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The Sherwin-Williams Co. (SHW)

Investor Meeting

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MANAGEMENT DISCUSSION SECTION

James R. Jaye

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

Welcome to our Virtual Financial Community Presentation. My name is Jim Jaye and I'm Senior Vice President of Investor Relations and Corporate Communications for Sherwin-Williams. Thank you for taking the time to join us today. I hope you and your families are safe and healthy as all of us continue to navigate this most challenging year.

While we can't be together in our traditional format, we still have an excellent program for you. We're excited to share the multiple profitable growth opportunities we see ahead of us, as well as our approach to providing customers with solutions that improve their productivity and profitability. Their success is our success and ultimately our shareholders' success. I'll remind you that the single largest shareholder of Sherwin-Williams is our employees. The 60,000 members of our Sherwin family are engaged on offense and committed to winning.

Here's a quick snapshot of today's activity. You'll hear from multiple members of our senior leadership team. We'll have a short break after the presentations before moving into a moderated Q&A session to wrap up the day. The slides will be available on our website following today's webcast.

Before we begin, I'd like to point out our forward-looking statements' declaration, and I'd ask that you familiarize yourself with the language, the terms, and the limitations on this slide as they do pertain to information that we're going to cover today. As always, I, along with our Vice President of Investor Relations, Eric Swanson, remain available for your follow-up questions.

I'd also like to recognize two people without whom this event would not be possible, [ph] Lizzie Lark (00:01:55) for her outstanding work in developing the slides that you'll see today, and Natalie Darr, our admin extraordinaire.

So, again, thank you for your interest in Sherwin-Williams. I'm glad you're here with us today. And with that, it's my pleasure to introduce our Chairman and Chief Executive Officer, John Morikis.

John George Morikis

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

Thank you, Jim, and a virtual welcome to all that are listening. We appreciate your interest in Sherwin-Williams. And as Jim mentioned, we hope we'll be able to see many of you again in person in the not too distant future. As we go through the day, you'll hear more detail from our business leaders on two key items, one, how Sherwin-Williams is focused on customer solutions; and two, how we believe that focus will drive sustained and profitable growth.

But before we dive into our business, let me begin by providing a snapshot of some key industry data and trends. Based on the scale of our US architectural business, it's important to understand this side of the industry in more detail, along with some of the more relevant demand drivers. Based on multiple sources and our own market intelligence, we believe US architectural paint volume was about 831 million gallons in 2019.

Looking at this chart on the left, you might conclude that the industry has exceeded its previous peak, and that volume growth might be at the end of the cycle. We disagree. Why? If we look at US building stock data, we

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believe square footage has increased by approximately 19% since the last peak. In sum, there's a lot more out there to repaint today than there was at the prior peak. But the fact is we see great opportunities in all architectural segments.

Again, based on various sources and our own intelligence, here's a view of the industry by segment. As you'll hear later today in our group presentations, the strength of Sherwin-Williams is that we are well positioned in all of these segments. We've deliberately structured our business so that we are able to capture demand whichever way the market may tilt. This year's pivot to surging DIY demand is a great example.

This slide is a good summary of where we think we are right now. In new residential, we're seeing a robust recovery in starts. Strong household formations bode well for the future. In residential repaint, we've seen a rapid return of exterior projects while interior slowly gains momentum. Long term drivers and demographics are favorable. In new commercial construction, projects are resuming, but the pace is slow and choppy.

The pace of new starts is uncertain in the near term. In property management, lower apartment turns and slower activity related to hotels, restaurants, and other facilities has resulted in a slower recovery. Eventually, this activity will resume as we recover from the pandemic more fully. And in DIY, we've seen unprecedented demand driven by consumers nesting and doing projects. Eventually, we expect this to return back to a more normal low-single digit growth rates.

Let's dig into some of the drivers in more depth. First, it's important I understand that US demographics are a tailwind driving demand for years to come. Baby boomers are aging in place and remodeling while Gen X and millennials are moving up or buying their first homes and engaging in professional repaint or DIY projects. And hot on their heels is the largest generation in US history, Gen Z.

Here's the recent dynamic on new residential. As we said before, new residential painting typically starts 90 to 120 days after a start. The first wave of strong starts in late 2019 turned into a strong first quarter for Sherwin-Williams where new residential sales were up high single digits. The second wave of strong starts in early 2020 would have benefited our second quarter. But beginning in March, COVID had a twofold effect. One, it paused the painting of homes in progress; two, a dramatically dampened new start activity. The good news is that both of these are now moving in the right direction. We're seeing a resumption of painting and completions in our third quarter. New starts have also recovered very quickly from the trough in April. Many of our customers are reporting record order rates. Record low mortgage rates are also an incentive.

We know there's been talk of an air pocket or a gap in demand at some point. It's hard to predict if we'll see that or at what point. The strength of our business model should help us as growth in other end markets would potentially help fill any gaps. We also continue to focus on new account activity and share of wallet initiatives to drive growth.

In addition to the near-term recovery momentum, the long term drivers we've often spoken about remain intact. Demand is not the issue. Sustained household formation underpins housing demand. Household formation looks to remain very solid for the next several years, 72 million millennials now ages 24 to 39 are forming households, becoming first-time homebuyers, and driving demand for entry level homes. The issue is housing supply. We've gone from a significant housing surplus prior to The Great Recession to a significant housing deficit today. Vacancies have largely been absorbed during that time.

The bottom line we need to build more housing in this country. We also continue to feel good about the residential repaint side of our business. As you know, painting a room in a home is easy, affordable and impactful. After a

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short pause due to COVID, our residential repaint business has come back strong. Exterior continues to outpace interior work.

Although, the pace of remodeling growth is expected to slow near-term from recent years it remains positive. We believe that this is related to project size dynamics. Bigger ticket projects are more likely to be delayed in the current environment. Lower ticket projects like repainting tend to be more stable. A traditional driver for repaint activity has been existing home sales. The current homeowner refreshes their home with new paint prior to the sale, and then the new repaints it to make it their own.

As you can see here there was year-over-year momentum in existing home sales in late 2019 and early 2020. Activity paused related to the onset of the pandemic but it has quickly started to recover. We've seen similar momentum in our residential repaint business. This chart also shows the benefits of our business model as stay-at-home DIY projects helped fill the gap during this pause.

The National Association of Home Builders Remodeling Index is also pointing in a positive direction. Future indicators include the rate of new leads and project backlog. These have been very solid prior to the pandemic and have quickly rebounded.

Other factors driving repaint are intact. America's homes are getting older and are in need of maintenance. The median age of the nation's 137 million homes is 40 years. 54% were built prior to 1980. Home price appreciation also gives homeowners confidence to remodel. Since the 2012 timeframe, home values have continued to increase giving homeowners confidence to invest in repairs, renovations and remodeling. This has stayed strong right through the pandemic.

We're also seeing baby boomers aging in place. 76% of baby boomers own their homes and 88% are looking to renovate. Many of these projects will require paint. Will people hire contractors for repainting or will they do it themselves? Near term, we've seen an unprecedented surge in DIY. We think this is a market expansion due to people spending more time in their homes. We've not found evidence that consumers who would have normally hired a paint contractor are now becoming DIY-ers. In the last recession, DIY grew, but not by huge amounts and it was not protracted.

The long-term trend reverted back to do-it-for me. We believe we'll see the same dynamic this time. Do-it-for me will be driven by aging demographics, home price appreciation, stock market wealth, and aging housing stock. Millennials have also shown tendencies toward do-it-for me. The good news is that Sherwin-Williams is well-positioned to serve the market no matter which way the trend may go, either through our stores or our retail partners.

Moving away from residential, I'd like to make some comments on the commercial construction side of the business. Here's the recent dynamic on new commercial. As we've said before, new commercial painting typically starts 12 to 18 months after a project starts. The strong starts activity in the first half of 2019 led to solid commercial sales for us in the first quarter of 2020. We would have expected that to continue in our second quarter, but COVID paused that activity.

We are now seeing a gradual resumption of painting and completion of these projects. The pace of resumption is choppy as cities are in different phases of reopening and social distancing restrictions impact construction crew efficiency.

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A second strong wave of start activity occurred in late 2019 and early 2020. Given the 12- to 18-month lead time, plus the delay in activity related to COVID, we expect these starts to begin reaching the painting phase throughout 2021. It's too early to tell how fast these new starts might recover and at what pace they might reach painting. It is also too early to tell if there is a permanent shift from urban commercial construction to residential suburban construction.

To my earlier point, the strength of our model is that we're well positioned whichever way the market tilts. The same model should let us manage through any potential air pockets or gaps in demand better than any of our competitors. Our share of wallet and new account initiatives should also allow us to manage through demand potholes.

In addition to new commercial projects, we feel good about maintenance opportunities. According to the Census Bureau, about $3 trillion of commercial construction has been put in place since the last recession. While demand has been slower to return in this area near term mainly related to COVID, maintenance cannot be delayed indefinitely. We expect apartment turns, lodging, and other drivers to eventually return. We remain extremely well-positioned in this area with exclusive relationships with 18 of the top 20 property maintenance contractors.

Let me now turn to the industrial and special purpose coatings side of the industry. From an industrial perspective, one of the indicators we track is the Purchasing Managers Index for manufacturing. The good news is that over the last two months we are seeing good signs in all regions. While the PMI is not a perfect correlation with our business, it does give us some directional context. As a reminder, a PMI reading above 50 indicates expansion of activity and a reading below 50 indicates contraction. But even when industrial markets are sluggish, we believe there are terrific opportunities for growth in the market.

While so far, I spent a lot of time talking about US architectural coatings, 60% of the global coatings market is made of special purpose or OEM coatings or what we call industrial coatings. These are great opportunities for Sherwin-Williams and as you'll see today, we believe we're in the right industrial segments, the ones where we can differentiate and make the kinds of returns our shareholders expect. We also know where we don't want to be, in automotive OEM, for example.

We'll supplement our organic growth with acquisitions. The market is especially fragmented in the industrial space with many outstanding, regional, and niche players. You can expect us to remain disciplined in the types of properties or businesses we bring into the Sherwin family. This is a snapshot of where Sherwin-Williams plays in the industrials space.

At the bottom you can see a continuum illustrating where each of these businesses are in terms of the pace of momentum in recovery. While there's near-term choppiness in most of these businesses, we see terrific opportunities for growth in all of them. The key to success is to provide technology driven solutions that increase customer throughput and productivity. In short, we help our customers make more money. You'll hear more about what we're doing to win in each of these areas shortly. But first I'd like to set the table by pointing out just a few industry drivers.

Our packaging business continues to grow as if COVID never happened. Strong demand is expected due to shifts from plastic, growth in new categories, and shifts to non-BPA coatings. Our customers are investing in capacity expansion. After a pause in the second quarter, our coil business is seeing recovery related to commercial construction. This division has also done a fantastic job of winning new business in multiple regions through a combination of innovation and service.

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We believe our industrial wood business stands to benefit from some of the same elements I described earlier that are contributing to strengthen new residential construction. Key construction related end markets include cabinetry, flooring, furniture, and molding. We're also seeing heightened consumer interest in customized finishes and colors for wood products.

In auto refinish, miles driven, traffic congestion, and gasoline consumption are among several metrics we track closely. All of these are improving sequentially, but are still not back to pre-COVID levels. We're also very excited about several new customer wins that should support strong results.

In general industrial, we're seeing sequential improvement in all regions. Asia-Pacific has improved fastest. Current forecasts called for China industrial production to remain positive for 2020 with most other geographies turning positive year-over-year in 2021.

In protective and marine, about 40% of our business is tied to the oil and gas industry. Demand here has been slow near-term. But oil and gas infrastructure is in a corrosive environment, and maintenance cannot be delayed indefinitely. We're also focused on other end markets in this business such as water and wastewater treatment, food and beverage plants, and flooring. And obviously, we would welcome some positive resolution to the US Infrastructure Bill. Industry forecasts expect a rebound in non-building project starts next year.

And that wraps up our overview of the industry and demand environment. I would sum it up by saying we're seeing sequential recovery in nearly all of our pro architectural and industrial businesses. And we're aggressively hunting to capture new business and share of wallet around the world. I'll remind you that there are some additional slides in our appendix you may find helpful.

And now, it's my pleasure to turn it over to David Sewell, our President and Chief Operating Officer, to provide an overview of the customer driven solutions approach we take throughout the company.

David B. Sewell

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

Thank you, John, and welcome to all those who are joining us virtually. John's overview of the market makes one thing very clear, Sherwin-Williams has tremendous opportunities for continued profitable growth. As we've demonstrated in the past, our focus is to continue to outpace the market, and we've never been more confident in our future.

As you'll hear throughout the day, we believe we offer a unique set of solutions that help our customers be more successful. These solutions are delivered by the best team in the industry, an incredible group of more than 60,000 people in over 120 countries around the world.

We have three operating segments; The Americas Group, Performance Coatings Group, and Consumer Brands Group, all with unique value propositions and all supported by our world-class global supply chain that maximizes our resources, assets, and scale. For over 150 years, we have hired, trained, and retained the best talent in the industry. We have pride in what we do. We have a strong desire to win and it's who we are. It is humbling to be part of such an amazing organization and my deepest thanks goes out to every member of our team.

Throughout our company's history, we have faced challenges. We rise to the occasion to solve the problem at hand. But even more important, these trials force us to get better and we emerge as an even stronger company overall. We have tremendous ability to overcome whether survive and thrive in whatever challenge presents itself and finding ways to turn those challenges into opportunities.

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A large part of that success is our people and our seasoned leadership with hard work, careful planning, financial stability, and an innovative spirit, we are always geared for change because our fundamental focus on serving the customer remains at the forefront of everything we do. This ability to survive and thrive has allowed us to continue our forward momentum even during a global pandemic.

Perhaps the best demonstration of the strength and character of our people has been through their response to the COVID-19 pandemic. Time after time during this crisis, our people have gone above and beyond to serve one another, our customers, and the communities where we live and operate. I'd like to illustrate just a few examples of the incredible speed, responsiveness, and dedication of the team.

We developed and manufactured hand sanitizer for our communities and employees. We've pivoted to curbside pickup mode to ensure the safety of our employees and customers. We've provided critical coatings for key applications and kept small businesses operational. We flexed across our global manufacturing footprint to supply the unprecedented surge in DIY demand. And we've delivered enhanced digital tools such as online ordering, delivering of color chips, virtual color consultation, and virtual technical and production support. It is simply amazing what this team has accomplished, all done with a relentless focus on safety. And I'd just like to take one more opportunity to thank our incredible employees for all that they have done and continue to do.

COVID-19 has not changed our strategy. In fact, it's provided us with the opportunity to further differentiate ourselves in the marketplace to further integrate ourselves with our customers. We continue to operate with a customer-centric approach and our core commitment is to provide solutions. We want to solve our customers' most difficult challenges. When our customers win, we win. And as a result, our shareholders win.

And now, I'd like to share a short video with you that helps bring this core commitment to life.

[Video Presentation] (00:23:24-00:26:00)

At our core, we are committed to providing our customers with solutions. We are uniquely positioned to deliver customer value. We offer a core set of solutions which are endlessly adaptable and flexible and can be applied across all of our end markets. We're focused on delivering the right experience, and we do this by increasing customer productivity and profitability by providing unique and customized services, by delivering industry-leading innovation, and by offering differentiated product distribution. Today, you'll hear from each of our business leaders on how they're leveraging these strengths to help our customers win in the marketplace.

While organic growth is at our core, strategic acquisitions also help fuel our ability to bring even more customer value. We remain very disciplined in our approach to acquisitions. We ensure they bring key innovations in technologies, geographic expansion, global talent, and assets, and drive significant synergies across the organization.

Over the last decade we have successfully integrated 14 acquisitions and our strong balance sheet allows us to continue to identify potential strategic acquisitions that add to our solutions. Looking back at our Valspar acquisition, we were steadfast in our ability to deliver solutions and drive efficiencies that would enable us to drive our architectural and industrial businesses to high teens, low-20s segment margin performance. These targets remain unchanged.

Our results on the architectural side have exceeded our target through the first half of 2020 and we see opportunities for further improvement. We are driving to the target on the industrial side and the team continues to

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make progress on key initiatives driving top line growth and driving higher profitability by optimizing our footprint and continued raw material and SKU rationalizations. The Valspar acquisition continues to be a fantastic addition to Sherwin-Williams, bringing excellent technology, people and global solutions to enhance our ability to serve our customers.

With Valspar and Sherwin-Williams as one, our ability to provide solutions is underpinned by relentless innovation, bringing cutting-edge technology to our customers helps drive our differentiation and brings those desired solutions to them. We are an industry leader in patent filings and grants. Since 2015, we filed for 188 patent applications and had 143 patents granted. The pandemic has not slowed our commitment to innovation, and we continue to actively pursue game-changing technology. With over 2,000 R&D employees worldwide, we are able to leverage diverse expertise to continue to be at the forefront of innovation.

Our breadth of innovations reach from sustainability to enhanced consumer and industrial solutions to increased speed and productivity. We also offer technology solutions to help make their products better with improved durability and color. We're focused on whatever their needs may be. And you'll hear much more about innovation from our group presidents and the solutions they are providing for our customers.

Throughout our entire operation, we're focused on doing business the right way. As the employer, it's safety first. Our goal is to return our employees in the same manner as they arrive to work every day. Our manufacturing sites are recognized for safety and health management systems around the world. We're pleased that this year Forbes named us among the Best Employers for Diversity, America's Best Employers for Women, and America's Best Employers for New Graduates.

As the citizen, Sherwin-Williams and our employees contribute to our communities each year through product donations, financial contributions and extensive employee volunteerism. Our nationally-recognized Homework program provides professional painters training for low-income residents, job placement assistance, and EPA renovate, repair, and painting certification instruction.

As the steward, we continue to develop and grow our portfolio with innovative and sustainable products. The list includes valPure, non-BPA epoxy coatings, Ultra 9K waterborne systems, Paint Shield antimicrobial coatings and the list goes on and on. Our carbon emission has decreased 39% since 2009, and we are also at the forefront of developing and implementing LEED green building standards for our industry.

We continue to focus and build in this area every day. By focusing on customer solutions and by doing business the right way, we create shareholder value. We focused relentlessly on the following four metrics growth, return on sales, cash generation, and return on net assets employed. Over the last five years alone, Sherwin-Williams' shareholders have been rewarded with returns that have well outpaced the S&P 500 and our peer group. During that same period, we've returned over $4 billion to shareholders in the form of share repurchases and cash dividends. And despite all of our success, we're just getting started. We're excited about the future, and I hope you'll see why throughout the following presentations.

Thank you very much for your attention. And now, it is my great pleasure to turn it over to our Operating Group President.

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.

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I am Pete Ippolito, President of the Americas Group. I am a 34-year veteran with Sherwin-Williams that is a product of our management trainee program. I have been fortunate enough to hold leadership positions in both our Performance Coatings Group as well as The Americas Group or TAG as we call it.

Throughout my career, I have been tagged Senior Vice President of Marketing and Sales, as well as President and General Manager of the Midwest Division. As part of our Performance Coatings Group, I was President and General Manager of our Protective & Marine Division. Since January of 2018, I have been the President of The Americas Group. I'm excited to be with you this afternoon.

As I turn to The Americas Group, it consists of the United States, Canada, Mexico, and South America. The TAG organization is made up of six operating divisions, four of which are in the United States, one division that manages Canada, and one division in Latin America.

Our focus on our customers' business and our insatiable desire to be their best partner has earned us the reputation of marketplace leader. We are the paint brand favored by painting contractors, most specified by designers, and we are top of mind across all customer segments.

We have a strong distribution model that enables us to get really close to our customer. In the United States and Canada, we have 4,454 stores and 3,176 sales representatives. We are the exclusive retailer of our branded products.

In Latin America, we have 296 company-owned stores, supported by 499 sales representatives. Additionally, we have 713 dedicated dealer locations. We have distribution and other channels such as multi-brand dealers, hardware stores, and home centers. Our success is the result of having the best team members in the industry. For Sherwin-Williams, our people are our biggest asset.

Last year, we hired 1,393 management trainees, a continual growth in new stores and new reps provides employees with vast career opportunities. We lead the marketplace and leadership retention and our succession development plans enable us to develop leaders who can truly partner with our customers to offer services, solutions, and products that solve their most complex challenges.

In Sherwin-Williams' world, the customer is always the center of the universe. All are viewed with a personalized, customized approach. We serve a wide range of customer segments, do-it-yourself, commercial, new residential, property management, residential repaint, architects and designers, protective and marine, and national accounts.

One advantage of having such a diverse customer base is our ability to adapt to changing market conditions. With the event of COVID, we have been able to adapt and support the uptick in the residential markets while helping our nonresidential customers navigate new challenges they are facing. Each of these customer segments have unique needs and challenges. The products and services needed by a pro customer are dramatically different than those of a homeowner or that of an architect or designer.

We offer a palette of customized solutions that make us an invaluable partner. We know our customers and continually innovate with our products, tools, and services to make sure that our customers are maximizing their productivity and profitability so that they can better satisfy their customers.

Today, I'm going to walk you through several customer journeys to help illustrate the breadth and depth of the solutions that we provide. When you think about the residential repaint contractor journey, they face many

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challenges as they look to profitably grow their business. As a trusted partner, our sales rep engages the painter to determine how Sherwin-Williams could help him overcome his challenges.

If a painter has a demanding homeowner who is looking for a long lasting and low maintenance exterior coating, our sales rep would recommend our new Emerald Rain Refresh paint. It gives the painter an exceptional product to apply while providing his customer with an industry leading paint that keeps his home looking clean. With Emerald Rain Refresh, dirt on the surface washes away when it rains.

We've also created new digital tools to help the painter grow his business. The painter can create co-branded marketing materials through his online account to educate the homeowners on the advantages of Emerald Rain Refresh. And he can utilize the Project Bidding tool on our PRO app to create a customized bid. These tools enable the painter to create and provide a complete professional proposal. This proposal impresses the homeowners and they hire the painter.

We offer three convenient ways to buy. The painter could either order online right from the bid, go to his local Sherwin-Williams store, or call his rep to place his paint in sundry order. One of our 3,000 delivery trucks can deliver the order right to the job site. During the painting of the project, our rep stops by to see how the project is coming along and provide support as necessary. With the right products, tools, and advice, the job is done well, and the homeowners are happy. The painter goes to his online Sherwin-Williams account to pay his bill and import detailed information into Quickbooks. The painter has a good experience, his customer is thrilled, and our relationship continues to strengthen.

Homeowners find inspiration everywhere, looking at Pinterest and Instagram, reading magazines, watching decorating shows on TV, even visiting friends and family. Once a homeowner decides to move from inspiration to implementation Sherwin-Williams offers many resources to help them make confident decisions and ensure satisfaction. We've implemented several new programs to support the homeowner in her paint journey. To get started, she can use our new, free virtual color consultation service to get a professional color recommendation based on her input. Once she has narrowed down the colors through our consultation, she can get 10 free color chips shipped her home, so she could see them in her space and confirm her decision.

After she decides on the color she wants, she has multiple purchase options. She could go to the store, where she could order the paint and get all of her how to questions answered by our highly trained employees or she could order online and watch videos, if she is more interested in a self-guided experience. And curbside pickup is now available if you prefer a touchless experience.

Having been guided to select the perfect color, the right paint and sundries and some helpful application techniques, the homeowner paints her space. She loves the finished results and shares her project on #SWColorLove, which in turn inspires other homeowners to start new painting projects.

The commercial segment is an interesting space. In order to win, you must be able to work from the top-down and the bottom-up. Our industry leading team of architectural account executives work with architects to understand their challenges and bring forward solutions driven by our innovative products. We can address challenging timelines by increasing applicator productivity while still delivering a beautiful and durable finish with products like our ProMar 200 HP high performance paint.

As the project is let out to the trades for bids, a painting company consults with their Sherwin-Williams' sales rep on the nuances of the project and bids and lands the job. Together, the Sherwin-Williams' sales rep and the commercial painting contractor discuss the best way Sherwin-Williams can service the project, so the painting

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contractor can be more effective and efficient. Whether it's recommending a new spray unit to help increase productivity or providing purchase options like placing orders online, through the store, or a sales rep, we work to provide solutions that best fit our customers' processes and the projects. Sherwin-Williams delivers the products to the job site to keep the painters doing what they do best, applying quality Sherwin-Williams products and not spending time picking up paint.

Once the project is complete, the Sherwin-Williams sales rep leaves a custodian report with the painting company that is shared with the building owner. The custodian report documents all of the products and colors used on the job. When it comes time for maintenance on the building, the building manager refers to the custodian report and hires the painting company to come back and perform additional work. Our process supports an ongoing cycle and builds loyalty.

The new residential segment is the most demanding of segments. There are many decision-makers between the painter, the homebuilder and the homeowner. Given our platform of stores, sales representatives and homebuilder account executives, Sherwin-Williams is well-positioned to work from the beginning to the end with all three parties. We offer professional color recommendations, as well as product solutions such as FlexTemp, our new exterior paint that leads the industry by enabling painters to extend their painting season in the most extreme conditions on both ends, in the high heat of the southern states or the extreme cold of northern states.

To maximize productivity, painters can utilize our PRO app to check pricing, purchase history and store inventory, so they're prepared for their jobs. As in our other segments, we offer the same three convenient ways to purchase. We deliver the paint in sundries and our sales rep makes sure that everything is going well at the job site. All of this benefits the homebuilder. Finished homes equate to sold homes. The painter moves on to the next project, and the homeowner is thrilled with their new home. This comprehensive outside-in approach is a key component as to why we are so successful in this segment.

Our national accounts team is second to none. They support both homebuilders and property management accounts. Our national account executives quarterback the coordination of our 4,000-plus stores and our 3,000-plus reps all over the country to provide local service to our national customers. We are where our customers need us: on the frontlines, offering solutions through our innovative products and services.

This map illustrates one of the largest property management firms in the United States. As you can see, when you lay Sherwin-Williams' resources over their locations, we are there to support all their locations. We develop relationships at every level of their organization in order to ensure a true partnership that addresses all their needs. Because of the close relationships with both the national accounts and the painters and the value Sherwin-Williams provides, we have agreements with 18 of the top 20 multifamily property companies and 18 of the top 20 homebuilders.

We are committed to creating an interconnected experience that provides exceptional products, helpful tools and personalized service, both in person and online. One of the biggest things that sets us apart from our competitors are the partnerships that we have with our customers. We know them, we care about them, and we are uniquely positioned to meet their specific needs. But don't just take my word for it, I'd like you to hear directly from some of our customers.

[Video Presentation] (00:46:45-00:48:46)

Not only do the customers in the video think highly of us, the general population also gives us high marks due to our outside-in approach. Just ask J.D. Power, as we are currently ranked number one for customer satisfaction

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with interior paint, exterior paint, exterior stains, and the best store to get it from. We are so proud of all our fine employees' efforts and our exceptional products that have led to our sweeping the category.

As you have seen, each of our customers' segments have unique needs and challenges. The products and services needed by a PRO customer are dramatically different than those of a homeowner. Our success is the result of thoughtful, targeted strategies and strong execution of tactics that are all designed to improve our customers' experiences and provide solutions to their challenges. Everything we do is with our customer in mind. We are committed to ongoing innovations to address new opportunities and challenges that our customers face. By helping our customers be successful, we are successful as well. Thank you.

Heidi G. Petz

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

Hello. I'm Heidi Petz, President of the Consumer Brands Group for Sherwin-Williams. I couldn't be more honored to spend time with you and share some of the wonderful accomplishments that this organization has been working on. I have been with Sherwin-Williams and Valspar for over seven years and have held various roles across sales and marketing within the Consumer Brands Group.

I joined Sherwin-Williams through the Valspar acquisition where I oversaw brand and product marketing. Before getting enamored with paint, I spent 10 years with Newell Rubbermaid in various roles across the home decor division, partnering closely with national home centers, independent retailers and various B2B platforms. Previous to Newell Rubbermaid, I spent several years with the Target Corporation with a focus on growing many of the home decor categories there as well. And with a focus on home decor for a good part of my background, it always seemed to start and stop with paint at the core of these projects.

Now, I'd like to talk to you about our approach and how we go to market in paint. The Consumer Brands Group consists of a portfolio of industry-leading, familiar household brands. We operate through strategic channel partnerships in all of the markets we serve and focus on partners where we can invest in one another. Together, we focus on the brands that elicit emotion and ultimately build loyalty with our customers.

There is much more than the brands that you'll hear me talk about today. But certainly, our portfolio of brands is one of the greatest strengths of the Consumer Brands Group business. This team of industry and brand experts is focused on delivering on the Consumer Brands Group value proposition, which is to provide our strategic channel partners across North America, Asia Pacific, Europe and Australia/New Zealand with access to a portfolio of industry-leading brands supported by best-in-class, high-touch service. This is unique in that we focus on differentiated solutions that add value to both our retail customers and our end users. Therefore, everything we do is both consumer-focused and customer-driven.

We measure our success in selling every gallon of paint twice. First in partnership with our strategic retail customers, we focus on the right brands with the right segments to deliver the right solutions that add value to our customers. And second, we work really hard to understand the unique needs and wants of our end users and consumers, so that they choose our brands to place in their shopping carts, thus every gallon's sold twice. Helping our strategic retail customers and our consumers achieve their goals is how we drive our success.

I'd like to speak in more detail about some of the things we are doing to create value as a solutions provider. It begins with the right brands. We have assembled a portfolio of industry leading brands supported by strong product+ and brand claims. I will share some highlights here in a moment. Our insights and marketing teams are hyper-focused on our end users. We segment the end user population across all categories to enable us to create unique value. We continue to keep a sharp focus on the DIY segment, along with a growing interest in pros who

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paint in support of our strategic partners. Internationally, we are building the same discipline to focus on the right segments resulting in improved performance.

We have the right brands to deliver on our unique value proposition. These hero brands are at the core of the strength of the Consumer Brands Group and present our biggest growth opportunities. Our commitment to the end user and focus on meaningful consumer insights lead to industry leading innovations based on real and unmet consumer needs. This reaches far past product innovation and bringing new technologies to market but also includes our leadership in color selection and in capabilities that enhance the consumer experience.

Now, I would like to share a video that highlights some current and upcoming brand building campaigns.

[Video Presentation] (00:54:34-00:56:55)

Our innovation comes to life through unique products and unique brand touch points. We prioritize our innovation efforts on the premium positions in our brand portfolio and we continue to keep our product lines current. In addition to product innovations, we stay ahead of the curve digitally as well. Tools like Ask Val enable us to ease the color selection process and further empower the consumer on their journey to buy Valspar paint.

Another important brand in our portfolio, HGTV HOME by Sherwin-Williams, offers a more color-curated palette for our consumers. The launch of Everlast delivers on both enhanced durability and the speed and convenience of one coat application. A great example also is with the Purdy Backpack, where we are delivering a solution to help make our pros who paint even more productive in the organization of their tools needed for the job. Our beloved Minwax brand, we continue to bring to market the most popular colors and textures to keep the stain category relevant and fresh.

Every solution, whether it is a product or a brand touchpoint, is always rooted in a consumer insight. When our brands successfully address consumer insights, they establish high levels of loyalty and make it easier for our retail partners to convert sales with their consumers.

In addition to our focus on innovation, we have established a best-in-class sales organization through a comprehensive training program designed to serve all of our customers. This team works in lockstep with our strategic retail partners to ensure that all sales associates in the aisle have what they need to help consumers and to be successful every day.

I'd like to share some great examples of what we are doing in this area. We are hosting training sessions with associates across key retailers to ensure that they have what they need to convert footsteps to sales. We continue to focus on product knowledge training, but more importantly ensuring that we are helping many of our retailers transform from a service mindset to a selling mindset. We also continue to focus on superior category management to truly leverage the power of our brand portfolio through optimal inventory placement, promotional programs and in-store merchandising. Our goal is to make it as simple as possible for consumers to find the right product for their specific projects every time they're in a store.

In addition, our in-store displays go through extensive research to ensure that we are helping both the consumer and the associate in aisle to make the right selection. This includes ensuring the right tools throughout the purchase journey, simplifying the color decision and a clear focus on premium products that help our consumers have a positive experience across the brands and helping our retail partners drive more sales, profit and productivity.

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In addition to a great in-store experience, we know that our end users require an integrated in-store and online experience throughout their shopping journey. For that reason, we've produced digital tools that overlap with the in-store experience to simplify the buying process. For example, our brand new valspar.com offers tools like free online color consultation to simplify the color selection process, and free color chip delivery to your home, all to help a consumer get to their decision even faster.

Our goal has been to make the entire shopping experience as seamless as possible and eliminate all of the hard stops created when consumers transfer from online to in-store and vice versa. We've worked to simplify the selection process for all parties, so that it becomes even easier for the next project. And that next project is the ultimate goal for us and our strategic partners.

As I mentioned earlier, the Consumer Brands Group is committed to being consumer-focused and customer-driven. This solutions-based approach is the key driver for our shared success and future growth. We are committed to helping our partners grow with a focus on the right brands, the right segments, and the right solutions.

Thank you for your time and interest in the Consumer Brands Group business.

[Break] (01:01:30-01:11:24)

Aaron M. Erter

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

Thank you for joining me here today. My name is Aaron Erter, and I have been with Valspar Sherwin-Williams for eight years. In my previous role, I led the Consumer Brands Group, and I am proud to lead the Performance Coatings Group today. I am joined virtually and supported each day by a great group of divisional presidents who, combined, have been serving customers in the industrial coatings industry for over 150 years.

As you have been hearing from all of today's presenters, 2020 has been a year like no other. It has been a challenging year for many of our customers in every region of the world. But what we have found consistently in all segments and in every region is that our existing and new customers, now more than ever, have come to us for solutions to help them grow.

They have asked us to collaborate on projects they have never done before like when a general industrial customer asked us to support them as they transformed an entire plant in the United Kingdom from making heavy equipment to making ventilator cases. This is just one example of many, where we reached out to customers to understand how we could provide them solutions as only we at Sherwin-Williams can.

Those solutions are based on innovative products and technologies, sustainability and color, a flexible service model and segment expertise. We bring a total business solution that delivers on our customers' needs. And let's go a step deeper because it's not enough to be oriented to solving problems, you also need core competencies, global strengths you can leverage. From a local applicator to the global OEM, these strengths address the critical needs of our customers wherever they are in the world in good times and bad.

We drive results for Sherwin-Williams and our customers by harnessing a global network of knowledge and capabilities. At our core, this is who we are. We connect the power of these areas of excellence to meeting the specific needs of segments, customers and geographies. It is what makes us more than a coating supplier. It makes us an integral business partner to our customers. That partnership and trust matters across all our business segments because when we think about the assets we protect, the coating simply must perform.

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Infrastructure like bridges, water tanks, pipelines, monumental buildings like hospitals, hotels, schools; items that are the fabric of family life, your car, your kitchen cabinets, the canned food and drinks you enjoy. Our divisions provide solutions to customers in these industries and many more. And while the nature of each solution varies by each customer circumstance, the reason why we're here and the promise we deliver on is the same.

This mix of segments provides holistic benefits for strategic customers with complex needs. The architect and specifier working on a monumental project can utilize coatings from coil, protective and marine's flooring portfolio, industrial wood and general industrial to provide consistent quality and a unified approach to specifications like LEED. The Department of Defense can benefit from our experience meeting military specs for land, sea and air. The beverage plant can meet stringent requirements in their tanks, in their cans, on their floors and in their trucks, the list goes on.

We can accelerate innovation and discovery [ph] where (01:15:32) chemistries and customer needs across segments, innovation and waterborne technologies, low VOC and green coatings are all areas where we have been able to apply learnings to more than one segment and have created platforms of growth. All of these segments represent dynamic industries that seek and value innovation and products and differentiation in service. Our customers will pay for a combination of the value that our coatings add to their product as well as the reduced total costs of ownership that comes with our unmatched global and local footprint.

Our mission is to protect assets. You can take that statement very literally. Our coatings protect the products they cover against corrosion, fire, wear and tear, and abuse of all kinds. An asset may also be brand equity that comes across in consistent global color on a heavy equipment manufacturers machines or in the uniform taste and safety of a beverage.

And an asset could be the goodwill that comes when a well-run supply chain delivers finished goods to retail, when the body shop returns the repainted car on time and on estimate or when the architect knows that the spec will be met. When you think about those pieces together, how they can contribute to growth for our customers, you realize that we're doing more than just protecting assets. We're sealing reputations. We're helping our customers deliver on their promises. We use the phrase a lot in Sherwin-Williams, do what you say you will do. When we do our jobs and deliver on our mission every day, we help our customers succeed and win, building their reputations customer by customer, maintaining that track record over time.

So, what helps a customer seal the reputation? I'd like to take just a few minutes and share some stories across a few areas. Let's start with innovation and how it provides solutions to our customers. Our DesignHouse and centers for color trend forecasting help brands identify and produce on-trend colors faster to give them a competitive advantage. Our new product pipeline has accelerated over this last year. Our new products are solving old problems in new ways. We see this as we serve the railcar industry, as railcar leasing companies had to take assets out of commission when the existing paint [ph] chalked (01:18:20) gray and looked old even though the coating was still protecting against corrosion. We developed a coating, CarClad 4200, that chalks black. So the appearance of the coating looks like new while the corrosion resistance is still as strong as ever.

We know from our customers that innovation also comes in the form of process improvements. In the collision repair industry, where margins are razor-thin and skilled talent is in increasingly high demand, we're developing industry-first tools to digitize and scale shop management know-how. The new Collision Core software suite of tools helps body shops with everything from managing inventory to labor to quality control, and creates delighted and loyal customers.

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Our portfolio of resinous flooring systems for manufacturing, airports, schools, hospitals, or arenas, like the one shown in this photo from Cleveland, continues to grow with new sustainable solutions that helps architects attain LEED credits, fast-applying products that have helped our customers return a site to use within 24 hours, or terrazzo systems that are as beautiful as they are durable. What's exciting about this business is that we have a global approach to it, incorporating industry-leading technology from a recent acquisition of a regional player in EMEA and scaling that innovation globally.

Consistency is the core of do what you say you will do and it manifests itself in a number of ways in the industrial business. First is with the performance of our coatings and our customers' finishing conditions. Customer finishing lines and manufacturing and refinish operations can never afford downtime, either for testing a new coating or for downtime caused by a coating failure. And in 2020, that statement was never more true. Our application centers that can replicate a customer's exact temperature, humidity and finishing systems allow us to trial a coating without putting any strain on a customer's operations, and ensure that the coating we deliver does what we say it'll do every time.

Color consistency also grew in importance this year, as we saw global customers shifting their supply chains and leveraging new manufacturing locations. We expanded our utilization of our exclusive Aurora web-based color matching system in our European and North American blending facilities, and on-site at customer locations. Aurora locks in specific color formulas, and allows any location with the system to access the formula. This speeds the color match process, reducing the number of attempts to get a match.

Of course, consistent doesn't mean rigid. Sometimes conditions change and require adaptability to deliver the consistent service levels our customers demand. Our general industrial business rapidly deployed a virtual tech service model where technical calls were scheduled online and delivered virtually. And our coil and extrusion tech reps delivered consistently outstanding service to customers using a dedicated mobile app to log their calls. Just like we've seen in other areas of business, this digitization, in some cases, delivers even better service as we can leverage experts around the world, free from travel time and borders. Our ability to adapt to this way of doing business has helped our current customers, and brought new ones to Sherwin-Williams.

Shelter-in-place orders around the world also led to new demand for canned food and beverages. Our global packaging team did a phenomenal job ramping up capacity in certain areas of the world to meet our customers' needs and deliver on their commitments. What's even more important is that the quality of valPure V70, and the integrity of the lining of every single can out of billions produced must be perfect. The product has to perform on every single can. And it did, and it does today. The valPure packaging example speaks to flexible reliable manufacturing from our partners and global supply chain. Our ability to serve customers in whatever manner best suits their needs is perhaps our biggest differentiator, and is helping us win new customers every day across all our divisions. In short, we have assets, physical locations around the world that are where our customers need us, and experience, a deep reservoir of talent and know-how.

Our competition simply can't deliver a global distribution model better than Sherwin-Williams. 2020 validated this. However, we're not resting on past success with this model, and look to the future with a rigorous and standardized process that incorporates a robust employee development program, communities of practice, and specific areas tasked with delivering actionable recommendations, and new capabilities and collaboration across sites and divisions.

At the end of the day, our facility footprint is all about alignment with our mission to service our customers. There is no faster, better way to seal our customers' reputation than with a nearby location that knows their business, connected to a global network of unmatched expertise.

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We also see consumers demanding greater and greater accountability from the brands they choose. One such area of accountability is in sustainability. We're working to help our customers not just meet regulations, but differentiate their products from the competition with a greater commitment to the environment.

Let's start by talking about reduction of plastic. This has been a big topic around the world. Our packaging team has been active in this space for years with recyclable metal packaging coatings that preserve taste and longevity of canned food and beverages as well as monobloc cans for products like sunscreen that traditionally were delivered in plastic.

These efforts were augmented this year by our general industrial team with the introduction of Powdura ECO. This game-changing powder coating is manufactured from a resin made out of recycled plastic water bottles. One pound of Powdura ECO recycles16 pre-consumer water bottles, and delivers the same durability with better flexibility than traditional powder. Within 3 hours of the press release announcing this product, we had a global OEM in the heavy equipment segment on the phone asking for a line trial. It's that much of a game-changer.

Another factor that drives our customers' sustainability efforts is reducing energy consumption, both for the operations and for their end consumer. How can a coating help deliver here? One way is in solar reflectivity. Our coil and extrusion team has seen tremendous interest in coil coatings for monumental, architect design buildings, as well as metal roofing in the residential space that reduces solar heat radiation absorbed by the building, and improves the energy efficiency of the building.

We've all become more aware of the quality and purity of the air we breathe. Our industrial wood team has risen to this challenge with the introduction of their Guardian line of formaldehyde and isocyanate-free coatings, which improve both the air quality for the applicator on the finishing line, and eliminates outgassing of the finished product when it delivers to the homeowner. In a continued macro trend that has only accelerated in 2020 is the adoption of waterborne-coatings like our Ultra 9K product from our automotive business.

Another growing priority now more than ever for our customers is health and safety. Around the world, we saw end customers in all industries develop new rigorous cleaning regimens for surfaces. Cleanability emerged as a measure of durability, especially when considering the stronger sanitization and disinfecting processes deployed. Our technical teams have developed new testing protocols, and we created new cleaning guides for industrial wood and general industrial coatings used in high-touch, high-traffic areas like restaurants, schools, healthcare and hospitality. We have also won new opportunities delivering cleanable coatings. The photo you see here is the new modular seating used for primary schools in Italy.

Safety has always been job number one for Sherwin-Williams. And nowhere do we see that more than in our protective and marine business. Our new FIRETEX M90/03 fireproofing coating for structural steel provides up to 2.5 hours of protection in the event of a fire with just two coats. Another protective and marine product that has been successful is our slip-resistant FasTop flooring in manufacturing, and food and beverage industrial settings.

Protecting the safety of all of us is the mission of the US military, as well as our allies around the world. And we are proud of our continued work in the defense industry. In 2020, the military raised its requirements for corrosion-resistant primers, specifying Type IV primers. Our Type IV primer portfolio dries faster and harder than the competition, which reduces material costs for OEMs and tier finishers servicing the military. Those primers also have zero VOC options, which support not only the sustainability efforts of our customers but also healthier finishing environments.

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Across our business in 2020, our technical teams worked with our customers to help them rethink their finishing lines and processes to enable social distancing, multiple shifts and more. We know that our customers are essential, and can't work from home, and we are committed to supporting them in every way possible. That commitment to our customers is what motivates us, and will drive our future growth. It's what our customers can see and value, and it goes beyond what's in the can. We know that as demand seemingly change by the day, we need to be ahead of that change and deliver for our customers. We have to earn it each and every day. I'm so proud to be a part of Performance Coatings Group as our team works to protect our customers' products, their brands and their reputations.

And now, I'd like to conclude with a video that highlights what our teams do each and every day.

[Video Presentation] (01:30:10-01:32:10)

Joel D. Baxter

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

Good afternoon. I'm Joel Baxter, President and General Manager of the Global Supply Chain. I've been with the company for 30 years. It's my pleasure to share with you an update for the global supply chain beginning with our global footprint.

Today, we operate 134 locations across five geographic regions. We review this footprint annually, and we're always looking to better optimize to deliver solutions for our customers. We have over 15,000 team members, who operate as one focused organization, sharing best practices worldwide through our end-to-end supply chain.

Our end-to-end supply chain includes everything from architectural research and development through to the customer. Our focus is on driving out complexity while creating value across the entire supply chain. We accomplish this in collaboration and alignment with our selling organizations, while accelerating results through our global business management system which is anchored in these four elements: management review, continuous improvement, accelerated root cause, and time management. This serves as our execution roadmap, and is enabled through our people, systems, tools, and processes. Our management system is the foundation for how we achieve results across operations in total through one continuous improvement culture that is leveraged globally, allowing us to deliver sustainable results across these five focus areas shown here at the bottom.

For example, safety. It's a core value at Sherwin-Williams. This chart on the left shows our performance versus the chemical industry. We maintain a significantly lower accident rate than the industry as a whole. This helps improve morale and lower our cost. COVID-19 was a disruption to normal operations. But despite these disruptions, it had minimal impact on our safety focus. We had to implement new policies to protect our team, and they did a great job embracing these changes while continuing to work safely. Additionally, we responded rapidly to produce hand sanitizer for both internal use and donations.

Embedded in our operational excellence focus is our passion for driving continuous improvement. As you see here, it is a long-term core competency where we drive year-over-year cost savings. These results are enabled through our global business management system. And once again, we delivered increased cost savings in 2019, which represents tens of millions of dollars.

Another core competency is our global procurement process. The global procurement team delivers year-over-year improvement while focusing on assured supply through long-term supply agreements and multi-sourcing of raw materials, single source of truth with global data visibility, and a partner with research and development and

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marketing to deliver value through internal development and raw material efficiency projects. And this is important to delivering customer solutions.

Customer solutions is at the heart of what we do, and I'd like to share a few highlights, beginning with our new product launches. Once again in 2020, we will deliver strong performance with over 35 new products. 2020 will be our 12th consecutive year of achieving double-digit growth. This disciplined process is delivering long-term accelerated results that adds value for our customers, and these new product launches are enabled through our industry-leading innovation process. This process is always focused on the customer, as you see here in stage 1, delivering solutions based on their feedback and input. The pipeline remains full, and we're excited about the future.

In addition to new product and new technology, we're delivering customer solutions through other parts of the end-to-end supply chain as well. For example, leveraging global supply chain capabilities to deliver capacity, you heard Aaron speak about the V70 non-BPA coatings earlier; technology transfer, where the Firetex technology has been transferred from Europe to other parts of the world; optimizing our assets with the focus on being closer to the customer while driving higher asset utilization within our existing footprint; and finally differentiated distribution through Sherwin-Williams company fleet. This is our 39th year of operating our own company fleet. It's an award-winning fleet for safety and environmental emissions control. We continue to expand it in North America to provide additional solutions for our customers. New this year is deliveries of our package coatings products through our tank wagon division. All of these customer solutions that I've mentioned are supported by this world-class supply chain model, a true center of excellence focused on delivering the right customer experience today and into the future.

And speaking of the future, we're really excited about the future of work. We know work will be done differently in the future. We embrace that, and we have a roadmap for global supply chain. It includes advanced automation and digital transformation that will increase throughput in our existing footprint, while creating connectivity and allowing for greater collaboration and higher employee engagement.

In closing, I would like to take a moment to thank all of our global supply chain employees for all of their efforts in 2020, specifically overcoming the challenges of COVID and still meeting the needs of our customers. In summary, we remain a focused global supply chain organization that is leveraging systems, tools and processes that allows us to deliver best-in-class service for our customers across the world while embracing the future of work. Thank you.

Now, I'd like to introduce our next presenter, Al Mistysyn, our Chief Financial Officer.

Allen Joseph Mistysyn

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

Good afternoon, and thank you for joining us today. Throughout today's presentations, you heard our Group Presidents focus on solutions for our customers. We're committed to helping our customers be more successful by meeting their toughest challenges. This solutions-based approach allows us to differentiate ourselves in the marketplace resulting in sustained financial performance, and the creation of shareholder value over the long term.

Today, I'm going to present the consolidated financial metrics and results we believe drive shareholder value. These consolidated results exclude acquisition-related costs and other adjustments. We've provided detailed schedules in the appendix to reconcile these results to the results as reported. I will spend my time primarily on

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the results of the first six months 2020 compared to 2019. And unless specifically identified, the blue bars represent full-year results, and the six months' comparison for 2020 versus 2019 are on the green and red bars.

We have made good progress this year in spite of the pandemic, and are on pace to achieve a number of the financial metric targets this year while others will be in the near future. As a reminder, my presentation will include forward-looking statements as defined under US federal securities law.

So, starting with consolidated sales. The highlight here is the three-year compounded average growth rate from 2016 through 2019 on a pro-forma basis, including a full-year of Sherwin and Valspar in 2016 was 4.4%. This compare to our target growth rate of 4% to 6% over that same time period. For the six months 2020, sales decreased 1.9%. Excluding the estimated impact of COVID-19 pandemic, sales would have increased approximately 3.3%.

Rather than review what happened by segment or region for the six months 2020, I will review our third quarter and full-year sales expectations later in the presentation. As a reminder, over the next three slides, the green line for 2015 through 2017 is pro forma including a full year of Valspar and the black line is Sherwin only.

For the six months of 2020, gross profit increased 4.6% to $4.1 billion. Gross margin increased 290 basis points to 46.9%. We have a number of favorable impacts to our gross margin starting with the unprecedented DIY demand and volume we were seeing in our Consumer Brands Group. But beyond volume, we have also completed a number of actions in Consumer Brands to improve margins, including the exit of the Ace private label business at a lower gross margin, and significant improvement in our consumer international businesses, including price increases and SKU rationalizations that have led to improved operating efficiencies in our global supply chain.

The Americas Group is our highest gross margin business, realized a price increase of approximately 2% year-to-date, and customer and product mix has been favorable through the first half of the year with res repaint and DIY outpacing the other segments, exterior performing better than interior, and paint growing faster than associated products and other sundry categories. The favorable customer and product mix was approximately one-third of the gross margin improvement we saw in our second quarter.

In this challenging industrial environment, Performance Coatings Group has taken the opportunity to improve their operations with SKU rationalizations and the implementation of appropriate contingency plans. Raw material costs were down mid-single digits in the first half with the second quarter likely being the largest year-over-year decline we'll experience this year. I continue to expect our long-term gross margin to be in the range of 45% to 48%, and we'll continue to monitor and update the Street when we have more stability and end-market demand.

Our first six months 2020 SG&A increased 1.9% to $2.6 billion, and was 29.8% of sales. Second quarter SG&A was down approximately $30 million on appropriate contingency plans put in place by the operating teams. However, as we have discussed, we will continue to invest in long-term growth opportunities in this environment, including new stores and sales reps in North America. Through June, year-to-date, we have an additional 68 new stores, and over 150 additional sales reps in the US and Canada compared to last year. And we will continue to invest in our TAG e-commerce initiative.

In Consumer Brands Group, we will continue to invest in our hero brands, and those programs that drive increased gallons through our customers' departments. In Performance Coatings Group, we'll continue to provide increased services and solutions our customers value. The investments we are making give us confidence that as we exit this challenging environment, we are positioned better to grow a multiple of the end market demand. We

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do not give guidance on SG&A as a percent of sales, but you can expect us to continue to get leverage on SG&A as end market demand returns to more normal levels.

And here is the resultant operating income which increased 9.6% to just under $1.5 billion for the six months of 2020. Our operating margin increased 180 basis points to 17.1%. Our focus is to continue to drive operating margin growth through gross margin expansion and/or SG&A leverage.

This slide shows full-year profit before tax on the light blue bars, and profit after tax on the dark blue bars, and you see six months comparison on the green and red bars. Through six months 2020, profit before tax increased 9% to $1.3 billion. PBT as a percent of sales increased 140 basis points to 14.7%. Profit after tax increased 8.5% to $1 billion, and was 11.8% of sales, up 110 basis points versus last year.

Adjusted EBITDA through six months increased 7% to $1.6 billion, and was 18.3% of sales, up 150 basis points. We continue to make progress toward our 19% to 21% adjusted EBITDA target we laid out in 2018. We will continue to drive results through volume growth as we continue to invest in our controlled distribution model and sales reps in the US and Canada paint stores, e-commerce platform, product innovation, and providing our customers programs and solutions to help them succeed. And we will continue to implement our continuous improvement projects to drive EBITDA margin growth.

This chart shows working capital dollars on the bars, and the line represents percent of sales. We believe working capital management is a core competency of the company. Working capital as of June 30, 2020 was $2.4 billion, a decrease of 2.9% compared to last year, and 13.6% as a percent of sales, down 40 basis points. We will continue to work closely with our customers to build the right inventory as we progress through the rest of 2020 and into the first half of 2021.

In this environment, we have taken the opportunity across all of our businesses to reduce our SKU count that'll allow us to manage our inventory more effectively going forward. We are confident in our ability to improve our future working capital as we continue to implement our systems, tools and processes. And we will target working capital as a percent of sales of 11% to 11.5%.

This slide shows cash flow performance, full year net operating cash on the light blue bars, net operating cash, less CapEx, on the dark blue bars, the six months' comparison is shown on the green and red bars. The company generated a strong $1.1 billion in net operating cash in the first half of 2020, an increase of 42%, compared to the same period in 2019.

Net operating cash, less CapEx, improved to $932 million or 10.7% of sales, an increase of 360 basis points compared to last year. I am targeting a steady state future free cash flow to be greater than 11% of sales. This is over the longer term as we continue to implement systems, return to a more normal end market demand environment, and increase our US architectural capacity that will allow us to manage our inventory more efficiently.

We have a consistent capital allocation philosophy. We will not hold cash. Our target debt-to-EBITDA ratio should yield a high BBB rating. With our strong net operating cash generation through the first six months of 2020, we returned over $1.1 billion to our shareholders in the form of dividends and share buybacks, compared to $660 million in the same timeframe last year.

Management is committed to increase the dividend in 2020. We continue to reinvest in our business in the form of CapEx with a long-term target of less than 2% of sales, excluding the headquarter and R&D facility projects. For

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full-year 2020, we forecasted CapEx of $285 million. This number includes a very modest amount related to our headquarter and R&D projects. We will pursue strategic acquisitions, and absent acquisitions, we will opportunistically buy back our stock.

This pie chart shows net operating cash as reported over the past five years from 2015 through 2019, and uses of cash over that same period. We have generated approximately $8.9 billion of net operating cash over this time period, or 12.1% of sales. As David mentioned in his remarks, over this time period, we have returned over $4 billion to our shareholders in the form of dividends and stock buybacks. We've also reduced our debt over $3 billion over the past three years, and invested back in our business in the form of CapEx of $1.3 billion, or 1.8% of sales. We also completed three acquisitions for approximately $77 million in 2019.

This chart shows debt-to-adjusted EBITDA with the dark blue bars debt, light blue bars adjusted EBITDA, and the line is the leverage ratio. At the end of the second quarter of 2020, our debt-to-adjusted EBITDA ratio of declined to 2.8 times, compared to 3.3 times at the end of the second quarter last year, and flat with year-end 2019. I am reaffirming our long-term debt-to-adjusted EBITDA ratio target of 2 to 2.5 times. This is excluding operating leases. And we expect we will be at the top end of the range by year-end 2020.

This chart shows our maturities of long-term debt as of the end of 2017 on the blue bars, and at June 30, 2020 on the green bars. I give our treasury team a lot of credit for completing bond issuances in 2019 and 2020 at the lowest rates in the company's history. They also completed corresponding tender offers to take advantage of the low rate environment, reduce our immediate-term risk, and extend our debt ladder to later years. Highlight here is we have flexibility with long-term debt maturities of just $25 million in 2021, and $660 million in 2022.

We have consistently returned a portion of our cash generated from operations to shareholders through cash dividends and share repurchases. 2019 was the 41st consecutive year of dividend increases. In 2019, we returned to our historic dividend policy of returning 30% of prior-year earnings to our shareholders, and increased the dividend over 31%. In 2020, management proposed, and is committed to a dividend increase of 18.6% to $5.36 per share.

Strategic M&A is an important component of our growth strategy. We have a long track record of successfully acquiring and integrating targets into our company and getting an above-average return. As we have de-levered quickly over the past three years, we continue to fill the pipeline of targets. We target companies that accelerate our long-term strategy and leverage our capabilities to accelerate sales growth, operating margin expansion, and cash flow generation.

For example, we look for industrial companies including synergies that help accelerate our Performance Coatings operating margin to the high-teens to low-20%. These include companies that bring new technologies that fill a gap in Europe or Asia, but can then be leveraged through our other geographies, including giving us capabilities that build on our higher industrial margins in the US and Latin America.

This slide show our share repurchase history since 2011. In the first quarter of 2020, we purchased 1.7 million shares for $890 million or $523.69 per share. We paused our share repurchase program in the second quarter 2020. But with the strong operating results and cash flow in the second quarter and our improved outlook, we've restarted share repurchases in the third quarter.

Over the past 10 years, we have purchased 29 million shares, which include no share repurchases in 2016 and 2017 as we conserved cash and serviced our debt. We take a consistent, long-term approach to treasury stock

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purchases. And prior to 2016, we have purchased stock every quarter for the previous 15 years. Going forward, absent acquisitions, we'll buy our stock back.

We improved our financial profile through the first half of 2020. Our liquidity sources were strong at the end of the second quarter with approximately $190 million of cash on hand and $3 billion remaining in available liquidity sources. And our strong annual cash generation allows us great flexibility to pursue growth opportunities, both organically and through M&A. The rating agency highlight is Moody's recently upgraded us to BAA2 from BAA3, even though S&P downgraded us to BBB- at the start of the pandemic.

We continue to focus on our core operating disciplines. Our core businesses delivering above-market organic growth, we feel even more confident about the strategic fit of the Valspar acquisition, and we are continuing to deliver strong results in all economic environments. Our strong cash generation has allowed us to de-lever quickly while continuing to invest in our business and future growth opportunities. And this has also allowed us to return to our historical capital allocation policy quickly to maximize shareholder returns.

We've an experienced and determined management team. The Group Presidents described many of the products, services and programs we are providing our customers that offer solutions to meet their needs that allow them to succeed, and provide a return to our shareholders.

Now, let me turn to an update on our near-term guidance. Coming out of the second quarter, we issued third quarter sales guidance of up or down low-single digits. And you can see what our expectations were by segment. Today, we are increasing our third quarter sales guidance to be up 3% to 5% as Consumer Brands and Performance Coatings Groups in North American stores are performing better in the quarter than expected.

Our original full-year 2020 consolidated sales guidance issued on July 28 was to be approximately flat with 2019. And you can see what our expectations were by segment. The better sales performance in the third quarter and an improved fourth quarter outlook did not move the revised full-year sales guidance very much, but we are revising to flat to up slightly. This chart shows our original EPS guidance issued on July 28 for diluted net income per share for the full-year 2020 to be in the range of $19.21 to $20.71, and adjusted full-year diluted net income per share of $21.75 to $23.25 per share with a midpoint of $22.50 per share.

We are increasing our diluted net income per share guidance for the full-year 2020 to be in the range of $20.96 to $21.46 per share, compared to $16.49 per share earned in 2019. We are increasing our adjusted full-year 2020 diluted net income per share guidance to be in the range of $23.50 to $24 per share. At the midpoint of $23.75 per share, this is an increase of 12.5%, compared to $21.12 per share earned in 2019. What is driving this increase? We're having a stronger third quarter than our original expectations.

As I showed previously, sales in the quarter were better than expected. The favorable customer and product mix we experienced in the second quarter continued further into the third quarter than our original expectations. And finally, actions taken to reduce SG&A were slightly better than expected. I would also like to give a little color on our fourth quarter. We're going up against a strong fourth quarter 2019 with adjusted net income per share up 20.6%, compared to the fourth quarter 2018.

The fourth quarter is a smaller quarter, and I expect sales slightly better than our previous outlook. We expect to see our normal sequential seasonal slowdown in US architectural demand in the fourth quarter, similar to previous years. We're expecting continued favorable customer mix in the quarter with DIY, res repaint, and new residential growth while not expecting material improvement in the other architectural segments or protective and marine.

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We also expect to return to our more normal product mix with the interior-exterior ratio returning to more historic levels. I expect to see gross margin expansion in the quarter. On SG&A, we will be making incremental investments in our long-term growth opportunities, and I do not expect to see as much SG&A leverage as in our third quarter.

We believe these are the right investments to make for the long term. We completed similar investments in 2008-2009, and the 3-, 5- and 10-year compounded average growth rate of our North America architectural sales were up high-single digits, which we believe was a multiple of end market demand over those same time periods. We believe we are in a similar environment, and expect these current investments across all of our segments will allow us to grow at a multiple of end market demand over the mid and long term.

We've covered a lot of ground today. And I hope you see why we continue to be very optimistic about the future of Sherwin-Williams. You heard John talk about near-term recovery and the long-term strength of our end markets. You heard David talk about the strengths of our people and our global capabilities. And you heard our Group Presidents talk about our solutions-based approach for customers. We're confident in our approach and our ability to deliver strong financial performance over the long term.

Thank you for joining us today. And now, I have the pleasure of announcing a 10-minute break before we get into the question-and-answer portion of the program.

[Break] (01:59:35-02:07:05)

Operator: Good afternoon. Thank you for joining the Sherwin-Williams Company's 2020 Financial Community Presentation Q&A session. I am Rob, your conference operator, and I'm joined today by Sherwin-Williams' management team.

With us on today's call are John Morikis, Chairman and CEO; David Sewell, President and COO; Al Mistysyn, Senior Vice President, Finance, and CFO; Jim Jaye, Senior Vice President, Investor Relations; and the Presidents of each operating division.

This Q&A session is being webcast simultaneously in listen-only mode by Issuer Direct via the Internet at www.sherwin.com. An archive replay of this webcast will be available at www.sherwin.com, beginning approximately 2 hours after this conference call concludes.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the Q&A session. [Operator Instructions] Your first question comes from Ghansham Panjabi with Baird. Please proceed with your questions.

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

Q

Hey, guys. Good afternoon.

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

A

Afternoon, Ghansham.

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

Q

Yeah. Thanks for taking my question. First off, as you kind of think about the various verticals within the TAG segment, obviously residential has been very strong through the course of the pandemic, and also some of the drivers that you outlined, John, in terms of household formation, et cetera. But how do you expect volumes to evolve for some of the more cyclical verticals, commercial construction, property management, protective and marine as you sort of look out to both 2021 and 2022 given the long sort of build cycle for many of these end markets? How would you have us think about that?

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

A

Yeah. Ghansham, first, thank you for your call. It's a – let me just knock down to each of those that you mentioned. Property management as an example, I'd say we're very blessed to have very good relationships with the largest property management firms. You heard Pete mention in the prepared remarks that we've got the exclusive relationships with 18 of the top 20. He's doing a terrific job leading that organization further into the mid-size and smaller property management firms.

And the reason I mention it, Ghansham, is that when you talk about the cyclicality of those businesses, we work really hard to outperform the market. So, we can't dictate how a market will perform, but our expectations are always that we're going to outperform them, and given the position that we have of strength with the largest and the opportunities on the other side, so for each one of these, we see a terrific opportunity for continued growth. Property management firms now are telling us that they're starting to see more turns beginning. CapEx on new construction and major remodels are on track. We've had a few delays. I don't know, Pete, maybe you can comment. I don't think we've seen cancellations, but some delays in some of the property management.

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.

A

Yeah.

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

A

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And if you want to add to that on property management.

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.

A

I would concur with that, John. We're not seeing cancellations. We're seeing the delay in, when you think about some of the fundamentals in multifamily with the high vacancy rates, the properties still need to continue to keep their properties up to keep them attractive to the potential tenants that they have. So, you continue to see them wanting to stay top tier whatever level they're at and move forward with that.

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

A

Yeah. And, Ghansham, as I mentioned, we're starting to see more churns there. As it relates to areas like protective and marine, we are beginning to see better penetration in some of these adjacent markets that we've talked about. And I know – I remember spending some time with you talking about this specifically in P&M, the idea of industrial flooring, for example, in areas such as pharma, in water, wastewater, those are all areas of focus that we're working.

Aaron, I don't know if there's any other comments that you have on some of those additional segments in petrochem. But I will say before turning it over to Aaron that such a large percentage, I believe it's about 40% of our P&M business here in North America is tied to petrochem. So, it's a heavy weight to pull up the hill. But we have expectations here that these areas that we're focusing on will pay dividend as well as the fact that when we think of P&M, it is important to remember, these are not areas that they're painting for decorative purposes. These are corrosive areas that they need to protect the asset, protect the safety. And there's continued opportunities that may be delayed again, but certainly important that they continue to maintain those structures.

Aaron?

Aaron M. Erter
President-Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. John, just to add on that, I think the key is we're seeing a lot of projects that are delayed. We're winning a lot of new business and projects that are just delayed and moving out a little bit in flooring, water, wastewater. But we have a lot of confidence in our businesses as we get into 2021.

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

A

Yeah. So, Ghansham, I'm not sure – I'd say rather than going through each one, I'd say our approach is consistent, and that is that we're not an organization here that's complacent and hiding behind while the market is down [indiscernible] (02:12:35). So, we're very active, very determined. We're out working with our customers, listening to them, and trying to build the products, innovative solutions and services that help them win.

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

Q

Okay. That's very helpful. And then, just a second question on digitization. I mean obviously these investments have paid off during the downturn, that relates to your – certainly your paint stores grew. Can you just give us a sense as to whether these initiatives are also boosting sales dollars with existing customers, driving high wallet share, or is this just an offering of convenience at this point using data analytics?

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

Well, we're across the board there, we're absolutely determined that this will be a driver in market share and profitability. One important note I would draw attention to, Ghansham, is the fact that our model, if it's in Pete's business, in Heidi's business, or in Aaron's is far beyond just taking orders. We want to leverage this. And you saw it in that chart that Pete talked to that kind of referenced the flow of orders and the ability to interact, everything from placing an order to placing a payment.

We want these platforms to provide a more integrated relationship with our customers more than just the ability to take the order. As important that is, we're building platforms that we want our customers to turn to, to provide solutions to help them make more money themselves, to be more successful, to manage their inventory better, to respond better, whatever it might be. And so, we're very driven on that.

Now, that said, to your point from an AI perspective and from an investment standpoint, we love that we have a controlled distribution model. That controlled distribution model allows us to harvest this information in a way that very few people can. We utilize that, and kind of weaponize that, if you will, in our minds of how do we use this to attack. We're not here trying to hang on to our business. We're attacking, and we use this information to do just that.

I don't know, Pete, is there anything additionally that I've missed on your side of the business?

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.
A

No. I mean, just to your point, John, when we look at this, it just helps us get closer to our customers, and it's very complementary to what our store managers and our sales reps do on a daily basis. Our customers could interact with us when, where and how they want to.

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

Okay. Good.

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

Perfect.

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

Ghansham, did we...

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

Thank you, guys.

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

Yeah. Great. Thank you for your question, Ghansham.

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

Q

Thank you.

Operator: Your next question comes from the line of Greg Melich with Evercore ISI. Please proceed with your questions.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Great. Thanks. I have one short-term question, and one strategic. I just love an update in terms of the price increases this year and the stickiness of them, not just in architectural but maybe in some of the other Performance Coatings markets.

And then secondly, I'd love to hear about – you mentioned staying focused in certain areas on acquisitions. Is there anything available in the world right now given all the turmoil that could break – make you reconsider and do something larger? And if you were to go down that path, what sort of attributes you would be looking for?

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

A

Greg, let me ask – I'll ask Al to talk about the price, and maybe talk high level on the acquisition. Then, I'll ask David to come in and give you a little more color on his perspective on acquisitions.

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

A

Yeah, Greg. The price increases went out with January 1 in our North American stores is 3% to 4%. We talked about realizing just under 2% through the first half of the year. And that's really – we've maintained that through really the third quarter. If you look at some of the other businesses that we went out with price increases that we really didn't talk about, but we had some in industrial, and they were performing similar to what we had seen in the past, and the same would go for consumer. We had gone out with the price increase earlier this year. We really don't get into the percentages in that because of the different product mix, and then it's hard to get a number. But rest assured they're performing similar to what we have in the past.

On the M&A side, it's kind of as I talked about, it's really a key component of our capital allocation policy. And I don't think that the pandemic has changed the way we look at our approach and our strategy. We're looking for businesses that are going to accelerate our long-term strategy, leverage our capabilities and scale to accelerate the sales growth offering margin expansion and cash flow generation.

And then, maybe I can turn it over to David to give a little more specifics.

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

A

Yeah. Thanks, Al. And I think you hit it really well. And I think we had a slide up earlier that talked about the Valspar acquisition, and the focus in having that improve our ROS in segment margins globally as we look outside and grow outside of North America. And if you look at, for example, like Latin America, we're getting segment margins pretty comparable to North America. So, we love how that's progressing. And you look at...

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

A

On the industrial side.

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

A

...on the industrial side. That's correct. And then, if you look at Europe and Asia, that continues to perform very well, and sequentially improving in those margins. So, we're looking at acquisitions that help us bring new technologies that complement where we're at to grow in those geographies, that allow us to improve ROS where we can get synergies very quickly that help us there, and make sure we get people that fit our culture as we grow.

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

A

Yeah. And Greg, I would only add this that when we're looking at these opportunities, we have no delusions that we have to be everywhere trying to be everything to everyone. We're very deliberate in our efforts here. We talk with our teams and these wonderful Group Presidents about the right to win. And in our minds, we are determined to drive shareholder value. We don't need practice in what we're doing. So, if we can go in and bring value to the customers in that market that allow us to grow shareholder value, that's terrific.

Deploying capital to be in a market for the sake of being in the market is not our strategy.

Gregory Scott Melich
Analyst, Evercore ISI

Q

That's great. Thanks. And great presentation given virtual and all things we're dealing with. So, kudos to you, guys.

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

A

Thank you, Greg. Appreciate it.

Operator: The next question is from the line of Chris Parkinson with Credit Suisse. Please proceed with your questions.

Christopher Parkinson
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you. So, just very quickly, as it pertains to the 13% to 20% margin thesis in both Consumer and Performance, can you just give us a little bit more color on how we should be thinking about the non-raw material factors/tailwinds, production, procurement were some of the things you had on? Could you offer us a little more detail there? And just is there any color you could offer on the consumer side as we enter, let's say, a more normalized DIY environment into 2021? Thank you.

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

A

Yeah. Chris, let me start by saying volume as I have talked repeatedly is always the number one driver of our operating margin leverage. And that's the case that's the same with our Consumer Brands Group. But when I talk

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about the confidence we have in maintaining the high-teens to low-20s operating margin, and before we were to update any long-term targets, we do want to see volumes get back to more normalized levels. That being said, I'll let Heidi talk about some of the other great work they're doing to help improve the margins both inside the US and particularly outside the US.

Heidi G. Petz
President-Consumer Brands Group, The Sherwin-Williams Co.

A

Yeah. I appreciate that, Al, and I think a lot of this comes down to the segments too. I mean, we think a lot about the demand environment to your point where volumes will come in next year, obviously, we'll call that later here. But in terms of confidence and what we're seeing with the DIY surge and really making sure that we're harnessing the retention of that activity is going to be a key metric for us going into next year. And I think equally important as we talk a lot about the pro repaints, making sure that the investments that we're making now to secure our future here are really important that we've got the right mechanics and alignments with our strategic customers.

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

A

Yeah. And Chris, as you know, we also do a regular portfolio review of our businesses, our brands, our customers even, and when we can't see a path to short- to mid-term targeted operating margin and cash flow, we make some hard decisions. So, as we've talked about in the past, we exited the Ace private label business that we just didn't see to get to the operating margins we needed to. And I think the team has done a lot of great work outside the US.

We highlighted our improvement in our European operating margins, the cost and pricing actions we've had to take, and SKU rationalizations in some of the other regions of the country or of the world, and we're seeing those pay off this year in our first half, and we expect to see them pay off here in our second half as well.

Christopher Parkinson
Analyst, Credit Suisse Securities (USA) LLC

Q

That's very helpful. And just as a quick follow-up, what I heard today was that a lot of your ability to further penetrate and accelerate share gains in the US architectural market. Obviously, you've spoken about store growth of up to 100 per annum; 80 to 100, I guess, is the number. I know you always talk about that there are still ample opportunities in a lot of your core markets.

But there are some areas of particular strength in the US as we speak right now outside of your core markets in the Midwest and Southeast. Just how do you feel, and how do you assess your opportunities in these markets and your growth potential? Is there a renewed opportunistic focus on store openings, or is it kind of steady as she goes, so to speak?

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

A

Yes. We have a wonderful leadership team here with Pete, and I'll turn it over to him, Chris, but you should expect that every asset out there that we have, we're trying to maximize the return on that asset. So, Pete can talk a little bit about what we're trying to do through those markets through existing stores and the important role that new stores play. And by the way, new stores actually help our existing comp stores and performance as well.

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.

A

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Yeah. So if you look at it, I mean, part of what we do really focuses and starts with having the best people, and with our people having the ability to truly understand our customers and partner with them to understand what their challenges are, then offer the solutions, whether it's through services or unique products that we have.

As we continue to look at how can we grow share of wallet through our product mix or through products that we're just currently not selling them, it'll help them be more effective and more efficient, our team is always very focused on bringing more people into the Sherwin-Williams board. There is not a day, week or month that goes by that we don't have a conversation about new account activity, and what's our ability to communicate our value proposition to our customers.

And then, we have leaders both in the field and our district leadership, and then our middle management that are constantly looking at the different demographics in the markets to determine where are our gaps in the store offering, and where could be better serve our customers and at the same time continue to grow our business both at the new store and by quite possibly relieving a little bit pressure off of a current store, continue to drive our business model, so we could grow out of both assets, and continue to optimize it.

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

A

Yeah. Chris, I just want to add something to the very first point that Pete made, just take a second here, because I think this notion of our people, we often refer to them as our secret weapon. It's really just a minute here. I think if you look at that foundation of our leadership, the pipeline, if you will, our management training program, we're approaching 40 years since its inception. And in our paint business, we recruit on average about 1,500 college graduates annually. So, we recruit this outstanding talent. We train and we develop this talent. And we work hard to retain this talent.

Currently, we have nearly 10,000 graduates in this program, and they're placed in roles throughout the company. And that helps the company in many different ways, not only TAG, but certainly predominantly in TAG. In fact, we have, right now, six Group and Division Presidents that have graduated through the MTP program, 26 Vice Presidents and Senior Vice Presidents, and by the way, 1 CEO. Nearly 70% of our field leaders running our teams of stores and sales reps are graduates of our management training program.

And earlier, I mentioned retention. Employees who join our company find an attractive culture, and they oftentimes choose to save for their career. An interesting fact, over 7,000 of our employees have greater than 20 years of service. That's nearly 15% of our full-time workforce has over 20 years in this industry and in this company. And I think that's something that we're very proud of. In fact, this tenure, and we believe, this experience is a competitive advantage that we use to align with our customers.

It's not our only avenue to talent. Earlier, you heard David mentioned acquisitions and the talent that comes with that as well. In fact, we have two Group Presidents in the room here, Heidi and Aaron, that came to Sherwin from Valspar. So, when we mentioned previously about the greatest infusion of talent coming from Valspar, that's in addition to all the assets, all the technology, all the customers. It's – all of this is terrific leverage that we use to bring talent in on top of the wonderful employees, who've just worked their way up in their career in a culture that creates an environment where employees want to stay.

And if you think about that culture, it drives the voluntary turnover number in the low-single digits. And that means we've got this outstanding talent that wants to stay, and wants to be a part of winning. And we think this level of experience is crucial in our strategy, and we think it lines up squarely with the success of our customers. And we're relentless, absolutely relentless, in a pursuit of this talent. And if the new stores that Pete talked about or the

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customers that Aaron talked about or executing in the aisles for Heidi's business or running the plants in Joel's business, any one of those, they have all benefited from this retention in this talent that we lean on every day, and that drives the results that we're so proud of. So, when we look at the company, we do think that there's a lot that we believe is unique and differentiated, but it all starts with our people.

Christopher Parkinson
Analyst, Credit Suisse Securities (USA) LLC

Q

Very helpful color. Thank you.

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

A

Thank you, Chris.

Operator: Thank you. [Operator Instructions] Your next question comes from the line of PJ Juvekar with Citi. Please proceed with your questions.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning. You've done a great job...

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

A

Good afternoon, PJ.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

You guys have done a great job during COVID. There are new norms in COVID like contactless transactions, curbside pick-up. What changes from COVID do you think are permanent and what are temporary? And then, just sort of related to that, as customers, whether it's contractors or consumers, they order more online or order from their app, would you slow down the build-out of your brick-and-mortar retail stores? Thank you.

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.

A

PJ, when I look at this, we see COVID as an opportunity for us to continue to show how we understand our customer and how close we are to them and understanding their needs, and showing that we – how flexible and nimble we could be to make sure we continue to offer them the resources that they need. Such as you referenced that we went to a curbside model. In fact, we talked about talent and dedication and [ph] the net (02:30:15) tenacity. I mean, we made a decision on a Thursday evening that by Monday, we had to be in a curbside model. And I've got to thank the store associates, the store managers, the district leadership to be able to turn over 4,400 stores in that short period of a time. And while we did that, we made sure we track customer satisfaction [ph] rate scores (02:30:36) on DIY and the pro, and we're continuing to maintain our industry-leading standards through the Medallia company. So, we are proud of that.

So, [ph] when we look as (02:30:47) we move forward, we're going to continue to let the customers make the decisions on how they want to interact with us. Most of our customers on the pro side, they want to start their day in our store and some of them like to end their day in our store. And a lot of them contact us multiple times

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throughout the day, albeit some through our sales reps, some through our stores, some through our digital process. We think it's important that we help them run their businesses or allow them to run their businesses effectively and efficiently and offer them the tools that make us the best possible supplier to help them reach their goals.

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

A

And PJ, I would add just briefly here that when you think about the role that our stores play, we love the fact that we have this brick and mortar as close to the customer as possible. When you think about COVID, to your point, it adds a lot of complexity to the professional painting contractor. Again, 85% to 90% of our business through the store is the professional.

And when you think about what's happening, if you're a commercial contractor or painting a high rise and you're supposed to be on floors 10 through 15 and all of a sudden, the electrician is going to need extra time, so you get floors 20 through 25, you need a paint supplier that can respond, that's going to have the right product, the right color, the right sheen, whatever it is. It might be the residential repaint customer who'd planned on being an interior and ends up exterior or vice versa. So we believe that having these stores in the market is a substantial and important competitive advantage that we are really trying to leverage.

And when you think about that brick and mortar, we think it's important. A relatively small percentage – although we have vehicles in the marketplace to serve the customers, a relatively small percentage of our customers request delivery on a regular basis. It's an important part of the service model to be there when they need them. But the majority of them want to be in the store, they want to have the discussion. They want to understand, in some cases, is it the right application, what surface prep, or in many cases, many of them are just starting their days with Pete's team having a cup of coffee and enjoying the company. So, it's an advantage that we love, we're going to leverage and you should expect us to continue to invest in it.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you for that color. And just a quick one for Al. Al, you talked about you are beginning to look at M&A again. And sometimes during recessions and times like this when EBITDA goes down, the sellers don't want to sell. And now that the valuations have come back, are you seeing that sellers are coming back to the market? Thank you.

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

A

Yeah, PJ, the way [indiscernible] (02:33:35) we're continuing to work on our M&A pipeline and the targets that we believe fit us the best as David talked about and I talked about [ph] the drivers, seller and the (02:33:48) strategy. I think you always have a gap between what a seller wants and what we as a buyer want to pay. We take a disciplined approach around that. But I do think, to your point, as we get more firm footing, get more normal demand, some of these privately-owned companies aren't going to want to have to live through another 2008 and 2009, a 2020 pandemic. And I think there might be some motivation there to come out and with our strong balance sheet, our strong cash flow generation, we are very well-positioned to take advantage of that.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

A

Thanks.

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

A

Thank you, PJ.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Just thinking about your comments about, well, one, how strong consumer spend in DIY paint has been obviously with your customers there and also in the stores and that you're not seeing former do-it-for-me customers turn into DIY folks. It would seem like one could translate that into there being a significant amount of pent-up do-it-for-me demand heading through the balance of this year and into next year.

And I guess maybe two points on that, one would be in the fourth quarter, as things get cold out and people are home more, are you worried at all about the interior work getting pushed out? And as we think into next year, what are the bottlenecks beyond just sort of COVID-related shutdowns? What would be the bottlenecks be in the stores group in terms of being able to process that pent-up demand from this year whether it's just hours in the day or customer, pro painters, or keep me from dreaming the big dream on next year? Talk me out of it. Thanks.

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

A

All right. You've got us all smiling because we dream big over here. So let me take a first crack at that and then I'll ask Pete to talk a little bit about the bottlenecks and maybe some of the labor constraints that we're – we might be facing on the store front. But as it relates to the do-it-for-me and the transition there, yeah, we absolutely do believe that there are number of people that are home right now that are in a family room or bedroom that may not have been painted for another 5, 10, 15 years, whatever it might be, in their home, they have kids, there might be a little bit more wear and tear on the home and they're addressing some of those areas that they may not have had before on their radar.

What we're blessed with, as I mentioned earlier, is this controlled distribution model in a CRM platform that allows us to give some depth into what's happening. And what we see are more and more bidding – more and more bid activity taking place both sequentially improvements and year-over-year. And so, you're right, I mean, there's clearly some of that demand that's building up. It's been a terrific exterior year. I don't expect that it's going to be perfectly smooth. There might be a little bit of bump here or there where some of the exterior business transitions to the interior, but the way we look at that is that there's going to be people that eventually going to be going back to work. And as they go back to work, these bids that they're asking of the painting contractor to come in and give an estimate to have their home painted, those projects are going to take place.

We're starting to see an increase in that right now. In fact, the interior gallon movement taking place right now is quite strong and much stronger than we expected and so we're beginning to see that transition from exterior to interior take place. We expect that it will continue. Might we have a month or couple of months? Maybe that could

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be a little choppy as the transition occurs, maybe. The trends going right now, I'm thinking that it may be a little bit better than what we expected. But we think that there is a good pent-up opportunity as these projects are getting pushed out.

In regard to the bottlenecks and maybe some of the labors and some of the other things that a lot of customers are experiencing...

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.

A

[indiscernible] (02:38:20) and just talk about a couple of things. I mean, one, Joel talked about us being an end-to-end supply chain. What we don't talk a lot about is the fact that we own all the equipment in our store. And what I mean by that, our tint systems are specific to our products and so forth. So that helps us drive efficiencies. Our POS systems in our stores is same thing. They're specific to our customer base. So what that speaks to is greater efficiencies in our stores.

And I go back to our people as well and talk about our connectivity to our customer where we want to be in a proactive versus a reactive mode. Since we're interacting with our customers on a regular basis, we're trying to anticipate in advance what will they need so we could provide greater service to them versus them creating a bottleneck in our store. So everything that our people do, we [ph] coined in (02:39:13) a term called the trademark experience and really what that is about is how can we make sure our customers are interacting with us in a smooth, efficient manner that allows them to spend more times out on their jobsites taking care of their customers and getting in productivity out [ph] of the painters (02:39:32).

And in addition to that, we continue to attract the best possible talent at all levels. John referenced a number of people that we have in our company from a full-time perspective, and we continue to look at our stores and make sure that their staffed to service the needs of our customers when and where they buy.

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

A

Yeah. And the other thing that I'd add and maybe, Joel, I can ask you to comment on is there is – our ability to supply our customers from a capacity standpoint and inventory build, maybe you could just take a second to talk to that?

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

A

Sure, John. From a capacity standpoint, first of all, we're headed into that portion of the year where the excess capacity there and that's Q4 and Q1, as well as even though we paused a little bit when COVID first came on some of our future expansion, we put those projects back in and we're executing against those as well. So we don't see any problem. We run that model every year. We run it out five years, and we run it at three different growth rates, so that we always have got projects in the queue at three different growth rates and we're able to move them up when we need to move them up.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Just as a follow-up, in terms of the sell-in to your retail customers for the fourth quarter and sort of thinking a little bit ahead to next year just given the strength in DIY this year. Is there any feedback yet from the retail

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customers that they're getting a little thoughtful about how much inventory they want to carry into next year just given the comps are going to be very challenging for DIY?

Heidi G. Petz
President-Consumer Brands Group, The Sherwin-Williams Co.
A

And I think part of the way that we're looking at that is from a year-end inventory standpoint and we've mentioned this earlier, but we are expecting a sequential softness, kind of a seasonal softness to trail off here at some point. In terms of guidance going into Q1 next year, Al mentioned this earlier, we'll be looking to provide that towards the end of this year. Al, I don't know if you want to add on top of that.

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

No. It's – other than we are working with our customers on making sure we have the right inventory as we come out of the fourth quarter into the first quarter and coming into the season. And we're still working through those operating plans through all our groups, really, and as we typically do, we get a better line of sight with sales trends, input costs, and as we get towards the end of the year, and then we can give you a better update on our year-end conference call for the full 2021.

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

But I think it's fair to say that these were some unprecedented demand trends that we experienced this year. There was a period here where we were working closely with our customers, hand them off, trying to stay on top of their needs. And going into this, we're going to build the inventory they need to take care of their customers.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thanks very much, everyone.

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

Thank you, Vincent.

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

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

Afternoon, Bob.

Robert Koort
Analyst, Goldman Sachs & Co. LLC
Q

Thanks very much. Good afternoon. A question on the performance side and getting up towards that 20% margin potential. Can you talk about what the time required might be if we assume just sort of a normal 3% global industrial production path? Is it something where your incrementals are so strong, we can get there in 18 months, 24 months? What's sort of the duration to get to that target?

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

A

Yeah, Bob. Over the next – if you assume a volume – a return to a normal volume environment because, like I said earlier, I mean, volume is what drives our operating margin leverage. And if it returns to a more normal state, can it be in the next 24 months? Sure. And why do I believe that and confident in attaining those is one is the synergies that we talked about, and as we get to a more rational environment, I think we can move those projects forward, as well as all the actions the teams are taking in SKU rationalization, platform consolidation to reduce complexity that's going to make us more efficient. And as we come out of that, I think our leverage on the volume will even be greater than coming into the pandemic.

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

A

[indiscernible] (02:44:03) David maybe throw in his thoughts on driving that op margin because that's clearly something that we're talking about every meeting [ph] there with monthly (02:44:12).

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

A

Yeah. Yeah. And I think, Al, you hit it well but the other thing that I think gives us a lot of confidence is despite the challenging environment that we're in this year, we still saw those margins continue to improve. So as that volume comes back as Al mentioned, we expect that sequentially to continue to improve to hit those targets. And we're pretty confident that – we're very confident that we're going hit that.

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

A

Very confident and very determined. And I would also add the other element to this is, is that while we're not relying on M&A, we do believe that the targets that we're working on and the opportunity to drive some of the targets in will help us from a market share perspective as well as op margin as well.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And, John, you mentioned something like some positive commentary of maybe self-help lifting the 20% to 25% of your consumer business that's outside the US. Do you have appetite to append those operations with more non-US architecture, or do you think you're sort of status quo and really the US, North American segment rather is going to continue to drive the architectural side of your business?

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

A

Yeah. I think from an M&A perspective, I'm not sure if you were referencing that way, I'll start with M&A. From an M&A perspective, I think you should see us predominantly focused on industrial. I do believe that Heidi and her team have some really good positions that have been improved over the last 12 to 18 months. We've made some really challenging and difficult decisions, but we're also feeling about – feeling good about the future. Some of these markets that we're in and our position, we think are going to be good long-term drivers for the company. I wouldn't suggest that they're going to be the needle movers for next quarter, maybe not next year, they're going to continue to get better. But we do expect in the long term that these are going to be important drivers for our company. And strategically, we believe they could absolutely add value longer term with strong positions.

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Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Excellent. Thanks for the help.

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

A

Thanks, Bob.

Operator: [Operator Instructions] The next question comes from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Good afternoon. I was just wondering if you could talk through the sources of your positive earnings variance for 2020. Clearly, the consumer segment looks like it's tracking better. But, Al, I thought I heard some comments around gross margin and SG&A leverage as well. So, can you maybe talk through a rank order, the relative importance of the upside or contributors there to over the last 60 days?

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

A

Yes, Kevin. [indiscernible] (02:47:07) to sort of frame it as a second half discussion and really give you a broader view of what's happening and also what the comparisons are because we're going up against a tough second half comparison. And just to kind of level set everyone on the call, what I'm talking about, if you look at our second half adjusted EPS per share was up over 18% last year on a 2% sales gain. But that was really driven by the Americas group which was up a strong 7.5% in sales in the second half. And also, we saw a sequential gross margin improvement from the second quarter to the third, but also from the third to fourth, which is really atypical when you look at the normal seasonal slowdown in architectural demand in the fourth quarter.

So, what that means to our full-year as we increase or adjust – full year 2020 adjusted guidance to midpoint of $23.75 that tells you our second half EPS has to be up over 15%. So, that implies strong operating margin expansion. We talked about the gross margin expansion year-over-year and improvements in the volume outlook. And again, I know I'm like beating a drum on volume and all starts with volume. And as we see that volume, it's going to help our operating margin expansion. We saw continued – and we continue to see favorable customer mix and product mix that extended further into our second half than we originally expected.

Although as we talked about, we are starting to see the interior and exterior gallon ratio to return to more historical levels in our fourth quarter, and we do expect to see that normal sequential seasonal slowdown in US architectural demand in our fourth quarter, similar to past years. And we're balancing the gross margin expansion and the discretionary SG&A spending reductions we completed in the second quarter with prudent, disciplined, incremental investments in our long-term growth opportunities in the second half of the year.

As David and the group presidents described and I'll just summarize here, these investments in products, services, and customer programs provide solutions to our customers to allow them to grow share and be more successful. These investments in new stores and reps and e-commerce platform in North American stores, our consumer brands, expanded customer programs that allow our customers to sell more of the right gallons through

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the departments, which helps drive their profitability and performance coatings investments in sales reps, services and programs that add value to our customers and allow them to be more productive.

These are the things that I've talked about on our second quarter call that may have been – Arun had asked the question how do we get to the high end or above the high end of our EPS, and that has come to fruition. And we do believe these are the right investments to make for the long term. We completed similar investments in 2008 and 2009, and the 3-, 5-, and 10-year compounded average growth rate of our North America architectural sales were up high-single digits which we believe is a multiple of end market demand over those same time periods. We believe we're in a similar environment now and expect these current investments across all of our segments will allow us to grow multiple end market demand over the mid and long term.

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

So with that, let me just make note that we're right at 05:00 PM. We're going to stay on a little longer. I want to be respectful of your time. Just to give you some line of sight. I know we've got a number of calls still in the queue. We'd like to stick around for another 15 minutes or so. Again, being respectful of your time, if we could ask that you keep your questions to one question so we can get as many people through as quickly as possible, we'd appreciate that.

Operator: Thank you. The next question is from the line of David Begleiter with Deutsche Bank.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. John, just on the M&A front, are you concerned that your focus on industrial that might increase versus cyclicality, which could then lead to maybe a less resilient earnings profile and potentially impact your multiple. Is that a concern at all as you look through this industrial exposure?

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

We believe that there's a good balance between businesses that we're looking at and we also could point out that the improved goals and efforts that we have in the operating margins to drive up over the 20% numbers. We think that the overall approach that we're taking in this pursuit if you will with M&A, we think there's going to be a good balanced approach, and something that will drive shareholder value.

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

Yeah, David. I mean, you look at the scale we have in our Americas Group, and a small growth rate, even though we're targeting mid to high-single digits, it would take a lot of acquisitions to start diluting our overall company profile. But when we look at the bolt-ons and things that David talked about, and bringing those into the scale we have now in Europe, in Asia, and as we continue to work through the synergies, and the complexity reductions, I think it accelerates our ability to get Performance Coatings to the high teens and low 20s.

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

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Yeah. [indiscernible] (02:52:55) if you look at Latin America, as David mentioned, operating margins of Latin America on the industrial side also challenge North American operations. So we're absolutely looking in those markets and I think David or Al's points are right on.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

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

A

Thank you, David.

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

A

Thanks, David.

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

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Thanks for taking my question. Since the whole COVID issue, raw materials plunged, but they actually are kind of back to levels that we saw even pre-COVID. So I guess I'm wondering how you expect to manage through that. And do you see a need for further price increases as we're looking to 2021 to help manage through that?

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

A

We'll have Jim talk briefly about raw materials and then either Al or David will talk about pricing.

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

A

Yeah, John. From a raw material perspective, there's a few points that I'd make. As you know, for 2020, we've guided to raw materials being down in the mid-single-digit range. So that's still pretty much what we're looking for. We've also said that our second quarter is likely to be the largest deflation from a year-over-year standpoint. The comp is going to get a little harder here in our second half as we started to see inflation in the back half of 2019.

Let me talk a little bit about it maybe by commodity. If I look on the petrochem side of the basket, the biggest year-over-year declines that we've seen have been on that petrochemical side of the basket, and that would have the most impact on resins, solids, plastic packaging. But to your point, John, you can say that we've been seeing sequential increases in some of the key feedstocks like propylene and ethylene since April.

And I'd say a couple of things are driving that. One, crude is elevated from about $18 a barrel in April to about $40 today. But we're also seeing reduced upstream capacity from refineries, crackers, PDH units, etcetera, as they're managing their business through the pandemic. So that's resulted in tighter supply demand scenario as demand is picking up at the same time.

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On the TiO2 side, we're seeing pricing remain fairly stable for North American TiO2, which, as you know, is the biggest portion of our purchase. Chinese TiO2 sequentially declined recently, and we'll continue to monitor TiO2, I think, as we go forward. We don't have a view on 2021 just yet. We typically will give you that in January.

As far as the pricing, I think I'll let David give a comment there.

David B. Sewell
President & Chief Operating Officer, The Sherwin-Williams Co.
A

Yeah, Jim. I think, as you said, is we're monitoring very closely, and we know we have to keep our customers competitive in the marketplace, but we always look at our overall costs, and a broad surge, and expect that we will be able to respond. But we believe because of our scale and our global procurement strategy, we're able to keep our customers very competitive in this situation.

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

Yeah. And we look at the total basket, right? We consider raw materials, as well as every other cost. We do it on a monthly basis, and we make the decision on if we need to go or not. We talk to our customers, and then we bring it to the investment community.

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

Got it. Thanks for the color.

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

Thank you, John.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Good afternoon, guys. Thanks for taking my question, and I appreciate all the details earlier. I guess I just wanted to ask about two things. So, first off, just leverage, maybe you can just remind us why you have a leverage target. And I guess would you be comfortable kind of going back up into the 4's or 5's, as you did with Valspar, for the right opportunity? And then just as a follow-up on that, is that something that you think would be required to kind of keep up the EPS CAGR that you've demonstrated over the last couple of years, or you think market recovery would be sufficient to garner that rate? Thanks.

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

Yeah, Arun, I think your leverage question is a great lead-in into our capital allocation philosophy, and really reinforcing the fact that we have a strong balance sheet with a strong liquidity position, and we generate a significant amount of cash. Yes, we target 2 to 2.5 times debt-to-EBITDA. But when you look at our cash generation over the first half of the year over $1 billion, a 42% increase, it allowed us to return over $1 billion to our shareholders in dividends and buybacks.

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And as we talked earlier, you look at the other components of the capital allocation policy, CapEx that will continue to manage below 2%. We did restart working on our headquarters and R&D projects. And then M&A is a key part of that capital allocation policy. We've talked about the bolt-ons. Would we be willing to go up to a higher leverage ratio for the right target? Absolutely.

And the reason I say that is because you look at how well we've integrated Valspar, how quickly we de-lever the cash flow generation that we're putting off as a company for the right target. And it has to be the right target at the right price as we always talk about. But we absolutely would do that. So, the cash generation is really what gives us that confidence to lever up if we needed to.

David B. Sewell
President & Chief Operating Officer, The Sherwin-Williams Co.
A

Yeah. And Arun, the other point I'd add on to that just briefly is that we feel very blessed. If you look at Pete in TAG, and Heidi in Consumer, or Aaron in Performance Coatings, we have terrific growth opportunities in each one of these areas. And so, while Al is 100% accurate and we're determined to leverage cash towards M&A, we also are absolutely determined to drive our businesses for growth where we're not desperate, where we've got as many opportunities. It's a matter of prioritizing opportunities right now to our core businesses. And so, we're trying to leverage both the core business for organic growth, as well as the M&A activity for growth as well.

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Thanks.

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

Thanks, Arun.

Operator: Next question is from the line of Eric Bosshard with Cleveland Research. Please proceed with your question.

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

Hey, Eric.

Eric Bosshard
Analyst, Cleveland Research Co. LLC
Q

Good afternoon. Good afternoon. Al, just some clarity, you walked through what was different from a margin perspective for second half earnings versus what you had originally thought. Ex-consumer, what's different in terms of sales across the business than what you had thought 60 days ago? And then if you could just continue your thoughts on how that is sustained in 2021, again kind of ex-consumer?

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

Yeah. Eric, the one that – even I talked about on our second quarter call that would help drive us to the higher end of the range, I start with TAG and the volumes that we're seeing there are better than what we had in our

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outlook. And what's encouraging to me, in particular, looking at the fourth quarter, the strong fourth quarter generally is a strong first quarter. The following year is the momentum we're starting to see in interior because that I think with the question coming out of our second quarter, we're seeing strong exterior gallons that we had talked about is would the homeowners start allowing paint contractors into their homes to start doing interior work. And I think we're seeing that.

And I think Pete and his team, and if you want to comment on has helped develop how to get a contractor safely in and out and get a customer – an end customer comfortable with that contractor in their home. And then I could jump to the Performance Coatings.

Peter J. Ippolito
President-The Americas Group, The Sherwin-Williams Co.

A

Yeah. During pandemic obviously when everybody was in lockdown and there is more opportunity to interact with our customers, we took that as an opportunity to partner and educate with them. So we had blogs, we had webinars and so forth. We looked at their current challenges and put together tools for them that they could utilize, both for the protocols and the systems and processes that they use within their company, and how they approach their customers on how they will be diligent and respectful when they're on the jobsites. And a majority of our customers have approached it that way and then kind of normalization of the pandemic and people understanding the appropriate way to interact is allow the interior space to start to gain some of the momentum that Al is referring to.

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

A

And I'm really glad that Pete used that as an example because when you think about our model and this notion of bringing solutions to our customers, many may not think that it's the role of a painting contractor or a paint supplier to train painters on how to give comfort to the painting contractors' homeowner on entering their homes and having them feel comfortable. But it's that level, we believe, that differentiates us from our competitors. We're working hand in hand with these customers, helping them to be more successful. And I think that's a great example of the level of detail that Pete and his team go through.

But I'd also say the same stands true for Heidi with her sales team, working with their associates and their customers and the level of detail they go through, giving their customers comfort and confidence. Even our own reps, having them feel uncomfortable in that environment. And with Aaron, maybe you want to talk a little bit about your area.

Aaron M. Erter
President-Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. I think as you look at COVID, our value proposition was really validated. We were uniquely positioned to respond to the changing needs of our customers. And if you look at our businesses moving forward we've seen strong growth from a packaging standpoint. We see continued momentum and coil. And then some of our other businesses like automotive refinish; industrial wood are recovering nicely and gaining momentum. And then there are some businesses that are still choppy as it relates to GI, and protective, and Marine. But as we look in 2021 we think we're positioned nicely for growth.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

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And Heidi, just from your perspective, maybe some of the things that you were working on. I mean your customers that have the surge and they're turning to you and your team asking how can you help me, and maybe taking a moment to describe that as well.

Heidi G. Petz
President-Consumer Brands Group, The Sherwin-Williams Co.
A

Yeah. I think that in [indiscernible] (03:04:09), it's only the limit to making sure that we're at the right tool in terms of training, in terms of direct associate making sure that we've got sure everything that they are – in their hands when they need it from a readiness standpoint.

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

I really appreciate the approach that Heidi's taken. You've heard her in her prepared remarks about selling every gallon twice. I mean it's not a matter of just getting the product on the customer shelf. It's really helping them to the most efficient in selling that product off of their shelves and making sure that the consumers excited with the finished product as a result of that.

So, I think we have time – thank you, Eric. We have time for one more question. I know it's a little bit after 05:15 PM, but we'll take one more question here. And...

Eric Swanson
Vice President – Investor Relations, The Sherwin-Williams Co.
A

Sure. Operator, please go ahead.

Operator: Your next question is coming from the line of Laurence Alexander with Jefferies. Please with your question.

Laurence Alexander
Analyst, Jefferies LLC
Q

Hi. Just a very quick one then on price mix, as you think about shifting competitor behavior and the value propositions you've been able to test during the pandemic that you can adapt product offerings to serve in the recovery. Should we see price mix over the next three to five years be stronger than over the last three to five?

David B. Sewell
President & Chief Operating Officer, The Sherwin-Williams Co.
A

Well, I think what you'll see over the next two years is with the innovations that we're bringing to our customer base that our products are focused on helping our customers be more productive. So with that, it's sort of they're buying these technologies so they can be more, more supportive of it. You see what's happening in our architectural businesses as well with new technologies that Pete and his team are bringing on. So we feel like we – the price mix will continue to be constant. And, John, I know you probably have some thoughts as well.

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

Yeah. I think – I'm really glad that you asked this question because it's a nice way to finish. When you think about that price mix, and I think Heidi mentioned it earlier when we talked about pricing in the Consumer Brands area, we're at our best when we're bringing solutions to our customers. Oftentimes that solution may in fact be a slight

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increase in price, but it will overall drive either efficiency and/or cost out for our customers. That's where we're spending our time and that's where we're spending our investments in R&D to try to be as efficient as possible and bringing those solutions to our customers.

Yeah, it probably will have a positive price mix shift. And to David's point, we look at the innovation on – in the TAG business. We're bringing new technology in. Why? When you look at the painting contractor, 80% to 90% of his cost, if you will, cost of goods on a project are labor. If we can introduce a product to a customer that might be higher in costs, but overall drives the labor costs down substantially, it's a huge win for those customers. And so we're investing in that as a frame of mind that logic, that approach.

So when you hear time and time again we're focused on solutions, it's that mentality. And it's probably going to have a positive mix shift. But it only works when it drives efficiency and success into our customers and that's what we're really focused on.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

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

A

Thanks, Laurence.

Operator: Thank you. At this time I'll turn the floor back to Jim Jaye for closing remarks.

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

Thank you, Rob and thanks to all of you for joining us today. Just a few closing comments on couple of housekeeping items, I hope you heard today the confidence and optimism in our entire leadership team throughout our presentation. We're focused on brining solutions to our customers. We believe we offer the best combination of people, products and services in our industry.

And while we're very proud of what we've achieved here at Sherwin we're not content, we know there's tremendous opportunity ahead of us and we still have a lot of work to do. We expect to emerge from the pandemic as an even stronger company and we hope that we will continue – we're confident and we'll continue delivering strong results to you, our shareholders.

Today slide decks were posted on our Investor Relations website as of the press release that outlines the updated guidance that we gave today. I will be available over the remainder of the week for a follow-up call as you may have, as will my colleague Eric Swanson and Natalie Darr will be happy to add into the queue.

Finally, I'd like to remind you we'll report our third quarter results and fourth quarter outlook on Tuesday October 27th. In the meantime please be sure to keep yourself safe and healthy. And thanks again for your interest in Sherwin-Williams. Have a great evening.

Operator: Thank you. This concludes today's Q&A session. Thank you for joining us today.

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