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The Sherwin-Williams Co. (SHW)

Investor Meeting - Financial Community

CORPORATE PARTICIPANTS

James R. Jaye

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

Heidi G. Petz

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

Justin T. Binns

President-Global Architectural, The Sherwin-Williams Co.

Todd D. Rea

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

Karl J. Jorgenrud

President-Global Industrial, The Sherwin-Williams Co.

Colin M. Davie

*President & General Manager, Global Supply Chain Division, Consumer
Brands Group, The Sherwin-Williams Co.*

Benjamin E. Meisenzahl

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

OTHER PARTICIPANTS

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Michael Rehaut

Analyst, Melius Research LLC

Duffy Fischer

Analyst, Goldman Sachs & Co. LLC

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Chris Parkinson

Analyst, Wolfe Research LLC

Gregory Scott Melich

Analyst, Evercore ISI

Abigail J. Eberts

Analyst, Wells Fargo Securities LLC

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Salvator Tiano

Analyst, KeyBanc Capital Markets, Inc.

Steven Forbes

Analyst, Guggenheim Securities LLC

MANAGEMENT DISCUSSION SECTION

James R. Jaye

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

Good afternoon, everybody. Glad that you are here. Welcome to my – sorry about that. Good afternoon, everybody, and welcome to the 2026 Sherwin-Williams Financial Community Presentation. I'm Jim Jaye, Senior Vice President of Investor Relations and Corporate Communications for the company. And on behalf of our leadership team who is here today, thank you for joining us in Cleveland, as well as those who are online. We really appreciate you being with us today.

We are especially pleased to host you in our new global headquarters and later today at our new Global Technology Center. These are more than new buildings. They are strategic investments in continued industry leadership and a culture focused on talent, collaboration, innovation and, ultimately, delivering a world-class customer experience, and they're already beginning to create value for us.

This year also marks Sherwin-Williams' 160th anniversary. Few companies endure that long and even fewer continue evolving, continue leading and continue compounding value generation after generation. So today, you will hear how we expect to extend that track record for decades to come.

As a reminder, today's presentation and remarks are being made within the context of our forward-looking statements disclosure. And at Sherwin-Williams, safety is unconditional. So we always begin with what we call a safety grabber. And so, should you hear the fire alarm activated, please leave through the marked exits and our security teams will be out in the hallway to assist you.

So let's get started. You know us as the leader in paint and coatings. But today, we're going to show you that we are much more than that. We are a well-positioned share gaining compounder that delivers through all cycles. Our company is led by a deep and experienced team with a proven track record of delivering growth, execution and long-term value creation. Today, in a few minutes, I'm excited for you to hear from several members of our team, including our Chair, President and CEO, Heidi Petz; and our Chief Financial Officer, Ben Meisenzahl.

Sherwin-Williams is the premier global paint and coatings company in the world. Last year, our sales were about \$23.6 billion; and at the midpoint of our most recent guidance, we'll surpass \$25 billion in 2026. We have over 64,000 dedicated employees operating in more than 120 countries.

We operate in a global market estimated at just shy of \$200 billion, and the competition there is significant. The top suppliers make up approximately 50% of that pie, with the remainder being highly fragmented and made up of hundreds of additional suppliers. Over time, that pie is expected to continue to grow. And given the softer for longer environment that we've been speaking of for the last four years, we're confident that there is significant pent-up demand to be released ahead of us.

So from 2019 through 2025, the global coatings volume grew less than 1% annually, with North America and Europe actually down low-single digits. That includes both architectural and industrial coatings. Some third-party outlooks are suggesting that volume growth should improve across regions in the years ahead, and we expect that recovery to be gradual and uneven rather than a linear progression. But even so, the direction appears more constructive than what the industry has experienced over the last several years.

US demographics should continue to provide opportunity over the long run. While there are several variables to consider and the pacing may vary, the fact is that Gen X, millennials and Gen Z are still driving growth in household formations. This should support new single and multifamily housing, remodel and re-maintenance over time – not re-maintenance, maintenance over time. In addition, aging homeowners have accumulated substantial wealth, including \$90 trillion of baby boomer wealth, which drives home spending and second home spending as well.

The US has underbuilt homes for more than a decade, with estimates of the housing gap commonly in the 2 million to 4 million range with some estimates as high as 6 million. We all know mortgage rates remain high, but activity should gradually normalize as households adjust and the lock-in effect fades.

Homebuilders also continue to offer very attractive incentives. Ultimately, the recovery, we know, is going to be driven by a combination of things: rates, affordability, income growth, and consumer confidence. And while single-family new residential is a very important end market for us, I want to remind you that it's less than 10% of our consolidated Sherwin-Williams sales.

Existing home sales have been near historic lows for much of the past three years, which suggests that the market's more likely to recover than to deteriorate further. And existing home sales are actually up slightly year-to-date through August. At the same time, we have record homeowner equity, more than double 2019 levels at roughly \$36 trillion, and that provides a powerful funding source for repair, remodeling and upgrades.

This slide reinforces the pent-up demand story. US architectural gallons are down about 11% from the 2020 peak, even as square footage put in place has continued to grow. That square footage eventually needs to be maintained, which will drive res repaint and property maintenance gallons. In sum, housing activity may remain muted in the near term, but home price appreciation, homeowner wealth, aging housing stock and stay-in-place behavior continue to support paint and coatings demand.

On the industrial side of our business, we compete in a broad range of premium end markets. So as you know, there is no single indicator that tells the full story for us there. But that said, the manufacturing PMI trends have improved in recent months, particularly in the US, which represents about half of our industrial business. As I mentioned with architectural coatings, we expect the recovery here to be gradual and choppy.

So we're not waiting for a recovery in any of these markets. We're controlling what we can control, and that's catalyzing growth on the top line and the bottom line. We're determined to put even more distance between Sherwin-Williams and our competitors.

And it's with this mindset that I'm pleased to welcome to the stage our Chair, President and CEO, Heidi Petz.

Heidi G. Petz

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

Good afternoon, everyone. Thank you for investing your time to be here with us today. Today, we're going to answer two fundamental questions, which is why Sherwin-Williams and why now? The answer is that regardless of the cycle, we continue to invest in a winning strategy. We continue to strengthen our advantage, especially in this softer for longer environment. We have tremendous momentum on our side. We are confident in our strategy. And even more importantly, we've got a proven ability to execute regardless.

Today, you're going to see a company with a 160-year track record of delivering through all types of cycles. And you're going to see an enterprise that's becoming smarter, faster and more efficient as we enter what we believe

is a new era of productivity and value creation. Our value creation story is crystal clear. We deliver differentiated solutions that help our customers be more productive and, therefore, more profitable. We often talk about success is that our customers are making more money by partnering with Sherwin-Williams.

If you believe in your strategy, you do not abandon it when things get tough. You commit to creating long-term value even through a relentless focus on consistent execution and partnership. That's exactly what Sherwin-Williams has been doing while others have been pulling back. The result is a wider set of competitive advantages. Through a consistent and disciplined execution, we continue to find new ways to strengthen our competitive advantage across the enterprise.

Our controlled distribution; this gives us unmatched proximity to our customers through our stores, our branches and our blending facilities. Pricing effectiveness; this is earned through decades of building trust and providing solutions to our customers. Data; this includes the world's largest database of painting contractors. A portfolio of premium assets; this is unrivaled in our industry. And importantly, world-class talent, including thousands of sales reps and technical reps that are working every day side-by-side with our customers. Because of our consistent strategy and a very disciplined execution, we have never been better positioned to win.

Our advantage is not one asset; it's our unique combination of capabilities that become stronger year-over-year. It's hard for competitors to replicate because it's credibility and trust that has been built over decades; and this has been built through people, systems and continued investment.

With that, I'm going to invite our operational leaders to join me on stage to share a little bit about what makes their businesses so unique. And to begin, we're going to start with our Architectural business, if you join me in welcoming Justin Binns, our President of Global Architectural.

Justin T. Binns

President-Global Architectural, The Sherwin-Williams Co.

Thank you. And thank you, Heidi. Paint Stores Group is built around the professional painter and powered by our unique controlled distribution, local service, innovative products, pricing discipline, trusted relationships, and unmatched customer intimacy. Our model helps pros save time, win work, manage jobs and, most importantly, improve their profitability. That's why this business continues to compound share over time.

We have decades – decades of growth ahead of us in Paint Stores Group. There are approximately 12,000 specialty paint distribution points in the USA and Canada, and well over 7,000 of those distribution points today do not sell Sherwin-Williams products. And we expect to open 80 to 100 net new stores annually on the way to our next milestone of 6,000 locations. But it's not just about the number of stores. We continue to purify the mission of every store, resulting in a premium experience for customers in each of the priority segments that we serve.

Our aggressive footprint strategy also drives densification in key metro markets, and this drives economy of scale, enhanced service capabilities and speed to profitability. And above all, the number of job sites are extensive. Nobody, and I mean nobody, is better equipped to meet the customer where they are and service these sites through both our stores and our delivery service.

Our relentless focus on serving our customers has also resulted in increased store productivity. Sales per store, PBT per store and segment margin have all increased from pre-pandemic levels. And as you can see, the investments we are making in our newest stores are generating a return at a faster pace than prior stores

investments as we improve on our use of data, better alignment across our real estate resources and a continued focus on the highest returning markets.

Now, I'd like to welcome to the stage, Todd Rea, President of our Consumer Brands Group.

Todd D. Rea

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

Thank you, Justin, and good afternoon. Consumer Brands Group is highly complementary to Paint Stores Group. It serves the DIY customer in the growing Pro Who Paints segment through some of the strongest retail partners in the market. Our value comes from trusted brands, category expertise, channel partnership, field support and innovation that help our partners win at retail.

And despite the tough demand environment that we're in, I'm very proud of the progress this team has made to continue optimizing our business and positioning us for upside. We've introduced a steady stream of innovative new products. We've targeted reps adds in the field to support our retail partners. We've divested non-core businesses in China, Australia and specialty aerosols in the US. And we've optimized our legacy store footprint in Latin America.

And speaking of Latin America, we're going to celebrate our one-year anniversary of the Suvnil acquisition on October 1st. The talent, products and capabilities of this business are a formidable addition to our portfolio and are already providing additional momentum, growth and priority for our business.

And with that, I'd like to welcome Karl Jorgenrud, President of Global Industrial.

Karl J. Jorgenrud

President-Global Industrial, The Sherwin-Williams Co.

All right. Thanks, Todd, and good afternoon, everyone. So the Performance Coatings Group is made up of six dynamic global businesses who serve the premium industrial end markets, where performance, reliability and total cost of ownership matter. And as you just heard across our architectural end markets, this portfolio operates with the same level of discipline in our strategy and our execution. We are not trying to be everything to everyone, and we have no interest in being in the commodity end markets.

These billion-dollar businesses are each led by a group of seasoned leaders, who are here today, and I hope you guys have some time to connect with them after our presentations. But we differentiate through local service, innovative products and solutions, global reach, and more than 1,500 technical service reps in the field around the world working side-by-side with our customers to provide them with solutions for their most challenging issues.

Now, there are many organic growth opportunities in front of us in every one of our divisions, and that remains our number one priority. And this has been evidenced by the strong market share gains that we've experienced. And while we don't need M&A to grow, you should expect us to continue adding to our momentum with targeted bolt-on acquisitions at the right value that bring differentiated technology or fill a product gap or a geographic gap.

So now, every day, we serve many of the world's largest global manufacturers, but a key differentiator and potentially one of the most underappreciated parts of our story is our unique asset configuration. In PCG, we've got over 300 strategically located Automotive Refinish branches and Industrial Blending facilities, which, similar to our stores business, provides us with meaningful competitive advantage. So think of it as combining the reach and responsiveness of a local business with the capabilities and scale of a global company.

So, for example, we're able to deliver small custom batch orders to customers in days versus our competitors that can take weeks. And that network allows us to serve customers large and small in a unique way and gives us access to an attractive, profitable opportunities with thousands of medium and small manufacturers that value speed, service and technical support and are willing to pay a premium for it.

So the team continues to drive the performance of this business higher. And over an extended period of soft demand in many of our global end markets, we've grown sales in the mid-single digit range, and grown adjusted PBT even further. We've improved adjusted segment margins by several hundred basis points into the high-teens, and we are confident that the 20% margins are absolutely attainable for this portfolio.

Now, for both Architectural and Industrial, our success would not be possible without the support and high level of collaboration and execution with our global supply chain organization. So with that, I'm pleased to turn it over to our President of Global Supply Chain, Colin Davie.

Colin M. Davie

President & General Manager, Global Supply Chain Division, Consumer Brands Group, The Sherwin-Williams Co.

Thank you, Karl, and good afternoon, everybody. Our global supply chain continues to be a competitive advantage, but what truly separates Sherwin-Williams apart is that every link in this chain creates competitive advantage on its own. And together, they form a system that drives superior customer service, stronger scale and efficiency, and long-term value creation in ways that are exceedingly difficult to replicate. It starts with R&D, a globally connected innovation-driven organization, which I'm excited for you to see later this afternoon.

Our global procurement team builds strategic relationships with key suppliers that enable us to grow together profitably. Our planning teams use AI tools to respond faster to shifts in customer demand, delivering high levels of service at the right cost. Our integrated manufacturing platform gives customers supply assurance and globally available technology. We've also added new capacity, so we are well-positioned for the demand we see ahead. Our distribution centers are highly automated. They deliver consistently high service to our paint stores network and our retail partners. Our award-winning company-owned fleet gives us security of supply and helps us manage costs more efficiently.

At every step of our supply chain, our team are focused on four things: safety, quality, service, and cost. But what makes this even more powerful is how we leverage our scale as one company. We drive operational advantage by leveraging our capabilities across the enterprise. Here are a few examples of how that works for our Architectural and Industrial portfolios.

Our global manufacturing footprint gives us the right capacity in the right locations close to our customers. Our procurement team use enterprise-wide scale and a preferred raw material strategy to reduce complexity and strengthen supply chain resilience. Our R&D teams share technology platforms across Architectural and Industrial product lines, creating differentiated solutions and getting them to mass market faster. Our distribution centers allow us to position inventory more strategically across the network, reducing freight costs, improving service and reducing working capital.

I'm highly confident about what we're doing today, but I'm even more confident about where we're going.

Now, let me turn it back to Heidi. Thank you.

Heidi G. Petz

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

All right. Thank you, Colin. So clearly, you can see that the combination of our scale and our agility is evident across the enterprise. We can solve harder problems. We can consistently serve customers better, but we're creating advantages that competitors cannot easily create. We're leveraging these advantages consistently and aggressively. We are not waiting for a market recovery. We are acting now, controlling what we can control, and catalyzing growth, importantly, on both the top line and the bottom line.

Our enterprise priorities are the framework of this growth. They're part of our success by design operating model, and it helps us to continuously improve, but also to adapt and to find new ways to create value. While above-market growth is the ultimate outcome, the other priorities that you see here enable and accelerate our ability to get there.

We continue to invest in the pursuit of new accounts and share of wallet. Our share gains are becoming increasingly visible across multiple end markets, and we do see significant runway ahead. Part of the strength of our portfolio is also our inherent annuity model. A new single-family home at some point needs to be repainted. New commercial and multifamily construction eventually requires maintenance for upkeep or, simply, to compete. In Protective & Marine, more than half of the revenue comes from ongoing maintenance. These are just a few examples of durable revenue streams.

Innovation also plays an important role in catalyzing growth. As we've stated now for nearly a decade, and we've demonstrated for even longer, we innovate both in and out of the can, that allows us to provide more comprehensive solutions that improve our customers' productivity and, ultimately, their profitability. Our new global technology center in Brecksville will only accelerate our ability to innovate and provide that value, and I am very excited for all of you to be able to enjoy that later today.

Our digitization priority is building a smarter, faster, more efficient Sherwin-Williams. By using data, AI and process discipline, we can generate better insights that lead to better decision-making. We can improve our forecasting. We can increase our sales and service productivity. But ultimately, we want to make Sherwin-Williams an even easier company to do business with.

There are many examples of AI in our business today. Ask Henry is a really great example of AI in action. Named after our founder, Henry Sherwin, this tool mines our internal data and our expertise to enable our sales and our service employees to answer customers' questions faster, more consistently, but, importantly, more confidently. Another great example, the Color Expert app also uses AI to speed color selection, which help our painters spend less time getting to color and more time painting.

We continue to expand on our digital tools, including our PRO+ app, which really helps our professional painters manage their business better. And we're really pleased to see the adoption continues to grow here. As Colin said, our supply chain responsiveness is a competitive advantage, and we continue to invest in it. Our new manufacturing and distribution center in Statesville, North Carolina is now fully operational. With a 10-year capacity planning road map, we are confident that we are prepared for the volume that the market recovery will bring.

Simplification is another good example of an enterprise priority that helps us to think about how we unlock value. For example, there are still opportunities to optimize our global asset footprint, and we're taking a very thoughtful and disciplined approach to provide premier service, but at the right cost.

Next, our customers are increasingly looking for sustainable solutions, and we are in lockstep with their business goals. Today, approximately 30% of our sales come from products with third-party sustainability-related certifications or declarations, and we expect that percentage to grow over time.

And finally, the ultimate engine that drives our success is our people. Talent and culture are at the core of everything that we do. So with a clearly defined strategy, along with 64,000 global employees and these key enterprise priorities in action, we have never been better positioned for growth.

As we're building on this solid foundation, I'm equally excited to talk about what is ahead. As you've just heard, each operating group on its own is powerful in its own right. But the bigger opportunity, as we are shaping right now, is unlocking value for our customers across the entire enterprise. Only Sherwin-Williams can deliver solutions that combine specification, product, service and digital supply chain capabilities. This is true across our architectural and our industrial portfolio and applications. It allows us to simplify what is complex for our customers. And this really is one Sherwin-Williams; one strategy, one trusted relationship, and one coordinated solution for complex customer needs.

We're excited about this capability and all that is ahead, but let me point out to you that the building you are in is a perfect example. More than 90% of the interior and the exterior surfaces in our headquarters are coated with Sherwin-Williams products from multiple divisions throughout our portfolio. The walls, as you would expect, have our architectural coatings. The metal on the chairs and tables in front of you uses our powder coatings. The metal extrusions on the windows uses our coil coatings. The wood and the doors and the podium use our industrial wood lacquer. And even the cans of water that are in front of you are using our non-BPA packaging coatings. So from architectural coatings to our industrial coatings, this very building shows you a very good example of these capabilities that are coming together in the real world. But I want to give you some more examples.

In Nashville, our solutions are supporting a world-class football stadium. There are many different surfaces that needed to be coated, obviously, within the stadium across Architectural, Protective & Marine, General Industrial, Wood and Coil applications. This is another example of how the full Sherwin-Williams portfolio can solve complex, high-profile customer needs across multiple substrates and multiple applications.

Another great example, in Fairfax, Iowa, we're applying the same enterprise approach to data center construction, combining our Architectural and our Industrial solutions across interiors, exteriors, structural steel, floors, roofing, tanks and mechanical systems. Data centers are a strong example of where our breadth, our technical expertise and our coordinated execution can create very meaningful value. But data centers are only a portion of the AI infrastructure build-out that we know is coming.

The bigger opportunity, if you look at this slide, is what makes up the base of the mountain with markets that require many of the capabilities that you've heard about today, including semiconductor fabs, water infrastructure and the power grid. This is a multi-year build-out and includes another long-term reoccurring revenue stream related to maintenance. Across the entire ecosystem, no one is better positioned for this megatrend.

So today, you've heard about the significant market opportunity ahead. You've heard about our relentless focus on execution and our key priorities. You've heard how we're leveraging the enterprise to do what no one else can do in our industry. But most importantly, I hope what you've really heard is that we are strengthening our advantage, and that this 160-year-old company has never been better positioned for what's ahead. Our financial strength and our optionality will create shareholder value for years to come.

And with that, it's my honor to include and bring Ben Meisenzahl, our Chief Financial Officer, up to the stage.

Benjamin E. Meisenzahl

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

Thank you, Heidi, and good afternoon, everyone. It's really great to see you here at our new headquarters. So I appreciate you joining us.

So you've heard about the market opportunity. You've heard about the investments that have strengthened our positions and the growth opportunities across both our architectural and industrial portfolios. So what I'm going to do today is show you how our unique and differentiated strategy is connected to our financial outcomes, and I'm going to do that using some of our recent financial trends as proof. But before anyone sharpens their pencil looking for a guidance change today, I'm going to make it easy for you. We are not going to be updating the guidance that we provided on our July 28th earnings call, and our outlook for 2026 remains unchanged.

So the last several years, it's tested every company. Yet, through each new headwind, Sherwin-Williams has emerged stronger, and we grew sales while building a more resilient business. You just heard that from the teams. We've expanded margins, we've generated cash, and we've continued investing in the long term. And that track record, that demonstrates why Sherwin-Williams; and the opportunity to apply a stronger business model to improving end markets demonstrates why now.

This continues to be our financial model for creating shareholder value. A lot of you have seen this slide in the past. We grow profitable market share. We expand return on sales. We earn an attractive return on the capital we deploy, and we convert those earnings into cash. These measures also enforce discipline. Together, they are a set of financial framework that helps guide where we invest and where trade-offs are required to ensure the best use of shareholder capital. This is how strategy becomes measurable execution, and measurable execution becomes shareholder value.

However, our financial model is only as strong as the results it produces. From COVID and supply chain disruptions that brought 40% plus raw material inflation. We've had multiple geopolitical events, higher interest rates, and now we're in a new wave of broad inflation. Together, these external factors have created one of the most challenging operating environments our company has ever faced. However, through this period, our results have remained consistent. We've grown sales more than 5% annually. Adjusted EBITDA grew more than 6% annually. Our adjusted EPS has increased an average of 7% per year. And our operating cash reached approximately \$3.5 billion last year.

So our ability to create value through all types of operating environments while continuing to invest in our business is proof of the strength and resilience of our differentiated model. If we can deliver these results through years of headwinds and uncertainty, imagine what's possible when our controllables are combined with even a modest end market recovery.

So if there is one takeaway from this slide here, it's growth is not dependent on a market recovery. It's driven first by actions we control. Despite the uneven end markets, the periods of high inflation and higher interest rates, we've still grown revenues. In fact, we've grown revenues every year for the last 16 years, and that's because share gains has been our largest and most controllable revenue growth driver.

Our management team showed today how we've deliberately strengthened our model through investments in new stores and sales reps, technology, product innovation, acquisitions and customer relationships. Those investments, as well as a strong focus on new account wins, are translating into consistent share gains across our end markets. Winning share across end markets is what drives long-term growth. And what gives me confidence in our future growth also is that we've been doing this in a flat to down market year-after-year. We're turning

market leadership into sustainable revenue growth through service, innovation and execution. If market conditions improve, that's an additional tailwind, but we're not relying on it.

The headline is simple. We've proven we can grow by taking share. When the markets recover, we benefit. But while the market stalls, we still expect to win. I talked about our ability to drive growth through our controllable actions.

Our gross margin expansion demonstrates the quality of that growth. Gross margin is the catalyst that fuels reinvestment in future growth. The stronger our economics become, the more aggressively we can continue to invest in winning share. And despite the recent market headwinds, we've expanded gross margin from roughly 42% to nearly 49% over the last seven years, and that doesn't happen by accident. It's the financial outcome of everything you've heard today: it's the pricing discipline, it's the product innovation, it's supply chain scale, it's simplification. And as Heidi talked about earlier, it's providing solutions that our customers are willing to pay for so that they can become more productive and more profitable.

And while we're proud of the progress we've made, we know that even more is possible. We've demonstrated our ability to grow in any market. We've demonstrated our ability to improve the economics of the business in any market. And together, that's the foundation of long-term value creation.

Since our first full year post the Valspar acquisition, we've expanded our adjusted operating margin over 300 basis points despite the market challenges that I've already talked about. However, we're most proud that we have expanded adjusted operating margins in each of the last four years. Some may view margin expansion and growth investment as competing priorities; at Sherwin-Williams, we view them as complementary.

This is yet another example of our controllables at work. We don't control interest rates. We don't control inflation. We don't control the geopolitical events, but we do control pricing discipline, premium mix shift, simplification, and where we choose to make operating expense bets. And importantly, we have not yet seen the full benefit of operating leverage. We've been expanding margins, while industry volumes have remained under pressure.

When volumes improve, it's going to be layered on to a structurally stronger business. We've expanded adjusted operating margins, while without relying on that market recovery. That outcome speaks to the strength of our model and gives us confidence in the earnings power of the business moving forward. Our margin opportunity is not based on an assumption of moderating input costs or improving macroeconomic conditions, but it is underpinned by structural self-help levers. These are not viewed as temporary spending reductions. They are intended to produce sustainable improvements in unit cost, service, speed and operational efficiency. These internal levers create lasting financial resilience. This is disciplined execution and action. Lower structural cost helps fund growth, growth creates scale, and scale creates additional productivity. And that is a repeatable model, and it's largely within our control.

So this is where growth, margin and productivity reinforce one another. This is what happens when you combine differentiated capabilities and an operating model that is well-positioned for long-term growth, and disciplined execution. Every investment, every capability, every strategic choice that we have discussed today, ultimately, converges here. And that's what makes the opportunity ahead so compelling.

Over the last several years, we've deliberately strengthened the business by expanding our store network, modernizing our digital capabilities, investing in AI, increasing supply chain capacity and, as Heidi just talked about, building enterprise solutions. We have invested in these capabilities, capacity and competitive advantages ahead of the demand recovery we believe is coming. And as Jim shared earlier, we see multiple long-term

demand drivers emerging across US housing, maintenance and AI infrastructure end markets. We don't need all of these demand drivers to materialize to create value. But when they do, they will be layered on to a company that is significantly stronger than the one that entered this cycle.

Growth and margin expansion only create value if we earn strong returns on the capital required to produce them. Return on net assets employed has improved from 13% in 2018 to more than 20% in each of the last three years shown here, even with our continued investment in the new stores, supply chain capacity, technology and strategic acquisitions. And we are confident that we can move returns into the mid-20s range.

This reinforces an important point. We are not pursuing growth at any cost. We expect profitable growth, disciplined working capital and attractive returns on both new and existing investments. And we have the accountability framework to ensure that. High returns reflect the quality of the operating model; sustained high returns are what allow value to compound over time.

Our capital allocation priorities remain consistent. Strong returns and cash generation give us choices. Our philosophy is straightforward. We do not hold cash. We deploy it where we believe we can create the greatest long-term value. First, we reinvest in the business to support growth, service, innovation and productivity. Over time, we target capital expenditures below 2% of sales, although individual years may be higher when attractive capacity or automation investments warrant it.

We'll continue to return excess cash through a dividend that targets approximately 30% of our prior year GAAP EPS. Then, we pursue strategic acquisitions that accelerate our long-term strategy. We do not need acquisitions to grow, so our criteria remains very disciplined. Absent strategic M&A, we will aggressively buy back our shares, which is the scenario you've seen play out this year.

Cash generation is what connects operating performance to strategic flexibility. An underappreciated strength of Sherwin-Williams is our ability to convert earnings into cash. Our mid-teens net operating cash as a percent of sales demonstrates the efficiency in which we turn revenue into deployable cash. Over time, cash generation gives us options. It funds growth, it funds acquisitions, it funds share repurchases and allows us to continue investing back through all cycles, while others go back on defense and pull back. Cash is not the end of our financial algorithm, though. It is what allows us to reinvest where we have an advantage and then we begin the cycle again. We've consistently translated strong cash generation into shareholder returns. We've increased our dividend annually for nearly five decades, while repurchasing approximately 18% of outstanding shares since 2017.

The most important message here is our consistency. We return cash across cycles without compromising our ability to invest in long-term growth. That's not opportunistic; that's systematic. And it's another example of the differentiated strength of our company's financial model. Over the last eight years, we've returned roughly \$17 billion to shareholders, while continuing to strategically reinvest in the business. We've never viewed reinvestment and shareholder returns as competing priorities. Our disciplined execution enables both.

Our balance sheet has been tested alongside the operating model, and it has also proven itself. We've managed through big headwinds, while maintaining the flexibility to continue to make strategic investments. That's why we view our balance sheet not just as a financing tool, but as a strategic asset.

And this is what financial optionality looks like in practical terms. We continue to maintain a strong profile. Our financial strength creates optionality. We have liquidity, investment-grade ratings, and substantial borrowing capacity. This allows us to continue executing our strategy, regardless of where the macro environment goes

next. When opportunities emerge, we have the financial capacity to act. Our financial strength allows us to stay on offense.

Despite the continued uncertainty in the macroeconomic environment, we are reaffirming the midterm financial targets we established at our 2024 Investor Day. These targets continue to reflect our confidence in the strength of our strategy, the resilience of our differentiated operating model, and our ability to execute over time. While we are not changing those targets today, we continue to view them as important milestones on our journey, not the finish line of what Sherwin-Williams can achieve.

And as I talked about earlier, adjusted operating margin expansion is the clearest scoreboard for our strategy. It reflects the combined impact of growth, pricing discipline, productivity, cost management and operating leverage. If we continue to expand margins consistently, I'm confident the other elements of our financial algorithm will follow.

So looking back on our presentation today, it boils down to these four drivers of shareholder value. The sales enablement investments that we presented, they drive above-market share growth. Our simplification efforts, the supply chain investments and productivity initiatives, they improve our return on sales. The disciplined way we allocate capital across stores, supply chain, digital, M&A and working capital improves our return on net assets employed. And all of that translates into strong cash generation, giving us financial optionality.

These aren't four independent metrics. They all reinforce each other. The strength of our differentiated operating model drives share gains; share gains drives margins; margins drive returns; returns drive cash generation; and cash allows us to invest back into our business so that we can continue the cycle of making our model stronger. The question is no longer whether the model works. The question is what happens when a stronger Sherwin-Williams is matched with improving market conditions. And that's exactly why we believe the opportunity ahead is so compelling.

So let me close where Heidi started. Why Sherwin-Williams? Because we've demonstrated the ability to grow our top line, expand margins and generate cash through one of the most volatile operating environments in our recent history. And why now? Because the company leaving this cycle is fundamentally stronger than the one that entered it. We have more growth platforms. We have better capabilities and a balance sheet that provides optionality. We've proven what this business can do under pressure.

The opportunity ahead is not just improving market conditions; it's what's possible when those tailwinds are amplified by the exceptional execution on the things we can control. After 160 years, Sherwin-Williams continues to be a growth company, and that is success by design. And we believe that the best chapters of our story are still ahead.

So I thank you for the time here this afternoon. And I'd like to call back up Heidi, Jim and our Group Presidents for our Q&A session.

QUESTION AND ANSWER SECTION

James R. Jaye

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

A

All right. Well, thank you, everybody, for listening to our prepared remarks. And we're going to begin our Q&A session right now. So please raise your hand if you have a question and a microphone will be brought to you. Please state your name and your company so we all can hear where you're from. So we'll start off, Heidi?

Heidi G. Petz

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

A

A lot of hands in the air. I like it. Okay. Patrick, we'll start over here with you.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Q

Patrick Cunningham with Citi. So Heidi, you've talked about in the past couple of years this jump ball opportunity with disruption in the industry. Now, we're in this period of heightened volatility. I think you've seen good evidence that some of the share gains have played out. But can you maybe talk about the success or pipeline of some of the large enterprise account initiatives? What market segments are you seeing the most traction? Where do you still feel like the contracting cycle needs to play out?

Heidi G. Petz

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

A

Yeah, great. So I'm going to – I'll start that, and then I'll hand it to the operational leaders here. Maybe Justin and Karl, if you want to maybe highlight some of the end markets. I have characterized it as a jump ball environment, and it's interesting because as we came through the Kelly-Moore bankruptcy a few years ago, as you'll remember, it was up \$300 million. That's now in our run rate. Put that aside. And then, the PPG, now PPC, really truly presented a unique environment competitively because there were a lot of contractors that were being told business as usual. And I think the execution was anything but that.

And so, it was a right competitive environment, and it still is. These contractors are highly habitual. They're looking for routine and dependable service and what we say is more predictability as a supplier. And so, we've been out in the team. I'm very proud of the organization. Maybe Justin, if you want to talk about some of the approaches we're taking here to be very data-driven and very surgical in our approach.

Justin T. Binns

President-Global Architectural, The Sherwin-Williams Co.

A

Yeah. I think where I would start with is we don't wait for the jump ball. We create the jump ball. So there is a lot of activity that's going on prior to that even coming to fruition, right? So we utilize the data, as Heidi just touched on, to really truly dig deep and recognize where we have the opportunities and where we need to go. And this is a great example, too, of where technology comes into play from an AI perspective because, really, we can take that data, we can utilize that, we can create next best actions for our teams so we can direct them exactly where they need to go and what opportunities they need to pursue. We're seeing that play out. We're still – there's a ways to go on our journey, but we feel comfortable about where we are, and we know that we're focused on the right things and the right opportunity.

Heidi G. Petz

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

Karl, anything from your...

A

Karl J. Jorgenrud

President-Global Industrial, The Sherwin-Williams Co.

Yeah. I mean from the industrial side and our portfolio, we talked about share gains have been a big part of our success here in the last couple of quarters and really the last couple of years. And every one of our businesses, all six of them, have tremendous runway and opportunities in front of them. And I think we've seen that in our numbers. If you look at even last quarter, all six divisions up year-over-year in sales in a really tough industrial market. So really proud of what those guys are doing. And like I said, the value propositions that we're bringing are working. The areas that we're focused on in these premium segments within the six portfolios is coming to life, and we're starting to really see the benefit of that work coming together, so.

A

Heidi G. Petz

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

One final comment, and then we'll go to the next question here is there's – we're out with customers, I'm with customers very often and I hear this, you just do what you say you're going to do. And especially in a volatile environment, you have a supplier that is a Safe Harbor and a flight to safety. And I hear you guys are so dependable, you are so predictable. And so, I share that because the backdrop of the softer for longer, our customers are feeling that volatility. They're living it every day. So we often say we don't want us to be the issue. You've got a lot on your plate, but we want paint to not be the issue. We want to make sure that we're adding that value every day.

A

So good question, okay? Dave? So – we'll kind of serpentine. We'll alternate sides, right?

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Thank you. Dave Begleiter, Deutsche Bank. On the operating margin expansion, do you expect more to come from gross margin expansion or SG&A leverage? And on the gross margin, as you push above maybe 50%, any concern that either you risk pushback from customers or invite further competition?

Q

Heidi G. Petz

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

There's two questions. Ben, why don't you start with the operating margin? I'll start...

A

Benjamin E. Meisenzahl

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

Yeah. I think it's going to come from a combination of both. I mean this is why we talk about adjusted operating margin. And so, each of the different businesses, one of the reasons we try to talk about adjusted operating margin and not gross margin so much is that the cost to serve in each of our segments is very different. We have some businesses that might have lower gross margin than the average, but the cost to serve that business, that SG&A could be single digits in some cases. And so, that's why we like looking at the operating margin.

A

And so, if you see some businesses that are growing that fit a profile like that, it could put pressure on the gross margin, but we can still grow that adjusted operating margin. If I point you back to the midterm targets and you

look at Paint Stores Group growing mid-single digit to high-single digit, that's our biggest segment. It's got the biggest growth opportunity. It does have the highest gross margin. And so, even just mix between the businesses, as you see the US architectural improve, that's also going to help lift that gross margin up to that target and beyond. But this is why, again, we want to continue to come back to – and we've talked about openly with you guys before that adjusted operating margin, that's going to be a true barometer. If growth is happening in a different vertical, different part of the business than maybe where the average of just SG&A or just gross margin is, we can still grow that adjusted operating margin.

Heidi G. Petz

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

A

But your second question on gross margin and elasticity is kind of what I sense you're getting to. First, I'll remind you, as we think about gross margin, nothing has changed in terms of our short and midterm targets, but we don't believe that's a ceiling. It's also a core belief of what drives our potential margin expansion over time has to start with volume, right? So I wouldn't start with price. It has to start with volume, and then it has to come in next with volume, and then has to have – I mean, we need volume.

Obviously, price plays a role, but mix shift, even in an inflationary environment because 85% of our contractors' cost is labor, we continue to drive premium mix shift up. And so, our ASP is continuing to grow even in this environment. So it's a combination of a lot of things. Self-help will also be an important unlock in addition to price. So I would think of them in that order. It'd be volume first, certainly mix. I would look at price and then self-help. So that's not a ceiling for us.

Okay. We did two on this side. We'll do two over here. Okay. We'll start here. That's right. You can go. We're going to get to you too. Duffy, you'll be next.

Michael Rehaut

Analyst, Melius Research LLC

Q

Thanks. Mike Rehaut, Melius Research. Thanks for the presentation today. I wanted to zero in on the growth targets, mid-single digits over the cycle. And how do you think about that number relative to above-market growth? I'm trying to understand if market grows 2%, you expect to grow 4% or 5%, what's that delta? And specifically, in Paint Stores Group, how would that translate to the mid to high-single digit? And I guess just as a subset of that, are we talking about new accounts versus deeper wallet penetration or a combination?

Heidi G. Petz

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

A

Yes. So just really quickly, and then Ben is going to take this question. If you look at our leaders in the back of the room here, they would all know when we talk about above-market growth, the expectation is that we are at a minimum 1.5 times to 2 times the market. So those are the marching orders that we talk about. It's not this loose esoteric ambition. It's got to be that. But we'll let Ben walk you through the assumptions on the mid-single digits.

Benjamin E. Meisenzahl

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

A

Yeah. I mean if you look at the combination, again, going back to the midterm target with Stores Group to grow that mid-single digit to high-single digit. We talked about industrial growing mid-single digits. That's going to include bolt-on acquisitions. And so, even though we talk about not needing acquisitions to grow, we do still look to the geographic and technology acquisitions that Karl talked about. So that will be part of helping that algorithm as well.

We've talked about Consumer Brands Group. It'd be in that low-single digit, with DIY being a little more challenging right now here in North America. And it's going to come from, as Heidi talked about, its volume, it's our ability to get price. And we generally price with – when you see inflation, but you're also getting price because of all the value that we're bringing. And you see it in some of the investments that we made. Some of you've talked and maybe even challenged us on our SG&A. But I think what you see in the cycle and the trend and the results is that those investments allow us to have that ability to grow sales, to keep that high margin and turn that back into investments that, again, our customers are willing to pay for because it helps them be more productive and profitable.

But I think you can see, again, in each of the different areas, we did do the acquisition of Suvinil last year. I wouldn't take that as a signal that we're looking for more international architectural. But in the right moments in the right places with assets that we've looked at for a while, M&A will play into that algorithm as well.

Heidi G. Petz

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

A

But we can't discount share of wallet, to your point. I mean, certainly, new accounts continue to chase share gains. But when you think about in this environment because there's such a volatile backdrop, if we can continue to be at that point of stability, our ability to gain incremental share of wallet where typically these customers are looking for more diversification. I hear often, we can't afford not to be all in with you in this environment. You have an asset base, you have a willingness to listen and partner differently. It's a unique environment that goes back to the original jump ball question. So we're going to take share. We're going to earn that share of wallet.

Okay. Duffy, you're up next. Hand straight up.

Duffy Fischer

Analyst, Goldman Sachs & Co. LLC

Q

So I think it was Justin who made a comment that you guys have about 5,000 stores, now going to 6,000, and there's 7,000 other stores in the [indiscernible] (00:59:27) one, you gave us your revenue per store. What would you estimate the revenue per store of that other 7,000? And then, as you go to 6,000, what does that 7,000 number do? Does it come down commensurate with your 1,000, or does it come down even more than that? How does the market play out as you're growing into it?

Heidi G. Petz

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

A

You want to start?

Justin T. Binns

President-Global Architectural, The Sherwin-Williams Co.

A

Yeah, I can start. I mean, the average per store as far as competitive set, it's tough to say, right, because you have different competitors. It's a pretty wide range across just depending upon the specialty side, right? What we do know is we feel really, really confident – with the number that we put in front of you today, we're really confident in where we're headed. And one of the things that I touched on there specifically was what we're doing from a segmentation standpoint. And when you look at that, that's really going to be a differentiator for us because we know that if we can get stores more [indiscernible] (01:00:20) we can grow faster.

So there's plenty out there for us to get. I think you and I both talked last night about some of that segmentation on how we're looking at our Industrial businesses differently. So as an example, we have industrial stores now that we've started to stand up across the US, which has made us more hyper-focused on that segment. And we don't only just see lift in those stores, we see lift in the stores that are surrounding those stores in that pot or in that area, that general area.

Heidi G. Petz

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

So I'm going to get to Ben here in a second. Justin mentioned this store mission. So we talk about segment purification. And so, the more focused we are on following our data and getting more kind of customized, if you will, by segment, we see not just lift within the store, but within the territory.

So I'll let Ben comment on your kind of – at the store level question.

Benjamin E. Meisenzahl

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

Yeah. I mean, I'll just add maybe a different angle to that and things we've talked about, too. When we do acquisitions – and Kelly-Moore is a good example – even though we're dense, even though we have reps and stores in their market, they are still upwards of 30%, 35% of those accounts that we didn't know existed there. And so, I think that speaks to the opportunity that's in these 7,000 stores.

And the other thing I would tell you as well, we have our own data. We talk about the opportunity to get the next decades of growth. We're using benchmark data externally. Even some of you in here have written about the opportunities where we have white space that we're not playing in yet. And so, I can tell you, we're triangulating all of that, and that's a good foundation of the thesis and the opportunity that's forward as well. But it's a lot of POSs that still don't have Sherwin, and some of them may not be the same size of our stores. But Justin and his team are out there trying to make that number a lot smaller.

James R. Jaye

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

And I would add that that 12,000 that we referenced is specialty paint distribution points. That does not include home centers, where we don't participate today. So that's an opportunity on top of that.

Heidi G. Petz

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

Okay. Let's go right here. Greg, you will be next. We'll try to get to everybody. We'll talk back. How about that?

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Kevin McCarthy with Vertical Research Partners. You've talked a few times about the Kelly-Moore experience, as well as the PPG transition to PPC. One of the things that I think is interesting about the global coatings market today is you have two very large competitors that are preparing to merge. So I'd welcome your thoughts on what you're seeing out there in today's marketplace in the areas where you overlap with those companies. Often, there are some combination of understandable distractions or concerned customers. Another way of phrasing it is, should we view this as an opportunity to accelerate share gains in any areas where you compete?

Heidi G. Petz

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

Yes. And I'll hand this to Karl to give you a little bit of perspective on why we're so confident of that. I think distraction and disruption is real, and we want to take full advantage of that.

Karl J. Jorgenrud

President-Global Industrial, The Sherwin-Williams Co.

Yeah. So for sure, that's an opportunity for us in each one of our businesses. And again, we talked about those six divisions and the growth potential in front of them. 100% there is share gain opportunity that we're focused on in those particular overlap areas. I'd say it's early in that process that you described, but we still see the timing is right to continue to talk about our value proposition, how we're different and what we can bring to that customer set. And we see it as a great opportunity for us.

Heidi G. Petz

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

Okay. Chris, [indiscernible] (01:03:54).

Chris Parkinson

Analyst, Wolfe Research LLC

So over the next 6, 12, 18 months, so to be clear, not a guidance question, you spoke a lot about catalyzing growth. So for Justin or Heidi, how should we think about the contributions from P&M, data center across commercial? You've been pretty clear on the resi repaint share gains. But just how much of a jump ball is it to get volumes for PSG in a positive territory based on some of those ancillary factors which have been benefiting you? Thank you.

Heidi G. Petz

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

Why don't you start, Karl?

Karl J. Jorgenrud

President-Global Industrial, The Sherwin-Williams Co.

Just from a P&M perspective, for sure, this is a huge opportunity, not only just the AI infrastructure, but across all of those end segments within Protective & Marine. Obviously, Heidi hit on the AI side. But our water-wastewater business is strong. We talked about our flooring portfolio. Just to remind you guys, we made an acquisition about three, four years ago called DuraFlex, and that is now coming to life as we're bringing that in and integrating that commercially. So a lot of those cost synergies upfront have been realized, but now we're starting to realize the growth opportunities on that business. So really across all of the portfolio within the Protective & Marine side that we utilize our store network for distribution on is really strong at this point. Lots of projects and lots of activity.

Heidi G. Petz

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

Chris, [indiscernible] (01:05:14). He'll give you more. Okay. Greg, back to you.

Gregory Scott Melich

Analyst, Evercore ISI

Hi. Greg Melich with Evercore ISI. I wanted to go back to investment. So CapEx is going to be stable at 2% of sales. Then, you also have R&D, and then you have acquisitions and bolt-ons. So I'd love to just hear how you're thinking about investment, whether it's on the balance sheet or running through the income statement and even how AI might influence that in terms of accelerating R&D development and getting more new products out faster through that.

Benjamin E. Meisenzahl

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

A

Yeah. I mean our CapEx target will remain the same. I think our thought process is some of where we're making investments today as we take steps into AI, and you heard how we're using it today, and I can assure you there are other value pools and game-changing opportunities for us to really take advantage of that in different ways. I think our company is built for some of the things that are out there now. But just as we have historically, we're going to look to get a return on something. We'll use those returns to help fuel additional investments. We want to make sure that we can see the returns. And I think we're spending a lot of time as we're looking at some of these next opportunities with, whether it's the system modernization, whether it's AI, how do we make sure we are going to get the return out of it. So you called out formulation. Yeah, there are things there that could get us maybe 90% of the way. And then – so you're innovating from a point of not step 1, you're at step 7 or 8.

And so, you may even see some of that today as you go through the technology center and how they're thinking about formulation. But I can assure you that we're looking at each of our business units, each of our end-to-end processes. We're trying to modernize. I think that's probably the best word to use there. That will take friction away from our processes, that will help internally, that will help our [indiscernible] (01:07:11) customers. And so, I can assure you that this team here and our teams, we're looking for ways to do that. And yeah, some of that will come through the balance sheet, some of that will be in higher operating expense, but it goes back to my adjusted operating margin comment. Yeah, we may have higher SG&A as we're fueling some of this, but the expectation is you're going to get the revenue lift, you're going to get the margin benefit, and we'll be looking at operating margin as the barometer for success there.

Heidi G. Petz

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

A

Okay. Thank you. Let's go back. [indiscernible] (01:07:41). Yeah.

Q

Yeah. I wanted to ask a little bit about the intersection. You sound like you're selling manufacturing paints through architectural stores. Now, if I read that right, you've got, I don't know, 35 stores or so focused on factory applied finishes. And could you maybe expand that to talk about auto refinish because your competitor has talked about maybe using architectural stores as auto refinish. And how would you manage that between the two sides of Sherwin?

Karl J. Jorgenrud

President-Global Industrial, The Sherwin-Williams Co.

A

I can maybe hit the refinish side. So we actually do have what we call Automotive Refinish branches. So we've got nearly 200 branches scattered strategically across the United States and geographic locations that are really built to service the individual body shops. So think of it as like what a traditional paint store that you probably have been in, specifically geared towards the Automotive Refinish section. So to your point, unlike our competitors,

we've got controlled distribution, controlled service model, controlled deliveries for that specific body shop, which is separate from our architecture.

Heidi G. Petz

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

A

Yeah. And [ph] John (01:08:48), maybe think of the intersection more as our go-to-market intersection more so than – as we are so focused on getting to this kind of purification of segments, what we'd want to do is maintain that and not dilute that with trying to get everything else through that box. And so, we're going to continue to stay focused on our core. We're going to continue to lay stores in and the barometer of success as we continue to accelerate getting a return faster and faster on those stores. But I think, to your point, what you're hearing from the enterprise standpoint is more of the intersection and how we can thoughtfully bring solutions as we organize our teams differently, as we organize how we're working collaboratively differently, as we're changing how we're incenting those behaviors differently.

And so, it is very early. I mean there are some parts of what we are doing here that we have been doing for a while, and you mentioned Protective & Marine with our Architectural business. But now, we're able to leverage some of that great momentum and history that we have. And now, we bring in General Industrial, we're bringing in Coil. And so, the way that we're organizing to have that intersection and how we're going to market with these larger projects, we're very excited because, as you can see, this – we were our own customer in this building. We really kind of – it was an eye-opener for us that we have something here that we want to be very thoughtful in how we take it out to market.

Okay. Back in the back here. Not all the way back, halfway back. Yes, your hand is in the air. Is that Abigail? Okay.

Abigail J. Eberts

Analyst, Wells Fargo Securities LLC

Q

Abigail Eberts at Wells Fargo. You've talked at length about your customer-centric approach, your customer intimacy. And you've mentioned in the past that pushing price increases during painting season can upset some. Given the raw material setup for 2Q 2027, just wondering how you're continuing to balance your margin preservation with also simultaneously preserving customer relationships.

Heidi G. Petz

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

A

So let me start that, and then I'll hand this over to Ben. So when we talk about customer intimacy, it's equally about respecting their economics and helping them think about growth in their productivity. And so, nobody is asking for a price increase. But if we're transparent, and we handle it the right way and we talk to them at the right time and give them enough time to put it into their bids and their contract, then it's a different conversation.

Success for us is we have customers on the other side of having to have those conversations because what we're not going to do is bury our heads in the sand. We need to be able to, obviously, in an environment where we have to take price, we will unapologetically go out and take price. And so, that's how we think about – when I think customer intimacy, we want to make sure we're helping them grow in profit. And so, success is that they are passing that price increase along and they're not [indiscernible] (01:11:45) absorbing that margin.

So let me hand it to Ben to answer the other piece.

Benjamin E. Meisenzahl

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

A

Yeah. I mean, we're going to be very consistent there. I mean, we've earned a lot of credibility, I think, with our approach with pricing. I think what we've seen in this cycle here waiting in Paint Stores Group until September 1st helped a lot of our customers get through that cycle. And we talked earlier in the year of using maybe even some of our strategic relationships with suppliers to help elongate that point in time for our customers when we have to go. But we frame it out as having pricing discussions 365 days a year. You're talking about deliveries, you're talking about all the digital investments that we've made, all the stores that we continue to open. Our customers are willing to pay for that. And so, what you won't see us do is change the strategy that we have there.

Heidi and I have committed to staying in front of this cycle. I think what's different in this cycle is you could see it coming a little slower towards you, and we talked about that in April and July. And so, our ability to stay in front, and I would characterize that as plus or minus 50 basis points one way or the other. It's not like 2021 where we went back 500 basis points of margin. And you'll see us continue to work with our customers. We'll talk with them first before we make any pricing decisions. But we're going to be very, very consistent there. And I know we're not giving any guidance in the next year with raw materials, but you guys are all watching the same things that we are. And so, as you can expect, we're having discussions on what those impacts could be. And you're going to see us react very consistently with what you've seen in prior cycles.

Heidi G. Petz

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

A

I'm going to get a question over here. But one final comment, Abigail. One final comment – thank you, that was good – is procurement is also a bit underappreciated for Sherwin-Williams. Procurement has also become an increasingly competitive advantage for us.

And Colin, maybe you want to share in your thoughts here on what we're doing differently to kind of address our supplier community.

Colin M. Davie

President & General Manager, Global Supply Chain Division, Consumer Brands Group, The Sherwin-Williams Co.

A

Yes. So I think we're very fortunate as a company. We have a great supply base, and we have suppliers that have been proactively working with us to help us take complexity out of our raw material basket, which has helped us tremendously and give us assurance of supply. And so, we are able to sit down, and like Heidi described, and work with suppliers about when we have things, how do we jointly solve them and how do we spread things out so that we're not having surprises coming and that we have great visibility to what's coming.

Heidi G. Petz

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

A

Colin is being very humble. You don't want to negotiate with Colin. He's separated the strategic from the transactional suppliers and he says I don't want to just be the front of the line; I want to be the line. So we've gotten some really good procurement advantage out of that, too.

Okay. Let's go back here. Jeff?

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thank you. Jeff Zekauskas, JPMorgan. I thought I'd try the pricing question in a little bit of a different way. So some years, raw materials go up and Sherwin prices up; and some years, raw materials go down and Sherwin prices up. And so, when you think through the absolute level of pricing that you seek, how do you do it? Do you look at your normalized EBITDA growth and the demand environment in the coming year and you have an idea of how much you want your returns to change. Does the pricing decision come from the CEO and the CFO? Does it come from the head of the stores division? Can you give us some idea of how you think about the absolute level of price?

Heidi G. Petz

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

A

So it's a good question, Jeff. Let me maybe reframe it a little bit for you and talk to you about as a management team, what we do routinely and monthly to really scan and understand all input costs. So raw material certainly is a key component, but so too there have been years when we've gone out, when I was running, so there are years when we're out because of logistics, energy, healthcare. And so, it's a much more comprehensive look at all input costs. That's the secret sauce. I mean, that is the review. And so, that is driving what we need to cover. We are pricing – Justin said this, our pricing contract, if you will, with our customers is that if we need to go, we will, we'll do so transparently, but we only will if we need to go. So we're not looking to get rich off of our customers and take advantage of an environment. That's why the credibility and effectiveness has been where it is. And so, to your exact point, when raws are up and we do need to go, or other input costs are up and we do need to go, if those reverse over time, that's where our track record is – we will see margin expansion, and you should expect to see that going forward.

Benjamin E. Meisenzahl

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

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Yeah. I'll just add one thing to that, Jeff. I mean I'll remind you, in 2023, when we saw the raw materials go back, we did not do a price increase that year. And so, we do have periods where we aren't passing, and that doesn't mean we weren't taking wage increases and everything else that year. I mean – so there are increases in costs that might be offsetting as raws are dropping. Again, it comes back to managing that operating margin when you're having pressure in one area, but you get a benefit in another. We're managing it that way there. And again, Heidi said the word again, credibility. We are not going to destroy what we built with our customers. We often have times where customers are calling before we've talked to them saying, hey, we know you're going to do an increase, can you give us some guidance on that? And so, I think that just speaks to how our teams work with price.

And then, the last thing I'll add is it's not just about announcing a price increase. I think what Justin, Todd and Karl's teams do exceptionally well is have that next conversation with the customer about how do you work that into your bids, or how are you passing that along? And so, it's not just a pricing discussion; it is how do we help them create that value. They have an understanding of why. And we're really transparent with them on that, and I think that's worked really well for us.

Heidi G. Petz

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

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Okay. We've got a question over here. Right here. I mean you're so close to us, you probably don't need a microphone.

Salvator Tiano

Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. Salvatore Tiano from KeyBanc Capital Markets. I was wondering on AI, you mentioned some of the tools you have. But yesterday, there was a lot of discussion about data and your CRM and how it's helping you. Are you working, for example, on setting productivity targets or improving, say, sales or profit per rep just with new AI tools in the front of the house?

Heidi G. Petz

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

We definitely expect improvement. So let me just start with that. But yeah, why don't you start with the CRM?

Justin T. Binns

President-Global Architectural, The Sherwin-Williams Co.

Yeah. I would start with yes, is how I would start. But where you look at our unique CRM that we have to the Paint Stores Group side of things and the architectural side, absolutely, everything that you listed out are things that we're looking at, right? Because we have 3,500 reps that are out there in the field, that are highly talented, integrated into their customer business. And what that provides us the opportunity to do is just unleash even more impact out in the field with the folks that we have out there.

So it's part of our daily look. Our folks do have capabilities right now that are in front of them, and it's been really fun to watch because, I would tell you, they understand how to use it what they should use it for. And then, their number one focus is how we can make it more impactful on their territory. I think Heidi touched on it as well when you saw the Ask Henry side of things. That's all internal. And you're going to see that show up more often than not in our store side of things as well and just the knowledge of the associates. But it's with us right now on every single call. It's with us on every single customer interaction, and it's showing up, obviously, in other spots of our business as well.

Heidi G. Petz

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

Something we talk a lot about with our – because we have some data. And to your point, when I think about just AI broadly, there's going on offense and going on defense. We're on offense right now in this discussion. And I think that there's a lot of opportunity, sales-enabled AI, operational-enabled AI. But you're going in specifically on the sales side, we talk about this idea of how do we create multipliers of our 10,000 people out in our stores each and every day. How do we make sure that the most junior employee we have is confident on that front line. And so, Justin talks about our CRM. But imagine you're coming into your first or your second role, and you're still learning. It's product knowledge and you've got really sophisticated contractors that really want specific answers. So we're trying to marry up the data and the expertise that we have to make the most junior frontline employee confident having that conversation. That's what we're solving for.

We're still going to continue to upskill our team that's been around that understands a lot of our contractors and our products. So we're not leaving that – there's still a lot of work there. But I'll take you to, especially in our stores organization, where we have a 7% to 9% turnover. And so, our investing in the systems, back to Greg's question, are investing in making sure we're driving their productivity. We're driving their adoption of these tools so that they not only become more confident, but then we can measure sales lift. We can measure productivity. Yes, that is absolutely what we're after.

The goal is with 160 years, and Ben mentioned this earlier, as we look to modernize Sherwin-Williams, it's keeping our foot on the gas on what's working, but it's really saying how can we take advantage of this data and the willingness of our team to do something different to unlock more value for our customers. And so, that's how

we think about modernizing our systems, modernizing how we work together so that we can create more of that value that we're in a unique position and in an inflection point, I believe, in the history of the company.

James R. Jaye

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

This will have to be our last question, so one more.

Heidi G. Petz

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

Okay. Who's raising their hand the highest over here? Okay. Right here. Right here in front. [ph] Arun (01:22:10), we'll come back to you afterwards, okay?

Steven Forbes

Analyst, Guggenheim Securities LLC

Steve Forbes, Guggenheim. Simplification was highlighted as one of the key drivers of leverage in the presentation. So I'm curious, really two parts here. One, can you sort of comment on what are the larger simplification or optimization opportunities that still exist for Sherwin? And then, I don't know, if some of you can maybe expand on how you're leveraging these new facilities that you've built and/or collaboration, right, on the back of these facilities to capture these opportunities to drive further separation.

Heidi G. Petz

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

Let me start, Steve, and then we'll hand it over to Ben. We're both like at the edge of our seat wanting to talk about this because we talked about this earlier. Yes, we are not waiting for the market. Yes, we are taking control of what we can control. And yes, we are going to catalyze growth on the top and the bottom line. So in terms of what we can do on the bottom line to create more value, there are a lot of opportunities for us to continue to find ways to unlock value.

But if you think about where the complexity sits where we're not getting paid for it today, I'll take you to our asset footprint in Europe. By design, this has been an accumulation of assets. This is decades of acquisitions, a lot of small bolt-on acquisitions. And because we were so focused on serving our customers and service levels were good, we were humming along and growing. But because we've been under so much more pressure and the markets have not helped us, we're not happy with our utilization rates in Europe.

And so, that's one example where you've got years of simplification ahead because sequencing that work, the dependencies that have to be right to get that work done right matter. So we're going to do kind of the base hit SKU rationalization, then we move into raw material rationalization, moving into formula rationalization so that before we get to automation and what we're going to do to optimize our footprint, we've got to get more to a platform-first mentality. You can't just jump to that without clearing out the long tail. And so, Colin and the team have done an incredible amount of work here to put us in a position to do that.

But Steve, that's one example. There are a lot of other examples. But Ben, anything you want to add to that, feel free.

Benjamin E. Meisenzahl

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

Yeah. I mean Heidi hit a lot of things there. I mean, I think a big opportunity is still on the digital side. We've done a lot of acquisitions. Heidi talked about formulation. If you think about in Karl's business, if they have multiple systems that they're trying to formulate, that adds complexity. And so, that's a good example. We've talked in the past about the product platforms. And I'm proud about how Colin's team and Karl's team and Justin's team are working together to try to figure out how supply chain and our commercial businesses can operate differently. Product platforms is one that you guys have spent a lot of time on. So why do you have 14 of the same type of resin if you can go to two or three, that adds simplification into Colin's group that helps the formulators formulate from a smaller base of raw materials.

And so, I can assure you we're looking everywhere. I mean even in just your back office day-to-day processes, really challenging people to look at an end-to-end process and understand what's the role that you play in that? And how do you streamline that so that we can be more efficient working not only internally with your customers, but, more importantly, externally with customers as well.

Heidi G. Petz

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

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This is where we want to take advantage of this downturn. Nobody wants a downturn. We'll take a point or two from the market, and we'll knock on the door of mid to high-single digit. We're ready for that. But I've often said let's not let this downturn go to waste. And I think across the organization, our expectation is that we are putting space between us and our competitors in this downturn. You see it in price. You're going to continue to see our more focus on durable advantages, both operationally and commercially, and that's what you should expect to see and hear from us going forward.

James R. Jaye

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

Okay. Well, thank you, everybody. I'm going to ask you to stay seated for a few moments. That's the end of our Q&A session. How about a round of applause for our leadership team.

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