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The Sherwin-Williams Co. (SHW)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining The Sherwin-Williams Company Review of the Third Quarter 2024 Results and our Outlook for the Fourth Quarter and Full Year of 2024. With us on today's call are Heidi Petz, President and CEO; Al Mistysyn, Chief Financial Officer; Jane Cronin, Senior Vice President-Enterprise Finance; and Jim Jaye, Senior Vice President-Investor Relations & Communications.

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

This conference call will include certain forward-looking statements as defined under the US Federal Securities laws with respect to sales, earnings, and other matters. Any forward-looking statements speak only as of the date on which such statement is made, and the company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. A full declaration regarding forward-looking statements is provided in the company's earnings release transmitted earlier this morning.

After the company's prepared remarks, we will open this session to questions.

I will now turn the call over to Jim Jaye.

James R. Jaye

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

Thank you and good morning. In a third quarter characterized by ongoing choppy demand, Sherwin-Williams grew consolidated sales, expanded gross margin, and grew diluted earnings per share and EBITDA. Sales in all three segments were within our guidance range.

We also returned $631 million to our shareholders in the quarter through dividends and share repurchases. We remain highly confident in our strategy and, importantly, our team's ability to execute consistently. We continued to invest in the quarter to capitalize on what we see as unprecedented long-term share gain opportunity. We expect these continued near-term investments in stores, sales, and technical reps; incremental services; and digital capabilities to drive sustained and profitable above-market growth. We also expect the pace of investment to moderate in the fourth quarter, resulting in second-half SG&A growth in the more normalized low- to mid-single digit level we have previously described.

As far as our outlook, we are maintaining our full-year EPS guidance. We recognize the current range is wider than typical entering a fourth quarter. This range accounts for several variables that are hard to forecast precisely over the next two months, including timing of demand related to recovery from Hurricanes Helene and Milton and the potential for extended holiday shutdowns among our industrial customers. Our team continues to navigate these and other near-term challenges while executing on multiple initiatives to drive our long-term success.

Let me now turn it over to Heidi who will comment on our third quarter results by segment before moving on to our outlook and your questions.

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Heidi G. Petz

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

Thank you, Jim, and thank you, all, for joining us this morning. Before I begin my comments on the quarter and our outlook, please know that our thoughts and sympathies go out to all those that have been impacted by the recent hurricanes in the southeast US. Our priority has been the safety of our employees, our customers, and their families. We've been working hard to provide our people with appropriate support, and I'm amazed at how our teams on the ground have come together to help each other.

Approximately 200 of our stores were closed for some period in the third quarter following Hurricane Helene, and nearly all were back online by the end of the quarter. Similarly, approximately 225 stores were closed for some period following Hurricane Milton at the start of the fourth quarter, and most of those stores are also now back online. The perseverance and resiliency of our people are inspiring. I could not be prouder of the personal and professional support they are providing our customers as recovery and rebuild efforts begin.

At our recent Financial Community Presentation, I described our Success by Design approach. We deliberately make the right choices and the right investments at the right time to drive sustained above-market growth and returns over the long term. It's an approach that has worked for us for decades and is exactly what we are doing right now. The current opportunity to gain market share is nearly unprecedented, and we will continue to take full advantage of it.

While competitors are distracted or inconsistent in their execution. We offer consistency, stability, and reliability. We are a predictable partner. We're doubling down on our strategy because we know it works. Our team is focused, determined, and aggressive. We continue to provide our customers with solutions to make them more productive and profitable. We have great confidence in what we are doing, and we believe our results will continue to demonstrate outperformance over time.

As far as specifics on the third quarter, we'll begin with the Paint Stores Group, where sales increased by low-single digits. Volume and price were both up low-single digits. Pro architectural pricing realization was in the range we anticipated but was partially offset by unfavorable mix. Segment margin decreased to 24.5% due primarily to higher investments in long-term growth opportunities and mix in the quarter. Protective & Marine was up high-single digits against a low-double digit comparison and has a solid pipeline of projects extending into next year. In Residential Repaint, our prior investments continued to pay off as we delivered the fifth consecutive quarter of mid-single digit growth in a flat to down market. New Residential also grew at a mid-single digit rate in a choppy but improving market. Commercial grew by low-single digits against a high-single digit comparison. Property Management was flat with continued delays in CapEx projects. DIY remained soft.

From a product perspective, interior paint sales grew faster than exterior paint sales where outdoor conditions caused delays in some of our largest regions. We have opened 45 net new stores year-to-date and expect to open 80 to 100 for the full year.

Moving on to our Consumer Brands Group, sales decreased by high-single digits, inclusive of an approximate 4% impact from unfavorable FX. Sales in North America decreased by a high-single digit percentage, where weakness in existing home sales and inflation continue to pressure the DIY market. In Europe, sales increased by a mid-single digit percentage. In Latin America, volume and price were positive but were more than offset by unfavorable FX. Adjusted segment margin expanded to 22.9%. This was primarily driven by higher fixed cost absorption in the manufacturing and distribution operations within the segment, and effective cost control, partially offset by lower net sales.

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In the Performance Coatings Group, net sales were effectively flat as volume was offset by unfavorable FX. Adjusted segment margin decreased to 18%, primarily due to lower sales in North America and unfavorable FX. This high-teens margin level demonstrates a continued strong performance that reflects our differentiated customer solutions and business optimization efforts. We continued to see choppy demand by division and region. Packaging delivered high-single digit growth with sales up in every region. Coil also delivered solid growth driven by share gains. Industrial Wood grew low-single digits, driven by an acquisition. New account wins in Auto Refinish have been masked by softness in our core business where consumer reluctance to pay deductibles is resulting in lower insurance claims. General Industrial continued to face headwinds in heavy equipment and transportation markets. Regionally, sales in the group were positive in all regions except North America, which decreased by a low-single digit percentage.

Moving on to our guidance. The slide deck issued with this morning's press release includes our expectations for consolidated and segment sales for the fourth quarter of 2024. The deck also includes our updated guidance for consolidated and segment sales for the full-year 2024. Our full-year diluted net income per share guidance is unchanged. Our adjusted diluted net income per share growth remains at 8.7% over the prior year at the midpoint of our guidance. We are absolutely focused on executing our plan in the fourth quarter and delivering full-year EPS results in the range we've provided in July.

I also recognize that many of you are beginning to formulate your views for 2025. While we're not providing any specific guidance until January, I can share some high level commentary that may be useful as a preliminary framework. The single largest variable heading into next year is the timing and pacing of a true inflection in the demand environment. We stand by our FCP commentary that it's only a question of when, not if.

However, trying to peg this to a specific quarter, let alone a specific month or week, is not something we can do with precision. Our forecasting models incorporate a wide variety of indicators, including LIRA, existing home sales, housing starts, housing affordability, interest rates, consumer spending, and industrial production among many others. Direct input from our customers is a critical data point that also informs our outlook.

While several signals are beginning to move from red to yellow, and some from yellow to green, our initial view is that demand is likely to remain choppy in the first half of the year. What is certain is our strategy. We deliver differentiated solutions that make our customers more productive and more profitable. The good news is that in a macro and a competitive environment like the current one, [ph] this approach (00:11:27) becomes even more valuable to our current customers while also attracting many new ones. We will continue being very aggressive in pursuit of new business and share of wallet gains.

Sherwin-Williams is incredibly well-positioned in each of our targeted end markets. We are confident we will outperform the market in all environments and significantly so when demand becomes more robust. We are committed to driving success by design for our customers, our employees, and our shareholders.

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

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QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] We do ask the participants, please limit to one question. Your first question is coming from Vincent Andrews from Morgan Stanley. Your line is live.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. If I could just ask on the SG&A spend. It seems like there was a tactical decision made in the third quarter just based on the cadence of the spend that you anticipated for the back half. It seems like it all of a sudden got pulled more into 3Q than in 4Q. Could you talk about what precipitated that and exactly what you did just to give us a sense of what's going on there?

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

A

Yeah. Let me start. Good morning, Vincent. Appreciate the question. I'm going to hand this to Al here to talk a bit about cadence and timing. But a few things, I think, that are really important playing out, and as you heard in my prepared remarks, I would tell you that we see this as the ideal time to invest in our long-term strategy and, candidly, an opportunity to widen the competitive moat.

We're going to continue to capitalize on this, making sure that we are best positioned in areas where our competitors aren't even seeing some of these opportunities. So, we're not waiting for the market to recover fully or to tell us it's time to invest. We're going to continue to keep our head down and make sure we're getting rewarded for these efforts.

I will tell you, I'm out in front of customers often, and they're sharing with us that competitors are out, promising some of these investments and making all types of commitments to try to mirror what we're doing at Sherwin-Williams. But because we are confident we've got the best assets and the absolute best people in the industry and best technology, we're going to continue to lay in these investments now, well ahead of the cycle, well ahead of what's coming into next year.

And one more comment before I hand this over to Al, I would very much tell you that I would do this 10 out of 10 times. I think there's no doubt about it. We're confident in our strategy, but we are absolutely going to invest. We're going to win, and we're going to continue to deliver for our customers.

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

A

Yeah, Vincent. This is Al Mistysyn. As we have typically done, we're managing growth and operating margin, and we expect a higher gross margin in the second half of the year than we forecasted coming into the quarter. So, as we normally do, and I reaffirmed this at our Investor Day, we take some of that improvement, invest it in the long-term growth opportunities, particularly in Paint Stores Group that Heidi mentioned.

And just to reaffirm what I said on our second quarter call, we are confident in our strategy. We have a consistent investment thesis, and I'm confident we'll get a return for those investments that we are making. And we can point to that like in Res Repaint, up mid-single digits over the last five quarters, showing the returns that we're getting for the investments we made in the second half. I think your comment is right. If I look at our second-half forecast,

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it's in line. SG&A is in line with where I thought coming into the quarter, so there's a little bit of timing in that. So, right in line with what we were expecting for the second half.

And then, the only other piece on that is the continued investments into our digital initiatives and our system modernizations that we've been undertaking.

Operator: Thank you. Your next question is coming from Chris Parkinson from Wolfe Research. Your line is live.

Chris Parkinson
Analyst, Wolfe Research LLC

Q

Great. Good morning. Could you hit a little bit more on the pricing dynamics for 2024 and then 2025 on a preliminary basis in terms of how we're thinking about realizations, whether or not just the current sluggish environment, even though you're [ph] stealing (00:16:08) a lot of share, is holding back from perhaps a better realization in 2024 and whether or not we could potentially see a bit of a constructive or positive pendulum in terms of those realizations as the market further improves in 2025? Thank you.

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

A

Yeah, Chris. As Jim talked about, we announced the 5% price increase in stores, effective January 6. And the reason behind that is we're feeling pressure and increased feedstocks. We have a wage inflation, which is more of a typical increase that we're expecting in 2025, but we're also expecting health care to be significantly higher year-over-year.

And I think you're right. The price increase is about where we expect it to be. It's offset by mix, and we talked about P&M being stronger, DIY being weaker, which weighs on that overall average selling price. I think when you look into 2025, I think we're going to get into this historical range of 50% to 60%, I'd say, and that's really driven by timing of a number of our national account contracts. We fully expect to get increases.

But there's also a new competitive dynamics in the North America architectural market, and we have to see how that plays out. But we're committed and dis – you know us, we have discipline in getting price when we need it, and our expectation is we need it.

Operator: Thank you. Your next question is coming from John Roberts from Mizuho. Your line is live.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. In Consumer, there was an interesting divergence between the sales change and the earnings change there. Did the change in intersegment transfers – was that significantly different than the change in the externally reported sales?

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

A

No, John. The allocation that I talked about in the first quarter and second quarter is the same. Global supply chain with a little bit better volume did perform better in the entire increase, and our segment profit was due to that dynamic. If you look on the commercial side, our North America business actually went backwards in PBT

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because of volume, and that's been a consistent theme over the last three quarters and even going back to last year.

So, no real change to the allocation. It's just they performed better. I give the team a lot of credit. They're managing their costs tightly and operating more efficiently in a more stable demand dynamic with inventory and production.

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

And, John, I would add to that as well. I give the team a lot of credit for a continued focus on refining that portfolio. I'll take you back to some of the key decisions that were made over the last few quarters and years relative to the China divestiture, kind of some non-strategic aerosol business. There's a handful of categories and businesses that the team absolutely was focused on where we can get strong organic core growth, and we walked away from some of those. So, a new and improved baseline going forward.

This business we talked about at our Analyst Day has really been, by design, built for speed and profit. So, a leaner, meaner fighting machine, if you will. So, excited for the volume to come back so we can realize that and take advantage of.

Operator: Thank you. Your next question is coming from John McNulty from BMO. Your line is live.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Yeah. Good morning. Thanks for taking my question. So, when you think about the competitive landscape and some of the changes that have taken place, I think Kelly-Moore and PPG are pretty well-understood, I think, at this point, in terms of where the opportunities are.

But it does look like there are other changes throughout the industry. I mean you've got BASF kind of unloading some assets and Akzo potentially doing the same. So I guess, can you speak to the other competitive parts of your environment in terms of the Consumer business and the PCG group and if you see opportunities there?

And then I guess also, maybe tied to that, on the Consumer side, can you speak to how that customer landscape is looking right now in terms of destocking and where inventories may be at this point as well?

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

Yeah. Good morning, John. I'll start with your first question relative to some of the competitive moves and then I'll hand this over to Al to talk about your question on CBG. I think you nailed it. And I think, first of all, let me be really clear. There are always opportunities. There's certainly been a lot of shift. In fact, the way that we look at this, I take you back to some of our focus on believing in our long-term strategy, our differentiation, investing ahead of the curve. We do see this as a unique moment in our industry where we are being laser-focused on simply doing what we say we will do.

It's amazing. I'm out with customers. The feedback I hear is, you guys are consistent, reliable, dependable. It's amazing what a differentiator that is, so we're holding very firm there and making sure that in a down market in an environment where there is a moment in our industry, we're going to invest. It's a hallmark of Sherwin-Williams. I

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think you're seeing that playing out in real-time. But we're always going to continue to look and assess and if there are opportunities for us to strengthen or accelerate our strategy, we're always open to those reviews.

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

Yeah, John. I think, in particular to Consumer, I think inventory levels have been pretty stable. We certainly don't believe that the impact on our sales in the quarter for Consumer was due to destocking. I think it's just been a continued soft DIY market.

And I think you alluded to maybe some of the other opportunities. If there's opportunities for M&A, we certainly take a disciplined approach to that as we always have, and we look at how different assets accelerate our strategy. And if they're in the right segments and the right regions then, yeah, we'll take a look at them.

Operator: Thank you. Your next question is coming from David Begleiter from Deutsche Bank. Your line is live.

David Begleiter Q
Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning. Heidi, now on the PPG business, it's roughly $2 billion in sales in North America. How much of that business do you think is potentially up for grabs or are you targeting going forward?

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

Well, I'll start with – we're focused, first and foremost, on the quality sales there. Very consistent, as we've talked about, relative to all of our portfolio. We're not interested in commodities. We want to simply focus on the premium segments at value, what it is that we do and what we deliver every day. I will tell you maybe a better way – I don't know if it's a better way or the way that we're framing that same question, David – would be Kelly-Moore, I would characterize as more of a short-term share grab opportunity.

PPG, I would characterize as more of a long-term where there was a lot of respect for that company, and we've got to get out in front of these customers and earn every gallon every day and make sure that they understand when we bring them into Sherwin-Williams that we want to work hard to service them and build a lifelong customer.

So in terms of quantifying the exact number, I can tell you it's more about making sure it's the quality sales that we want to earn and keep over time.

Operator: Thank you. Your next question is coming from Mike Harrison from Seaport Research Partners. Your line is live.

Michael J. Harrison Q
Analyst, Seaport Research Partners

Hi. Good morning. I was hoping that you could speak to your view on remodeling demand and how that could trend? I'm just curious with interest rates coming down and maybe more homeowners potentially tapping into that home equity that they have as we've seen home prices go up, do you see that as something that's going to be an important driver next year? What are your, I guess, internal indicators suggesting about the remodeling side of the market? Thank you.

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

A

Yeah. Good morning, Mike. It's Jim. Yeah, I think your question is very timely. I mean, if you look just this morning in the Wall Street Journal, there was an article about America being primed for a home renovation resurgence. So I think that fits in with our longer-term view where that market is going. We've often talked about some of the indicators that we look at, LIRA being one of them and that's going to start to tick up sometime probably second, third quarter next year. I do think there is some pent-up demand on the existing home sales. Those numbers, as you know, have been down year-over-year for a long period of time. But as the economy improves, inflation wanes a little bit, people feeling good about the equity in their homes, I think there is a great opportunity for us.

Al mentioned and Heidi mentioned the investments that we've laid in ahead of that, right? And you're already seeing it in our Res Repaint numbers being up mid-single digits in a period where the market is flat at best. So once we start to get some help there, we feel very good about where we're headed and expect our Res Repaint business to be very solid, and that will also help our DIY piece as well.

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

A

And, Mike, I think this is a – it's a great question. It's a really good example of this idea of success by design. I give Justin Binns and his organization incredible credit here. I mean, you've got a lot of changing in the landscape, and the team has been head down at the right point focused on our differentiation, focused on the value that we can create here.

So, we're not waiting for the market. To Jim's point, when we do see more moderate recovery, we'll absolutely be best positioned to take advantage of that. But the team is not waiting in making sure that we're out solving some of these needs for these contractors and building loyalty with a lot of new contractors coming into this Res Repaint space. We're primed for a nice run up here to follow as the market does come back.

Operator: Thank you. Your next question is coming from Patrick Cunningham from Citi. Your line is live.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. You mentioned a couple of variables on the wider range for the guide implied for 4Q. I guess, first, can you help size the hurricane impact in 3Q and sensitivity for 4Q? And then on the holiday shutdowns in industrial, is this something customers are hinting at and is it broader or is it more concentrated in equipment and transportation?

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

A

Yeah, Patrick. If you look at – I'll start with the third quarter impact because having two – it's bad enough having one major hurricane. Having two major hurricanes and one in the third quarter, one in the fourth quarter, really adds to the speed of the recovery, and that's what makes it a more uncertain outlook in our fourth quarter and why the higher range. And it's not necessarily just our stores being able to be open. It's the time it takes for customers to get back to work, to assess the damage, homeowners reviewing insurance claims, and the type of damage that will dictate the speed of recovery, if it's flooding versus really structural.

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And I'd say, historically, we've taken about four weeks before you start seeing your primers start to pick up, sundries start to pick up, and then paint that follows. I just think in this environment, with the small quarter that we have in our fourth quarter and the dynamics that we're talking about with two major hurricanes, it's hard to predict the timing of it actually coming back online.

The impact for Helene in our third quarter was a little less than a point. It's primarily in stores. If you exclude the impact of that stores, it'd be pretty right in line with guidance, and then it probably cost us about a $0.05 in the quarter. We didn't call it out. I think we expect to get those sales back in our fourth quarter. It's just it's going to ramp up as the quarter progresses.

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

And I'll touch briefly on the customer shutdown piece. The way that we're looking at this, and there have been a few examples of more of a temporary shutdown over the holidays and not a lot of noise outside of that. Could that extend? Potentially. But we're obviously staying really close with our customers. Karl Jorgenrud and his organization are making sure to stay in lockstep relative to the true demand environment so that we can be the best partners on the other side.

Operator: Thank you. Your next question is coming from Greg Melich from Evercore ISI. Your line is live.

Gregory Scott Melich
Analyst, Evercore ISI
Q

Hi. Thanks. I want to circle back on two things. One is the price increase, the 5%. It sounds like you're getting what you expect, which I would imagine is probably, what? 3% in Paint Stores Group. And then, should we think it's a little less, not the mix? Is that a fair way to think about it?

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

Yeah. Greg, I think when we look at price, we're getting the effectiveness. It's just because you have a lot of different segments and some are performing better than others, it could dilute that price mix because we look at it as price mix in one bucket. And so, it's not going to be quite 3% in the quarter. But as we talked about, volume and price are both up low-single digits on the third quarter.

And as we roll out next year, as an example, as New Res starts to improve like we saw in our third quarter, that mix change versus Res Repaint and DIY is going to dilute some of that price impact.

Operator: Thank you. Your next question is coming from Aleksey Yefremov from KeyBanc Capital Markets. Your line is live.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.
Q

Thank you. Good morning. Could you comment on the backlog trends for pro contractors, please?

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

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Yeah. Sure, Aleksey. I think if you look at the backlogs, I'd say beginning maybe with Res Repaint, a little bit choppy here because of what we've seen with the hurricanes coming in. But overall, I'd say fairly normalized. I mean, they're seeing fabs out there. I think the bigger thing for us is the share gain opportunities that we're aggressively pursuing.

You look at some of the other verticals that we're in, New Result where we're cautiously optimistic, seeing some pickup there. Commercial would be the one where I would say we've hung in there pretty well this year despite there being extended period of slower starts, but our completions, that backlog is being worked through, and we're still up in our Commercial business. But our expectation is that Commercial, that backlog will start to start to diminish as we get into next year.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks a lot.

Operator: Thank you. Your next question is coming from Michael Sison from Wells Fargo. Your line is live.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning. So for the fourth quarter...

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

A

Mike.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Yeah, can you hear me?

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

A

Yes.

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

A

Yes.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Yeah, sorry about that. Yeah, so for the fourth quarter, with the growth you're going to see in stores, you've done a nice job there this year, will segment profit start to turn the corner and grow?

And then for 2025, I know you don't want to give the specifics, but if you generate – what type of, I guess, store growth do you need to sort of get back to positive segment profit growth and any thoughts on SG&A next year or do you think you're done in terms of increases?

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Allen Joseph Mistysyn

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

A

Yeah, Mike. Concerning the fourth quarter, we typically don't give detailed guidance, but I would say this, we expect all our operating segments to show margin improvement year-over-year. Obviously, we still expect to see a seasonal slowdown in architectural sales in the fourth quarter that we have historically seen. So, I don't expect to see operating margin expansion in our two architectural businesses.

I think, as you get into 2025, I think the plan will be very similar to other years. And I realized this year, because our first half had an outsized growth because of the investments we made in the second half of last year, I think we'll moderate SG&A without giving full guidance today. We'll give a better guidance in January.

But the expectations are going to be the same. If we believe volume in the second half of the year and/or gross margin is going to be stronger in the second half of the year, we'll take advantage of those situations just like we did in the quarter, and we'll put more investments in to accelerate our growth when some of these headwinds that Jim and Heidi have talked about ease up, and we'll take more of a market share than – a higher percent of market share as the market turns.

Heidi G. Petz

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

A

And I just want to add one piece to that. Al said this really well as we think about more of a moderated SG&A profile next year. I also want to articulate and be very clear that no one's head is in the sand here. While we have had a heightened level by design, we absolutely want to get that return. We owe that to our shareholders, and we expect outsized volume growth. We're going to be relentless until we deliver that.

Operator: Thank you. Your next question is coming from Duffy Fischer from Goldman Sachs. Your line is live.

Duffy Fischer

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning, guys. Just a question on raw materials. I think, Al, you mentioned that you see increased cost for feedstocks. So I was wondering if you could kind of breaking it into different buckets, so one just being inorganics and pigments and the other kind of the oil derivatives. Oil is down 20% from the first half into the third quarter. Why aren't you seeing some relief actually on that front, and what is it that's driving the increased feedstock costs that you're seeing going forward?

James R. Jaye

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

A

Yeah, Duffy, I'll take that one. So let me just start maybe with what we saw in the third quarter where our raws were flattish year-over-year. We're also looking for them to be flattish year-over-year in the fourth quarter and will come in right around that down low singles that we talked about in our forecast.

I think if you look at TiO2 kind of going forward, supply is readily available in the market, and I'd say pricing right now is stable, not seeing a whole lot of impact from tariffs right now. But you also have producers who are evaluating their production levels, etcetera. Ultimately, what's going to drive TiO2 is demand, and we'll see how that plays out.

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On the oil derivatives, yes, we have seen oil kind of come down here recently. But if you look at propylene, which I know, Duffy, that you know that's the key feedstock for us. If you look in the third quarter, propylene was up year-over-year, almost 50% in the third quarter, and that was really driven, I think, by the planned and unplanned outages. Epoxy resins were also up in the quarter, and there's some additional tariffs that might come in that might impact that.

So, we're looking at – we haven't seen that propylene or epoxy necessarily impact our basket meaningfully yet. But we're watching it very closely, and we'll see where it goes as we get into the next year. You know we have maybe a quarter or two of visibility, so we're watching those things. That propylene move is meaningful. Ultimately, it's going to be demand though which is the big driver.

We'll give you our official view in January. We'll continue to watch it. And we look at the entire basket, as you know, not just our raws. We look at our other costs. Our – health care continues to be a major headwind for us, etcetera. So that's kind of our view right now with more to come in January.

Operator: Thank you. Your next question is coming from Michael Leithead from Barclays. Your line is live.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Hey. Yeah, thanks. Good morning, guys. Actually, Al, I did want to follow-up or circle back on sort of the Paint Stores price increase. It seems like you said raws are, again, uncertain but readily available. Demand is fairly choppy right now. So, curious how you're positioning this price increase to your customers?

And relatedly, I know a lot of the Paint Stores is tailored towards, say, the larger contractor national accounts. But just given some of the ongoing DIY weakness, retail promo activity, are you seeing any customer swing activity over to the big box or not really an impact that you've seen thus far?

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

A

Not an impact we've seen thus far, Mike. And as we've talked about, we continue to invest in products and services that help our customers be more effective, grow their top line and grow their bottom line because of the efficiencies they gain by moving up in quality. And when I talk price, I typically include mix in that, and we're consistently working with our customers to provide better service, to provide supply chain resilience, so that we can be their supplier of choice, second supplier choice on [indiscernible] (00:39:41). So, there are other input costs that we're taking into account, as Jim just mentioned, on why we need the price increase and the discipline we have to go out with price when we need it.

Operator: Thank you. Your next question is coming from Ghansham Panjabi from Baird. Your line is live.

Ghansham Panjabi
Analyst, Baird

Q

Thank you. Heidi, just in terms of your engagement with major customers specific to PSG, how would you characterize sentiment at their level? Is there just more optimism for 2025 as it relates to aggregate activity? I'm just asking because there's been so much noise on volatility with interest rates including the most recent increase in mortgage rates post the Fed cut, so just curious as to where sentiment stands for 2025.

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

A

Yeah. Ghansham, I would say it definitely [audio gap] (00:40:33) pertinent by segment. And Jim covered some of that just a few moments ago. I think if you look broadly across in aggregate, everyone is reading the same macros. Everyone is hoping that these rate cuts are going to have a faster, more material impact. But I think as everyone is pragmatic here and trying to plan for what the reality is into next year, broadly speaking, it is more of a modest back-half potential, what I would say is the broad sentiment.

You do cut that by segment, and Jim alluded to this a bit earlier, where some of these other signals relative to their existing home sales and the like. We're obviously getting a lot more bullish as we have been on Res Repaint. And I would say the Commercial segment is probably the area where we know that we've got the biggest challenge even throughout the year as some of these projects, based on all the reasons we said before, CapEx, labor constraints, kind of live on. I think that's a reality that we're all navigating and, I would say, is reflective in our customer sentiment.

Operator: Thank you. Your next question is coming from Kevin McCarthy from Vertical Research Partners. Your line is live.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Thank you and good morning. I was wondering if you could comment on the outlook for two businesses within the Performance Coatings Group, namely Refinish and Packaging. On the Refinish side, it looks like you've gained some share, but if I understood your commentary correctly, it sounds like that's being masked by lower insurance claims and diminished reluctance to pay deductibles. So my question would be, do you view that as more of a structural or transitory and would you expect it to reverse at some point in 2025? And on the Packaging side, it looks like you had nice acceleration there. Do you expect that to continue in coming quarters?

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

A

Yeah. Kevin, I'll start with the Refinish piece. And I think one of the big reasons that I wanted to highlight this at our recent Financial Community Presentation is exactly what you said. I think some of that is mass. I love how we're positioned here in this business. If you look at Q3, our sales were impacted by negative low-, mid-single digit FX. In Latin America, we have more exposure there just given our mix relative to some of our peers, so you would expect that weight to play out.

But if we just take the big approach, to your point, is it structural or more kind of transitional, we look at this business over time, you're going to see swings quarter-to-quarter. Our sales year-to-date, they are down low-single digit against a high-single-digit comp. So if you exclude FX from that, our sales are flat which is in line with where our competitors are at on their recent calls.

So, I want to be really clear that we are not satisfied with this year-to-date number, but it is an environment where claims are down double digits in North America, again, which is our largest region. And having said that, as you look at what is working, and we do expect improving claims, share gains to be a tailwind next year, the team has done some fantastic work on our Collision Core program. We're gaining both momentum and adoption here. And I think it's really important that we continue to look at strengthening what we're doing here.

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We're out early November of this year with a high-single digit price increase for our direct customers, and we'll be out with others as necessary but continue to get paid for what we're doing. The confidence that the team is laser-focused on new accounts and share gains, which I think is absolutely sustainable and systemic.

If I go to your second question on Packaging, you mentioned the word acceleration. I think that is a perfect word. Again, this is a business I love how we're positioned. Our sales in our third quarter were up high-single digits, all of which was volume. So we're positive in all regions, and our volume was actually up low-double digits which was a bit offset by some of our index pricing agreements. We've got some great momentum. The team has done a fantastic job. So while we're flat year-to-date, if you look at the balance of the year, I would expect to see very strong performance in the fourth quarter leading into next year.

We've recaptured some of the temporary share loss that we saw from our Garland, Texas, plant event. Work is not done. The team's heads are down. They're out earning this business every single day but strong – when I say strong, very strong line of sight to additional recovery over the next 12 months. And many of these customers, again, I'm out spending time with. They're eager to return back to Sherwin-Williams. And I would characterize that as just a better appreciation not only of our technology, but the service that we're providing to these customers is world-class. We continue to invest. We believe in our model here.

Had some recent new wins across other regions, including North America, Latin America, and APAC, and I was just over in our Tournus, France plant a few weeks ago for a ribbon-cutting ceremony and just couldn't be more pleased with the expansion here. This is going to be the backbone of serving our customers as EFSA – as their ban on BPA rolls over into Q2 of 2026, and there's already some customers that are looking at pacing to that beginning in 2025. So, I think we're very well-positioned certainly where the category and the market is going here.

And last but not least, really excited that we've just added to our capacity. We just closed on our Henkel Metal Packaging business, October 1. So, of course, we're very excited to welcome about 130 employees at our production sites across both Germany and Mexico into the Sherwin family, but big expectations to where this business goes.

Operator: Thank you. Your next question is coming from Arun Viswanathan from RBC Capital Markets. Your line is live.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks. Thanks for taking my question. So it sounds like Q4, the hurricane impact was not going to be that large since it was about $0.05 for Q3. So, glad to hear that. I guess, my main question is just around 2025. When think about the opportunity for Paint Stores Group, it does sound pretty encouraging when you think about the share gains that you already achieved from Kelly-Moore? Maybe I think you sized that in the past as, when they exited, about $300 million in sales. So assuming a good portion of that potentially that you were able to achieve, maybe you can get a similar amount from PPG, and then if you factor in maybe a 3% price increase as well, it looks like the Stores Group has line of sight to high single-digit growth next year. Is that how you're thinking about it? Maybe there could be some further gains from lower interest rates maybe benefiting the second half of next year as well. Is that kind of how we should think about framing up PSG in 2025? Thanks.

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

A

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Yeah, Arun, I'd temper that. We've been talking about it taking a longer period of time for things to filter, like interest rate reductions and things of that nature. I mean, we're not – I'm not guiding for 2025, and I know you're not asking that. But I'd temper with all the things we've gone through over the last year and a half and how long it's taken to get certain things moving, I would just temper that expectation.

And again, we talked about we expect choppiness in our first half and then we'll see. In this environment, a line of sight of three quarters out is pretty far. So, let us get to January. We're going through our operating plans here coming up with the teams, and we'll get a better line of sight to that and then we'll certainly share that with you.

Operator: Thank you. Your next question is coming from Jeff Zekauskas from JPMorgan. Your line is live.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks very much. I have a two-part question. In your discussion of elevated SG&A costs in the quarter leading to long-term market share gains perhaps, what you said is that, in the fourth quarter, the spending will come down maybe to 0% year-over-year, and your direction is to lower your SG&A spending. So what exactly happened in the third quarter where spending was elevated by $50 million and then it's going to go down in the fourth quarter?

And then, secondly, in Consumer Brands, like order of magnitude, your margins are up maybe 900 basis points in the quarter, and your margins in the stores business are sort of flattish. Can you talk about what's keeping the margins constrained in the stores, and what is it this year that really opened up this sort of 800 or 900 basis point improvement in Consumer Brands with sales being lower?

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

A

Yeah, Jeff. I think when you look at our second half, there's investments going in, as well as we're controlling G&A tightly, and sometimes the timing doesn't align exactly in a quarter. So that's why I point to the second half and say, our expectations of SG&A are in line for the second half as it was coming into the third quarter.

And I would just say we take a disciplined approach to our SG&A. We want to invest in the selling side and driving productivity for our customers by convenience of our stores, expertise in our reps, low turnover in our stores so they have the same face at the counter, delivery, innovation, all goes into the investments we're making.

On the other side of that, on digital and modernization, we want to allow our employees to be more effective in more consistent data, better systems that allow them to be more effective when they get to the field. And so, there's other G&A that we're trying to control very tightly and manage that down. So we can help pay for those while we're waiting for market dynamics to help with the overall demand environment. That being said, I go back to Res Repaint and the 5% mid-single digit growth that we're getting. So, the confidence is there in getting the returns.

On Consumer, again, it goes back to higher fixed cost absorption that's being – we're passing that through because global supply chain sits in Consumer Brands, and it's been a headwind for a number of years, and we thought we can get our efficiencies back up to offset it. We chose to readjust our standards. And when I look at the GSC allocation, it's really no impact on our overall margin. But what you're also seeing is global supply chain has improved year-over-year. So, Consumer Brands is getting a big increase from the allocation to stores and to PCG. But on top of that, they're also getting a tailwind from better operations within our global supply chain.

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

A

And, Jeff, if I go back to your first question on the elevated SG&A leading towards long-term share gains, which is absolutely the intent, and I just want to revisit. I think you used the language around keeping margins constrained in stores. I would take a different approach there. I think back to Al's earlier comment, when we see these expanded margins, we absolutely want to take advantage of that as an opportunity, so it did give us an opportunity in Q3, Q4 to accelerate some of these investments.

And I'll take you back to the six priorities that I laid out at our Financial Community Presentation, all designed to deliver this above-market growth. So some of the digital priorities that will absolutely pay off those six priorities, simplification that Al mentioned, helping to make sure our teams have what they need to go faster and add more value to our customers. So, it absolutely was by design and I think an important – I think it was opportunistic on our part.

Operator: Thank you. Your next question is coming from Chuck Cerankosky from Northcoast Research. Your line is live.

Chuck Cerankosky
Analyst, Northcoast Research Partners LLC

Q

Good morning, everyone. In looking at the market share opportunities out there, I'd like you to maybe talk about what's going on at True Value and Do it Best, as well as, Heidi, you mentioned better quality sales. Can you talk about that given what market share opportunities are available and whether it's DIY sales or contractor sales, res versus commercial? Thank you.

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

A

Yeah, you bet. So, I'll start with the True Value, Do it Best. Certainly, we won't comment on our customer strategies. But, I think, again, as I go back to the point earlier, this is a bit of a moment in our industry. I think there's been a lot of pressure across the category broadly for the last few years, so we'll continue to work in lockstep with our customers as they make shifts and decisions relative to the brands and the banners.

Then move on to your quality sales question, within that, there's kind of the two prongs to that. One, and I'll go back to my earlier comment, where we want to – it's in our core DNA. We're not interested in being all things to all people there. So, we're not going to play in the commodity spaces where we're not getting paid, we're not delivering return to our shareholders.

What is of interest in those quality sales, certainly by the premium sub-segments that we serve and making sure that we are focused, back to Al's point, how do we help make them more successful. So, premium products, opportunities to upgrade them so they're getting on and off of job sites faster, they're saving time and money on labor with some of these premium products that are easier to apply, less touch-up. So when we look at the quality sales, it's who we're targeting and how we're trying to service those with the right mix of products.

Operator: Thank you. Your next question is coming from Josh Spector from UBS. Your line is live.

Joshua Spector
Analyst, UBS Securities LLC

Q

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Yeah. Hi. Good morning. Two quick ones, if I may. Just CapEx, can you just explain what's going on with the year-to-date kind of already being at your target versus your full-year guide?

And just within performance where you talked about customer slowdowns, I really felt that's a watch point for you, can you just be specific on which submarkets you're seeing that as a bigger risk? Thanks.

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

On the CapEx, Josh, year-to-date CapEx was $770 million, including about $415 million of BOF CapEx. And what happens is we get reimbursed because of our financing arrangement for our new headquarters, so we've – really, net is about $200 million. So, core CapEx is $355 million.

So we guided to the $700 million less $180 million, gets you into that $520 million, around 2% of sales, which is kind of where we want to be at. But it's just the noise in the big BOF – our new buildings.

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

And then, Josh, on the question relative to PCD and some of those temporary shutdowns, it's broad-based for sure in the general industrial point, more to heavy equipment with some of the ag slowing down. Again, we see this as very much transitory point in time, end of season, and there's no signal yet that that would be widespread or any signal that that would be extended at this point.

Operator: Thank you. Your next question is coming from Steve Byrne from Bank of America. Your line is live.

Stephen Byrne
Analyst, BofA Securities, Inc.
Q

Yes. Thank you. Can you comment on what drove the 2% decline in COGS? Jim, you mentioned raws were flattish. Was that a general comment and what were volumes in the top line, does that contribute to the lower COGS?

And maybe just secondly, in your outlook for your stores business, are you seeing any aggressive pricing from any of your competitors as you're gaining share? PPG indicated they actually picked up share in the third quarter. So, were are you gaining share and do you see risk that they could get aggressive on price?

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

Yeah. So, Steve, on our cost of goods sold decrease, the decrease was primarily due to supply chain efficiencies on our Consumer Brands Group with global production volumes up low-single digit with the team doing a nice job of controlling costs. The other impact was FX lowered cost of goods sold in the quarter. Those are the two main drivers.

On the volume side, stores was up low-single digit. Performance Coatings was flattish and then PCG was more than offset with lower volume in our consumer.

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

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And, Steve, on the store side relative to any competitive aggressive pricing, I would say, that we typically look at our industry as, by and large, a very disciplined industry which was why we have a lot of confidence. When we do come out, we generally take a leadership position as it relates to price. We want to be out first. We want to be transparent with our customers. We want to deliver this in a way to our customer that helps to set them up for success, be a key partner in the bidding season, helping where needed, if needed, coach them through how best to pass that along, so that they understand how to best kind of pass that through.

Typically, the actual cost of the product itself is somewhere between 10%, 12%, 15% and then the balance will be the cost of labor. And so, if we're able to do what we've continually focused on, which is at these crews on and off of job sites, that ultimately is a positive to make sure that we continue to focus on upselling customers, especially in some of these environments.

I've not seen, we've not seen a lot of activity, I would tell you, because this is an unprecedented moment in our industry. We're certainly paying very close attention. We're staying extremely close to our customers to be competitive in a mix of environments, but we're confident that we're going to hold on to this recent – this price that we just announced, and we'll be back in our $50 to $60 kind of historic run rate, and we don't plan to come off of that.

Operator: Thank you. Your next question is coming from Adam Baumgarten from Zelman. Your line is live.

Adam Baumgarten
Analyst, Zelman & Associates

Q

Hey. Good morning, everyone. Just on your kind of initial thoughts on the first half of next year remaining choppy from a high level. Is the way to kind of interpret that, that it's a continuation of the trends you're seeing here in the back half of 2024 at this point?

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

A

Yes. That's exactly what we're seeing.

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

A

And if I could – and, Adam, Al just nailed it, but I had to jump in here because I go back to this idea of it's not if it's when. And so, this kind of slower longer is playing out in real-time, and we are absolutely prepared to manage that situation.

Operator: Thank you. Your next question is coming from Garik Shmois from Loop Capital Markets. Your line is live.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Hi. Thanks. Just on the SG&A and the potential increase in the back half of next year as sales ramp. Just maybe a bigger picture just how you're thinking about SG&A leverage. Is there a kind of investment of sales you'd be managing to over time or is it maybe a little more situational right now?

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Allen Joseph Mistysyn

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

A

I think, Garik, it's situational with – as we've talked about, our focus is on driving operating margin. In some years, that's gross margin expansion; in other years, like 2021 and 2022, it's on SG&A leverage. As Heidi mentioned, I mean, we're really being opportunistic to set ourselves up for when demand returns because our gross margin has been stronger because our global supply chain with a more normal production and inventory cycle this year building inventory leading into the summer selling season. We saw our inventory drop through the third quarter, and we expect to build architectural inventory on our fourth quarter.

That bell curve and being more standard helps us with how we schedule our factories, how we're able to produce the right products at the right time, and we get efficiencies out of that, and we're realizing those and taken some of the benefit and putting it into these long-term investments.

Operator: Thank you. Your next question is coming from Eric Bosshard from Cleveland Research Company. Your line is live.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Thanks. If I could follow up, Al, your comment, I think you just talked about the focus is driving operating margin earlier, how you talked about achieving above-market growth. I guess what I'm trying to figure out is where does the curve of investment moderate, the market share growth sustains, and operating margin expands or is that not the target that you're aiming for?

Allen Joseph Mistysyn

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

A

No. We absolutely are aiming to – we'll moderate on the G&A side. I think to help pay for the selling investments because we're confident in our strategy, because we've been consistent in our investments, and because we know we can get a return on those investments, I think as the macro demand environment improves, you will see us get leverage on SG&A going out in the future.

It's just going back to it's not if, it's when. Because as your volumes start growing and mix improves, you can invest heavy enough to not get leverage on SG&A. So we absolutely are focused on managing gross margin expansion and SG&A leverage at the appropriate time to get our operating margin to grow at a faster pace.

Operator: Thank you. That concludes our Q&A session. I will now hand the conference back to Jim Jaye for closing remarks. Please go ahead.

James R. Jaye

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

Thank you, Matthew, and thanks, everybody, for joining us this morning. As we've often said, we don't run the business for the perfect quarter. But what we do is run the business to drive that long-term above-market growth and the returns. And that's exactly what we're doing right now. We believe in our strategy. We're investing in it.

Heidi mentioned a couple of times we're at a very unique place in our industry right now. The current opportunity to gain market share is nearly unprecedented, and we're going to take full advantage of that. We're very confident in our approach and our people, the trends favor us long term, and our team is very motivated to get after it.

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So, thank you again. As always, myself and Eric Swanson will be available for your calls over the remaining week and coming days. Thank you so much.

Operator: Thank you, everyone. This concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.

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