they're incredibly passionate, they're very competitive and very determined to execute on this value proposition. So if I were to kind of tie this all together, it's not just the core competencies, but it's the ability for those teams to work together and ultimately deliver on their value proposition [ph] growing customer (02:01:29).

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Great.

Allen J. Mistysyn

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

I think determination is a great lead into our next discussion about operating margins. And I think your teams have made nice progress over the last few years, taking the brunt of the raw material increase. And still you look at the 18% margin and your second quarter highest since we've had Valspar, which is really great progress. So I think Wall Street is tired of hearing from me, talk about my confidence in us getting there. So how's your confidence and what leverage are you pulling...

[indiscernible] (02:02:04)

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah.

Allen J. Mistysyn

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

...sustainable?

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. I'm very confident. I know you're very confident. The green tie is very confident. But more important than that is our teams are confident. And top to bottom within our organization, they understand the mission and they're extremely confident in our ability to deliver on these metrics because it's about the solutions and services that we're providing to our customers and the value that we're providing them.

We're really making the right choices as well. As I said earlier, we don't need to be in all – we don't need to be all things to all folks, right. And we're laser focused on the segments and the customers in the regions where we can differentiate the most. If they're willing to pay for, we can get a fair return for that. So really good progress. You know, you look at 2022, we've carried that strong momentum into 2023 here. As you said, on a first half basis, we had around 17%. In the Q2 here, coming off of that, we just had 18%. So I feel like the team is confident in our ability to continue to drive that forward.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah. And it's discipline. It's resisting the urge to be all things to all people...

[indiscernible] (02:03:12)

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

For sure.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

... talk about. So I think continuing down that path.

Allen J. Mistysyn

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

Yeah. And we're not done yet. We have worked...

[indiscernible] (02:03:19)

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

... early innings.

Allen J. Mistysyn

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

...for sure. Let's talk about – let's get deeper into the levers on how we get there and sustain that.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. So there's really kind of four levers that our teams are looking at and I'll get into a little more detail on each one of them, but starts with number one is profitable volume growth. Number two is a disciplined pricing action. Number three, we're going to simplify our business as well. Here, Todd talked a lot about that. That's a key area of opportunity for us. And then number four is good cost control. But more importantly than that, the cost control is prioritized investments.

And we're going to lean into areas that allow us to differentiate and support our value proposition that I talked about. So if we go back to the profitable volume growth, this is again, it's driven by our value proposition. And the entire organization is aligned on driving customer productivity and profitability and working with our customers to deliver on that. And we've continued to take share, right.

We have a high level of confidence in our ability to take market share with that approach and profitable volume growth is going to remain one of the key opportunities there. We look at pricing discipline. Why we're able to win there, again, it comes back to the value, right, whether it's the technical service and support, the global connectivity, working with them, it's helping solve their problems. All these core competencies that we've been talking about, it's really coming back to earning that value every single day.

I think Justin mentioned that too. It's every day that we're out there working on these solutions for our customers to show and demonstrate the value of what Sherwin-Williams provides for them. And I think we do it in – from a pricing – I think we do it the right way. I think we're very communicative with our customers, we're transparent, and again, we're working on solutions that they value that we work to demonstrate that partnership. So pricing discipline at number two.

Number three, again, simplification within our business. There's a tremendous opportunity, particularly in our material utilization side, to make some improvements in all six of our divisions to be honest. So all the division presents back there, they've all got actions and activities looking to make our businesses less complex, which in the end is going to be better for our customers because they're going to have faster lead times, they're going to have better quality and more consistency of product. So again, that circles back to that value proposition that we provide of really working with them and making driving operational improvements in our business.

And then last one. I know you love this one. Good cost control. We're very smart with how we use our resources. But – and I think that's a staple of all of our divisions, all of – just how we run the business at your OEMs here. But I think more importantly is we're really leaning into investments. And again, you thought you heard both Todd, Justin talk about that as well. Wrapped territories, technical support, we know the areas where we can differentiate. We're putting resources in there to keep continuing to execute on this value proposition and take market share. So, again, those are the kind of the four key areas that we're looking at.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

And in addition to those four, we've talked a lot about M&A...

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

...I think, for the last few years and looked at it as more of a bolt-on in the industrial space and just your thoughts of the role of M&A and where you see that playing out.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. So let me just kind of level set my version of M&A or what it means to our business. First of all, we don't need it. I'll start with that. We've got tremendous opportunities in every single one of our divisions to organically grow. And unlike many of our competitors that have to use M&A as a growth lever, we're very blessed with the team that we have and the value propositions that we have to continue to take market share. So I'll start there.

But M&A is a very key component of our strategy from an accelerant perspective. So we see as we continue to go down our journey of this profitable volume growth, there are opportunities where we start looking through the lens of specifications, unique or differentiated technology or a geographic area that we want more better share and to give us growth from a strategic perspective. Those are the lenses that we look at of using M&A from an accelerant perspective, but not from a requirement perspective for growth.

Allen J. Mistysyn

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

Yeah. So maybe you can rundown some of the recent deals ...

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Sure.

Allen J. Mistysyn

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

...and where we're at with integration, some of the successes we've had.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. So I'll start with our Protective & Marine organization, Jim called them out and highlighted that. We've acquired Tennant, Dur-A-Flex and the industrial coatings business of Sika here recently. And all of them brought on fantastic technology and a great group of individuals and in the Sika case, it really accelerated our position in a particular strategic growth area for that division.

But another example, I'd highlight from that acquisition would be here in the US and I think obviously everybody is familiar with the investments that the government's making with some of the stimulus money in some of the infrastructure opportunities that [indiscernible] (02:08:39) team has been able to take advantage of quite well.

But one of those areas is in the EV side, electric vehicle batteries production plants that are kind of going up all over the country. And what we've been able to do with that is take some of the technology through these acquisitions, bundle it together with some of the core Sherwin Technology, and more importantly also the services, the distribution points and the individuals and provide a really strong solution for that customer base.

And it's one that's driving efficiencies in their operations, you look at the timelines required for some of these construction projects are getting compressed and compressed and our coatings offer solutions to help drive value in that process.

So that would be a great example of where, again, our value proposition of productivity and profitability within our customers...

[indiscernible] (02:09:30)

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Yeah. It's a great example.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

... on display. Another example would be in our Industrial Wood business. We were very fortunate enough to have the team from ICA join us here last year. And I tell you, a great group of individuals, very passionate as well from an R&D and commercial perspective, fantastic technology and brands that we've been able to leverage into other regions of the world that we participate in and again execute on our value proposition within those markets, utilizing that technology.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

To support Industrial Wood.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah.

[indiscernible] (02:10:01)

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

So it's great – again, great example of kind of how we tie that together. And just one final comment on the M&A side is one of the hard areas when you're going through due diligence and you're evaluating a potential opportunity is, you don't know the talent, that you're going to be [indiscernible] (02:10:19) join the organization. And we have been extremely fortunate with the individuals that have been able to join Sherwin-Williams as part of this process. And we take a lot of pride in our approach to these transactions. You know, many competitors are going to come in a little more heavy on the cost and reduction side. We really take the opportunity to assess the talent, put our arms around them and see how they can really help. We can learn from them and within Sherwin-Williams.

And, again, some of these individuals that we brought on are going to deliver so much value year in and year out for forever that you would have never shown up on a pro forma that you put in and originally part of the deal. So really, really happy to have the people in the capabilities join our organization.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Well, Karl. We're at the time. What do you want our investors to walk away with a clear understanding of what are some of their highlights?

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah. So I would hope that the audience walks away with is a greater appreciation for how strong of an industrial business we at Sherwin-Williams. You know, I hope you can share the confidence and the excitement that I have within this business and the fact that we are positioned and structured for aggressive, profitable growth. And we talked about our performance in 2022 and carrying that momentum on to achieving our goals. And I'm sure the goals will keep moving but achieving our stated goals today of getting with that...

[indiscernible] (02:11:48)

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

...yeah, that adjusted margin target for our business at that high teens, low 20s. We've got a rock solid plan of how we're going to get there and we're delivering world-class solutions and services for our customers. And every one of those division presidents back there, they all have tremendous opportunities in each one of their businesses for us to grow and they're laser focused on the segments, again that differentiate, allow us to get paid for them and generate a return for us and our shareholders.

And I started with this and I'll end with it. We've got the best talent globally. And their ability to understand and deliver on our value proposition, which is incredibly strong around driving customer productivity and profitability. There's nobody that I want to be working with, so that's what I hope everybody walks [indiscernible] (02:12:43).

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Great.

Allen J. Mistysyn

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

Awesome.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

Well, just a few I think highlights from all three groups. And I hope what you heard is one, clarity of mission that has been distilled down from these group presidents throughout the organization; two is determination and aggressively chasing market share gains. We are very deliberate about where we take aim, where we are making

sure that we're laying our investments in, how we're deploying capital, and I think ultimately making sure that we are just getting started here. John started with that.

The golden goose of our company is our Paint Stores platform. We've got a lot of opportunity to complement architectural business with our consumer group. And my task to Karl is to get the economics of the industrial business to start to mirror what we have in our Paint Stores Group. And that's going to take time, but it takes a lot of discipline in making sure that we're doing it the right and sustainable way. So I appreciate you taking the time.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

Yeah.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

And with that, I think we're going to take a five-minute break and then we'll come back with Q&A. Let's call at 3:50.

[Break] (02:13:45-02:24:05)

James R. Jaye

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

Got you. There we go. All right. Well, thank you all for returning so promptly. And if we can get the doors back there. Okay. So this is the time where we'll open the floor up for questions. We have [ph] Natalie (02:24:25) on this side, [ph] Jerry and Meg (02:24:26) in the middle. We would ask, as you have a question, just raise your hand. We'll get a mic to you. I have our corporate team here on our right and our group presidents and I make sure we get a good answer. If you don't mind, if you would, as you receive the mic, just introduce yourself and your firm and we'll handle any question you have. So [ph] Meg (02:24:51), why don't we start with you? We have one right here. Kevin.

QUESTION AND ANSWER SECTION

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Thank you. Kevin McCarthy with Vertical Research Partners. Question for you on the subject of controllable costs. You know, if we think about some of the macro charts that Jim showed at the top of the conversation, it must be tempting to continue to look for efficiencies and cut costs on the one hand. On the other hand, as I listened to you [indiscernible] (02:25:23) making a lot of strategic, purposeful investments here, maybe to take advantage and gain share. So appreciate your thoughts. Maybe a couple of questions will be how are you striking that balance today and how has it evolved maybe over the last year or so as the cycle has progressed?

John G. Morikis

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

Yeah. Let me start very briefly with that. I want to make a clear and quick point and then I'm going to turn over to Al. I have in many calls and for many years talked about the coiled spring of the company and our belief is in fact that this is yet another terrific opportunity for us to demonstrate that coiled spring to the investment community and part of that comes from the organic assets that we have executing as well as the continued investments that we have.

So Kevin, your point is a great one. In times like this, we see opportunity. A calm down version of me says we see opportunity. The [ph] John Regas (02:26:25) in me says we see blood in the water, right, and I love that opportunity. And so we are quick to invest, but we're very disciplined in that because the cost control that comes along with that and the responsibility that we have to apply discipline to that. So Al maybe you want to just talk a little bit about our process and how we do that and the types of things that we're investing in as well as how we control.

Allen J. Mistysyn

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

Yeah. I think Kevin as we've talked about in the past is we're really focused on driving operating margin growth. So as we talked about even on our second quarter call, as we've seen our gross margin expansion be a little bit stronger than what we had planned, it's allowing us and giving us an opportunity to reinvest in the long-term growth opportunities that you heard each of the group presidents talk about stores and reps within our Paint Stores Group in field sales and tech service reps within our Performance Coatings group and the Pro Who Paint's reps within and consumer, we take a disciplined approach to that.

So we're really focused on driving the long-term, but we need to get a return from those and we measure that. On the other hand, we're looking at our G&A side of it and really trying to control the G&A side to say, okay, what are the levers we can pull to drive those costs down? And then you also heard a lot about the simplification efforts, that there's a controllable cost that you see within our global supply chain that we're really focused on.

I would say getting leverage on those as our volume grows, we can drive our costs lower. So disciplined approach. Lot of focus on long-term growth, but truly focusing on our growing operating margin. And I just highlight 2018 with a full-year of Valspar, our operating margin was 14.5%. You fast forward ups and downs, hit a high at 17.4% in 2020, which I would say is a little bit of a nominally with the pandemic and how the different shift

in our business between DIY was heavy, res repaint was heavy. But you look at our first half of 2023, we hit 17% and compared to 2019, that's a 170 basis points.

So we're looking at it over the long-term. We're not trying to run for the perfect quarter and you can see it growing. And when we get to a more normalized, whatever normalized looks like, we expect to grow not only a multiple the market but accelerate that to multiple of that multiple.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

A

Kevin, one thing I would add to that, you asked also, how do we think about it and what's changed? I don't know that a lot has changed, but I think everything that Al was talking about separating the S from the G&A, it's also the leadership team.

And we talk about the plate regardless of where the plate tilts, but it's the leadership team looking around the corner, so that we're not waiting to lay in these investments when the markets changing. We're getting in front of that. Res repaint's a great example. So the discipline has always been there. But I think reading the market and the timing of some of those strategic investments is an area that I'm really confident, we'll continue to get better at.

John G. Morikis

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

A

Yeah. And it's a funnel. I think back to coming out of 2008, 2010, we did a post-mortem to say, okay, as we came out of this, what could we have done to weather some of that storm a little bit better? And to Heidi's point, making some of those investments, we really knew that residential repaint could help offset some of those things.

So we started investing earlier. And as Justin talked about, we've had seven years of double-digit growth and yet while things were good, Heidi and Justin both talked about this new product that we launched. And it's one product and you might say, well, why are we [ph] doing all that (02:30:05)? But it's indicative of how we're thinking.

Big project slowdown, we're thinking about how do we keep that res repaint customer busy, profitable and loyal to Sherwin. Well, so we introduce a product that helps them come in and refinish these kitchen cabinets as an example. A new factory finished those kitchen cabinets, and you're coming up with those product launches, those ideas, while things are going really well. No one is thinking why we're going to need this except Sherwin.

We're thinking as it starts to taper down and our customers are looking at, well, things are slowing down, what do we do, we give them another avenue to go in and talk to a customer, hey, you're not going to spend the money on kitchen cabinets. Here's a way to get a new feel and you're going to stay in your home and feel better about it. So the highest point, we're looking around the corner and we're willing to invest in those segments and those opportunities to capitalize on that.

We go right here.

Matthew T. Krueger

Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Great. Matt Krueger from Robert W. Baird. Just expanding on that coiled spring idea that you referenced, John. We've heard quite a few comparisons to the 2008 and 2009 timeframe and we've talked quite a bit about how

significant the incremental margin opportunity is for when volume growth inevitably returns across the business for this cycle. But following the 2008-2009 housing cycle, it took the better part of a decade to surpass the prior margin profile peak in about five years to surpass the level of operating profit from 2007. What's different or unique about this earning cycle? And what are some of the specific actions that you've taken to ensure the outperformance coming out of this challenging volume backdrop versus what we've seen previously?

John G. Morikis

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

A

Yes. Let me ask Al to talk initially about the comparison and then I'll have the group presidents talk a little bit about what we're doing from a group side, because I think that detail is going to be really interesting to you.

Allen J. Mistysyn

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

A

Yeah. Matt, so when you looked at going into that 2007, 2008, 2009 our new res to res repaint ratio is 1 to 1. And John talked about all the investments that we made focused on res repaint store mission, res repaint focus reps and you fast forward to 2020 and residential repaint versus new res was 2 to 1. So you think about a higher margin profile, bigger opportunity for growth market share. It's our biggest segment. John talked about we've grown double digits last seven years, and still our biggest opportunity. So that is one of the key differences between now and then.

John G. Morikis

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

A

So, let me talk. I'll start with because I want to make sure we get a lot of questions. Maybe just start with Justin and Karl, because I think Justin speaks to the path that Heidi mentioned. It's going to always be the engine of the company as some of the things that we're doing there. But the other important point that Karl made that I think is equally important is our view of getting the operating margins and the metrics of Performance Coatings to mirror what we have in this Paint Stores Group is really important. And maybe, Karl, you can talk about that as well.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah, absolutely. I'll start with it and I'll touch on it, I think, already. When you go back to 2008-2009 like you referenced, I was around – I was obviously an architectural for that time and we weren't focused on residential repaint to be honest. John talked about that post mortem and that's where we focused. And if you look at the investment that we've made over the course of that time from 2009, 2010 into the current state and where we're headed, that's been our primary focus of where we've invested in the suite of tools that ecosystem, that premium ecosystem that I referenced multiple times.

When you look at the things that we offer within that segment, the value that we provide in that residential repaint segment to that contractor day in and day out, that's where we're truly separating ourselves. And as we move forward, we're going to continue to invest in that space. If you look at our historical and how we now have the ability to hold on to price, I touched on that as well. We're able to expand and hold on to that price because of the value that we're providing day in, day out to that contractor. We are truly integrated and embedded in their business and helping them grow and be more profitable and be more successful.

John G. Morikis

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

A

In a much more enhanced way, I think.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah.

John G. Morikis

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

A

I was running the business in that timeframe.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

A

You were doing a phenomenal job.

John G. Morikis

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

A

Yeah, thanks. But I think we're much, much better at that now. But maybe from an industrial point of view.

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. From our side, we've got six different divisions. Every one of them, as I talked about, have tremendous opportunities in each one of them. So again, we're really focused in those particular sub-segments where we know we can differentiate and are growing faster. So we talked about the investments that we're making on our side. It's the reps, it's the tech service teams, it's that quick fast delivery. We're investing in those areas with a very disciplined approach to really go after share gain. And every one of the divisions have a very articulate plan on how they're going to do it around that.

James R. Jaye

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

A

[ph] Meg (02:35:18), why don't we grab one from you and then [ph] Natalie (02:35:21) will be to you next. Okay.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Arun Viswanathan, RBC Capital Markets. Wanted to ask a question about growth. So it seems like I think you put up a slide in the earlier presentation that you had 9% EPS growth between 2019 and 2023. Somewhat flat market/gallon growth. And you're – obviously a lot of other challenges around COVID and supply chain and raw materials inflation. Can you see a path maybe to get back into the double-digit EPS growth range, and could you do it with CPG, still have low single digits and ECG maybe mid to high. Why not just focus a little bit more on main stores if that's really the fastest growing segment within the company?

John G. Morikis

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

A

Yeah. I think the Paint Stores Group growth won't be very clear as the engine and we're going to always fuel that tank with anything it needs. And the aggressive goals that we have for Justin are not goals that we'll talk about publicly, but they're much more than now, even put on the slide. So we have high expectations from that business.

I think it goes back to the point that I just made about our industrial business, about our determination to drive that business up and to maintain the operating margins that are very similar in mirroring of the Paint Stores Group. So you're going to see us continue to invest in that business.

The architectural side, consumer investments. That's a strategic and important element to our business. You know what, I talked about the residential repaint side and the Pro Who Paint side. There's a strategic reason that that's important to us and we're going to continue to invest in that because we think it in the long run pays dividends for the company overall.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

A

Pleased to add that, Arun, what embedded in our consumer business is our global supply chain. And with all of the ups and downs you mentioned covered this industry-wide supply chain challenges last year, trying to recoup all our inventory. And now, as we talked about, we were going to have, 4% to 5% decrease in volumes just because we didn't have to rebuild those inventories. I mean, it's been a drag on the consumer segment margins.

We don't break that out because that's a little bit too granular than what we want to get. But as we get to a – if you go back prior to 2019 and before when we had steady state growth and more stable raw material environment, it wasn't a headwind. So, as we get back to that more steady state, and we have capacity – Heidi talked about Orlando, we have Statesville that's going to come on in 2024 that, again, gives us more capacity – allows us to be more efficient on where and how we produce, where and how we distribute, we'll start seeing the benefit of that coming back. And so...

John G. Morikis

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

A

Well, Heidi, maybe it'd be good for you to talk little bit about some of those initiatives on the global supply chain...?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

A

Yeah. So, I think in addition to some of the one-offs that Al mentioned in terms of the service above all over the last few years, which we obviously are seeing in these financials, the other part is just the mindset. We talked about simplification and resilience, but making sure that it isn't just a one and done. It is a constant. Every time we're walking through a plant or a facility, we're questioning, is there a way to get better? Is there a better way here? Every link of that supply chain I would expect and I think you should expect that we're going to continue to see improvements there. Again, once we get through the onetime outliers and get back more into whatever steady state is, challenging the normal processes in which we go about doing business is part of the ongoing work to look for some of that resiliency and some of that simplification.

John G. Morikis

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

A

And that's everything. Karl mentioned everything from raw materials sourcing, every – formulation...

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

A

Manufacturing throughput, automation, cost per gallon, all of that.

John G. Morikis

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

Right. Terrific. Good.

A

James R. Jaye

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

Natalie, we'll go to you. No question. All right. We're going to go right here to [ph] Meg (02:39:30). John?

A

John Roberts

Analyst, Credit Suisse Securities (USA) LLC

John Roberts from Credit Suisse. Brent crude has gone from low-70s to mid-80s, mostly raw materials are hydrocarbon based. Can you give us a refresh on the raw material outlook? And most of your performance coatings I think are solvent based, do you need more price [ph] over performance now (02:39:48)?

Q

John G. Morikis

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

Well, let me just take the last piece first that we don't announce price increases in a forum like this. If in fact we do, which we review on a monthly basis as a management team and we look at every input; raw materials, energy, transportation, every aspect of cost we review on a monthly basis, if in fact we deem that there is a price increase warranted, the first people we talk to are our customers. We've not announced anything, but I would tell you that it's a regular review. And I think as – I don't remember if it was Justin or Karl mentioned, our success in pushing those prices through are a result of what we do every day, not how well that meeting goes. And so, we're trying to add value every day as part of our relationship to justify those.

A

But as far as the price in general, just talk a little bit about what's happening on price.

A

Allen J. Mistysyn

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

Yeah, John, for sure. As you all know, the petrochemical side of our basket is the biggest side of our basket, and yes, oil has ticked up here, but we haven't seen a meaningful impact on the feedstocks that we buy to this point. I think you'd have to see that sustain for a period of time. It tends to be choppy oil prices. So, right now, there hasn't been a real impact on that, John. We've talked about this year our raw material guidance is that deflation will be in the mid- to high-single-digit range. We haven't made any further announcements on that. We'll update that as the year goes on. I think it's probably reasonable to expect if things stay where they are now, we'll still see some relief into the early part of next year. But beyond that, visibility is pretty, pretty [indiscernible] (02:41:30).

James R. Jaye

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

[indiscernible] (02:41:32) I see Eric has a microphone here.

A

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Eric Bosshard, Cleveland Research. Wanted to connect the dots a bit between the cold spring and the green tie and the pace of which the margin progress happens. And here you're talking about Performance Coatings on its way to a margin profile similar to Stores. And so, I was just trying to understand it, not so much the timing,

Q

perhaps a little bit the timing, but also what needs to happen, is this a volume that unleashes this, if you could help us put that together?

John G. Morikis

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

A

Yeah. Why don't I have Heidi and Al talk to that?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

A

Yeah. So, I'm going to connect the dots, but I really want out of attack the green tie question specifically. So, got a couple of things, Eric. I think if you think about how we get there, and I agree with the way that you framed the question, the sooner the better is what we'd like, but the real answer is starting, at least, the industrial segment is a great example here, starts with improving the ROS. And so, we want to make sure, and I go back to the conversation, comments that Karl shared earlier, that there's still a lot of growth to be gained across every division, but it's not trying to be all things to all people. It is about more discipline of looking for the subsegment within each segment that values what we do they're willing to pay for it, and we have a sustainable model there. So, as we continue to grow our ROS on the industrial side and continue to look for expansion on top of that. And Karl, maybe love to kick it to you. I'm talking about your business here. Anything you would add to that in terms of how you look at that path?

Karl Jorgenrud

President-Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. I think timing is a hard – it's a tough question just because there's a lot of small economic things that do come up out of our controls. But in terms of the path forward that we're going, it still comes back to the strong volume, profitable growth, disciplined pricing, making sure we work on these simplification projects within our business, and then, again, managing our costs, but also leaning in on the investment side for us to continue to accelerate those growth opportunities. So, I don't know if there's actually a time line, but as much as the path forward...

John G. Morikis

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

A

No, we're not going to give time. I think it's the four points that you talked about during the conversation. I mean, there's no secret here. I mean, you find really good customers. You bring them solutions to help them make more money and be more profitable. And we align with them and we share in that success. We're going to do that in a disciplined way.

Allen J. Mistysyn

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

A

Can I just add one point to that...

John G. Morikis

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

A

Yeah, yeah.

Allen J. Mistysyn

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

A

...because I think it's important to see the trend. If you look at, again, going back to that full year with Valspar, 2018, our operating margin in our industrial businesses was 12.9%. We saw an uptick to – next two years, we had the big raw materials. But if you look at our first half 2023 at 16.9%, you compare to that the first half of 2019, and we're up almost 300 basis points. So, the things that – what that tells me, anyway, is the things that Karl and Justin prior to that and the team are doing are making progress and making it a more sustainable model and paring businesses back and that's through price, through simplification, through SKU rationalization, all those things add up. And I'm confident and as you look at the acquisitions that we made last year and we integrate those, we realize the synergies because of the platforms we have and we drive technology, we have a really good chance of getting there.

James R. Jaye

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

A

You have one up here, Steve.

Stephen Byrne

Analyst, BofA Securities, Inc.

Q

Hi, guys. Steve Byrne, Bank of America. In resi repaints, in Paint Stores, you clearly have a focus on driving loyalty by helping your contractors. But my question for you, is there any merit to trying to drive up that business and your share gains by focusing on the homeowner? How many homeowners know about these more innovative products that you have? Like, you were talking about that self-leveling kitchen cabinet paint, how many homeowners even know about something like that, or [ph] that rain fast (02:45:45) exterior paint, is there merit in going after the homeowner population with [indiscernible] (02:45:54)?

John G. Morikis

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

A

Yeah. Obviously, this is a question for Justin, but maybe, Heidi, if you don't mind, if I could just ask you to maybe talk about the complement between the DIY and our focus between DIY and res repaint, and then you could talk a little bit about that as to how we're focusing on the messaging is really important?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

A

Yeah. And I think it's a great point, Steve. I mean, we do have a concerted effort to make sure that the homeowner has awareness and the role that they play in that influence channel. I'll have Justin speak to that. But clearly, it's a lot more of a direct-to-consumer play on the DIY side. I think if you look at our DIY strategy in our Paint Stores Group, it's a complementary and different DIY. They're not as value conscious as the home center DIY consumer. So, they are looking for value. They're looking for those upgrades. So, there's an opportunity for us to be very targeted within that kind of group of that DIY segment. But I'll hand it over to Justin from here.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

A

I think you hit the DIY side the nail right on the head on that standpoint. That type of customer that comes in into one of our stores is a little bit different. The connecting point, I would tell you is, and I think Jim showed this in one of the slides, too, you continually start to see that more people are having it done for them, right? And where we connect the dot on that is that our contractors are in the know obviously through that rep force about all those products that you just mentioned. And it's us being on that job site with them, those sales reps being on that job site with them, walking through and talking to their customer about what the benefits are of utilizing those products, those premium products on the job, what they're going to deliver, whether it's longer open time for them

to get their exterior done on the timeframe if they want, like the cabinet paints that we've talked about, that factory finish, durability all the way through. So, there's true connectivity there.

I would also tell you one of the other things that we do is we've got virtual color consultations that we do that tie that do-it-yourself where that's going to have all the sudden changes their minds and says I'm going to have a contract do it. They go to that color consultation and that's what backed through as we explain those products there as well. So, multiple different avenues, but definitely connectivity all the way through [indiscernible] (02:48:06).

[indiscernible] (02:48:07)

John G. Morikis

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

A

DIY represents about 10% of our sales through stores. We advertise is to help pull through with our residential repaint, got an army of residential repaint contractors that are out there every day talking to homeowners, finding the exact dart bullseye on the consumer. I mean, that's part of our messaging, Steve. We're really broadcasting brand more frequently than we are at specific project. But having those res repaint contractors aware and leaning into this is an important element of how we strategically go after.

That one right here.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Dave Begleiter, Deutsche Bank. Just about a month since Q2 earnings, how many things gotten better and things gotten worse across your businesses that you're seeing?

John G. Morikis

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

A

I'd say that nothing that we haven't seen in the public. You can hear what's happening with the interest rates and housing starts. I don't think there's anything that we would change coming out of our last quarter right now. Al, anything you want to...?

Allen J. Mistysyn

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

A

No. That's it.

John G. Morikis

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

A

Do you want to give any updated forecast or...?

Allen J. Mistysyn

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

A

No. I'm good. Thank you. Appreciate the opportunity. But...

[indiscernible] (02:49:21)

John G. Morikis

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

A

...very good chance if you wanted to. Yeah. [ph] Meg, you have one here (02:49:23).

Joshua Spector

Analyst, UBS Securities LLC

Q

Yeah. Thanks. Josh Spector with UBS. Actually, I might try Dave's question again a different way. So, in Justin's comments, when you were going through the Stores Group, you made a comment about the last 60 days starting to see a tick-up. And I think that was regarding to new res. Your guidance implies that the Stores Group has volumes down in the second half. So, are you seeing anything different there that you comment on? And maybe any general comment on the health of backlogs? I think some competitor and tangential comments have been that things are still relatively healthy. So, just curious what you are seeing there? Thanks.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

A

Yeah. The tick-up that I referenced was through the sale centers on the new residential side. And the other thing I mentioned there, too, is a three- to six-month lag as far as when we get the paint on that side. So, just to clarify and to kind of level set on that comment. And then, as far as the backlog goes, I would tell you when we've talked often about and I've talked last couple of days about is that I would feel like in specific segments we're starting to see more normalized cycles on the backlog side. Obviously, from the last two to three years when you look out as to what we saw, they weren't normal times, right? So, as we move forward, we think we're in more normalized cycles on the backlog piece.

John G. Morikis

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

A

I might add to that that our view of the world isn't waiting for that to happen. We're not a retailer that unlocks the door and waits for customers to come in. We're very aggressive. The sales reps that Justin mentioned and the pursuit of those customers is really important. So, our activity while it's not an adjustment to – you're asking the question a different way – it's not an adjustment to the conversation that we have. I do think it's important to point out that while there might be upticks and new starts, this or that, quite frankly, we're hunting every day and we're out there trying to find new customers or share of wallet opportunities with those customers. And so, those are important for us to watch and we do. We're not here to inform you what is in the newspaper or what's on the news. We're here to drive results. And if things slow down a little bit, that's okay. That's going to hurt our competitors. We're going to be out hunting for new customers and share of wallet opportunities.

Hold on – yeah, go ahead, John.

John Roberts

Analyst, Credit Suisse Securities (USA) LLC

Q

John Roberts from Credit Suisse. Home Depot seems to be not only going after the pros who paint, but they're also interested in the pros who only paint and need a paint that meets local building codes and so forth. What do you think of the merits of using the big box retailers to reach some of those [ph] pros and does Sherwin have (02:52:06) any products or programs to provide building codes specified paints to those kind of pros?

John G. Morikis

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

A

John, we're not going to talk about any specific competitor, and our success is going to be determined by the execution of our strategy. We have great confidence in our strategy. We've heard that time and time again. We're going to execute that very well. Our view on the market is it's filled with opportunity and we're going to capitalize on it. I'm not going to talk about any of our competitors. Go ahead, Mike.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Mike Sison, Wells Fargo. You've talked a lot about SG&A and people. As I recall, you had a lot of the capacity to paint volumes over the last couple years or maybe last year. So, can you remind us where you're at in terms of filling that capacity up and when it does sort of fill up? Where do you think your return on capital will sort of get to over time? And I'm sort of disappointed you haven't asked for my resume. I mean, you've been asking people to [ph] work for you (02:53:12), not joking.

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

A

So, we'll take your resume right now. Let's start with that. So, let me clarify. You're talking specifically around Paint Stores Group and capacities to support that. So, let me maybe take you to maybe 30,000 foot view and then I'll come back to that question. It's how we think about our demand outlook and make sure that our CapEx plans and as we look at our asset base where we laid in our Orlando facility or expansion down there for capacity that will help us to service our business to 2x capacity where we were previously. We expanded our Statesville facility that will give us capacity that would support 75% of Lowe's business on an annual basis.

And so, we are in a great position to meet not only our current demand, but an outlook of demand as we recover here with the [indiscernible] (02:54:01) and we'll continue to watch that, monitor that, as the market changes. We work closely with our global supply chain partners and our finance teams to lay these 10-year CapEx projects out based on where we see the market going. And we're continually refining that, refining that. And it's not always about a net new facility. I think it's important as we look at our footprint and our asset base, everything that we talked about earlier, I think everyone's question hit this as well. We talk about [ph] hidden (02:54:28) factory, productivity, resilience, simplification when we get more out of the asset base that we have today. So, I'm confident through a lot of expansion projects and then bolt-on expansion projects that will be in a great position to support that demand.

Justin T. Binns

President-Paint Stores Group, The Sherwin-Williams Co.

A

The only thing I would add, Mike, is that, each of these capital projects we look at have a return to them. We look at probably 70%, 75% of our capital that goes and has a return. And I include our new facilities in that and how we look at driving value out of those. So, when you look at our return on net assets employed that, as we would measure it, we were in the mid-teens last year, I think we'll be closer high teens this year, driving to mid-25 and from there and you can go back prior to Valspar all that goodwill on intangibles and we were almost at [ph] 40% (02:55:20) on a PBT basis. So, the targets keep moving up. As my friends on the far left has said, we'll keep driving that number higher and then as we each reach the next level, we'll move the target again.

John G. Morikis

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

A

Mike, I might twist it, one another way to say that it also should be seen as a vote of the confidence that we have and the plans that we're executing and the line of sight that we have that we're going to need that capacity. We're

not adding it for the sake of exercise. I mean, it's – we've got a line of sight of what we're aiming for and the success that we have will fill that capacity. I think you have one right next to our right. I can't see who that is.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets, Inc.



Aleksey Yefremov, KeyBanc. John was talking about existing home sales, right, acknowledging that they're at a pretty low level and also factors that could help offset that. So, [ph] let's just (02:56:12) suppose that existing home sales stay at this level, [ph] are you stuck (02:56:18) in the overall market to grow [ph] for say (02:56:21) repaint plus DIY market, or would it still stagnate or even decline? So really, do need [ph] existing (02:56:29) home sales to recover [indiscernible] (02:56:33) market?



I would say existing home sales, as I mentioned, are at a – been at a trough here for a while. I think eventually they are going to come back as you start to see interest rates come down and people can get out of their current place and get into a new place. So, I think you'll see that happen. I think the market will grow. But regardless of whether it does or not, I think Justin's laid out pretty clearly the aggressive plans that we have to take share. So, even in a market that is flattish, we're going to outgrow that and outperform that.

John G. Morikis

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



And I'd add the other point that Jim mentioned about household formation, I mean, people are going to continue to need shelter. And we've worked very hard and we've talked about this proverbial table, whichever way it tilts, if it's not resale and people are moving into apartments, we're going to work really hard to be on the apartment walls when people move in there. And if apartments are – rents are getting too high and people are saying, I'm going to then just buy a new home, we're going to be in that new home. And if, in fact, they're going to stay in their existing home. And Jim mentioned, we're – it's a very low cost high impact project. I mean we're going to find a way to continue to grow market share. And do it, as we grow, our expectations are going to outpace the market as a result of that. Again, we're not opening our doors just waiting for things to happen.



[indiscernible] (02:57:58).

John G. Morikis

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



[indiscernible] (02:57:59) here that...

James R. Jaye

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



Just to add to that, John. I mentioned that demographic slide that I showed you see that wave of household formations tending to happen. There's really three places that you can live, right? A new home, an apartment or mom and dad's basement. Every one of those [ph] where there's (02:58:16) paint opportunities, so we feel very good about what's ahead of us.

John G. Morikis

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

A

We don't let Jim near to the marketing department because he wanted to brand it mom and dad's basement paint. There was a label [indiscernible] (02:58:27) go anywhere. We have time for one last question. So, if I can [indiscernible] (02:58:31) a hand anywhere. Right here. Okay. Arun. If it's about mom and dad basement thing, you're going to have to speak to Jim directly.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

I got it. Thanks. So, I guess I just wanted to ask about the M&A side. Karl said that you don't need to do it, but obviously, the Valspar transaction was very beneficial, it diversified the portfolio, brought in some great talent. Obviously, that's sitting up there with you right now. So, I guess how do you think about M&A going forward? There's still a lot of fragmentation in the industrial coatings markets. There's still several potentially attractive targets out there and multiples come down. Why wouldn't it make sense to do another large transaction like that given your buying power or given the capabilities you have and especially the investment you're making now in Cleveland as well with R&D and so on. Thanks.

John G. Morikis

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

A

Yeah. So, there's a lot packed in there. Let me start with why don't you just do another big deal? We had prepared and got disciplined balance sheet trying to work towards the Valspar acquisition for at least nine years I was involved at the COO level and it was because of the strategic fit, the complementary nature of the two assets coming together. We do have competitors that think about acquisitions as their means of growth. If you look at Valspar, it created shareholder value. Not all acquisitions for all companies do that. So, we take a very disciplined approach in evaluating strategically why an acquisition would make sense. It's not – we don't buy a book of business here. We buy strategy, strategic fits, and we often say that one plus one has to equal three or five as a result of that. There are companies for sale all the time, public and private.

Many of the acquisitions that we've made here recently were, in fact, not even for sale. We went to the owners and we talked about why the asset may be of more value to us, perhaps than they even saw. And so, I think what you should expect to see going forward will likely most – most likely be on the industrial side. And you should expect to see more complementary bolt-on than a large another Valspar type acquisition. We look for opportunities that bring value in a number of different ways. It might fill a strategic fit in geography, it might be technology, and it might bring another unique asset. For example, the resin company that we purchased helped create – solve another issue for us.

So, we're constantly [ph] leading in (03:01:34) with a disciplined approach on how that asset would bring value to us in a strategic way, not just a book of business. And I think most of that will be on the industrial side. We're also looking technology that we can plug in, that we can use around the company or the country – I'm sorry – the globe or the company in ways that are unique to Sherwin as well. [ph] Anyone wants to add (03:02:00)?

Heidi G. Petz

President & Chief Operating Officer, The Sherwin-Williams Co.

A

I would just add, here's another area where we're not complacent. We'll continue to review the portfolio. And if there's not a return, we'll talk about one conversation. But we are always scanning to look to see if there's a technology. ICA was a great example. We weren't interested in that technology to be great in Italy. We wanted that, of course. But then [ph] how does that (03:02:20) scale throughout Europe and then globally to John's point?

So, I think is we're looking at this the disciplinary view of the portfolio is taking nothing for granted. If there's a better way, a better owner, we should be having that conversation.

John G. Morikis

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

A

If I could, I like the way you said that, Heidi. It's a disciplined review and it goes both ways, because we do see that as capital allocation and so the divestitures that we've had, we look at with the same amount of discipline. So, that review at times, so Todd's point on the architectural China, we could have worked really hard, spent a lot of time, a lot of effort and not reached to the acceptable returns in that architectural business. We can take that cash and put it in Atlanta and get a return. So, we're constantly reviewing our business through a lens of opportunity and through discipline. And we're not afraid to make the difficult decisions if they need to be made.

John G. Morikis

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

Okay. So, thank you very much. Appreciate your attentiveness there. And I'm going to turn it over to Jim to wrap up and we'll go from there.

James R. Jaye

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

Yeah. Thank you, everybody, again for joining us today. Really appreciate those of you who came to Cleveland and those who listened online. I hope you found the presentations from our entire leadership team and the discussions very helpful. Now on behalf of the team, what I would say is I'll leave you with just a couple of things. Number one, I think you heard we have a clear strategy and certainly we're committed to that strategy, but even more important, we have the talent to execute that strategy and we're aligned across the organization, all 64,000 people.

We've got great opportunities in every one of our businesses. You heard Justin, you heard Karl, you heard Todd, these are the gentlemen that are going to make that happen for us to seize those opportunities. They've got their teams very focused. We're confident in the solutions that we provide for our customers and that's ultimately we believe and we're very confident is going to lead to strong returns for you, our shareholders.

So, thank you for being here. Those of you in person, we have a reception with the management team right outside the doors here. Thank you again.

John G. Morikis

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

Thank you.

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