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The Sherwin-Williams Co. (SHW)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining The Sherwin-Williams Company's review of Fourth Quarter 2022 Results and our Outlook for the First Quarter and Full Year of 2023.

With us on today's call are John Morikis, Chairman and CEO; Allen Mistysyn, CFO; Heidi Petz, President and COO; 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 on which the statement is made, and the company undertakes no obligation to update or revise any forward-looking statement whether as a result of new information, future events, or otherwise. A full declaration regarding forward-looking statements is provided in the company's earnings release transmitted earlier this morning.

After the company's prepared remarks, we will open this session to questions. I will now turn the call over to Jim Jaye.

James R. Jaye

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

Thank you and good morning to everyone. Sherwin-Williams delivered strong fourth quarter results compared to the same period a year ago, including high-single-digit percentage sales growth, significant year-over-year gross margin improvement, expanded adjusted operating margins in all three segments, strong double-digit diluted net income per share growth, and strong EBITDA growth. Sales in our professional architectural end markets increased by a high-teens percentage; on the industrial side of the business, sales were up by double-digit percentages in North and Latin America, partially offset by softer conditions in Europe and Asia.

From a cost perspective, year-over-year inflation remained significant in the quarter, but we are encouraged by a modest sequential decrease in raw material costs for the second quarter in a row. Additionally, we made solid progress on the targeted restructuring and cost reduction actions we announced on our last call, the results of which we expect to begin benefiting us in the first half of 2023. Throughout the quarter, we remained focused on customer solutions and executing on continuous improvement and business optimization activities. We also identified opportunities and prepared for what we currently expect will be a challenging operating environment in 2023.

I'd like to highlight just a few of our consolidated fourth quarter numbers. Comparisons in my comments are to the prior year period unless stated otherwise. Starting with the top line, fourth quarter 2022 consolidated net sales increased 9.8% to $5.23 billion. Consolidated gross margin increased to 42.7%, an improvement of 320 basis points. SG&A expense as a percentage of sales decreased by 40 basis points to 29.8%. Excluding onetime costs related to our previously announced restructuring actions, gross margin improved sequentially to 42.9% in the fourth quarter of 2022 from 42.8% in the third quarter of 2022, and SG&A as a percentage of sales decreased 110 basis points as compared to the prior year.

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Consolidated profit before tax increased $186 million or 60.2%. Diluted net income per share in the quarter was $1.48 per share versus $1.15 per share a year ago. Excluding Valspar acquisition-related amortization expense and costs related to previously announced restructuring actions, fourth quarter adjusted diluted net income per share increased 41% to $1.89 per share versus $1.34 a year ago. Adjusted EBITDA in the quarter increased $281 million or 52.7%.

Let me now turn it over to Heidi, who will provide some commentary on our fourth quarter results by segment. John will follow Heidi with his comments on our full year 2022 results as well as our 2023 outlook, before we move on to your questions.

Heidi G. Petz

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

Thank you, Jim. I'll begin with The Americas Group, where sales increased 15.7%, driven by mid-single-digit volume growth and continued effective pricing. Segment profit increased by $126.4 million and segment margin improved 210 basis points to 17.2%. Our pro architectural sales grew by a high-teens percentage in the quarter, led by property management and followed by new residential, commercial, and residential repaint, respectively. Sales in Protective & Marine, DIY, and Latin America, all increased by double-digits, but were below the TAG segment guided range. From a product perspective, interior and exterior paint sales were both strong, with interior sales growing faster and representing a larger part of the mix. We opened 40 net new stores in the fourth quarter and a total of 72 net new stores in 2022.

Moving on to our Consumer Brands Group, sales decreased by 2.4% in the quarter, which was better than our guidance. Sales decreased due to lower volume sales and low-single-digit FX headwinds, partially offset by price increases. Sales were slightly positive in North America and Europe, but more than offset by significant continued weakness in China, due in large part to COVID-related lockdowns. Customers managed their inventories as inflation continued to pressure DIY paint demand from consumers for the segment. Tightness in alkyd resins also impacted our ability to produce stains and aerosols. Adjusted segment margin was 11.3%, up 500 basis points year-over-year. We also made good progress in the quarter on the China architectural and aerosol restructuring actions that we described last quarter. The actions in the fourth quarter resulted in $25.6 million in onetime restructuring costs and a $15.5 million impairment charge.

Sales in the Performance Coatings Group increased 4.2% and were driven by mid-teens pricing, partially offset by a low-double-digit decrease in volume. Mid-single-digit sales from acquisitions were offset by a mid-single-digit unfavorable FX impact. Adjusted segment margin increased 530 basis points to 14.2% of sales. This is the third straight quarter that this team has delivered year-over-year segment margin improvement, driven by execution of our strategy, including effective pricing actions. Sales in PCG varied significantly by regions. In North America, sales increased double-digits against a challenging comp. Latin America sales also increased by double-digits against a strong comp. Sales in Europe decreased high-single-digits against a double-digit comparison and amidst continued economic slowing. Sales decreased by a low-teens percentage in Asia against a double-digit comparison and as COVID lockdowns continued to impact demand.

From a division perspective, growth was strongest in Coil, which was up by a low-double-digit percentage, followed by Auto Refinish and General Industrial, which were both up mid-single-digits. Packaging was down low-single-digits, driven by negative double-digit FX impacts in Europe and Asia, and against an extremely strong comparison last year of over 30%. We continue to feel very good about our Packaging position and expect this to be a recession-resilient performer. Industrial Wood was down low-teens, as the housing slowdown is impacting furniture, flooring, and cabinetry markets. Similar to Consumer Brands Group, Performance Coatings made good

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progress on its portion of the targeted restructuring actions that we described on our last call, resulting in $22.2 million in onetime costs in the quarter.

With that, let me turn it to John for his comments on our full year results and our 2023 outlook.

John G. Morikis

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

Thank you, Heidi, for that color on our fourth quarter segment results. I want to thank our teams for working hard to deliver a strong finish to the year. I'm particularly pleased with the significant adjusted profit margin improvement that all three segments delivered compared to the fourth quarter a year ago. Our fourth quarter completed a strong year for Sherwin-Williams and I'd like to provide just a few high-level comments on our full year performance.

On a consolidated basis, we delivered record sales, adjusted EBITDA, and adjusted diluted net income per share in 2022. We generated these results in a difficult operating environment, including relentless inflation, less than optimal raw material availability, the war in Europe, and COVID lockdowns in China. Our people refused to be deterred by these challenges and continue to do what they do best: serve our customers.

Our success stems from executing on our strategy, which remains unchanged. We provide differentiated solutions that enable our customers to increase their productivity and their profitability. These solutions center on industry and application expertise, innovation, value-added services, and differentiated distribution. None of this happens without the determination and dedication of our greatest asset: the more than 61,000 employees of Sherwin-Williams. Together, this team grew full year consolidated sales by 11.1% to a record $22.1 billion. It was the 12th consecutive year we have grown the business.

On a segment basis, The Americas Group delivered 12.9% sales growth and grew profit before tax $197.5 million. Our largest customer segment, residential repaint, grew by a double-digit percentage for the seventh year in a row. Sales in all other customer segments were also up by double-digits for the year.

Consumer Brands sales were down 1.1% for the year. Sales were up mid-single-digits in North America, our largest region. This was more than offset by double-digit declines in Europe and China. Although the bottom line results weren't what we expected, 2022 was a transition year for Consumer Brands Group as they completed a number of restructuring and simplification efforts to position the business for long-term success and driving operating margins back to the high-teens.

Performance Coatings sales were up 13.2% for the year against a 22% comparison. All divisions grew with the exception of Industrial Wood that was down less than 1%. Adjusted segment margin expanded 250 basis points to 14.1% for the year as we continued to recover from the highest cost inflation in the company and pursue our high-teens margin target for this segment.

Adjusted diluted net income per share increased 7.1% to a record $8.73 per share. Adjusted EBITDA for the year was $3.61 billion or 16.3% of sales. Net operating cash for the year was $1.9 billion or 8.7% of sales. We returned a total of $1.5 billion to our shareholders in the forms of dividends and share buybacks in 2022. We invested $883 million to purchase 3.35 million shares at an average price of $263.64. We distributed $618.5 million in dividends, an increase of 5.4%. We also invested $644.5 million in our business through capital expenditures, including approximately $188 million for our Building Our Future project. We ended the year with a net debt-to-adjusted EBITDA ratio of 2.9 times. Additionally, we invested $1 billion in acquisitions that accelerated our strategy.

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I'd also like to mention our ESG efforts where we continued to work toward meeting our longer-term targets. Newsweek, Forbes and other third-parties once again recognized various aspects of our program. Throughout the year, we continued to execute on continuous improvement initiatives and targeted investments to drive growth, competitiveness, efficiency and profitability.

We opened 72 new paint stores and hired 1,400 management trainees. We introduced multiple new products while reducing SKUs and formulations. We expanded production capacity and enhanced procurement and logistics processes. We also continued on our digital and sustainability journeys, and we executed on our acquisition strategy. I am confident we widened the gap between Sherwin-Williams and our competitors in 2022, and that's just what we intend to do again in 2023.

So, turning to our outlook, we enter 2023 with confidence, energy and a commitment to seize profitable growth opportunities wherever we find them. We have clarity of mission. We have the right strategy. We're focused on solutions for our customers. We're spending more time selling products and less time sourcing them, thanks to recovery in the supply chain. We're simplifying the business and we're executing on targeted restructuring actions. We've made the right growth investments and will continue to do so. We also have a portfolio that should be more resilient than in prior recessions. And above all, we've got the right people.

We expect to outperform the market, just as we have in the past. At the same time, we're not operating with our heads in the sand. We currently see a very challenging demand environment in 2023, and visibility beyond our first half is limited. The Fed has also been quite clear about its intention to slow down demand in its effort to tame inflation. These factors have not changed from what we communicated on our third quarter call, and our base case in 2023 remains to prepare for the worst. Based on current indicators, we believe this is the most realistic outlook at this time.

On the architectural side, it's no secret that US housing will be under significant pressure this year. Single-family permits have been down year-over-year for 10 consecutive months, and single-family starts have been down year-over-year for 8 consecutive months. Mortgage rates also remain elevated. As a result, we believe our new residential volume could be down anywhere from 10% to 20% this year.

We expect our other pro end markets to be more resilient than this, but there are headwinds in these areas, too. For example, existing home sales, which drive a portion of our repaint business, have declined year-over-year for 16 straight months. And while we see a backlog of new commercial construction, the Architectural Billing Index has contracted the last three months. On the DIY side, we expect inflation to continue putting pressure on consumer behavior in the US and in Europe.

On the industrial side, the PMI numbers for manufacturing in the US, Europe, China and Brazil have been negative for multiple months. We have already seen an industrial slowdown in Europe, and the same is beginning to appear in the US across several sectors. In China, COVID remains a wild card and the trajectory of economic recovery is difficult to map. The US housing slowdown will also impact some of our industrial businesses, namely industrial wood, where we have already seen pressure and coil to some extent.

Our team fully understands the importance of winning new accounts and growing share of wallet in this environment, and that is where we will be focused. From a cadence standpoint, we expect year-over-year sales and earnings performance will be significantly better in the first half than in our second half, driven by several factors. Our total company comparison will be much more favorable in the first half of 2023 as we delivered a very strong second half performance in 2022 where sales were up 13.8% and adjusted earnings per share grew by over 37%.

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As we've often said, volume is the key driver for operating leverage in our model. In The Americas Group, which is our largest and most profitable segment, our year-over-year volume comparisons are expected to be meaningfully better in the first half versus in the second half, based on the trends we are currently seeing. We also expect more carryover price in the first half of 2023, which will have the full benefit of our September 6, 2022, price increase in TAG as well as prior price increases in the other two segments, all of which will annualize in the back half of this year.

Additionally, we expect new residential sales will hold up better in our first half before very meaningful deceleration of demand in the back half of the year. Acquisitions will also be a tailwind in our first half as we expect incremental sales of approximately $140 million from transactions which closed after July 1 of last year.

Given these factors and the softening demand environment, we believe our expectations for the back half of 2023 are tempered appropriately at this time. As you would expect, we will gain more clarity as the year progresses, and we will provide a more finely tuned view of our second half outlook during our second quarter conference call.

As we said on our last call, we anticipated the demand environment would be challenging in 2023, leaving us to get out ahead on cost management with the targeted restructuring we began in the fourth quarter. We estimate the annual savings from this effort to be in the $50 million to $70 million range, with about 75% realized by the end of 2023. And we are reaffirming those estimates today.

Our outlook also assumes our raw material costs will be down by a low- to mid-single digit percentage in 2023 compared to 2022. We expect to see the largest benefit occurring in the second and third quarters. We expect to see decreases across many commodity categories, so the ranges likely will vary widely.

From an availability standpoint, certain alkyd resins remain a pain point, impacting stains, aerosols and some industrial products. We expect supply of these resins to continue improving through the first half of the year, in part due to ramping of our own internal production. We expect other costs, including wages, energy and transportation, to be up in the mid- to high-single digit range.

For the first quarter of 2023, we anticipate our consolidated net sales will be flat to up by a mid-single digit percentage compared to the first quarter of 2022, inclusive of a mid-single digit price increase. Our sales expectations for the quarter by segment are included in our slide deck. For the full year 2023, we expect consolidated net sales to be flat to down mid-single digits, inclusive of a mid-single digit price carryover from 2022. Our sales expectations for the year by segment are included in our slide deck.

We expect diluted net income per share for 2023 to be in the range of $6.79 per share to $7.59 per share. Full year 2023 earnings per share guidance includes acquisition-related amortization expense of approximately $0.81 per share and includes expense related to our previously announced targeted restructuring actions of approximately $0.25 to $0.35 per share. On an adjusted basis, we expect full year 2023 earnings per share in the range of $7.95 to $8.65. We've provided a GAAP reconciliation in the Reg G table within our press release.

Let me close with some additional data points and an update on our capital allocation priorities. Given carryover pricing, raw material deflation and our ongoing continuous improvement initiatives, we would expect full year gross margin expansion.

We expect SG&A as a percent of sales to increase in 2023. This is similar to the slowdown in 2008 and 2009 where we continued to invest in long-term solutions for our customers that allowed us to grow at a multiple of the

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market when demand normalized. We'll also control costs tightly in non-customer-facing functions and execute on our restructuring initiatives. We have a variety of SG&A levers we can pull, depending on a material change to our outlook up or down.

We expect operating margin to modestly improve year-over-year, excluding restructuring and impairment costs and acquisition-related amortization expense. While we don't typically provide this level of color, we believe it is helpful to do so this year given the higher level of non-operating expenses impacting 2023.

We expect to open between 80 to 100 new stores in the US and Canada in 2023. We'll also be focused on sales reps, capacity and productivity improvements as well as systems and product innovation. We expect to complete the targeted restructuring actions we announced on our previous call, including the benefits and one-time costs we have outlined. We will continue to simplify and optimize the organization.

The Latin American business of The Americas Group is now being managed and reported within the Consumer Brands Group. The change allows TAG leadership to focus more exclusively on this core US and Canada stores business, while the Latin America architectural demand and service model are trending to be more in line with CBG's strategy. This business had sales of approximately $700 million in 2022. The change will be marginally accretive to TAG and marginally dilutive to CBG. You will see this change when we report first quarter results in April. Prior year segment results will be restated at that time to reflect the change. The first quarter and full year guidance for 2023 we've communicated today does not reflect this change.

Next month at our Board of Directors meeting, we will recommend an annual dividend increase of 0.8% to $2.42 per share, up from $2.40 per share last year. If approved, this will mark the 45th consecutive year we've increased our dividend. We expect to continue making opportunistic share repurchases. We do not have any long-term debt maturities due in 2023. However, we will reduce short-term debt to trend our adjusted EBITDA leverage ratio toward the high end of our long-term target of 2 times to 2.5 times. We'll also continue to evaluate acquisitions that fit our strategy.

In addition, I will refer you to the slide deck issued with our press release this morning, which provides guidance on our expectations for currency exchange, effective tax rate, CapEx, depreciation and amortization and interest expense. Given the many variables at play, limited visibility beyond the first half and the high level of uncertainty in the global economy, we believe our outlook is a realistic one.

Our slide deck further outlines the assumptions underlying our guidance and is based on our current dialogue with customers and suppliers and our reading of numerous macro indicators. As we get to our first half and we see more information, those assumptions could change. If those assumptions change for the better, we would expect to do better than the guidance we are laying out today.

While we can't defy gravity, we do expect to outperform the market and our competitors in 2023. I'm highly confident in our leadership team, which is deep and experienced and has been through many previous business cycles. We've transformed our business in many ways since the last significant downturn, and we are now a stronger and a more resilient company.

We also know our guidance is clearly reflective of the market pressure we are experiencing. We anticipated 2023 would be challenging. We have planned accordingly. We have and will continue taking appropriate actions. We expect strong momentum coming out of this period of uncertainty similar to prior downturns. That momentum will stem from our strategy of providing innovative solutions that help our customers to be more productive and more

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profitable. In challenging environments like the current one, we can be an even more valuable partner to our customers while we're also earning new ones.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Your first question is coming from Christopher Parkinson from Mizuho. Your line is live.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

Great. Thank you so much for taking my question. On slide 8, you have some pretty helpful framework, specifically on TAG volumes. John, obviously, you've been discussing this for a while, but can you just talk about the differences, obviously, what you see in the new resi side, which is a little bit smaller? But what you're hearing from your team regarding the pent-up demands on the resi repaint side, how you feel about that versus a quarter, six months ago and how that shapes up throughout 2023? Thank you so much.

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

A

Sure, Chris. I'll start with new residential. And what I'll do is I'll talk a little bit about new resi, then I'll hand it over to Heidi to talk a little bit about her view, she's obviously working closely with her teams, and then I'll pick back up on resi repaint and we'll do the same.

New res, I would start with a very important fact that over the last 10 years, we've had a 10-year compounded growth rate of about 10.5%. So this has been an area of focus for us, and it's one where we have, I think, clearly demonstrated significant success and we are determined to continue to drive that success. Permits and starts are down, as we all know, and our relationships with our national builders are strong and getting stronger. There's a lot going on, and we're working closely with them.

Heidi, why don't I give that to you and maybe you could talk a little bit about what you're working on, on the new residential side?

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

A

Yeah. Sure. So I think the last 10 years that John refers to has really put us in a strong position in new res, and we have every intention of aggressively pursuing share gains, especially during what we will consider to be pretty choppy waters ahead. We're going to continue to focus on growing our exclusive relationships, and I would expect that we're going to add to an already strong percentage of mutually beneficial exclusive relationships.

For example, we look at our partnerships here pretty broadly and these builders that we're working with, it's really allowing us to collaborate on areas such as reducing complexity, simplification and importantly execution, and utilizing our store platform, our technology, our supply chain, and also importantly our technical teams. We're really partnering to help these builders to respond to today's challenges and really helping them to reach their

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goals. So ultimately, reducing complexity may assist in their efforts to drive efficiency and productivity, and new products really plays a key role in that to help us during these challenging times.

For example, we're going to be introducing extreme build – an extreme high build interior latex. And in a segment that's going to be under pressure, you may be asking yourself why we're bringing new products. But to be truthful, this is where we do help our customers win. This extreme high build lets the contractor build 8 to 12 mils wet film thickness versus a more conventional 4 to 6 mils.

So, if you can imagine, just minimizing surface imperfections and excellent touch-up, especially in an environment where labor is a challenge and an issue for drywallers and painters, this product is helping to hide the sins of what I would call maybe less experienced drywallers and really improve the speed for painters, so essentially everyone's winning here.

So you can kind of ask what to expect. John mentioned this earlier. The rate increases will pressure our builders, and we will grow share. But we were not going to be immune to the impact of these rates. We're going to respond to these changes, and I would expect that our builders would do the same. They might adjust floor plans. Many are looking at standardization, but no one will respond like Sherwin-Williams. We're going to take this expertise. We're going to aggressively go to builders that may have relationships with some of our competition. And we're going to demonstrate these capabilities in a way that will allow us to grow share.

So while in the short term we'll likely feel pressure, we like the favorable demographics, the existing housing shortage, gives us a great deal of confidence that our strong and growing position in new res will benefit our shareholders. So we look at the strong business through both a short and long-term lens. I would say in the short term, given our success and our position in the market, we may over-index right now while we're working through some of the short term choppiness. But in the long term, make no mistake, we do believe that this is in our best interest to continue to pursue these important gallons.

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

A

I think maybe just one more point or two points maybe on new res, Chris, the – to Heidi's point, I think our relationships with the new residential contractors, they're reaching new highs. I mean, we're collaborating and working together. She mentioned one of the new products that we're introducing. I think there's a steady stream of introductions of not only products but services and collaboration that we think really helps us help our customers.

And the other point, Heidi's really driving with her team, Justin Binns, our Group President in our TAG businesses, is really taking this terrific work in products and services beyond the large national homebuilders and even driving it down further into the regional builders where there's terrific opportunity for growth. And so while we expect there will be choppiness in the new residential, and I think it's important to say this beyond just new residential. We're not just reporting things are tough [indiscernible] (00:34:11). That's not who we are. We expect it's going to be tough, and we're going to come out fighting and swinging aggressively. And so, yeah, we do well with the large national homebuilders. We're going to be fighting like crazy after these regionals and other customers that we don't have.

We expect new residential, if you look at some of the information that's out there, to be down in the 20% to 30% range. That's not what we're expecting for our business. That's what we see in housing starts. So our – actually what we're saying is that the homebuilders are posting some of them in the 20% to 30% range. We expect to outperform that and bring in a much better number than that. But we'll feel the pressure.

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Let me get really quick to the res repaint side. And we won't go through each of the segments with such depth, but I do think that, Chris, your point is – your question is right on point, given the headlines, if you will, that these two segments will play for us this year. In residential repaint, we would say that while we continue to grow, and again, another area of focus, over the 10 years, our compounded growth here has been 11% – a little over 11.5%. We do expect to see some deceleration in the annual gains. If you look at the LIRA and the NAHB projections, they're positive, but at a decelerated rate largely tied to existing home sales. But this is also an area where people continue to invest. Painting remains a relatively inexpensive investment, but a very impactful project. That along with the aging housing stock and home price appreciation we think will have a positive effect on this business.

But, Heidi, maybe you can talk a little bit about res repaint and some of the work you and your team are driving there?

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

Yeah. We're proud of the fact that we've built some really strong momentum here. I think this is certainly not by chance, but by design continuing to develop innovative products. John referenced some of the services, innovative solutions to differentiate ourselves, and we couldn't do it without our incredible team. Our managers, our reps, they play an extremely significant role in all segments, but [ph] argue (00:36:24) in the res repaint segment which really responds well to our high-touch personal service, really can help to differentiate our model.

We often talk about our secret weapon is our people, and I think clearly on display is we're helping our customers navigate through unprecedented challenges for them as well and challenges such labor. In res repaint, our full product line really allows contractors to step-up in quality, helping to compensate for some less experienced applicators.

And as we continue to see our customers do step-up in quality, the results are clear that they are becoming more successful and we're helping them prepare for some choppiness ahead, I would say in addition to that whole product line, preparing for some new substrate.

I'll give you an example here. In homes where our res repainters are painting, we're in the midst of rolling out a new kitchen cabinet refinish paint product. So if you think of the homeowners that are affected by certainly higher costs and not willing to replace entire cabinet systems but willing to refinish their existing cabinets, we're helping contractors to serve these clients with some profitable solutions.

So amongst our new products, we're going to be introducing a self-cleaning exterior woodscapes stain as well for the exterior, which I just mentioned. So each and every rain will have a home looking freshly painted. So literally the dirt will wash away with every rain, which it's a pretty incredible technology, and will look like a newly-painted home. So our position in res repaint continues to improve. In fact, we continue to not only grow share, but accelerate some of these share gains. So while the bid activity has adjusted, overall it's still strong. Our average job size is increasing, and our focus continues to be and will be new accounts and share of wallet.

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

Yeah. Just picking up on the last point there, it's a good one. The quality of the leads and the bids, it seems like listening to a majority of our customers that while some of the bid activity may have tempered down a bit, the quality of the leads are actually increasing and the scope is actually increasing, so they're doing more there.

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And as she mentioned, we're trying to help them with projects like expanding into cabinets, introducing opportunities in garage floors and a lot of different areas. So even taking some of those new residential contractors that may have been primarily focused on new residential and helping them get into residential repaint. So we're really partnering very well with our customers to help drive their success and their profitability. So, Chris, great question on those two segments. We think those are two really important segments for us going into 2023.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

John, [indiscernible] (00:39:14) I'll pass it on. Thank you so much.

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

A

Yeah.

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

A

Chris.

Operator: Thank you. Your next question is coming from Truman Patterson from Wolfe Research. Your line is live.

Truman Patterson
Analyst, Wolfe Research LLC

Q

Hey. Good morning, everyone. Thanks for taking my questions, as always. So you're expecting raw materials to decline in the low to mid-single-digit range in 2023. Is this based off of spot pricing for petro chems as you see it today? Does this incorporate expectations for some incremental deflation in spot prices as we move through the year? I'm just asking because petro chem futures are kind of bouncing around right now and I'm just trying to understand how you expect the spot market to play out and what's embedded in the guidance.

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

A

Yeah. Good morning, Truman. I'd begin by telling you that there's – as we've called out here, we've seen a sequential decrease in our third quarter into our fourth quarter and we're expecting that trend to continue. In our first quarter, we're kind of expecting the basket to be flat to slightly up, and you'll see a bigger benefit as the year goes on.

To your point, key feed stocks like propylene, they have started to come down pretty meaningfully, significantly. And eventually, it's going to find its way even more into the resins and the solvents that we buy. And that's starting to happen. We buy some of our raw materials on spot prices so we can take advantage of that where it makes sense, and we have some on contract.

I think what you also have to look at, though, is that as we look across the entire basket, each commodity really has some dynamics associated with it. So while we're expecting down low singles to mid singles for the basket, there's really a wide range across those different products that we buy. Some are better than that range and some are worse. And I think you're also seeing, in addition to that, you're seeing input costs like energy and wages, which are very volatile, they're also putting some pressure right now. So I think the takeaway would be you can

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expect us to continue working very closely with our suppliers to bring those costs in line with the industry demand levels, and that also reflects our position in the marketplace.

Truman Patterson
Analyst, Wolfe Research LLC

Q

Okay. Thank you. And then when you mentioned the lead demand indicators, could you just – what are those? Could you run through some of those? And then you mentioned that you have a little bit less visibility into the back half of the year. I guess how is today maybe a little bit different than prior periods outside of just general uncertainty in the economy?

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

A

Well, I'll talk about the indicators that you mentioned, Truman. They're the ones that we've cited for many years on our Analyst Days and our calls. So you heard a couple of them here on the res repaint side, the LIRA, the remodeling index, existing home sales. On the new res, obviously, it's permits and starts. Commercial, there's a couple of different ones. If you look on the industrial side, John in his remarks cited the PMI numbers, which have not been trending very well at all. It's those kind of external indicators married with, obviously, the real-time feedback we have from our customers, and it's one of the advantages of our direct distribution model.

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

A

Yeah. On the second half, Truman, I would say that the view of the first quarter, first half versus the back half, I think it's – you can attribute that to a very fluid and changing market. Interest rates are moving up. Housing starts are adjusting accordingly.

Quite honestly, in times like this, the flux in the market, and this is my 38 years' experience talking here as well, is that the contractors vary in their ability to anticipate what's happening. Some of them will look at their short-term book and believe that everything is okay. We're working with those contractors to help them understand some of the pressures that are coming down the pipe. So some of what we leverage, our own controlled CRM that we have developed, the fact we've got almost 5,000 store managers and nearly 4,000 sales reps that feed a great deal of our understanding of the market.

At this time, there's a little bit of a disconnect in that because some of our customers are feeling perhaps more bullish than we think that they should feel. Others are tied to other areas such as new residential and they understand what the pipeline looks like. So when we talk about the visibility that we have in the first half, it's tied more towards the bids and contracts that our customers have in hand. It gives us more confidence, and that's why, as we mentioned in my prepared remarks, that as we get through the first half, we'll reevaluate. I want to be very clear. We won't be adjusting our earnings forecast after the first quarter. We expect to have a very good first quarter, but we're going to wait and see as we get through the second quarter what the balance of the year looks like. Once we have that better visibility, we'll speak to our investors as to what to expect going forward.

What I would also add is as we've come through COVID and some of the shortages that we've had in the market, we've become much closer with our customers. That was one of the benefits of the challenges that we've had. And so we believe we'll come out of this with a better line of sight as that relationship has improved dramatically, and it was already strong. But I think that as we get through this second quarter, we'll have a better line of sight.

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Truman Patterson
Analyst, Wolfe Research LLC

Q

All right. Thanks for taking my questions, and good luck in the coming year.

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

A

Thank you, Truman.

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

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

Q

Hey, guys. Good morning.

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

A

Good morning.

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

Q

I guess on Performance Coatings Group, can you just give us a sense as to what you're embedding for volume expectations by the sub-segments, auto refinish all the way through? That would be super helpful.

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

A

Well, auto refinish, I'd say there's high demand here coupled with our shortage of [ph] body types (00:45:41) and parts contributing to shop backlogs. We're working through a backlog of demand ourselves as we're securing more and more raw materials. As you work through some of these challenges, Ghansham, as you know, when there's a shortage of raw materials, the bottleneck moves through the process. So as we do get, which is a team effort at Sherwin, we're squeezing more and more raw materials and availability, that's improving and we're trying to get more and more of product out as a result of that. But as you look at automotive refinish, we're really pleased with the gains that we're gaining – that we've gained, and we expect that to continue.

Say, our packaging had a terrific year, year-to-date, we finished the year in the mid-teens. That was on top of a year last year in the high-20s, so tough comparisons. We're gaining a lot of share here. We're investing in capacity. As fast as we've added capacity and add capacity, it's sold out. So the faster we can get that capacity up and running, the business will grow at an even faster rate.

Our coil business, this is the seventh consecutive quarters of double digit growth here. Insight here that you're asking for, I'd say our North America end markets seem to be softening a bit. APAC, soft, demand in real estate market is limiting our extrusion business there. In EMEA, some pretty substantial declines as major coaters in EMEA have shut down lines as a result of the demand.

Our general industrial business, another strong year. And, again, here, there are terrific opportunities within these segments. The heavy equipment market is very strong, and we expect that to continue into 2023, particularly in

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the ag and construction. Appliance manufacturers are appearing to slow down production as inventories get reset. Transportation and building products, I would say, are slow and down a bit.

In the industrial wood, our industrial wood business is one that is tied to housing in many ways, if you look at kitchen cabinets, flooring, furniture. As I mentioned, they had a tougher quarter and were down slightly for the year. We've been investing in this business because we believe in our strategy. We've made a couple of acquisitions. And I've been open with the investors I've met with to tell them exactly that when we see these opportunities, we're a 156-year-old company, we're investing in this accordingly. We're not trying to win a week or a month or a quarter, we're investing long term.

We've got confidence in our teams in each one of these segments, terrific leadership at the group level, Karl Jorgenrud, and we've got a lot of confidence that this is going to be a key driver for our business coming out of the choppiness and that we'll grow share during these choppy times. So it's really what we expect in the market. And, again, we don't report, we influence. We're going to outperform the market in each of these segments, we believe.

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

Q

Terrific. And then as it relates to TAG and kind of going back to your prepared comments and your characterization of the world we have today, I mean obviously interest rates having spiked over the last year are having an impact on the housing ecosystem, including you. What would change the calculus of that? Is it just as simple as reversible interest rates and then just trying to reconcile the fact that interest rates have pulled back pretty substantially since October?

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

A

Yeah, it's a good question. I think you should expect us first – I want to be very clear – not waiting for the market to lift all the boats. I mean, we're going to go really aggressively here, Ghansham. And I would say that I want to be careful in the words that I choose, but I would say I wouldn't want to compete with our team. These people are really well-focused on the opportunities that we have. Yeah. It will be impacted by housing starts, resale. We've got a terrific business in our property maintenance.

We always talked about kind of the table preparing from a strategic standpoint where whichever way the table will tilt. And here in this environment, as the rates work their way through, if it's in residential repaint, you're going to see us outperform in residential repaint. If it's in property maintenance where people are going into multi-family homes as opposed to building homes, we're the leader there. And the same point on property maintenance as new res, we've done exceptionally well on the national standpoint. We're really cranking in after the regionals. This is the opportunity we have. We have competitors that are backing off because of some of the pressure in some of these segments, and we're going to go – we're going to be aggressive. I'll just leave it there. We are going to be very aggressive in the regional pieces as well.

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

A

Hey, Ghansham. This is Al Mistysyn. The only thing I would add to that, to your point, interest rates have bounced around, and just like we talked about, as interest rates rose, it takes time to filter through the market and specifically into paint. So if you think about paint, we're always at the end of the project. So even if starts flip today, you're talking three to four months out assuming no supply chain challenges before we get to our part of

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that project. And those are the things that we'll keep monitoring and pushing on with our teams to make sure we're gaining an outsized portion of the share as it returns.

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

And then one additional point, I'll go back to Heidi's comment about our over-indexing a bit in new residential, we've done very well here. And so as those points that Al just made, as housing starts begin, while there'd be a lag, we'll see the benefit of that in a considerable way. And when it's down, we'll feel it perhaps a little bit more.

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

Perfect. Thank you.

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

You bet.

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

Thanks.

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

David Begleiter Q
Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning. John, in TAG, are you talking – are you thinking about additional price increases this year?

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

Why don't I start with that? And, Al, if I miss anything, jump in here. I'd say that, David, our view as it relates to pricing is always looking at total costs of the basket, not just raw materials, but everything from labor, transportation, containers, everything that goes into that. And right now, I would say, we've not announced any additional pricing. I think we've demonstrated the ability, desire and conviction to stay on top of that and the willingness to do that. So if in fact we find ourselves in that situation where we need additional pricing, the first people that will hear about it will be our customers and then we'll quickly advise the Street of our actions.

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

Yeah. David, the only thing I would add, just to put some color around 2023 on pricing in general, we talked about on our third quarter call that if we had no additional pricing, we'd expect the mid-single digit impact on our full year 2023. Obviously, that would be a little bit higher in our first quarter. And our expectation is we're going to maintain the majority of our [indiscernible] (00:53:12) in the past. We think we've gotten past the margin contraction portion of that cycle. We're starting to see margin improvement sequentially and year-over-year and we expect that to continue going into 2023.

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David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Very good. And, Al, do you still expect production this year to be below volume sell-through? If so, how much and what's the dollar impact on earnings here?

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

A

Yeah. I don't know we're going to quantify the dollar impact. But because we had built so much inventory in 2022 to get back to more historic levels and we are going to see a negative impact. And you can think about – and I talked about this – we'd expect a 5% to 7% decline in production gallons specifically on architectural. We are definitely expecting to see that. And that will have a drag when we look at Consumer Brands Group because that's where our global supply chain is embedded. So you're not going to see as much margin dollar improvement just for that very fact all else being equal.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

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

A

Thanks, David.

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

Adam Baumgarten
Analyst, Zelman & Associates

Q

Hey, everybody. Thanks for taking my questions. Just curious, you mentioned in the slides some inventory destocking in the North America retail channel, it seems like. Are you seeing any destocking outside of that channel, perhaps maybe some of your OEM customers?

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

A

No. Most of our OEM customers operate on a very low min/max level. So they're leaning on us to be responsive for them. So while some would have inventory, I'd say that they lean on us, and we support that as a means of helping them to be successful.

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

A

Yeah. Adam, the only thing I would add to that on the retail channel side, I think coming out of the third quarter, you heard some of our peers talk about destocking. We did not see that. So we're probably a quarter later, anticipate it, some of that, and as a result, you saw consumer do a little bit better in the fourth quarter than we have planned.

Adam Baumgarten
Analyst, Zelman & Associates

Q

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Got it. That's helpful. And then just in the past you've touched on some pretty positive trends in the Pros Who Paint business. Maybe update there. Is that also seeing a slowdown as you moved through the fourth quarter and into this year?

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

Well, it's an important, very important, initiative for us, that's in our Consumer Brands Group, for those of you that may not be familiar with it. And Todd Rea, our President there, is working closely with our teams to really capture a terrific opportunity. If you think about what we call the Pro Who Paint, it's someone that might be involved in either house flipping or remodeling. And while we're very focused on the painting contractors through our store, there are customers who enjoy the wide breadth of assortment and availability of products that they get through a different format, like a home center.

We're really excited about getting after this market because they prefer that type of a setting, and we've got great relationships with customers that are interested in that. So I would say that [indiscernible] (00:56:33) we're not a complacent company, there's good momentum here. But along with our customers, we want to go faster. We think some in the market have been enjoying an unencumbered run at this business, and we enjoy disrupting that and helping our customers to be more successful, and we're intent on doing that. Good momentum. A lot of opportunity ahead.

Adam Baumgarten
Analyst, Zelman & Associates
Q

Great. Thanks a lot. Good luck.

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

Yeah. You bet.

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

Thank you, Adam.

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

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Yes. Good morning. As you move the Latin American business over to consumer, can you help us understand what the associated margin uplift might be to consumer from that repositioning?

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

Yeah. Kevin, it's really not a material change when you restate all the income statement. It might give a little bit of a lift on the TAG side because, as you well know, Latin America has been dilutive of TAG. But on the consumer side where we're at today versus where Latin America is, and I'll give Latin America a shout out, they've done a lot of hard lifting and rightsizing their business and are now back to focusing on growth where before it was about

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cost management and that type of thing. So now that team's externally focused in and really going after market share growth. So I don't think you're going to see a material change on either segment because of this. But I think from a strategic standpoint, a focus standpoint and where the market trends are, it's the right decision at this time.

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

A

Yeah. Kevin, I know you didn't ask specifically about – I know you asked about the margin piece of it, but I do want to expand that to include it does have a positive impact on our TAG business. The focus on North America, we've got, as Al mentioned, a terrific leader. Alberto Benavidez is down in Latin America, leads a wonderful team. And there's a shift in what's happening down there more towards what best aligns with our Consumer Brands Group. So it is a terrific opportunity from a best practice standpoint to align those two businesses. We think it's going to help our TAG business focus and we do think it will allow our businesses to share information. We'll take information out of Latin America that we'll bring up to North America and vice versa as well.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you for that. And then secondly, I wanted to ask for your updated thoughts on alkyd resins. It sounded like that was meaningful constraint in the fourth quarter. Is there a way to size that? And is the availability beginning to improve yet as we talk today in the first quarter?

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

A

Yeah. Hi, Kevin. I would tell you that the availability, it's not a surprise, of alkyd resins does remain an industry-wide challenge. I give our technical teams and commercial teams a lot of credit for working through some very thoughtful and in some cases upgraded substitutions during this challenge. And we've really isolated this down to a very few and are seeing sequential improvement already into our production. So I think you could expect over the next few quarters that we're going to be in a much, much better position.

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

A

And the other thing I'd add to that is we haven't called it out, so it's not material to the consolidated results, and as you know, it's split kind of between consumer products, it's split in industrial. And within each of those segments, it's not material. So that's why we haven't called it out.

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

A

Yeah. Just sensitive to those that are affected by it, it's very material. If you take our sales teams or our customers, Al's exactly right on a consolidated basis. But there have been many of our people that have been forced to work through some pretty challenging times and customers that have been working with us on that. So the materiality on a consolidated basis may not be as impactful as what it is to some of those that are truly impacted by it.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

I appreciate the perspective. Thank you.

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

A

Thank you, Kevin.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks very much.

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

A

Good morning, Jeff.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

I was looking at your – hi. Good morning. I was looking at your mid-range assumptions on slide 8, and in it, you assume that prices are, call it, up 5%, which is about $1.1 billion. And if volumes are down 5%, maybe the detriment is $550 million? And SG&A up mid-single-digits is about $300 million. FX is maybe another $100 million, but that would be offset by a raw material decrease of 4%. So with these assumptions, why shouldn't your EBITDA be up $400 million rather than down $150 million at the midpoint? What is it in here that's really pulling the returns down if prices are really going to be up 5%?

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

A

Yeah. Jeff, I think what – we went round and round in this about mid-single digit range, because you're talking at a mid-single digit range, you've got a pretty wide margin. So I would say at the midpoint, we're thinking maybe a little bit lighter on the price impact and a little heavier than what you mentioned on the demand side and the volume side.

So I think there's nuance in that. And this is why, to be honest with you, I struggled with laying this out that way because you can interpret it just as you have. If you go to the high end of each of those that are positive and the low end of each of those that are negative, I can get a significantly different result. So to clarify, that's why I'm saying in the range, in the midpoint, we do expect EBITDA margin expansion and EBITDA growth, it's just not going to be as significant as you're talking about.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

And then for follow-up, I think you had aspired to a 45% gross margin in the fourth quarter and maybe you came in closer to 43%. Was it that volumes weren't as strong as you expected or was there a different factor?

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

A

No. I think you're exactly right and you're dead-on, excluding onetime items and acquisitions, we were probably 43.1%, and it's really by the miss in TAG. It's our highest-margin business. It came in below the bottom end of our

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range. And as John talked about, some of the other segments, P&M, DIY were double-digit, but below our range. And we also – I hate to throw weather out there, but the last – that snow storm around Christmas really felt like a lot of people took the whole rest of the year off. Now, that being said, we are seeing those sales back in our first quarter in January, and our first quarter – start to the first quarter is where our outlook is currently.

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

Yeah. Last couple weeks, it really dampered down and contractors pretty much checked out throughout that. And to Al's point, as January started, we see them back in the store and activity is right back where we expected it to be.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Great. Thanks so much.

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

You bet.

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

Thank you, Jeff.

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

Michael Sison
Analyst, Wells Fargo Securities LLC
Q

Hey, guys. How are you doing? Yeah. Just one quick question. When you look at the midpoint of your guidance, I think, you all said that the first half would be better than the second half. So, any help in terms of is volumes kind of flattish in the first half and down a lot more in the second half? And how does that sort of split up [ph] in terms of the 830 (01:05:07), is it – how much more frontend loaded is it than second half? Thank you.

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

Yeah. Mike, I would say, from a volume standpoint, we're expecting – and I'll start with architectural volume, we're expecting architectural volume to – and TAG specifically to be up low-single-digits in the first half and then moderate certainly in the back half. Because when we think about the cadence of new residential and how I have it built into our plan, we'd start seeing a material slowdown as you get midway through the second quarter. That would accelerate into our third quarter. And then, even if it's a shallow slowdown and it starts coming back, like we talked earlier, starts start coming back, we're not going to see the impact of that until three or four months out. So, that's why it's a bigger negative impact on our second half than our first half.

And as we've talked about, as volume goes, our operating margin and operating leverage is driven mostly by that. We expect to see more price in our first half than our second half as we annualize the price increases throughout the year, we'll see those moderate. And then, we also expect to see more of the acquisitions in Performance Coatings in our first half in the sales and EBITDA incremental improvements there, and then as the July 1st

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acquisitions annualize, that will be more muted. And then, a little bit offset by the way raw materials rolled out. Jim talked about the 4%, low- to mid-single-digit benefit. It's a little heavier on our back half than our front half just because even the first quarter, we might be flat or up or down slightly.

Michael Sison
Analyst, Wells Fargo Securities LLC
Q

Okay. And any help on the EPS cadence or?

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

Well, going back to the volume, as the first half volume is there...

Michael Sison
Analyst, Wells Fargo Securities LLC
Q

Got it. It will flow through.

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

...it will flow through.

Michael Sison
Analyst, Wells Fargo Securities LLC
Q

Got it. Okay. Thank you.

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

Thanks, Mike.

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

Thanks, Mike.

Operator: Thank you. Your next question is coming from Vincent Andrews from Morgan Stanley. Your line is live.

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

Thank you. If I could just ask if you think about the two halves of the year, and it's well understood that you've got some visibility in one half and you don't in the back half, and it's also well understood now what the key macro drivers are and so forth. If you think about the back half of the year and the back half of the year winds up coming in worse than you anticipated in the different segments, what do you think the key risks are in those segments that we really needed to be watchful of, to sort of be on guard in case that back half wounds up actually being worse than what you anticipate it to be?

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

I think, Vincent, the thing that – I would say it this way, the thing that we're watching specifically is within TAG and within new residential, and there's not an exact science when you look at the timing of a potential slowdown, as John talked about, in the macro headlines as single-family starts slowing, you see some of the national homebuilders talking about the lower orders. But it's really as the homes get to completion is what impacts our sales the most and there's variability in that. So, as we continue to work with our national homebuilders and get a clean line of sight of that and the impacts that not only has on our new residential and TAG, but also kitchen cabinets, flooring, and furniture on our Performance Coatings businesses, that's going to be the main driver of whether the second half is stronger or less strong than what our current outlook is.

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

And can I just ask one quick follow-up would be in Consumer Brands and in Performance Coatings. In Consumer Brands, are there shelf space issues that we should know about? And likewise, were there any share gains or losses in Performance Coatings?

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

I think there is no impact on the shelf restriction on Consumer, but I think there's a huge amount of market share gain opportunities within our industrial businesses and that's all of them. As John talked about, we do not have 100% market share in any of our businesses, segments or regions, and that's the way we're going into 2023. We're marching aggressively. So, there are terrific opportunities that we're going to be pursuing and we often talk about the coiled spring. As this business comes back and we grow share, grow customers and it returns, it's going to spring.

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

Okay. Best of luck, guys.

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

You bet.

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

Thank you.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Great. Thanks for taking my question. There's been a lot of discussion here on the new housing market. Obviously, we've seen a slowdown there. We did see that permits are also down 40% year-on-year. I guess, my

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question is, there has been a greater correlation though with architectural gallons sold in existing home sales and there's probably a lag between starts and existing home sales as well. So, could you comment on what's your outlook for existing home sales and how that ties into your guidance? Do you see any risk that maybe the low end is not low enough if the existing market gets worse from here? Thanks.

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

Well, Arun, on the existing home sales, I'd remind you, that drives a portion of our res repaint, but there's other factors as well that drive that repaint business, and I think as John said in his comments, that's an area we've been investing in, more stores, many reps to go after res repaint. So, I mean, if you look at existing home sales, they've been down for 16 straight months, but you've got other things that might offset that, home price appreciation is still up year-over-year, you've got the aging housing stock, you've got the baby boomers aging in place, all these things we've often spoken of. So, while that will be a headwind, there's other things that will help drive that repaint, and along with the share gains that John is talking about, we think we've got a good outlook and high expectations for res repaint next year.

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

Yeah. Arun, the only thing I would add to that is, as you know, res repaint is our fastest-growing segment, it's our largest segment, and it's our largest opportunity for market share growth, and I think that's what the focus of our TAG team is on with the specific investments in dedicated new res repaint stores and dedicated res repaint reps.

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

That's part of what gives us the confidence as we compare this to the last slowdown, we came out of the last slowdown determined to grow that residential repaint business to help offset, we call it, almost a resilient segment, having the growth that we've had and we continue to invest, I think – I don't know what the number is, Al, the number of stores that we have now versus the last slowdown, we're up how many?

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

A little over 1,200 stores since 2010.

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

1,200 more stores now versus the last slowdown. Probably a near similar number of reps focused on this area. And so, it shouldn't be a surprise that we're growing the last 10 years over 11.5%, and the conviction and determination that we have I think is at an all-time high. And we expect, as we work through these challenging times, to grow more share that we'll enjoy as the business – through this as well as when the business comes back.

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

John, I would add to that, too. I think, over the last 10 years, I think, while the market dynamics certainly are similar to that 2008-2009, I would say, it's almost even better now. There's so much change in the market. I think, as you mentioned, our incremental store count, we've been aggressively adding stores. Our competition, I would

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say, has been aggressively closing down stores. So, with these changes, there's been some confusion in the marketplace that we believe is our opportunity. So, we're adding a new store about, on average, every four days and I think we'd all agree we're confident in our long-term strategy, but our near-term ability to execute.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks. And just another follow-up, I guess, was given that a lot of your growth you're investing is mainly on the organic side. Are there inorganic opportunities as well that may present themselves in a downturn like this? What are some of the areas within the portfolio that you'd need to buttress, if at all? I know you made the bolt-ons in some of the raw material and technology areas, but anything – would it be more like in those areas or is it industrial or what are you looking at for potential M&A?

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

A

Well, we've been investing in a number of transactions that we think are terrific. We've been investing primarily on our Performance Coatings side. We've invested in industrial businesses, in General Industrial in Germany, Industrial Wood business in Italy. We've got a number of flooring businesses that we've welcomed into the family. And our goal here is not – we're not portfolio managers. We don't bring them in and run independent businesses. These are going to be contributors on a much grander scale to the overall business. So, technology that we acquired in some part of the world, we're immediately looking at how we leverage that across the entire platform.

So, as you're watching and absorbing the acquisitions that we're making, I'd hope everyone understands we're really not interested in buying small positions in different parts of the world. We're making these acquisitions and we'll leverage them across the entire platform around the world. So, these have been good investments, we think, and there's still a considerable amount of opportunity ahead to better leverage them going forward.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

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

A

Thanks, Arun.

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

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Thanks for taking my question. Just one kind of clean-up question on pricing. So, in the deck that you showed on slide 8 where it showed consolidated pricing carryover and there was a range, low-single-digit to mid-single-digit. I guess, what drives the range there? Because it sounds like it's just a carryover from kind of where you ended 4Q. So, I guess, what would make it go to the low end versus the mid-single-digit side? I guess, how should we think about that?

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

A

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Yeah. John, I think it's somewhat similar, I would think, as when we talk about a range on raw material costs, there's a lot of different market dynamics from demand and other things that might cause that range to move. The point I would [indiscernible] (01:16:55) now pick on TAG for five different price increases over two years, we fully expect to maintain the majority of that price. So, even a slight decrease, increase or movement within that range does not – doesn't impact the overall fact that we're going to maintain the majority of that price as we've done in similar environments in the past.

And I think that's similar across the industrial businesses and consumer, because we're looking at the total input cost basket that's affecting what price increases we've gone out with and what continued investments we've been able to make as we bring our gross margin back towards that long-term rate of 45% to 48%. So, just to be clear, we kept investing when we're taking margin contraction through the cycle. And now that margins started improving again, we can continue those investments to drive growth through our retail partners, through our own stores, and help our industrial partners drive growth as well.

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

A

Yeah. I'd add, too, pricing isn't just a quick 30-minute discussion with our customers. It's the result of adding value every day that's allowing us to be effective with them. So, when you think of the value that we're bringing, it goes well beyond the products, but you talked earlier about services, project health, digital convenience. So, we're really confident we're going to be able to hold on to this. We're not just talking about price as kind of a standalone discussion, so confident we're going to be able to hold on to that.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. And then, maybe just a follow-up. So, your stores tend to have a higher service component to it than maybe some of the competitors out there and that's helped you on the share front. But I guess, our concern would be, with labor inflation as big as it is and labor being a bigger component of your costs, I guess, do you have enough levers that you can pull to offset that beyond price, because your competitors may not actually have to raise prices much to deal with kind of wage inflation? So, I guess, how should we think about that?

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

A

Yeah. John, it's about driving higher quality products that make our painting contractors more efficient, it allows them to get more jobs done with the same number of painters, and it drives their bottom line. And I think when you look at it in an inflationary environment, we've talked about this in the past, you tend to see more – and I'll use res repainters, move up to a higher quality product, because they're going to pay more for that gallon of paint. A gallon of paint is small relative proportion to the overall cost of a project.

So, as we get those higher quality products in their hands and show the efficiencies they can get, it drives higher – and as you imagine, higher quality products, higher margins, and that's how our strategy is when we innovate new products. And I've said this many times before, you always innovate at the high end of the good, better, best continuum, and over time, that good gets replaced. So, I think that's a big lever for us and a big driver of how we can continue to expand our margins.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the color.

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

Yeah.

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

Thank you, John.

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

John Roberts
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Thank you. The DIY paint historically is not price elastic, but do you think that some of the demand weakness here is that prices just got too high?

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

Well, I'd say that our residential repaint business is strong and it's [indiscernible] (01:20:40) more in times to have a contractor apply the paint, John, we do...

John Roberts
Analyst, Credit Suisse Securities (USA) LLC
Q

I was asking DIY consumer. Sorry.

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

No. I understand that, but I'm saying in the market, we are having customers that are continuing to invest in their homes as prices have gone up. And in the breadth of product that we offer, while there's a wide platform of price points, we continue, as [ph] Al (01:21:09) mentioned, to see stickiness in the higher quality products. So, I don't know that we've reached a point of demand destruction, if that's your question, I think...

John Roberts
Analyst, Credit Suisse Securities (USA) LLC
Q

Yeah.

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

...the consumers are very well aware of inflation in the market and I think that they're making decisions right now. No question that filling up your tank has been more expensive than it has been in the past. But I'll go back to the point that we made earlier, which is that it's a – amongst all the opportunities to influence the environment, which is most important to most of us, where you live, it's still a relatively inexpensive, but highly impactful investment in your home.

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

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John, the only thing I would add to that is, and we saw this in our second quarter, and I think if you segment our DIY customers between what we see in the retail channels versus what we see in our stores, certainly with the inflation of energy and food and we saw a bigger impact on demand in our retail channel versus our stores channel. So, there may be that nuance that you're seeing.

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

One piece I would add to that, too, in terms of just elasticity, I think there's also the dynamic with the consumer DIY segment, to Al's point, where they're purchasing less frequently, you're going to have some that are more value-conscious, but we have introduced and innovated so many different products that have brought trading up to be more attractive, whether it's one-coat, increased durability. And so, that consumer that's paying every five to seven years has demonstrated a willingness to pay for that as well.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. And then, Heidi, I think you mentioned that Coil was one of the stronger end markets. Isn't that appliances and sheet metal for construction? What's going on there that that outperformed?

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

Well, John, you might have misunderstood my voice versus Heidi, because it was my voice that talked to Coil. We have a nice business in our Coil business that is impacted by our appliance business. And as I mentioned in my remarks, we do see some settling, if you will, in the appliance business as there's kind of a reset to inventory levels. So, it has impacted our Coil business.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. Thank you.

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

Thanks, John.

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

Joshua Spector
Analyst, UBS Securities LLC
Q

Yeah. Hi. A question on the China and the aerosol restructuring, I guess, it's a pretty significant amount of sales you're maybe walking away from or rationalizing. I guess, are we past the point of having any ability to monetize that?

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

I'm sorry, Josh. When you say, I think, past the point of the ability to monetize it, no. I think we have consistently taken a review of our portfolio of businesses, brands, customer programs. And I think we look at it both midterm on their ability to get significant market share growth and return on sales and cash flow. But we also take a longer

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term view of it to say, if there are opportunities to monetize a business, we'll work to reorg it, to get it in position, and pursue that option, among other options. You can run it for cash, you can run it as a growth business or you can monetize it, like you're talking about. So, each of those options are being evaluated and we'll update the Street as we get to that. The short-term reality though is that market, in particular China architectural is under heavy pressure. We have to take appropriate significant actions to adjust to that market – those market conditions.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thanks. Appreciate that. And if I could ask one just to follow up [indiscernible] (01:25:29) I mean, it's obviously down low- to mid-single, puts a small dent in the 30-percent-plus you guys have absorbed in terms of increases. I guess, is this where raw materials stabilize, in your view? And I guess, if you have a weaker view on volume in the second, do you have any visibility to either longer term contracts or anything else becoming a relief point for raw materials into the next year?

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

A

Yeah. Josh, I think you hit it. I mean, if demand continues to deteriorate, we would – or more so than what we expect in the back half, you'd expect raw material costs to drop with that, and there's not long-term contracts or agreements that lock us in to not participate in those kinds of actions.

Joshua Spector
Analyst, UBS Securities LLC

Q

Got it. Thank you.

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

A

Those principles of supply and demand we've dealt with for decades.

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

A

Thanks, Josh.

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

Gregory Scott Melich
Analyst, Evercore ISI

Q

Thanks. Two questions, one, thanks for the helpful CAGRs on new resi versus resi repaint. Could you remind us as to how much bigger the resi repaint business is compared to new residential?

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

A

Yeah. Greg, it's today 2:1 res repaint versus new residential, back – prior to 2008 and 2009, it was 1:1. So, John talked about the tremendous low-double-digit growth in both segments since 2010, it's just that new res repaint was starting from a much higher base.

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Gregory Scott Melich
Analyst, Evercore ISI

Q

So, repaint is 2x new res today?

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

A

Yeah.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Got it. Perfect. Thanks. And then, the second is more about understanding the gross margin progression. It sounds like 45% to 48% is still the right goal. I think, John, you talked about getting that in a couple years in a normalized environment. So, I guess, my question is, if volume this year ended up being flat or slightly up as opposed to down, would we be back in that 45% to 48% range this year or is there something else going on that is impacting [indiscernible] (01:27:54)?

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

A

No. I think that's a fair – that's directionally fair. I think the volume is better, and in particular, the volume is better in TAG, because it's our highest gross margin segment. And, yeah, with the pricing that we would maintain, the majority of monitoring raw materials, the continuous improvement mindset that we have across our manufacturing and distribution facilities, all play into driving that margin to that 45% to 48%. But to get your point, Greg, it's always about volume and it's about volume through TAG that's going to help lift that gross margin.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Would it be fair to use the fourth quarter as a proxy to get an idea of that operating leverage? In other words, looks like volume was maybe 300 or 400 bps lower than you thought it was going to be and gross margin ended up being 200 basis points lower or am I thinking about that the wrong way?

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

A

No. I think you're – I would say, you're directionally accurate. Yes.

Gregory Scott Melich
Analyst, Evercore ISI

Q

Got it. Good luck and thanks for all the info.

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

A

Yes.

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

A

Thanks, Greg.

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

Steve Byrne
Analyst, BofA Securities, Inc.

Q

Hi. Just following up on the comment, John, you made earlier about your home center partners, sort of you're helping them, as they requested for the Pros Who Paint. And I was just curious whether any of your home center partners within Consumer are trying to do what you can do through your stores, like delivery of large volumes to the job sites and a digital access? Are you seeing any of them do that and does that have any impact on your stores in the area?

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

A

Yeah. Steve, I want to be really clear here that we're supporting our customers in their efforts to apply and execute on the strategies that will help them grow in this business. I think what you're trying to get after is cannibalization between home centers and our stores, and we've looked at this in great depth, there would be very little. There might be a few accounts here or there, a small amount. But we would gladly put those on the table to expand into a virtually untapped market for us.

And the painter that's in our stores every day has expectations that are likely best filled through a specialty paint store. Some of them find their way into home centers and we want to support those that find their way in there. But I would say that the target here and the higher level of success is going to be attracting those customers into the home centers that prefer the home center experience largely because of the breadth of the product lines. And so, we're not bashful about it. There will be a little bit of cannibalization, very little compared to the opportunity that collectively we can pursue with our partners.

Steve Byrne
Analyst, BofA Securities, Inc.

Q

Okay. Thank you. And I wanted to ask you, how much visibility do you have to the backlogs that your contractors have? And do you have a view on how much do they have, whether it's residential repaint versus commercial and property management? Are those meaningfully different right now and was there a big change recently? We had some dialogue with some contractors where there was a significant change like in the last month?

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

A

Yeah. There's been some change. I referenced that earlier that the pipeline of bidding has tempered down a bit, the quality of those bids seems to be improving, and the scope of the projects continued to actually grow. I'd also say – so, the answer is yes, we do work closely with our customers, and as I mentioned previously, we I think are working much closer with them than ever in my career, partially because of the experience that we've had over the last couple of years. And so, I'd say there is a wide spectrum.

If you look at the one end, the commercial painting contractor and the industrial painting contractor, they generally have a longer view of what's happening because of the scope of the project on the commercial side, something might be coming out of the ground, and that project may be in a couple years in the making. Industrial side, when they're talking about the protection of assets, there's usual a plan that they're following. That would be on the far right side. And on the other side, a shorter line of sight would be the residential repaint side. In between would be

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property maintenance and new residential where there are varying lengths of view, if you will. So, we work with our customers, all of them, to have a good understanding. There has been some shift. That's reflected in our guidance that we've given.

But again, I want to reiterate. This is really important. I apologize for repeating it so often here. We're not sitting here on our backs saying all bad things are happening to us. We're aggressively pursuing. Any one of these segments we can talk to, what we think the market is going to perform at and how much better we expect to perform in that market. So, while even some of the bidding might have tempered down, again, we're not sitting here with 100% market share. We're aggressively pursuing and we expect our competitors as they pull back, we're going to take advantage of those opportunities as well as the new products. Heidi mentioned a couple of those, the services, the new stores. We're going to be very aggressive during these times and we expect as we go through this to grow share, and as we come out of it, that Coil spring is going to pop.

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

Steve, the other thing I would add is, I think everything that John just covered across segments, I would say that, in general, our customers have, like we have, become better planners, and together, we are creating not just that stickiness we always talk about, but becoming better business partners and business planners together.

Steve Byrne Q
Analyst, BofA Securities, Inc.

Thank you.

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

Thanks, Steve.

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

Garik Shmois Q
Analyst, Loop Capital Markets LLC

Oh, hi. Thanks for taking my question. Just want to ask on the SG&A guidance range and what are some of the factors that you're going to be looking at when you decide to pull the trigger on some of the growth initiatives versus pulling back some? Is it just a function of how demand is tracking this year? And maybe when do you have to make that decision just given the ranges down low-single-digits to anywhere to up mid-single-digits for the year?

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

Yeah. Garik, I think we'd look at it as we progress through the first half and get a better outlook coming into the second half. I would tell you that from a G&A standpoint, we are going to maintain our G&A tightly through the first half. I think you're going to see us – I'll use the term pedaling clutch like one of our predecessors here had used, where we'll spend merchandising, advertising, things of that nature that are not committed and are discretionary, we'll manage those to how demand outlook we feel like. And it's on the long-term growth investments that you can expect us to continue to push those through stores, reps, we just talked about the Pros Who Paint, because we have confidence and we have a lot of strong outlooks for the long-term when it comes to architectural demand.

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We talked about packaging. We talked about any number of market share opportunities we have across all our businesses. So, the confidence we have in the long-term outlook makes you say that we're going to continue investing in these long-term growth opportunities. These other noncustomer-facing type of spending, we're going to maintain very closely.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Okay. Thanks. Follow-up question is just on the pace of these store openings for 2023, just given that it picked up quite a bit in the fourth quarter, should we expect it to revert to maybe kind of a more linear pacing or any color on how that looks?

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

A

Garik, we've been trying to spread those out more evenly for 38 years that I've been with the company. For a lot of reasons, they get back loaded as the year unfolds. We've got a good line of sight on the number and the locations. But I would say they're likely going to be, I hope not as back loaded as last year, but they're going to lean in the back half of the year again in 2023.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Okay. Thanks and best of luck.

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

A

Thanks, Garik.

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

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

Thank you, and thanks, everybody, for joining our call today. As we went through our comments, I believe you heard that we're very confident in our strategy going forward, we're very confident in our people. It's a very deep and experienced team. But at the same time, given what we see today, our outlook, I think, is a very realistic one starting off this year. Even in that outlook, we're going to continue to gain share. We're going to continue investing in the business to grow. You heard Al say we're going to control the G&A very tightly. And I think John said it multiple times that we really expect to outperform the market just as we have in the past.

So, thank you for joining us today. As always, I'll be available along with Eric Swanson for follow-up calls. Have a great day. Thank you.

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

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