Operator: Good morning. And thank you for joining the Sherwin-William's Company's review of their First Quarter 2022 Results and our Outlook for the Second Quarter and Full Year of 2022. With us on today's call are John Morikis, Chairman and CEO; Al Mistysyn, CFO; Jane Cronin, Senior Vice President, Corporate Controller; and Jim Jaye, Senior Vice President Investor Relations and Communications.

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

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

I will now turn the call over to Jim Jaye.

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

Thank you. And good morning, everyone. Sherwin-Williams delivered first quarter results in line with our expectations, in an environment characterized by strong demand, ongoing cost inflation and choppy raw material availability which began improving meaningfully in the final weeks of the quarter. Sales in the quarter grew by a high single-digit percentage against a double-digit comparison a year ago. And we delivered sequential improvement in consolidated gross margin and segment margins in all of our businesses.

Our margins remained under pressure on a year-over-year basis as significant pricing actions previously announced in all businesses have not yet fully caught up to highly elevated raw material costs near term. This remains an area of volatility.

Our team is operating with confidence and momentum as we begin to enter the painting season. Our strategy is clear and we remain focused on delivering solutions that help our customers succeed.

Let me briefly summarize the quarterly numbers before turning to John Morikis who will provide some additional commentary on the quarter and our outlook. Comparisons in my comments are to the prior year period unless stated otherwise.

Starting with the top line, first quarter 2022 consolidated sales increased 7.4% to $5 billion. Pricing was in the low double-digit range. Volume was lower in the Consumer Brands Group and The Americas Group, primarily due to challenging prior year comparisons along with anticipated raw material availability challenges which are largely behind us now.

Consolidated gross margin decreased to 41.1% driven by lower sales volume, primarily due to raw material availability issues and cost inflation outpacing our price increases near term. Our gross margin improved each
month during the quarter and compared to last year. On a sequential basis, gross margin improved by 160 basis points due primarily to additional pricing actions taken in the first quarter.

SG&A expense decreased to 28.2% of sales. Our SG&A expense was 2.3% below fourth quarter 2021 and on a sequential basis was 200 basis points better. Consolidated profit before tax decreased 9.4% to $461.1 million. Sequentially, profit before tax improved by $152.2 million or 49.3%.

The quarter included $70 million of acquisition related depreciation and amortization expense compared to $75.6 million a year ago. Diluted net income per share in the quarter was $1.41 per share versus $1.51 a year ago. Excluding acquisition related depreciation and amortization expense and the Wattyl divestiture, first quarter adjusted diluted net income per share was $1.61 per share versus $2.06 per share a year ago. On a sequential basis, adjusted diluted net income per share increased 20.1%. EBITDA in the quarter was $693 million or 13.9% of sales.

Moving on to our operating segments. Sales in The Americas Group increased 5.6% against a high single-digit comparison as low double-digit pricing offset lower volume related to challenging comparisons and to raw material availability which improved significantly over the last few weeks of the quarter and has continued to improve as we enter the second quarter.

DIY volume was impacted the most as we prioritized serving the professional contractors which make up the largest part of our business. Segment margin decreased to 16.8% resulting primarily from lower sales volume and higher raw material costs, partially offset by selling price increases and good cost control. Segment margin improved 170 basis points sequentially.

Sales in the Consumer Brands Group decreased 10.1% due primarily to lower sales outside of North America and an impact of 6 percentage points related to the Wattyl divestiture. This was in comparison to an extremely strong quarter a year ago where sales were up 25%.

Adjusted segment margin decreased to 12.1% of sales resulting primarily from lower sales volume and higher raw material costs and supply chain inefficiencies, partially offset by selling price increases. Segment margin improved 580 basis points sequentially.

Sales in the Performance Coatings Group increased 20.4% against a double-digit comparison and were driven by volume and price increases. Adjusted segment margin decreased to 11.8% of sales as operating leverage from the higher volume, selling price increases and good cost control were more than offset by higher raw material costs where inflation was the highest among the company’s three operating segments. Adjusted segment margin improved 290 basis points sequentially.

Let me now turn the call over to John for some additional commentary on the first quarter along with our outlook for the second quarter and the full year 2022. John?

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

Thank you, Jim, and good morning to everyone listening. Before getting into some color on our three segments, I'd like to frame today's call with some themes we're seeing across the businesses. First, demand remains very strong across most of the business. Our teams are highly engaged and focused on growing volume through new accounts and share of wallet as well as reactivating customers that may have shopped elsewhere to meet the needs of a specific project over the past year due to product availability challenges.
Second, raw material availability improved meaningfully late in the quarter, and this has continued into the second quarter. We do not expect lack of raw materials to have a material impact on sales going forward. To be clear, the supply chain is not completely recovered as the bottleneck has now largely moved from suppliers’ production to their transportation and logistics.

In the near term, we’re speeding this recovery by employing our own fleet and tank wagons to supplement suppliers’ delivery capabilities. Our ability in this area is unique among our competitors. We’re also focusing on SKU prioritization and formulations to make the most of the raw materials that are available to us. Additionally, the Specialty Polymers acquisition is meaningfully contributing to our resin needs.

Third, inventory in our stores and distribution centers is in a markedly better place than it was at the end of December. The 50 million gallons of incremental architectural capacity we brought on in the fourth quarter is up and running. As the supply of raw materials improves, we are quickly converting those materials to paint. In fact, we made more architectural paint gallons in March than in any previous month in our company’s history. We expect to run this additional capacity at a high rate to keep up with demand through the painting season and then begin building inventory in our fourth quarter as we typically would.

In looking to the future, we announced a $300 million investment to begin expanding production and distribution at our Statesville, North Carolina architectural facility that serves both TAG and CBG which will be completed in 2024.

Finally, inflation remains significant and is trending toward the high end of the guidance we previously provided. In addition to raw materials, we’ve seen increases in other elements of the cost basket including freight, energy and labor. As we’ve said in the past, our continuous improvement efforts are focused on offsetting these increased costs. Additionally, we’ve been aggressive with pricing actions in all of our businesses to offset these costs and will continue to do so as necessary.

As far as our first quarter, I'll keep my comments brief in order to get to our outlook. The Americas Group sales growth in the first quarter was led by Protective & Marine and property management, both of which were up by a double-digit percentage. New residential, residential repaint and commercial were up by a mid-single digit percentage. DIY was down double digits as we faced a strong double-digit comparison and prioritized sales to professional contractors. We’ve also begun to see margin recovery in the business as segment margin expanded sequentially.

From a product perspective, exterior paint sales performed better than interior sales, with interior being the larger part of the mix. We realized a low double-digit increase in price in the first quarter with volume remaining under pressure. The 12% price increase we announced February 1, is going in as planned.

We opened four net new stores in the first quarter, and still plan 80 to 100 for the year. We also continued our growth investments in sales reps, management trainees, innovative new products, e-commerce and productivity enhancing services.

Moving on to our Consumer Brands Group. While this business faced a very challenging comparison, we’re encouraged by our sales in North America which were nearly flat as we continue to focus on supporting key strategic retail partners and growing our Pros Who Paint initiative. Sales were softer in Europe and China as we faced double-digit comparisons and COVID related lockdowns. Note that we have now anniversaried the Wattyl divestiture which was a drag on group sales of about 6 percentage points in the quarter. Pricing was positive in
the quarter and in the high single-digit range. Segment margin expanded significantly on a sequential basis, benefiting from increased volume, leverage on SG&A and incremental pricing.

Last, let me comment on first quarter trends in Performance Coatings Group. Group sales increased by 20.4% in the quarter including high single-digit volume growth against a double-digit comparison. Price realization was in the low teens range and all regions and all divisions generated growth. As in the other groups, we saw meaningful sequential margin improvement during the quarter.

Regionally, sales in the quarter grew fastest in North America, followed by Latin America, Asia and Europe. Every division in the group grew with nearly all by double digits, driven by robust underlying demand, new customer wins, share of wallet gains and pricing. Packaging was strongest followed by Coil, General Industrial, Auto Refinish and Industrial Wood respectively.

Before moving to our outlook, let me speak to capital allocation in the quarter. We returned approximately $558 million to our shareholders in the quarter in the form of dividends and share buybacks. We invested $407 million to purchase 1.45 million shares at an average price of $280.77. We distributed $150.9 million in dividends. We also invested $106.3 million in our business through capital expenditures including $77 million in core CapEx and $29 million for our Building Our Futures project. Additionally, the acquisition of Sika's European industrial coatings business closed on April 1. We ended the quarter with a net debt to EBITDA ratio of 3.3 times as we increased short-term borrowing to fund our share repurchases and the Sika acquisition. We expect to be closer to the high end of our 2 to 2.5 times range by the end of the year.

Turning to our outlook. As I referenced earlier, we continue to see very strong demand in North America pro architectural end markets, though we are facing a comparison to a strong double-digit growth quarter that was driven by very robust post-pandemic recovery. Comparisons will ease in the back half of the year.

Rising mortgage rates have not made an appreciable dent in the demand for our new residential customers to this point. Should new residential demand slow, we remain extremely well-positioned in multiple architectural segments, including residential repaint and property management, which have proven to be more defensive in nature.

We expect industrial demand will remain strong as the year progresses based on the outlook our customers have shared with us. Comparisons will be challenging over the remainder of the year. Demand remains strongest in North America, our largest region. European demand also remains strong, although we continue to closely monitor for potential impacts from the war in the Ukraine. For the record, our sales in Russia and Belarus are well below 1% of the total company sales and we are suspending operations in these regions. In Asia and in China in particular, demand has been dampened near term by the latest COVID-19 wave.

On the architectural and industrial sides, we'll continue to leverage our strength in innovation, value-added services and differentiated distribution as we expect to grow at a rate that outpaces the market.

From a supply chain perspective, we believe we are through the most challenging aspects. As I described in my earlier comments, we expect this to continue improving and to have a minimal impact on sales going forward.

On the cost side of the equation, we are maintaining our low double-digit to mid-teens raw material inflation guidance though we are trending toward the high end of the range driven primarily by Performance Coatings Group. There is considerable short-term volatility in the market and our visibility beyond a quarter or two is limited.
We do expect the level of year-over-year inflation to remain elevated but to moderate in the back half of the year. Our pricing actions remain on track, and we’re prepared for additional increases if necessary.

For the second quarter of 2022, we anticipate our consolidated net sales will increase by a low double-digit to mid-teens percentage compared to the second quarter of 2021 inclusive of a low double-digit price increase. We expect The Americas Group to be up by a high single-digit to low double-digit percentage. We expect Consumer Brands to be up by a high teens to a low 20 percentage. And we expect Performance Coatings to be up by a low double-digit to mid-teens percentage.

Our full year guidance is heavily second half weighted due to stronger volume, the impact of pricing actions and weaker second half 2021 comparisons. I'll remind you we began 2021 with great momentum, including first half sales growth of 14.7% and adjusted EPS growth of 26.6% before the natural disasters, supply chain and COVID issues derailed the second half of the year.

For the full year 2022, our guidance remains unchanged. We expect consolidated net sales to increase by a high single-digit to low double-digit percentage. We expect The Americas Group to be up a mid-to-high single-digit percentage with North American paint stores at or above the high end of the range. We expect Consumer Brands Group to be up a low to mid-single digit percentage and Performance Coatings Group to be up by a high single to low double-digit percentage.

We expect diluted net income per share for 2022 to be in the range of $8.40 to $8.80 per share compared to $6.98 per share earned in 2021. Full year 2022 earnings per share guidance includes acquisition-related amortization expense of approximately $0.85 per share.

On an adjusted basis, we expect full year 2022 earnings per share of $9.25 to $9.65, an increase of 16% at the midpoint over the $8.15 we delivered in 2021. The additional data points we provided last quarter on full year currency exchange, tax rate, CapEx, interest expense, depreciation and amortization are unchanged.

As we enter the heart of the painting season, we remain confident in our strategy, our capabilities and the differentiated product and service solutions we bring to customers. The 61,000 employees of Sherwin-Williams are focused on the tasks at hand and there is no better team in the industry. Our business remains extremely well positioned. And we are emerging as an even stronger Sherwin-Williams following the challenges we faced the last two years. I'm excited by the momentum we're gaining as we progress towards what we expect will be a very strong second half of the year.

In addition to today's call, I'll remind you we will provide additional commentary on the market and our business at our upcoming Financial Community Presentation event scheduled for Wednesday, June 8, in New York City. Details are available on our website and we're very much looking forward to seeing many of you in person.

And that concludes our prepared remarks. We'll be happy to take your questions at this time.
QUESTION AND ANSWER SECTION

Operator: Certainly. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Your first question is coming from Vincent Andrews from Morgan Stanley. Your line is live.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Thank you. And good morning, everyone. I'm wondering if you could just talk about your volume possibilities in TAG in the second quarter. If I sort of back out the price we think you're going to get in the second quarter to sort of imply some volume, I'm just wondering how much better you might be able to do versus that? And if you're concerned that maybe just, I know you had big volume production in March, but is there any limit at all to the amount of volume you could flow through the stores in the second quarter?

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

Yeah, Vincent, maybe the way I'll go at this is just to take a quick run through the different segments and give you a little bit of color on the demand because I think that speaks to what you're asking here. So let me start with repaint and tell you that our customers are experiencing really strong backlogs. There's a positive mix-shift in quality that's also taking place and we believe that plays really well to our advantage. So when you talk about volume, our ability to grow our volume faster than market also includes the ability to drive greater productivity through for our contractors as this quality that we're providing them helps to provide the finished product that a more experienced painter or a applicator might be able to apply. And so we're helping them do that through product.

If you look at this area, you would clearly see home appreciation driving demand. LIRA, the forecasting for growth in 2022 is in double digits. If you look at the NAHB re-modeling index is strong, well above 50. And existing home sales have slowed year-over-year against a very strong comp and lack of inventory, but overall it's a very strong market for us.

So we expect to continue to see a good, strong demand market in residential repaint. Our contractors are telling us, as I mentioned many of them are looking through the end of the year with a pretty solid backlog of projects. And we're going to grow with those customers, but this is an area that we absolutely expect to continue to grow our market share at a pretty aggressive rate.

Property maintenance is, really underlying demand is solid here as well. There's been delayed maintenance that's now being addressed, and we see improved areas in apartment turns along with a return to travel, office, even school that's driving demand. And I'd say in this area as well there's an increased awareness of the need to keep these assets fresh, current and clean and as you know paint is an inexpensive yet impactful solution in this area.

Commercial, I would say the underlying demand here is also solid. Projects are resuming albeit at varying paces but the starts are positive. Customers are reporting labor constraints and material shortages on these projects are acting as governors of growth. So any aspect of this project that could be anything from drywall to roofing products, anything could have an impact here that could be significant.
Dodge Momentum Index here is strong as is the Architectural Billing Index which has been positive for a straight month. And as you know that tracks the current billing by architects, which generally leads to the commercial construction spending 9 to 12 months out.

And the other area obviously that we're really focused on is new residential. We got a great position here and growing by the way. Starts and permits remain strong year-over-year with multi-family stronger than single but both really terrific markets for us.

Completions are softer due to material availability here, in some cases labor as well. We've not seen a meaningful slowdown as I mentioned earlier from rising mortgage rates which are still low in comparison to other periods.

And this is an area we've gotten a lot of questions about throughout the quarter and I thought I'd just highlight one area. This article by USA TODAY that I think captures kind of the sentiment that we have in new residential. They talk about the housing unit shortfall ranging between 5.5 million and 6.8 million despite an annual average of 1.5 million new housing units completed and a 1.7 million spike in 2020 alone. New construction would need to accelerate to a pace that's well above this current trend to more than 2 million housing units per year to close this gap. Even if building were to continue at the current level, the most rapid pace in more than a decade, it would still take more than 20 years to close the 5.5 million unit gap.

So as I mentioned, we've got a strong position here. We're determined to get stronger here. And I would tell you that regardless of what happens in these professional areas, the way that we've been driving this company for years now with our strategy development and strategy deployment is to be in position to capitalize on it whichever way it tilts. So if any one of these areas should for some reason slow down, we've worked really hard to position ourselves to be able to capitalize on whichever way the market might shift to and we believe that we would be able to capitalize on it.

I'm going to touch on one more area, then I'm going to ask Al to talk on the volume a little bit further. As DIY, we did talk about the fact that DIY behaved as we expected. Its demand continued to return to more normal level, and this was against, as I mentioned earlier, a difficult comp. But we also prioritized our professional contractors and our key strategic customers in our Consumer Brands business that impacted this DIY business.

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

Yeah, Vincent, this is Al Mistsyn. As I – just as a level set on our January call, we talked about our expectation for the first half architectural volume which includes Consumer and TAG to be flat to down low single digits primarily because of the difficult comps that John talked about. And our second quarter with our TAG sales projected to be up high low – high single to low double-digits with price up low double-digits and volume flat-to-down slightly that's a sequential improvement for the first quarter, so we talked about the first quarter being down mid-single, flat-to-down slightly in the second quarter. That leads you to the momentum on an easier comp in the second half. We talked about the full year TAG sales up mid-to-high single-digits with North America paint stores at or above the high end of that range. When you look at price, low double-digit in our first half, as you annualize the price increases we took in, in the second half of last year, our price in the second half will trend for the year to be mid-to-high which gets you a low-to-mid single-digit volume growth in TAG in North America paint stores and I fully expect that to be the case.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Thanks so much.
John G. Morikis  
*Chairman & Chief Executive Officer, The Sherwin-Williams Co.*

Thank you, Vincent.

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

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Thanks very much. Can you comment on the effects of raw material shortages on volumes in the first quarter? And can you talk about your volumes in the first quarter in residential repaint and new residential, commercial. What was the business like excluding the volume contraction in DIY?

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

Yeah, Jeff. On raw material availability, what I would say is we talked about on our year-end call that we thought it might be a low single-digit to mid headwind. The way the quarter rolled out with availability, we saw some choppiness in January, it improved in February. As John talked about, it was significantly better into March and it continues to improve in April.

And the data points that I have to show that is, as John talked about, March was the single largest architectural production volume month in the history of the company. We significantly improved our architectural gallons from December year-end through the end of March, not at our historic levels but it is a significant improvement, 20 plus million-gallon increase.

So, I think to pinpoint exactly how much availability it had on the quarter, it's really tough because I look at how much of that would have been in sales versus how much we could have put in inventory. The fact is, the availability is behind us. We have a lot of confidence to fill our 50 million gallons of additional capacity along with the help of SPI. And the other data point I would highlight is our expectation for architectural inventory through our seasonally highest second and third quarter sales quarters to be flattish from the first quarter. As you know, Jeff, historically our inventory would decline through the summer quarters because you can't keep up with the volume. Because of the capacity we put in, we're going to be able to keep up with the sales volumes and increase inventory in our fourth quarter similar – getting back similar to where we were back in 2019 and significantly higher than the last two years.

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

Yeah. The only thing I would add to that – it was a great response. I think the trend of manufacturing will continue to your point all the way through to probably this time next year. We'll run our assets hard to build that inventory back up. And the only maybe clarifying point that I think is important is that to your question about volume on each of those segments, Jeff, I don't need to break them all down because they were all very similar. They all improved as the quarter improved or quarter went on.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Were they higher for the quarter or lower?
John G. Morikis  
Chairman & Chief Executive Officer, The Sherwin-Williams Co.

Year-over-year they were lower.

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

Yeah, Jeff, they would be lower primarily because of the more difficult comps that we had. Res repaint was up – res repaint, new res, DIY were all up strong double digits and new res and commercial were up as well. So, tougher comp in our first quarter.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Okay. And for my second question, the – are you done with price increases in The Americas Group? You've commented in your slides that you have more pricing actions to go in Consumer Brands and Performance Coatings. But I didn't see that in Americas. Are we done in Americas for this year?

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

Yeah, Jeff, I wouldn't say we're done. I would say when we look at the visibility and the volatility we have in the market around not just raw materials but other input costs, that visibility is out one quarter at best. I think what you'll see us do is like we have in the past, we'll monitor those input costs very closely. And if we see a meaningful or if we see a meaningful change in them, we're prepared and disciplined to go out with additional price, similar to what we did last year. We went out August 1, 8% and then we went out in September with a surcharge. So we have to monitor the situations closely and really react to what we anticipate.

Jeffrey J. Zekauskas  
Analyst, JPMorgan Securities LLC

Great. Thank you so much.

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

Thanks, Jeff.

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

Joshua Spector  
Analyst, UBS Securities LLC

Yeah. Hi. Thanks for taking the question. So just on the consumer side, kind of goes to some of your prior points on The Americas Group, just wondering how much of the 20% growth would you say is volume refill versus pricing moving up from the high single-digit level?

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

If I look at – you say the 20% growth in our first quarter, Josh, are you talking about the second?
Joshua Spector  
Analyst, UBS Securities LLC

Sorry. In your second quarter guide.

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

Sorry. Thank you. When you look at the high teens, low 20%, expect price to be up a similar amount as TAG. We have significantly easier comps, which was down strong double digits. I think when you look at our inventory build, we had an inventory build in the first quarter through our strategic partners, as you would expect. We were in a similar situation that we talked about as the third and fourth quarter went on.

We drove our inventories down across the chain, both the TAG, Consumer and our retail partners. So we did have to build some inventory at store level with these partners. But really, we did have a weak comp. We expect North America to be strong. We do expect with Asia and Europe to be softer in our second quarter. That's about 15% of our sales and pretty strong comps outside the US and Europe and Asia. So, I don't have an exact number to say how much was building versus sell-through but rest assured we had to build inventory in our first quarter in our retail partners.

Joshua Spector  
Analyst, UBS Securities LLC

Thanks. And I guess just as a follow-up, are you seeing any change in the consumer channel or in the DIY channel, either your own stores or in your Consumer Brands Group? I guess as pricing goes up, is there any trade down or are things generally pretty stable?

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

I'd say they're pretty stable. I'd say as it relates to the consumer side of our stores and in our Consumer Brands customers, I'd say in our professional side as I mentioned earlier, we are seeing more of a positive mix-shift moving into higher quality rather than shift down.

Joshua Spector  
Analyst, UBS Securities LLC

Thank you.

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

Again, that's driven mainly off of labor and the desire the painting contractor has to be as productive as they can so they can attack the backlog that they're facing.

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

Thank you, Josh.

Operator: Thank you. Your next question is coming from Chris Parkinson from Mizuho. Your line is live.
Christopher Parkinson

Great. Thank you so much. So you hit a little on the raw material shortages. Can you just hit on your own as well as probably the industry's efforts to further backward integrate into certain resins and also some additives? Just where do we stand with that and when should the investment community see the effects from those efforts? Thank you.

John G. Morikis

Well, importantly, our customers are starting to see the effects. As we purchased this SPI with the idea of really trying to leverage that asset, Chris, I think it's doing that and it's only going to get better for us. I don't think you should expect us to continue further upstream. We believe – we've always had a resin strategy and we've always manufactured resin. SPI was a [ph] toll producer for us, terrific people, terrific assets and an opportunity to get in there and get the most out of that – that set of assets.

It also, as you mentioned – as we mentioned when we announced this, it helped us to deleverage if you will a little bit of the dependence on the Gulf Coast. These manufacturing facilities are on each coast, and they get us a little bit away from some of the hurricane risk, while they're on the coast they're inland and terrific assets.

We're already starting to see more productivity out of these assets. We expect that to continue. There will be some investments in there but very reasonable with great return. We don't expect us to get into the additives, TiO2 business, that's not where we belong.

Christopher Parkinson

Got it. There's also been a lot of chatter just in the investment community at least in the past quarter or two, just regarding market share shifts, potential market share shifts in some part due to finished product shortages. Now that you have the opportunity to speak to all of us, what's your public response to those debates? And what confidence level can you convey to us regarding your ability to maintain or likely build market share once everything normalizes in the supply chain? Thank you so much.

John G. Morikis

Yeah, Chris, I appreciate that question and I'd tell you that our confidence level is very high. We can only speak to our strategy, and I would tell you that we're blessed with a controlled distribution model that serves us well. And we leverage this model, and that includes strong and very consistent brand strategy. And we think that branding strategy and the consistency of it is equally important.

We have an innovation program designed to develop segment specific products. So because we have a controlled model, we're able to talk to each of these segments to understand what are the needs of these customers? What are the challenges? And we develop products that are specific for these segments. And we do the same with our services, so that we have a very good understanding of what the needs are of these painting contractors and we build the services to help them make more money.

And finally, the reason I have probably the most confidence is our people. I believe we have the best people in the industry and I'm not apologetic about making that claim. We hire around 1,400 to 1,500 college graduates a year to enter our management training program and we recruit outstanding talent. We train and develop this talent and
learned to appreciate the support of our Chief Procurement Officer, Colin Davie and his team. They are working really well with our customers. And I've had the opportunity to look at the assets we've talked about that we've deployed, the responsiveness that we have. And I will say this, if I were to break it down, first, we just talked a lot about people. I'd say that's a clear advantage. But I'd also say that, if you look at the risks on the global macro environment, is it as simple as just better raw material pricing? Or is it more about the ability to access visibility? Or what else would you call out as sort of incremental positives relative to your initial view that are offsets? Just thinking about supply disruptions in these regions as well. Now under the macroeconomic backdrop seems a bit less certain especially in Europe and China, along with any potential headwinds related to the global macro. Thank you. Good morning, everybody. I guess just going back to your earnings guidance reiteration for 2022, the macroeconomic backdrop seems a bit less certain especially in Europe and China, along with any potential supply disruptions in these regions as well. Now understanding that you have a wide earnings range still for the year, what would you call out as sort of incremental positives relative to your initial view that are offsets? Just some of the risks on the global macro, is it as simple as just better raw material access visibility? Or what else would you have us think about?

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

Well, I'd say first, we just talked a lot about people. I'd say that's a clear advantage. But I'd also say that if you look at the assets we've talked about that we've deployed, the responsiveness that we have. And I will say this, our Chief Procurement Officer, Colin Davie and his team are working really well with our customers. And I've learned to appreciate the demonstration of rewarding suppliers who have stepped up to serve us. And these leaders create an environment where people win, and they want to stay. One-half of our rep force has over 10 years of service. Turnover of our customer facing reps and manager is still in single digits, in this environment, still in single digits. We're hanging onto the most important assets we have, and that's our people.

And our people wake up every day, they focus on two things, paint and making painting contractors successful. So, this specialty store format, it works for painting contractors. We've always talked about avoiding complacency in our company. In fact, we often say that complacency kills. We're working to get better every day and we're working to make our painting contractors better every day. But I'll say this, I do believe this will come down to our people versus others. We have a 40-year head start. A lot of drive, a lot of determination. We're not going to win by a little bit. I'm looking forward to competing against any model.
suppliers have been creative in responding to our needs. The assurance of supply, to your point, continues to be an important element in this market. And once you have that supply, I think we demonstrated in the month of March that we had a record month in the company's history of producing product.

And so you know what I'd say is it's not one thing. It's the entire ecosystem. It's everything we're doing, everything that we bring and it's all focused and starts with one thing, the customer. So, we're looking through that lens and we're working back. And this large, 156-year-old company is learning to be nimble and quick and respond. And so, I'd say that if I'm looking at it from the outside in, I'm looking at lot of assets that are really positioned well to be able to respond to a high demand market.

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

Ghansham, I would just add to that. You look at our sequential gross margin and operating segment improvement, sequential improvement across each of the operating segments and all the hard work that those teams have done, and I'll highlight one in particular, Performance Coatings Group. That took the – really the brunt of the raw material increases in the second half, have been out with price on multiple occasions. You look at our first quarter adjusted operating margin, about flat year-over-year and if you recall the significant increases we took for raw materials for that segment were primarily in the second half. So that team has done just an absolutely terrific job getting price, holding price and it's showing. And we're going to see that continued improvement in our gross margin in the second quarter.

We expect to see sequential improvement in our gross margin and across each of the operating segments, albeit Consumer from a historic low operating margin and adjust operating margin in the fourth quarter. But the pricing actions, the volume, and all the continuous improvement efforts across each of the segments that are helping to drive our bottom line faster than our top line. So that's what gives me confidence that we're going to continue to see improvement as the year goes on.

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

Okay. Thanks for that. And then if we could just switch to Performance Coatings, several of the businesses in there, Packaging, Coil, et cetera, have had a very, very good run, volumetrically. There's lots of evidence of kind of meaner version of Consumer habits that have occurred post-COVID as mobility sort of normalizes. So, as you kind of think about these various individual businesses within PCG, how do you expect the volume trend line to unfold over the next few quarters?

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

Well, we're really excited. To your point, we've got a lot of momentum in these businesses and there's no expectation for less, if that's the question. We sit in this room, this boardroom and we talk with our teams regularly, about the confidence that we have. And maybe I could walk through quickly if you like each of these segments just to give you a little bit of color because there is a lot of strength but, boy, there's so much opportunity.

If you look at our Packaging, we had a strong double-digit growth in the quarter. In fact, each of the last three quarters we've had record quarters in this business. Packaging sales. With sales of around 30% per quarter for the last three. So, if you look at this business, the demand is very robust in food and beverage, our non BPA coatings continues to gain traction. Both we and our customers are investing in capacity expansions in
Gregory S. Melich
Analyst, Evercore ISI
Q
A
Operator: Thank you. Your next question is coming from Greg Melich from Evercore ISI. Your line is live.
Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.
Q
A
Thank you.
James R. Jaye
Senior Vice President, Investor Relations & Corporate Communications, The Sherwin-Williams Co.
Q
A
Thanks, Ghansham.
Gregory S. Melich
Analyst, Evercore ISI
Q
A
Operator: Thank you. Your next question is coming from Greg Melich from Evercore ISI. Your line is live.
Hi. Thanks. I want to follow-up a little more detail on the gross margin progression in the quarter. I think you mentioned that gross margins were down year-over-year more due to volume than the raws price. Could you give us the number on that? And do you think that continues, that mix of gross margin pressure in the second quarter?

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

Yeah, Greg. The volume as you know and what we've always talked about is the single biggest driver of not just gross margin, but operating margin. And that clearly is a higher impact. If you look at year-over-year – if you look at price/cost in our first quarter, we're still chasing a little bit. I think, we get on top of that as we get towards the end of the second quarter so it will be less of a drag. And also in our second quarter you see a seasonal increase in our architectural volume as you normally would. That's going to help drive our gross margin. It's going to help drive our operating margin. And granted still tough comps against TAG, but you look at the volume down mid-single digits, that's a significant drag in our first quarter and to be down flat to down slightly in our second quarter is going to be a positive mix shift as well in our second quarter that's going to help grow the margin.

Gregory S. Melich  
Analyst, Evercore ISI

Got it. And when we look to the back half, if price is on top of raws by the end of the second quarter, for the back half do we need another round of pricing to stay on top of the cost, given what we've seen year-to-date with, I guess, raws now running at the higher end of the range?

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

Yeah, Greg, I think what we're looking at is more on the industrial side right now. I think when we talk about the basket moving to the high end of the range, it's more on industrial. As you know, industrial price increases aren't as uniform. So, there may be – I talked about on our year-end call, some in the first quarter, some that roll into the second quarter. I think the timing of those are pretty much the same. It's just the amount or the percent increase that may have to get adjusted. But like we talked about earlier, I think our visibility is one quarter out at best. A lot of volatility and we'll continue to monitor that. Based on the last year-and-a-half, I'm not going to say we don't need more. We're just going to have to monitor it and go out and react accordingly.

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

Yeah. What we will say is that if we need to, we will. There's not a hesitation.

Gregory S. Melich  
Analyst, Evercore ISI

And maybe, John, just to follow-up on that. Given the volume shortfalls, especially in the back half last year, are you a little more [ph] reticent to hike prices again within a quarter? I'm just thinking in the past, I think you waited about four months. Now as you're trying to rebuild that volume and share, do you think – obviously you'll get the pricing, but is there a tendency to want to wait an extra month or two just to be sure?

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

And I think we have, you're right, Greg. Good for you. Because I know you know our company well. We have done that. And I think what's different now is that we're a little bit further into the volatility portion of this cycle and
we’ve been communicating to our customers with greater clarity about the volatility. So, I don’t know that we need to wait as we have had in the past because we’ve been communicating to the customers that our intent is to try to keep the price increase to a minimum but with that we’re not building a buffer to be able to absorb the volatility. And if there is more volatility, that we need to be out quicker with additional price. So, I think we would be moving quicker and to your point, it’s nothing we prefer to do or enjoy doing. We have yet to get a thank you note from any of our customers for it. But if the need be, we’re going to do it and we’re going to do it quickly.

**Gregory S. Melich**
*Analyst, Evercore ISI*

Great. Thanks, and good luck.

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

You bet.

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

**John McNulty**
*Analyst, BMO Capital Markets Corp.*

Yeah. Thanks for taking my question. You had mentioned early in the call that you were using your own fleet and the flexibility that you have with that to help your customers from a logistics perspective. Can you help us to understand, one, is that something you actually incrementally charge for or is it just kind of part of the service that your customers are appreciative of? And I guess on top of that, how should we think about, if it is just more of a, hey, it’s part of our service, then how should we think about the cost of that and how that might decline once all the big logistic issues kind of get put in the rearview mirror for us all?

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

Yeah, John, let me first go back to your question and the comment that we made earlier. What we were speaking to specifically there was suppliers, not customers. And we do work with our suppliers mainly to bridge gaps, to ensure that we have the product when we need it, where we need it. It’s not our intent to do their jobs but we’re in this together with them trying to work with them and as you would expect, when that happens there was a discussion about what it costs that goes along with the fact that we’re going to do that.

So right now, you know our company, our focus is on taking care of the customer and the fact that we’ve got our fleet, it is a point of differentiation. We do leverage those. And there are times when we’re less efficient doing that, for example, one of our largest customers on the Consumer Brands side was very adamant about a south to north recovery approach that was a little less efficient than we would have liked to have seen, but important to our customers and so we took that undertaking and served our customers in a way that allowed us to respond to their needs, not which was most or least expensive to us and that’s our DNA.

And so, if it’s to use our fleet of trucks to help in a pinch to be able to get raw materials to a plant or in some cases right now we’re producing where we can get the raw materials and we’re shipping it in some cases across the country to ensure that we have supply where we need it. And it’s a little less efficient than what we would like. We have this terrific footprint. We want to optimize our supply chain to its fullest, but when it comes down to it, we’re going to choose serving our customers. And over time that efficiency will work its way back in. We’re not just
waiting for that to happen. You should expect that as a leadership team we're very focused on it. Our teams understand that. But we also understand that servicing our customers is the highest priority we have.

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

Yeah, John, the only thing I would add...

John McNulty  
Analyst, BMO Capital Markets Corp.

Got it. Thanks very much. Yeah. Go ahead.

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

The only thing I would add to that is, we did call out that supply chain comment that John talked about in our Consumer Brands Group being a little bit of a drag in our first quarter but clearly — that's to John's point, that's an investment we are willing to make in servicing our customers better. That drag, if you look at the operating margins and what they were down, volume is still number one in Consumer is driving that operating margin lower year-over-year and then probably a third is the supply chain efficiencies, just to make that clear.

John McNulty  
Analyst, BMO Capital Markets Corp.

Got it. Thanks for the color. Appreciate it.

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

Thanks, John.

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

Stephen Byrne  
Analyst, BoM Securities, Inc.

Yes. Thank you. The inventory build at the end of the quarter is noteworthy. Is that largely driven by the raw material cost, or do you really have much more volume than previously? You might have been low going into the quarter, but you commented that March was a big volume production month for you. So, is that — if that's volume driven, is that a reflection of what you're seeing your pro contractors have as backlog and is that what is giving you this confidence in such a strong second half?

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

Well, Steve, let me be very clear. We have incredible confidence in the second half, hard stop. We're growing inventory sequentially each month of the first quarter because raw materials became more available. We added 50 million gallons of capacity. It's online. It's supporting the demand and we're building inventory. We don't have the inventory that we normally would have had coming out of the first quarter but given the additional capacity that we have, we're able to serve our customers and we're going to utilize that additional capacity and everything we have between now and likely this time next year to run full speed all-out, building inventory to be able to continue
to serve our customers. And if we have to put a little more in working capital to be able to serve our customers, we’re going to do that.

**Stephen Byrne**  
*Analyst, BofA Securities, Inc.*

Perhaps relative to historical splits between first and second half sales, how much stronger do you think second half this year could be?

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

It’s going to be a much stronger part of our success this year, partially because of the comparisons that we have for sure and second, as we’ve just talked, the ability to make record year or record month production in March says that we have product, we already have raw materials and so the demand is strong. We have raw materials. We have capacity. We’re going to have a good time in the back half.

**Stephen Byrne**  
*Analyst, BofA Securities, Inc.*

Maybe just one quick one. What fraction of your Consumer sales are pros that paint and how do you get that data? Is that from your partner?

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

Yeah, we’re not going to comment about our customer’s mix of business. I will tell you that it's overall relatively small, but it’s a very important and growing area. And we’ve been talking for a number of quarters about the investments that we're making here, the commitments that we’re making here. In fact, even the fact that we just came through a pretty challenging time, and we were prioritizing that business with raw materials I think it should speak volumes.

We love this controlled distribution model through our own stores, but we are very excited about this Pro Who Paints model. And we have through our own stores, if we look at it, marginal success because there are customers that prefer a home center channel. They want to be able to get in and they want to be able to buy a full array of products that are only available at a home center. In the marketplace, there’s been limited amount of competition in this space for too long and we believe along with our strategic partners that there’s a terrific opportunity and we are determined to help our strategic partners win in this space.

**Stephen Byrne**  
*Analyst, BofA Securities, Inc.*

Thank you.

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

You bet.

**Operator:** Thank you. Your next question is coming from P.J. Juvekar from Citi. Your line is live.
P.J. Juvekar  
Analyst, Citigroup Global Markets, Inc.

Yes. Hi, John. You know, you talked about raw material shortages and supply chain issues for a while. Do you think adding 80 new stores is going to add to that complexity or do you think you have this new capacity and excess inventory that you can load in these new stores and also what's the cadence of new stores? I think you opened you said only four new stores in the first quarter. So, what's the cadence of that?

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

Well, let me start with your finishing portion. We're going to be between 80 and 100 stores this year. And the answer as to why perhaps in a market like this to add stores is we believe in the model, and we play a long game here. And we didn't predict that the world was coming to an end because we couldn't get the raw materials. We knew we would, and we continued to invest in every aspect of our business including if you look at it, in our manufacturing. We invested in labor to have people in our facilities so that when raw material became available, we could convert them. We did that and I think March demonstrated that.

So now you follow the pipeline a little bit further and you say okay of, now we're producing product. I'm not going to be sitting here saying boy I wish we would have had the courage to invest in stores when things got a little bit tight. Maybe it comes with a 37 years of scar tissue that I have and 30 plus years that Al has and our other employees. We've seen this movie before. We know how it works and we've got confidence, and when you have confidence you look adversity in the eye and you say we're going to run right at this. And during these tough times, we knew that others would do exactly what they do, close stores, close territories, get in their bunker and we're going after it. We're bunker hunting right now and we're going to continue to do that.

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

Great. And also, about the cadence of the new stores.

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

Yeah, 4 – net 4 I think was in the first quarter, we'd like to see a little bit more than that, but it's going to ramp up here between now and the end of the year. We'll be in the 80 to 100 before the end of the year.

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

Great. And one of your competitors has a new partnership at Home Depot to target pros at the big boxes. Have you seen any impact of that on your business?

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

Well, as I mentioned earlier, we have a model that we believe is the right model in the market. It certainly is for us. We believe painting contractors thrive in a specialty store format with people behind the counter that have 10, 20 and 30 years of experience with products that were built for them in their specific areas and services that are focused on making them as productive as possible and as profitable as possible. So, I would just say we welcome with no arrogance the competition. Competition makes you better. I'm going to bet really big on Sherwin.
Maybe to start, John, in the release you talked about the worst of the supply chain challenges being behind us, was that mostly a US architectural comment or I guess when you look at your international operations or maybe the legacy Valspar businesses, are you seeing conditions there meaningfully improve as well?

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

Yeah, I want to give -- earlier I mentioned, Colin Davie, our CPO, and also Heidi Petz, our Chief Operating Officer, I want to give her credit as well. She started in her role March 1, and I don't think she came up for air throughout the balance of the quarter out of this area. I mean, terrific work by the entire team of really ensuring that we had the raw materials we need and importantly where we had it.

When you look at what's been happening, I don't -- the impact on our architectural business outside of the US is obviously a very small part of our business. Not significantly impacted by this. The confidence that we have, by working with our suppliers and in a partnership way I think is why we have this confidence and, again, the talent that we have in procurement and another fellow that has to get the attention here, Joe Sladek, our President of our Global Supply Chain is the one that takes all these products and quickly is turning those into finished goods and getting them to our stores and to our customers in a very nimble and quick way. It's amazing, behind the scenes, the things that are happening to be able to convert quickly and take advantage of these opportunities. We expect that to continue going forward.

Great. Super helpful. And then second, I was just hoping to drill a bit more into the raw materials basket. Obviously, there's a lot of focus on oil based inputs but just curious what you're seeing on the inorganic side both in TiO2 and color pigments? Thank you.
James R. Jaye  
Senior Vice President, Investor Relations & Corporate Communications, The Sherwin-Williams Co.

Yeah, Mike, this is Jim. What I'd say on the oil prices, we talked about probably going to be at the higher end of our guidance this year and part of that is because of the oil prices that we've seen. I think, it remains to be seen how long those oil prices are going to stay sustained and I'd remind you really that propylene is more meaning as an input for us for our resins and solvents than is oil. So yes, oil and propylene are connected over the long term. But in the short-term we've seen disconnects in the past. So, I think, as Al said earlier, we'll continue to monitor all these things. If we need to go out with more there in terms of price, we will.

Your question on the TiO2 side, we've seen inflationary pressures there given the strong demand. There's tight inventories and certainly rising energy costs which are used to convert the ore into TiO2. We haven't had any availability issues really there. We're in a good place with our suppliers, I think. So really on the supply chain we'll continue to monitor it. We will get pricing as necessary and we expect it to, from an availability perspective, that's really behind us.

Michael Leithead  
Analyst, Barclays Capital, Inc.

Great. Thanks so much.

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

You're welcome, Mike.

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

David Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Thank you. John, there have been some reports that Sherwin is discounting paint prices in the US. Are those reports just inaccurate?

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

Yes.

David Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Very good. And the same trend, of the 12% pricing you announced for February 1, how much are you getting and how does it compare to historical levels?

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

Yeah, David. The price increase has been actually a little bit better than the price increases we went out with last year. So, the effectiveness has been maintained and improved as the months have gone on, as it has been filtered through the market and we feel very good about where that is at right now.
David Begleiter  
*Analyst, Deutsche Bank Securities, Inc.*

Thank you very much.

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

Thanks, David.

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

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**Kevin W. McCarthy**  
*Analyst, Vertical Research Partners LLC*

Yes, good afternoon. Two questions on Performance Coatings, if I may. First on the margin side, John, it looks like you made some nice sequential improvement there of 290 basis points. At one time though I think you had a goal of high teens or low 20s. Is that still the case for PCG margins and if so, looks like volumes are running pretty nicely nowadays. What do you think the path is to get there over the medium term?

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

Yeah. Kevin, it absolutely is, and we have great confidence in our ability to do that. I think you're going to continue to see that with the volume. We've obviously seen a pick-up in raw material cost. It's had an impact on it. So, as the price that's been announced rolls through, it's going to have an impact.

We've also talked publicly about some of the other synergies that are available to us that we're continuing to emphasize and attack and some of that includes the simplification of our product lines, our raw materials, less complexity going through our plants, but I want to be very clear in our confidence and our ability to reach those metrics that we've been talking about. We were gaining some ground on it, unfortunately with the raw material spike we gave up a little bit of ground in this, but we've got — this isn't just bravado. We're going to do it. We're going to take the — we've got confidence. We've got plans. And we're executing on those, so we're going to deliver on this.

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**Kevin W. McCarthy**  
*Analyst, Vertical Research Partners LLC*

Okay. Then secondly, you acquired Sika's industrial coatings business just recently on April 1, I believe. I realize it's not a huge deal, but can you speak to what the opportunity is there and why you chose to do that?

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

Yeah, it's I think a great example of our M&A strategy which we've always said we're not trying to be everything to everyone everywhere and that we need practice. We're creating shareholder value and so when you look at the opportunity to acquire a strong position in protection in Germany with local production, Sherwin-Williams is strong in fire protection in the UK, also with local production and our ability to leverage the strength of each and production capabilities in each in the primary markets and drive new corrosion protection and fire protection sales together and then really connect the dots is a terrific opportunity for us. And I think, it's a great example of our ability to identify assets, work with owners and to really capture the best of both.
The leadership team, just as we talked about with Valspar, the leadership team of Sika has also joined us. [ph] Thomas Kirkman (01:14:29) is a very strong leader in the Sika business that's joined, and we believe that the combination of the legacy Sherwin and the new Sika assets and people is going to provide a great platform for growth.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Great. I appreciate the thoughts.

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

Yeah. You bet.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Great. Thanks for taking my questions. Real quickly, so, I guess, just curious, when you think about that mid to high single-digits sales growth for the year, you said TAG would be at the upper end or even above that. I think you already covered this but is there a possibility that you could -- so that should be more weighted towards price, I imagine. So, when we look at same-store sales, do you expect that to remain in that 3.8% and above level as we go through the year?

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

Yes, it will improve as the year goes on. Arun?

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

Arun, are you still there?

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

Garik Shmois
Analyst, Loop Capital Markets LLC

Hi, thanks. Couple big picture questions from me. You talked about a number of possible leading indicators for TAG, and you're sounding obviously pretty bullish about the outlook. But just curious if you're anticipating any impact from the increase in interest rates and how you could see TAG volumes evolving beyond the existing contractor backlogs.

John G. Morikis
Chairman & Chief Executive Officer, The Sherwin-Williams Co.
Well, I'm sure that you're all getting tired of me talking about leadership, but I would say, I'm going to start here with we've got a terrific leader in our Group President, Justin Binns, there that has this team really positioned very well. So, I'm going to take your slightly differently than what you've asked and start with the fact that our team is positioned to be able to capture market share in any situation. So, if new residential slows down, we're going to capture it in residential repaint and property maintenance or any other way that it tilts. That said, given my comments earlier about just the shortage in new residential housing and the demand, we expect that there's going to be a strong demand and it's going to continue.

The home builders that we're working with, they've described this as a bump in the road here, but they're driving through it. And I suspect that as demand continues, there's going to be more and more starts and we're going to be there. But if it does tilt another way, we're okay. We're going to be right on top of whichever way it tilts.

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

Just to put some perspective on it, Garik, just to remind you I mean new residential is sort of a mid-teens type percentage of our TAG business. So, while it's meaningful to us as John points out, we're strongly positioned in all these other segments as well.

Garik Shmois  
Analyst, Loop Capital Markets LLC

Yeah. No, got it. Makes sense. I guess the follow-up question is just with respect to the 50 million gallons capacity increase, just to be clear, is that fully ramped at this point just given the surge in production particularly in March or is there more capacity that you're going to able to get out of that project.

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

No, it's up and running. But to say, is there more capacity to be captured, the answer is, yes. Joe Sladek, as I mentioned, the Global Supply Chain President, he and his team are constantly working on debottlenecking and finding more capacity in every asset that we have, but the 50 million gallons that we spoke to is up and running. I also mentioned the $300 million we're investing in Statesville in that facility to add additional capacity. That would be coming up I believe in 2024, it will be coming online so we're looking ahead.

We expect to continue to drive volume and we're ahead of the curve again, speaking of the confidence and determination we have, we're not going to look back and wish we would have. And we've got great determination and confidence in the execution of our strategy and we're going to have the capacity to be able to take care of it.

Garik Shmois  
Analyst, Loop Capital Markets LLC

Great. Thank you.

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

You bet.
Adam Baumgarten  
*Analyst, Zelman & Associates*

Thanks for taking my question. I think you said you expect input costs to decline or moderate at least in the second half. Is that the case?

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

I think what we’ve talked about for input cost, yes, we said the first quarter would probably be the highest inflation of the year. Second quarter we expect it to moderate and then come down a little bit further in the back half based on what we see now. As Al mentioned, we’ve got best visibilities maybe about a quarter or so, but yes, that’s correct, our current outlook shows moderation in the back half.

Adam Baumgarten  
*Analyst, Zelman & Associates*

Okay. Got it. And then just on the positive mix shift and quality, how much of that's related to simply more higher quality product availability given the SKU rationalization and then maybe some weaker DIY demand versus a true mix-up in the business?

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

Well, I would say it’s a very good question except that we’ve been witnessing this for some time now and it’s only continued, and I would attribute it largely to more of a labor issue than availability. These painting contractors, when you recognize that labor represents 80% to 85%, sometimes 90% of their cost, you can make that per man hour more productive, you have more projects that you can complete, less callbacks, the opportunity cost issues resolve, and so more and more people are moving up in quality.

We have a full breadth – we have the full breadth of products. And I would tell you even going back to when I was in a store, rarely did you see people that would stay in that lower price. Typically, what they'd find – what you'd find is people that would be very price conscious would get in there, and there are some applications for it. The ceilings of a closet or – so, okay, I get that. But what you find is people quickly are learning, they learn that I can spend a little bit more on a higher quality product and get more productivity, better touch-up, get off the project with no callbacks and go on. It's well worth it. When you look at the cost if it's a high cost market, the per man hour expense, it's not a big investment to pay a little bit more for a higher quality product and get on to the next project for sure.

And our people are trained in that. They understand how to do that. And again, it speaks to the tenure of our people. Again, Justin and his team, all our Division Presidents, this is a program, we don't just wait for this to happen. We don't open doors and hope people walk-in. We don't hope that they just move up the food chain in quality by themselves. These are programs that we execute and it's working very well.

Adam Baumgarten  
*Analyst, Zelman & Associates*

Got it. Thanks a lot.
Operator: Thank you. Your next question is coming from Eric Bosshard from Cleveland Research Company. Your line is live.

Eric Bosshard  
**Analyst, Cleveland Research Co. LLC**

Thank you. Two things. First of all, on raw materials, inflation broadly seems like it’s worse versus 90 days ago. You talked about energy and oil and TiO2. Is the proper read from today you’re still comfortable with that original guidance for ravs and is there something incremental you’re doing to manage to stay within that original range in an environment that seems a bit more difficult than 90 days ago?

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

Yeah, Eric, as we said on that range, we are trending towards the higher end of that low double-digit to mid-teens range. But we feel right now as I mentioned on my previous answer related to oil and propylene and some of the other things, we’re comfortable in that range right now. If it moves beyond that, I think you’ve heard multiple times today, we’ll be ready to react with more pricing as needed.

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

Eric, I would just add to that. You talk about what are we doing in response. It’s not in response to any short-term tweaks that we see in our raw material basket. Our labs, whether it’s industrial, working with marketing, working with procurement or architectural, working with marketing, working with procurement, really driving platform consolidation, simplification so that we can drive more volume through a smaller base of raw materials. That’s an ongoing effort and not response to the current environment.

Eric Bosshard  
**Analyst, Cleveland Research Co. LLC**

Okay. And then secondly, John, you talked about reactivating customers in the architectural business and in this environment that’s – I don’t know that I’ve heard you talk about that before. So if you could just give us a little bit of color of what that looks like, that would be helpful.

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

Yeah. I might give you more of a description of what we’re doing than what it looks like for obvious reasons. We’ll tell you about it after we’ve done it and show you the scoreboard on how we’ve achieved it, but I want to be very clear on, Eric, is that it’s not through price. We bring solutions and we bring profitability to our customers. And we do it in a way that people are willing to pay for.

Earlier there was a question about that we – there was rumors about are we discounting to be able to do that, and I want to be very clear and very direct that that is not the case. What we are doing, though, is leveraging what I just spoke to, the quality of people, the products and services that we have booked and they have a strong desire to complete as many projects as they can and protect their reputation. And so if you could imagine all the activities you would do if you were a store manager or a sales rep of Sherwin-Williams and building relationships, building trust, the connectivity and consistency is important. Every day over 3,000 sales reps wake up, Sherwin-
Williams reps, determined to go be a better partner for their customers and our ability to reengage with those customers and be responsive to their needs, have the products they need, anticipate what challenges they might have, shifts in weather to project delays, whatever it might be, all align in helping us to reengage.

And while we don't think we lost customers through these challenging times, we do feel as though we've lost some sales and we take great pride in our controlled model of anticipating what products they're going to need and having them there, but there were times where it may have gotten there late or we couldn't get it there when they needed it, and they might have had to go somewhere else. Well, you can rest assured of one thing here. We're not going to just assume they're coming back. And so we're going to be very deliberate, very active, and engaged with these customers to ensure that they're back in our stores. Start with a cup of coffee, make a friend, use our paint. We're going to be after it pretty regularly.

Eric Bosshard  
Analyst, Cleveland Research Co. LLC

Okay. Thank you.

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

You bet.

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

Richard Garchitorena  
Analyst, Wells Fargo Securities LLC

Hi, this is Richard. Thanks for taking my question. Just one point on The Americas Group. When you look at volumes which were down, largely due to raw material availability, now that you have that easing, and you have more capacity that you can bring on, do you expect to increase production on the DIY side or are you going to focus majority of your production on building inventories on the architectural side?

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

Well, we're going to be converting these precious raw materials into finished goods and pursuing all segments of our business. And so I think at this point that's the extent of we want to talk about. We'll talk about what we did next quarter, but we see a terrific opportunity to utilize the capacity that we have.

Richard Garchitorena  
Analyst, Wells Fargo Securities LLC

Okay. And then just related on that, in terms of SKUs in your stores, I know in the past you've talked about potentially limiting the number of SKUs in order to get more production out. Is that still happening or is there any SKUs that are getting increased demand that you want to focus on?

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

This was a challenging time. It did give us an opportunity to look at our SKUs and rationalize some of those down that will never return. There will be simplification opportunities in what we come out as a product line with and I would suspect that what you'll see in the very near future is a little bit of expansion beyond what we had coming.
through last year, but we’re not going to just jump back to where we were. We’re going to be a better company, more efficient with our working capital. We’ll have the inventory we need but it may not be spread out as wide as it has in the past, but we’ll have what our customers need.

Richard Garchitorena  
Analyst, Wells Fargo Securities LLC

Great. Thank you.

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

You bet.

Operator: Thank you. Your next question is coming from Jaideep Pandya from On Field Research. Your line is live.

Jaideep Pandya  
Analyst, On Field Investment Research LLP

Thanks a lot. I guess it’s sort of a two-part question for the same topic. This cycle yourself and a lot of your peers have done a phenomenal job on pricing, increasing prices very dynamically in the last sort of four, five quarters. And in the previous cycle whenever you’ve sort of had inflation, the gross margin progression in the subsequent two years increases quite dynamically in the region of sort of 4%, 5%. So do you expect in this cycle when you catch up with raw materials with your pricing and other inflation with your pricing, we should sort of see gross margin expansion in year 2023, 2024 the same magnitude? Or do you think that because prices, pricing went up so dynamically in this cycle, you will have to give back some of this price increases as raw materials stabilize and potentially go down if demand weakens in Asia and Europe? Thanks a lot.

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

So I’d say this. You’re right, if you look historically, there’s been an opportunity there but there’s also been the opportunity to invest back in the business. And so I would answer your question this way. Our determination is to make our [audio gap] (01:30:14) and help them make more money.

There are other costs that go into this, labor, transportation, all of these things that we’re doing. It might not necessarily hit the gross margin line but are investments that we invest in to help our customers in their profitability. So I’d say that each one of these we take a very in-depth view and very thoughtful view in how we can continue to ensure that what happens as a result of all these investments, all the pricing, everything that goes into it is, is that our customers win. And when they win, we win. And if for whatever reason we got piggish and tried to put pricing in that didn’t help our customers to achieve their goals and be more profitable, then we don’t deserve that business and you’re not going to see us do that. And so our investments and our commitments and the ability to help customers be successful will be the drivers.

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

Yeah, Jaideep, I’d just add to that. We do believe we’re in a similar environment where as raw material costs go up, and we put pricing in and pricing starts to catch up with the raw material cost and we see short-term margin
contraction, then you start seeing recovery and you saw sequential improvement in our gross margin in our first quarter, our expectation is that we'll see sequential improvement in our second quarter.

And then as I talked about on our year-end call, we expect to start seeing recovery in the second half with at the midpoint adjusted EPS of 16%. We talked about we need to see gross margin expansion for the year and then going out you would expect to start getting back to that long-term gross margin target of 45% to 48%, which we are not coming off of.

Jaideep Pandya  
Analyst, On Field Investment Research LLP

Thanks a lot. Just one follow-up on Valspar really. Appreciate there's been so much that has changed but if you go back to your original plan, it's been sort of five-ish years since you did the deal, what are the areas where you're running well ahead and what are the areas which in hindsight you could have done better and actually there's still more room for us to be positively surprised on the deal.

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

Well, I'd say where we're well ahead I think is the leverage of talent is number one. I mentioned starting at the top with our new COO, Heidi Petz, all the way through to Group President in Performance Coatings and throughout the company, I'd say there's a terrific infusion of talent. I'd say the assets and the technology and the leveraging of the customers has been exciting.

I mentioned earlier automotive, the combination of some technology there is, in fact I was with one of our larger automotive refinsh customers who asked if that's why we bought Valspar for the automotive finish. It was that good. So I'd say there are terrific opportunities there. The brand itself is a very strong brand and growing in relevance and importance and I think that's a terrific opportunity and one that I think we're ahead.

I'd say if I looked back and say what we could have done differently or faster or better, I do think that coming out of 2016 when there was some hesitation on the previous leadership of Valspar to put pricing in, it took us years to recover that. And I think we learned from that and I think it's a big part of why you see the determination or at least I hear – I hope you hear the determination that we have not to allow that happen. And part of that is, is so that we can remain healthy and serve our customers, so that we can continue to invest in our business.

I think the working capital is another area. I think we got – we've gotten to it. I think there's still more opportunities as are other asset utilization, the plants. So we are proud of what we've accomplished there but I would tell you just as we mentioned earlier, complacency kills. We're not done. There's still plenty of opportunities. And we find ourselves still prioritizing and that speaks to I think the quality of the company that we acquired and the quality of the people that came along with it, but we're just getting started. There's still a lot of work to be done there.

Jaideep Pandya  
Analyst, On Field Investment Research LLP

Thanks a lot.

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

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

Thank you.

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

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

Thank you, Matthew, and thanks everybody for joining the call. I hope you heard today that we're operating here with a lot of momentum, a lot of confidence and we're really focused on driving results.

And before we sign off, I'll just remind you about our upcoming financial community presentation that will be June 8 in New York City. And we look forward to seeing many of you there. So thank you once again and as always, I will be available along with Eric Swanson for your follow-up calls. Have a great rest of your day.

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