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The Sherwin-Williams Co. (SHW)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining The Sherwin-Williams Company's Review of First Quarter 2023 Results and our Outlook for the Second 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, Enterprise Finance; 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 U.S. Federal Securities laws with respect to sales, earnings and other matters. Any forward-looking statement speaks only as of the date on which such 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 up 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 excellent first quarter results compared to the same period a year ago. Consolidated net sales grew by a high-single-digit percentage, ahead of our expectations, and were led by a mid-teens percentage increase in our professional architectural end-markets. On the industrial side of the business, sales increased in all regions except Asia-Pacific.

Gross margins significantly improved sequentially and year-over-year driven by strong volume in the Paint Stores Group and effective pricing. Cost of goods sold includes higher inflation and wages and other employee-related categories which were partially offset by a slight decrease in year-over-year raw material costs. We expect to hold a majority of the pricing we have put into the market, given the ongoing investments we have made to drive innovation, enhance services and secure the talent that provides differentiated solutions to help our customers reach their goals and drive their success.

Segment margin in all three reportable segments expanded sequentially and year-over-year. We also delivered strong double-digit growth in diluted net income per share and EBITDA. Additionally, we continued to execute on the portfolio realignment actions we announced late last year, including the divestiture of a non-core aerosol business which closed on April 1 and our recently announced agreement to divest our China architectural business.

I'd like to highlight just a few of our consolidated first quarter numbers. Comparisons in my comments are to the prior-year period unless stated otherwise. Starting with the top-line, first quarter 2023 consolidated net sales

increased 8.9% to \$5.44 billion. Consolidated gross margin increased to 44.5%, an improvement of 340 basis points.

SG&A expense as a percentage of sales was 31.1%, an increase of 140 basis points driven by investments in the Paint Stores Group's long-term growth initiatives and investments in our people across the company through year-over-year increases in compensation and other employee-related benefits. Our people remain our key differentiator in the marketplace.

Consolidated profit before tax increased \$153.7 million, or 33.3%. Diluted net income per share in the quarter was \$1.84 per share versus \$1.41 per share a year ago. Excluding Valspar acquisition-related amortization expense and costs related to previously announced restructuring actions, first quarter adjusted diluted net income per share increased 26.7% to \$2.04 per share versus \$1.61 per share a year ago. EBITDA in the quarter increased \$185 million, or 26.7% and was 16.1% as a percent of sales.

Let me now turn it over to Heidi who will provide some commentary on our first quarter results by segment. John will follow Heidi with comments on our 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 Paint Stores Group, previously known as The Americas Group. We described this change on our last call and in this morning's press release. There's no impact to prior-year consolidated results related to this change. Current and prior-year segment results have been restated to reflect this change.

First quarter Paint Stores Group sales were ahead of our expectations and increased 14.8% driven by high-single-digit volume growth and continued effective pricing. Segment profit increased by \$97.9 million and segment margin improved 120 basis points to 18.4%. Our pro-architectural sales grew by a mid-teens percentage in the quarter. All pro-market segments increased by double-digits led by property management and followed by commercial, residential repaint and new residential respectively.

Sales in Protective & Marine and DIY also increased by double-digit percentages. 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.

Moving on to results in our Consumer Brands Group, which again now reflect the addition of a Latin America architectural business in the current quarter and prior year. Sales were well ahead of our guidance and increased by 2.4% in the quarter. Performance was better than expected in North America where sales were down less than 1% and in Europe, where sales were down low single-digits. In other regions, sales were up strong double-digits in Latin America and down double-digits in Asia. Effective pricing led by Latin America was partially offset by a mid-single-digit decrease in volume and low-single-digit FX headwinds.

The tightness in alkyd resins impacting our ability to produce stains and aerosols improved significantly during the quarter and we expect this issue to be behind us by the end of the second quarter. Adjusted segment margin was 13%, up 120 basis points year-over-year.

As Jim mentioned, we divested a non-core aerosol business at the beginning of this month, and we also entered into an agreement to divest our China architectural business. We expect these actions will benefit segment margin over time, as we drive a return to our high-teens, low-20s adjusted margin target. One-time restructuring costs in the quarter were immaterial.

Sales in the Performance Coatings Group increased 3.4% against a 20.4% comparison. The increase was driven by low-teens pricing and mid-single-digit sales from acquisitions partially offset by a low-teens decrease in volumes, which included the impact from discontinued operations in Russia and a low-single-digit unfavorable FX impact.

Adjusted segment margin increased 390 basis points to 15.7% of sales. This is the fourth straight quarter this team has delivered year-over-year segment margin improvement driven by execution of our strategy including effective pricing. Sales in PCG varied significantly by region. In North America, sales increased high-single-digits against a nearly 30% comp. Latin America sales increased by double-digits also against a strong comp. Sales in Europe were up mid-single-digits while sales in Asia were down double-digits.

From a division perspective, growth was strongest in auto refinish, which was up by a mid-teens percentage followed by Coil and General Industrial which were both up mid-single-digits. All three of these divisions grew against double-digit comparisons. Industrial Wood sales were down mid-single-digits as expected due to slowing in furniture, cabinetry and flooring related to new residential softness.

Packaging sales also were down mid-single-digits against a 30-plus comp with volume down about a point and the remainder due to our exit of Russia and unfavorable FX. We continue to feel very good about our position and growth prospects in this end-market.

With that, let me turn it over to John for his comments on our outlook for the second quarter and the full year.

John G. Morikis

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

Thank you, Heidi. I want to thank our teams for working hard to deliver a strong start to the year, especially the margin recovery we are seeing, following the relentless cost inflation we've experienced in the last two years. As we said in January, we expected to have a strong first quarter, and that's exactly what our team delivered. We also indicated that we would not be updating guidance after the first quarter. We know we have work to do, and we're under no illusions about the macro headwinds we're likely to face as the year progresses. We'll have a much better idea of how the year might unfold as we get deeper into the painting season over the next few months.

As we enter the second quarter, we'll remain focused on what we can control. This includes leveraging our recession resilient markets, growing new accounts and share of wallet, continuing appropriate growth investments in stores and sales representatives and managing price-cost dynamics. We remain confident in our differentiated strategy, capabilities and product and service solutions and we continue to expect to outperform the market.

For the second quarter of 2023, we anticipate our consolidated net sales will be up or down by a low-single-digit percentage compared to the second quarter of 2022 inclusive of a high-single-digit price increase. 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 carry over from 2022.

Our sales expectations by segment for the second quarter and the full year are included in our slide deck and reflect the move of the Latin American architectural business from Paint Stores Group to Consumer Brands Group. There's no impact on our sales guidance in the quarter, or the year, from the divestiture of the China architectural business at this time, as the transaction has not yet closed.

On the cost side, there is no change in our raw material outlook, where we continue to expect costs to 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, though the ranges likely will vary widely. We expect other costs, including wages and energy, to be up in the mid-to-high single-digit range.

The first quarter is typically our smallest and we need to see second quarter trends and performance to better understand potential impacts on our second-half outlook. We expect to provide an update on our full year sales and EPS guidance following our second quarter. As a result, there is no change at this time to our guidance for full year 2023 diluted net income per share, which we expect to be in the range of \$6.79 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 \$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 provided a GAAP reconciliation in the Reg G table within our press release.

There are also no updates to the additional data points and capital allocation priorities we provided on our January call. I'll also 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. All of these remain unchanged from our January call as well.

Given the many variables at play, limited visibility beyond the first half and the high-level of uncertainty in the global economy, we continue to believe our current outlook is a realistic one. As we get through our second quarter, and we see more information, the assumption we laid out in January could change. If those assumptions change for the better, we would expect to deliver stronger results. We've transformed our business in many ways since the last significant downturn and we're now a stronger and a more resilient company. I'm highly confident in our leadership team, which is deep and experienced and has been through many previous business cycles.

We anticipate the 2023 would be challenging. We've 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 profitable. In challenging environments, like the current one, we can become an even more valuable partner to our customers while we're also earning new ones. The bottom line is we expect to outperform the market and our competitors in 2023, and for years to come.

That 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: [Operator Instructions] Your first question for today is coming from Vincent Andrews at Morgan Stanley.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. Could I ask in TAG in the quarter, just was looking at the incremental margins. Obviously you had a very strong sales performance and I know there was about 5% carry over pricing in there, so it seems like the volume was quite strong. So was there just a lot of investment spend in the quarter ahead of store openings? Or just some of your initiatives?

And that if you could sort of bridge as to what the underlying total company SG&A expense was in the quarter and whether that is a good number to run with, as we move through the balance of the year? Thanks.

Allen J. Mistysyn

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

A

Yeah, Vincent, this is Al Mistysyn. And, let me start with the consolidated SG&A was up 14%. Paint Stores Group was just over two-thirds of that increase and excluding acquisitions was approximately 80% of the increase year-over-year and this is due to the increase in new stores and additional sales reps, which probably represented about two-thirds of the increase. And then in addition, employee-related costs were higher year-over-year due to multiple merit increases beginning in the second-half of last year, and into the first quarter of this year.

John G. Morikis

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

A

Let me just jump in here before you carry on there, Al. On the investments of our employees, I think it's absolutely critical to understand in a controlled distribution model particularly, we see the value of the retention of our employees as a key element of our strategy. We want to build relationships with our customers, we want to make sure we have the right talent, that they're trained, that they are developed, and that we retain them. And so the investments that we've made beginning actually about midyear last year, we are clearly seeing the benefits of that.

Now there's some benefit in the market as the economy has taken its course, and clearly that's had an impact on some employees and employers. But our relationship with our customers or our employees has improved dramatically, and I would point to our retention. We've often boasted about our turnover rate down in the 7% to 9% range, and we're proud to say that we're back in that range of employee turnover, so our retention is back to a historic low. We think that's an important element and an important investment that we made as we want to make sure that those employees are there when our customers are walking into our stores. Let me turn that back over to you.

Allen J. Mistysyn

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

A

Yeah. The only thing I would add to that is, Vincent, as we discussed in January, we're going to continue to manage our G&A expenses tightly and adjust other discretionary marketing and other spending as we get a better outlook on-demand in the second half.

I would say, I would expect a smaller year-over-year increase on our second quarter as we annualize the merit increase from last year. We start realizing more cost reductions from the restructuring activities. Typically, we see a slight uptick in SG&A in our Paint Stores Group as it ramps up staffing of service to increase seasonal architectural demand uptick. Acquisitions will be slightly less than what we saw in our first quarter, which is a low-single-digit impact. And then we'd expect those to annualize and not see much in our second half. So as the year goes on, my second quarter I'd expect the lower percent of sales because of a seasonally higher architectural sales, but then the year-over-year change gets tighter as the year goes on as we annualize some of these things.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thanks for all the details. Very helpful.

Allen J. Mistysyn

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

A

Thanks, Vincent.

Operator: Your next question is coming from Jeff Zekauskas at JPMorgan.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. The SG&A increase of 14%, I understand that it should moderate from that level, but this year with everything you're considering, are we going to be up more than 10% as a base case year-over-year?

Allen J. Mistysyn

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

A

No. Jeff, I'd expect – if you look at how Paint Stores Group, in particular SG&A rolled out as the year went on last year, it ramps up as we get into our second half because we added more stores, but the merit increases happen in our second half. So the comp gets higher, so the percent change gets lower as we go through the year. I would say the other groups have done a really nice job of managing their SG&A, consumer, PCG would have a similar impact with the merit increases but they've been managing their SG&A very tightly and then in admin we'll continue to invest in system upgrades and things like that, but we're going to manage it tightly so I would not expect that high of a percentage increase for the year.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay. And then secondly, your new residential business seems to have held up reasonably well, given market conditions. When we get to the fourth quarter or the first quarter of next year, as a base case, what do you think those volumes are like year-over-year in new residential in paint stores?

John G. Morikis

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

A

Well, Jeff, we've said that the single-family housing starts are expected to be down year-over-year in the range of 20% to 35% and our expectation would be that in our business, we would be better than the market, so our expectations would be that it would be down in the 10% to 20% range, and we also talked openly about the fact that we expect some of our more recession-resilient segments to pull heavier during that period of time, so as we

saw the quarter unfold, we saw exactly the sequential trend that you just described, so year-over-year, January, we saw high-teens percentage increase. In February, low-double-digit increase and then mid-single-digits in March, so we expect that type of a trend to continue through the balance of the year.

If you look back 90 days, 120 days and you see the number of starts in comparison to previous quarters, you could see the downturn and then the impact on our new res sales as it unfolds.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

John G. Morikis

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

A

Thanks, Jeff.

Operator: Your next question for today is coming from Christopher Parkinson at Mizuho.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Q

Great. Thank you so much for taking my question. John, can you just hit on a little bit more on what you're hearing from your customers and contractors in terms of backlog, specifically in the resi repaint market, property maintenance and then perhaps just hit a little bit on what you're seeing in protective? It would be greatly appreciated. Thank you.

Allen J. Mistysyn

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

A

Yeah, Chris. I'd start with the fact that our Paint Stores Group is our largest business, as you know. It's a \$12 billion portion of the company. 90% of our Paint Stores Group is made up of professional sales, and as Heidi mentioned, pro-sales in total grew by mid-teens percentage with every one of our professional segments growing double-digits. So these are large segments growing double-digits, so we're growing real market share in absolute dollars, and I'll give Justin Binns and his team a lot of credit for the new account and share of wallet initiatives that are clearly working.

To your question specifically on residential repaint, we probably best would describe the bidding activity as having returned to more normalized bidding market, where in the past 12 to 18, maybe 24 months, it was difficult to get a painter to even come out and give you a bid because they were so busy and so backlogged. I would say that it's likely best described as a more level or more normalized bidding activity.

If you look at the LIRA or the NAHB remodel index, both are positive, but clearly, some deceleration in what they're projecting. Our double-digit quarter this year was on top of a mid-single-digit performance last year, so I'd say that we have confidence in what we're doing. We have confidence in our ability to continue to grow and grow at our competitors' expense.

We have product back in our store. We just talked briefly about the people in our stores. We think that's a very important element and what it is that we do, so the retention of our people we believe has a direct correlation to the retention of our customers, and we continue to introduce new products. We can get into some of those details

perhaps later if we would like. But we're introducing new products to help keep that residential repaint customer not only successful in what they're doing but also growing in new segments as well.

I talked a little bit about new res there a moment ago to Jeff's question, but I will say that our ability to work with our builders and help to drive their business and their efficiency, we believe, has been an important element in our ability to retain the relationships that we have, and in fact grow those relationships. We're introducing in the face of an adverse market here – the adversity in new residential, we're introducing new products that will help our customers, high build products that will help hide imperfections and improve durability and that's helping us to grow our new residential business and we expect that to continue to grow. We expect to come out of this time here of some challenges in the market with absolute new and greater market share.

On the commercial side you asked about, this was one of the markets that clearly came in with stronger-than-expected results for the quarter. Our position in this segment is very good, strong and growing. We've been long investing in reps, products, specifications, and the fact that we have local stores and local reps is an important element in growing this segment.

Again, we've introduced a number of innovative products here as well. When you think about labor, we often talk about that labor represents on average about 85% to 90% of the cost of goods for a painting contractor. The cost for a commercial contractor is likely higher than that, than the average, perhaps in the 90% to 95%, as many of the commercial contractors are either union or applying paint in the metro markets which are higher cost.

Our model, therefore, is even of greater value to these customers. Our ability to collaborate with the architects, work with the designers, work with these contractors is absolutely paying dividend and we're excited about this business. The commercial side, there's a lot of work that's still coming out of the ground and we expect to continue to grow with this market and at the expense of our competitors.

Property Maintenance you asked about as well is another segment that grew stronger-than-expected. Occupancy and rents are returning to more normal rates and growth here is driven by not only our continued share gains but capital improvement projects as well as an increase in churn. So the pro side, buy segment is really going well, and we're going to continue to put fuel in this tank, and feel really good that while we're growing share, the only expectation we have for our team is to grow it even faster.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC



Understood. And just as a quick follow-up on the raw material basket, just to keep this simple. You've got a few things that are sticky but broadly it seems like we're moving in the right direction. Can you just hit on the two most pleasant surprises in terms of the basket and perhaps the two most frustrating substrates as we stand here today? Thank you.

John G. Morikis

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



Yeah, Chris, good morning. I would say that raw materials are really trending as we expected and not sure that I'd say there's a lot of surprises there. They were down slightly in the first quarter. The moderation was led by monomers, solvents and resins. To your point, TiO2 and pigments may be a little stickier near-term but we expect to see some moderation there as the year goes on.

I would remind everyone as a reminder, our cost of goods also includes higher inflation in wages and other employee-related costs. For the second quarter, we're expecting to see some further moderation as we move

towards our guide for the full year, which as we said in our opening is unchanged. Raw is down low-to-mid single-digits.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Q

Thank you so much.

John G. Morikis

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

A

Thanks, Chris.

Operator: Your next question is coming from Mike Harrison at Seaport Research Partners.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

Hi. Good morning.

John G. Morikis

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

A

Good morning, Mike.

Michael J. Harrison

Analyst, Seaport Research Partners

Q

I was hoping that you could talk a little bit about the additional architectural capacity that you brought on probably a little over a year-ago. As you look at these housing challenges that seem to be ahead, is that additional capacity something that we should think about as weighing on utilization or fixed-cost absorption as we're going forward and I guess in hindsight, should you maybe have pulled back or waited a little bit longer to expand some of that capacity?

John G. Morikis

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

A

Absolutely not. We expect and are filling that capacity, Mike, and when you believe like we do and what's happening in the market and where we're going, if you were sitting in my chair you would have invested exactly as we did. I wouldn't have pulled back one penny of it.

Allen J. Mistysyn

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

A

Yeah, Mike, I'd just add to that. As you remember, on the January call, I talked about a potential headwind with just lower architectural volume, because everybody in the industry had to build architectural inventory back up, so that's short term. Long term, we're in a lot of confidence in the growth across each of the segments, architectural, pro segments that John talked about, and we'll fill up that capacity very quickly.

So even though it might be a short-term headwind, as we've lived through some of these cycles before, the bounce-back and the strong growth, I'll go back to 2008 and 2009 and we grew high-single-digit for the 3, 5 and 10-year compounded average growth rate and we're a much bigger architectural business today than we were

back then. We'll fill that capacity, so – and I would argue or add to that, we're going forward on Statesville because of the confidence we have in the future outlook and the growth in architectural.

Michael J. Harrison*Analyst, Seaport Research Partners*

Q

All right. Great. And then on the performance coatings business, it was a little bit surprising to me that Asia was the weakest region for you. Can you comment on how you expect demand to play out in the rest of the year across the different regions, and I guess with particular emphasis on are you going to be seeing some recovery in China and in that Asia business? Thanks.

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

A

Well, Mike, we're positioned well to do just that. It's yet to be seen as the market or the – yeah, the market tries to kind of resume back in some normalcy in Asia. We're positioned very well. Our technology, our assets, our people. I think, a lot of that has to do with what happens in the market, and our expectations as in any situation is to grow faster than the market. I think, we're in a very good position from a technology but also relationship perspective, so yeah, I'd say that there is some uncertainty with the market in general, as it opens up, and our customers are back producing product. We expect to capitalize more than our share there.

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

A

Thanks, Mike.

Operator: Your next question for today is coming from John McNulty at BMO Capital Markets.

John McNulty*Analyst, BMO Capital Markets Corp.*

Q

Yeah, thanks for taking my question. It sounded like in the Consumer Brands side, business was maybe a little bit better than you expected. Can you speak to the stocking patterns that are going on there? Are we seeing kind of a normal stock? It seems like the expectation was that it was going to be a little bit below normal but again, you're kind of coming in better than you thought, so maybe a little bit of color there would be helpful.

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

A

Yeah, John. I would say that you're absolutely right. We obviously saw better performance in North America and in Europe, and if you remember on our January call, I said, we had not seen the destocking in our fourth quarter that maybe some had seen, so we anticipated maybe a slower build in inventory at the retail channel and we actually saw a slight increase in the retail channel inventory. And I think, thinking back, if I look at across the chain from the retail channel back through our DSCs, we're back to more I would call historic levels of inventory, so we're well-positioned to service the spring and summer selling season that's coming up.

And I'd just highlight, also, Latin America was a mid-single-digit tailwind in the quarter. Latin America had a very strong double-digit quarter and that helped when you brought them into the Consumer Brands Group.

John McNulty*Analyst, BMO Capital Markets Corp.*

Q

Got it. Okay. Okay. And then I know you guys don't tend to do much around the weather or blame a lot or take much credit for things on the weather front, but admittedly it was a much wetter start to the season particularly in regions where you can paint in the first quarter out West and what have you, and looks like the Midwest also maybe started a little bit more slowly. Do you have pent-up demand? Is that why maybe some of the – it looks like some of the data that we've at least been seeing from the contractors is maybe a little better-than-expected. I guess, how would you characterize that?

John G. Morikis

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

A

I'd characterize it as we don't like to talk about weather, you're right. I think, there are areas that are going to be under pressure with weather, John, and there are going to be other areas that a little better in weather and does it have some impact in some of those areas? Sure, but short of significant impact on our businesses, we try to stay away from that. Our expectations from our team includes the opportunity to go out and grow business, and so appreciate the question, but we're not going to follow the weather as a means for what's driving our results right now. We're proud of what we've accomplished. We're determined to accomplish more and we're not going to let weather stand in our way.

John McNulty

Analyst, BMO Capital Markets Corp.

Q

Fair enough. Thanks a lot.

James R. Jaye

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

A

Thanks, John.

Operator: Your next question is coming from Ghansham Panjabi at Baird.

Ghansham Panjabi

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

Q

Yeah, thanks, everyone.

John G. Morikis

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

A

Good morning, Ghansham.

Ghansham Panjabi

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

Q

Good morning. John, you've given us parameters as to how to think about new residential for 2023, which was a reiteration of your previous view three months ago. Has your view changed on commercial for the year in context of the credit issues that the US banking system and also Europe went through starting in March? Or is it still pretty consistent with before?

John G. Morikis

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

A

Ghansham, I'd say this year we see a pretty solid year. These buildings are reaching the painting stage now they started 12 to 18 months ago, so we'll have to see if there is in fact an impact on construction and commercial 12

to 18 months from now, but the long line of sight that we have in this space, we're growing share and there's a lot of projects coming on which we expect to paint.

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

Q

Got you. And then in terms of Packaging. I know very tough comps for the first quarter but how are we thinking about the rest of the year for that specific business?

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

A

That's an interesting one, because I think when you look at Packaging we never accept from any of our businesses softness, but this is a very unique situation with our Packaging business, on top of the 30% comps, this team has continued to expand the commercialization of what we consider are very unique technology, so we continue to see the lines that our product is on. They grow. They're growing. We're growing share.

What's happened right now is there's a level of destocking that's taking place within many brands impacting our customers as they work through high inventory levels. It's not often that I'm accepting to a team that's brought in softness, but in this case, given the line of sight that we have and the share that we're gaining and the incremental production lines that we're going on every day we're giving them a break, so I think the first quarter was a little tough. We'll probably have a little choppiness here in the second quarter and as the year progresses our expectations will resume for this team to continue to grow or to be able to demonstrate the share that they're growing.

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

Q

Perfect. Thank you.

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

A

So, short-term issue for this team. We have a lot of confidence in the technology, the team, and what we're doing. We'll be fine here.

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

Q

Got it.

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

A

Thanks, Ghansham.

Operator: Your next question is coming from Mike Sison at Wells Fargo.

Michael Sison*Analyst, Wells Fargo Securities LLC*

Q

Hey, guys. Nice start to the year. John, I know you mentioned that you need to see how trends for Q2 unfolds to have a better idea for the second half, so just curious if Q2 unfolds as you expect today and I think it means, I

think your outlook suggests that PSG volumes are going to flatten out versus a pretty strong first quarter. What does that mean for your second-half outlook and if 2Q comes in better or worse, what does that sort of mean?

Allen J. Mistysyn

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

A

Yeah, Mike. I would say, as John talked about, our first quarter is the smallest quarter. We expected a strong quarter. We delivered on that. We're closely monitoring the demand trends and expect, as you mentioned, and we said it on our year-end call that new residential demand would start slowing in our mid second quarter.

We've experienced a lot of market uncertainty before. I just look at the last three years. I think, it's better to get a better view of demand after our seasonally higher second quarter. This gives us the best opportunity and more certainty for our second half, and we'll continue to manage our SG&A, particularly our G&A tightly, continued investments and other discretionary items will be managed with the demand outlook.

I think, we believe these long-term growth investments allow us to grow market share in any environment and especially as we come out of this slower macro environment, but this is how we're going to manage the company going forward. I mean, we believe our second-half outlook is realistic, but you know, we also believe we'll outperform the market and if the market demand is better than our expectations we'll perform better than what we currently have here, and we'll bring all those variables together and give you our best outlook after the second quarter for the year.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

And as a quick follow-up, given your new capacity, better cost structure and such, if you do get your volumes back to where they were prior to this downturn, where do you think earnings or margins should be at this going forward?

John G. Morikis

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

A

Well, we've talked about our – not just speaking of margin, gross margin. We expect we'll be in the range of 45% to 48%. We've I think demonstrated the incremental sequential margins in this quarter getting close to that bottom level of the range and we expect to poke through that and the reason we do expect that is that we believe we're focused on the right customers with the right solutions. Our focus is really simple.

I mean, we want to help them make more money. Help them to be successful, and as a result, we are in a position to be able to build that combined success and as a result, we expect to be able to provide margins for both our customers and our shareholders, and the combination of the right customers with the right solutions we believe will lead us to that.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Allen J. Mistysyn

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

A

The only thing I'd add to that, Mike, is when I start thinking about it by segment, we have a lot of confidence in our Performance Coatings Group to drive operating margins to that high-teens low 20s. The first quarter excluding

acquisitions, we were at 16.4%, again if you remember we hit that mark in the third quarter. It's an all-time high since we've owned Valspar and we're confident in driving Consumer Brands Group back up to that high-teens and low 20s so we get our cost structure right. That'll be a tailwind. We hold on to price, but as we come out of this we drive strong architectural gallon growth, market share growth in our Performance Coatings business and that's what's going to drive those operating margins back up to the high watermarks we experienced in different occasions on the different businesses.

Michael Sison*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

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

A

Thanks, Mike.

Operator: Your next question is coming from Steve Byrne at Bank of America.

Stephen Byrne*Analyst, BofA Securities, Inc.*

Q

Yes. Thank you. What fraction of your consumer business is the Pros That Paint category versus what was it back when you first got that exclusivity with Lowe's. What would you say is driving that growth? For example, is it the product offering or I know Lowe's has at least in some stores offering free delivery to the job site. Can you comment on how extensive that is? Is that meaningful and are you involved in that?

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

A

Yeah. Oh, go ahead, John.

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

A

No. I was just going to stay, I'm going to start and kick it to you, Heidi. I'd say, first of all is there is a commitment by both companies to grow this. We've got terrific leaders inside our organization and they're working with terrific leaders inside the Lowe's organization, outstanding partner and I think we're combined looking at the right elements of the business, and so we're not going to disclose a percentage on that, Steve, but Heidi I would like for you to maybe if you could talk a little bit about the Pros Who Paints, but also on a broader view, the importance of this relationship and the Consumer Brands portfolio as well as the initiatives that we have to grow.

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

A

Yeah. Good morning, Steve. This is Heidi Petz. John covered a good bit of this. I think at the end of the day we want to make sure that we are demonstrating that we're the very best partner. In fact we want to be their number one partner, so we think of some of the engagements here and how we're activating certainly there's a lot of support as they're working through their promotional calendars, making sure that we're investing in the right areas, not only to drive traffic but to make sure that we're converting those shoppers in the aisles certainly and we've got a lot of great brands. We've got some launches that are taking place right now. We won't get into too much detail here, but we want to make sure that we're in lockstep with them in terms of driving those conversions.

John mentioned this but the leadership team certainly all the way through the organization, I would say, our partnership has never been better than it is right now in terms of making sure we've got the alignment across the organization both with their Pros Who Paint and the DIY segment so when you think of the structures we've got to make sure that those are mirrored and that the metrics are aligned there so feel really confident in the way that we're moving forward and got big plans for the year so we're going to keep moving.

John G. Morikis

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

A

On the Pro Who Paints specifically, Steve, to your point, there are customers that prefer a home center platform. They can purchase everything from drywall to every other element that they might use on a project, and so to get to your question about who supplies delivery or sales calls or anything, there's a team effort that goes along with that and while we don't disclose the details of those for strategic and competitive reasons, I think Heidi hit it best. The collaboration and focus has never been stronger.

Stephen Byrne

Analyst, BofA Securities, Inc.

Q

And maybe one more for you, Heidi, and that's the Huarun brand over in China that is an old Valspar brand. I recall few years back when post the merger the company was going to drill into that, those Huarun stores in China and see if that, that could be driven into a paint stores type of model like it's in the US. Was the conclusion of that effort, is it really didn't have that potential and thus you're not the best owner for that brand?

Heidi G. Petz

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

A

Steve, I think you answered it perfectly. Yes. There was a better model here. I think, the divestiture certainly it does align with our strategy and as we've done a lot of work in that group to optimize the portfolio, the brands, certainly making sure that we're driving a focus on where we can get a return for our shareholders, and I think you said it. Sometimes, they are just assets that are more valuable to others, and this is an example of just that. We had the business was about \$100 million in revenue with 300 employees, and frankly was acquired as part of the Valspar acquisition you remember in 2017, so as we move down the next quarter here, we'd expect to close on this second-half of 2023.

Stephen Byrne

Analyst, BofA Securities, Inc.

Q

Thank you.

James R. Jaye

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

A

Thanks, Steve.

Operator: Your next question for today is coming from Gregory Melich at Evercore ISI.

Gregory Scott Melich

Analyst, Evercore Group LLC

Q

Hi. Thanks. Thanks for the helpful volume trends through the quarter in architectural. Is it fair to say given the deceleration in top-line that you expect that April is running negative volume year-over-year now? Or is it – has the deceleration been less dramatic than that?

Allen J. Mistysyn

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

A

Yeah, Greg. I would just say that April is trending as we would have expected it to trend. Not any better or worse.

Gregory Scott Melich

Analyst, Evercore Group LLC

Q

All right. Well, I had to try, but how about this? In the first quarter, could you breakdown the sales growth, the 8.9% into I think volume was down slightly and just sort of what was price and FX and that to just sort of help us frame the sales going to flat in the second quarter. How much of it is from volume deceleration, how much of it is from price staying where it is.

Allen J. Mistysyn

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

A

Sure, Greg. I would say price was up high-single-digits, and with that being a little bit higher, acquisitions added a low single-digit percentage which was mostly offset by FX headwinds and you're right. The volume was flattish.

If you look at that in our second quarter, effective price is going to be slightly lower year-over-year in the second quarter compared to the first quarter as we annualize the Paint Stores Group 12% price increase February 1 and some of the other price increases. As you know, the other divisions and groups were out with significant price increases as well, so they are just not as uniformed as Paint Stores Group, but they will annualize as we've gotten through our first quarter and into our second quarter.

The main difference is lower volumes, primarily due to lower new residential that we talked about some softening in North America Performance Coatings Group, and then FX headwinds will mostly offset acquisitions in both quarters.

Gregory Scott Melich

Analyst, Evercore Group LLC

Q

And is it fair to say that or maybe you could help by breaking down the gross margin expansion in the first quarter. Was that primarily getting price on top of raws or the fact that volume sort of held in there. Were you able to get some margin expansion from volume not being down so much?

Allen J. Mistysyn

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

A

Yeah, I'd say most of the impact were price increases, but the benefit we did see a nice benefit of the increased volumes in Paint Stores Group, as a reminder that is our highest gross margin segment and plus the slightly moderating raw materials that John talked about, and we are getting on top of the raw material costs.

As you know as we get into significant raw material inflation, we see that short-term contraction as pricing starts catching up, we moderate our gross margins flat and out, and then we see growth as raw materials moderate, and we hang on to most of the price, and it's because of the investments we continue to make and...

John G. Morikis

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

A

Yeah, I think, it's an important element. We continue to invest not only in the products but the services and technologies as well as the other assets. Additionally, I'd say that obvious and important investment in talent that we just talked about. The retention of talent and as well as new talent, so it's more than what's in the can. We're investing in the success of our customers with every rep, every tech rep, every store, even the trucks we're adding to our fleet, all designed to improve the profitability of our customers, so there's more to it than the cost of – what's in the can, and we're trying to drive the success of our customers with the investments that we're making.

Gregory Scott Melich

Analyst, Evercore Group LLC

Q

And with that, John, maybe I'll jump on that. Given those investments you're making in wage pressures and other costs besides raws, is this a year where you actually could have a price increase even if raws are slightly down?

John G. Morikis

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

A

Greg, we've talked for many years together about our approach and it doesn't change. Every 30 days we sit down, Al, Heidi, myself, with the entire leadership team, and we have a discussion, and the discussion isn't just on raw materials, to your point, it's on every cost that we have, and we do everything we can to try to drive more and more efficiency into the operations that we have. We try to use our leverage with purchasing. We try to drive efficiencies in the plant. Everything, so that we don't have to go out with price increases, so that's our first choice, but there are times when we find ourselves, as you described, in situations where it may not be the lever on raw materials that drives it. It might be some of the others. Energy, transportation, whatever it might be, so on a monthly basis we evaluate that, we make that decision. We take it to our customers and then we talk to our investors. At this point, we're not in a position to talk about any increases because we're not out with those, on a broad scale inside our stores. I will say that with some customers in different parts of our businesses where we've been working to put pricing in, we're still putting pricing in, so there's no finish line in this area.

Gregory Scott Melich

Analyst, Evercore Group LLC

Q

That's great. Well, good luck.

John G. Morikis

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

A

Yeah. Thank you.

James R. Jaye

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

A

Thank you, Greg.

Operator: Your next question is coming from Mike Leithead at Barclays.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning, guys. Just one on my end. I wanted to dig in on the Performance Coatings outlook. I guess, revenue was up call it 3.5% in 1Q, you're guiding 2Q down low single-digits, so call it flattish for the first half and the full year guide is down about 10 or so, which it seems to imply some pretty steep second-half declines, so can you maybe just unpack that a little bit?

Allen J. Mistysyn

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

A

Sure, Mike. Let me start and then I'll let Heidi jump in. We do expect continued strength in Auto Refinish, and positive sales in General Industrial in the second quarter maybe a little bit slower than what we saw in our first quarter. We expect continued softness in Industrial Wood and then we expect Coil and Packaging to be down low single-digit primarily due to the strong double-digit comps in the second quarter.

I think, if you look at it by region, North America, our largest region, is expected to be up or down low single-digits compared to a high-single-digit first quarter, both against strong double-digit comps, and we're not expecting a ton of improvement in Europe or Asia-Pacific and even Latin America will moderate a little bit.

Heidi G. Petz

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

A

Yeah, and I would just hit a few highlights here on the segments, so I think obviously a lot of this is based on our strategy of differentiation. AI hit on some of the regions so just a couple highlights. If you look at where we've said based on being recession resilient, Automotive Refinish is a great example where we were up mid-teen percent. We do see strong demand in most regions, and I would also comment on the really good price realization for the value that we're able to create and demonstrate for our customers.

We've been – number of calls here the last few quarters, we've been talking more about our installations and we're now seeing the momentum really building here. We would expect to continue to build that momentum and I think you could expect to see us taking some meaningful share here.

A few challenges, we're still working through, you'll probably hear a consistent theme across Performance Coatings Group and some of these segments where we've largely recovered our raw material challenges, but it is now a race to convert to finished goods as soon as possible, so you can imagine the Automotive Refinish space, that is absolutely a priority, and also, working closely with our customers where labor does continue to be a challenge for these customers.

The shop technicians, parts shortages are impacting some of these customers that are working through backlogs rather in the Automotive Refinish. I'd highlight quickly here too, Mike, is the protective and marine, whereas you know we're servicing this segment through our paint stores in North America and very strong double-digit sales in the quarter, and still a strong – aggressively strong outlook I would say through 2023.

Demand is strong in North America and Latin America, through most of the segments in Protective and Marine. Europe, Asia we've talked about these, certainly seeing some pressure there, which is leading to some project delays, and as I mentioned, we're on the path here making sure that we're taking every ounce of the resin as it continues to improve to race to conversion here, so we'd expect to see growth and incremental share gains there as well.

I'll comment just briefly on General Industrial. You mentioned it. I think, this I would categorize as more of a mixed bag across the segments in the regions, however globally heavy equipment remains our strongest and then

you've got some areas that are showing early signs of slowing. Appliances would be a good example of that, just adjusting the inventory levels, so we're going to continue to ramp-up production there.

Briefly on coil and I'll hit Industrial Wood and certainly come back to any additional comments. Coil North America is remaining strong with very consistent demand. Our metal buildings business is performing better than expected and seeing some softness in areas like the aluminum trim business. Latin America continues to be very strong with good performance, but it's built on new business and new accounts. The team has been laser-focused there, but we're still seeing pressure across EMEA and Asia in Coil.

And I'll briefly hit on Industrial Wood. We've talked about this segment where we feel the most pressure and I would say within the actual segment the most pressure is coming from furniture. The other segments, like kitchen cabinets and flooring we mentioned in our prepared remarks that are tied to new residential, continue to be a challenge, so we're seeing the continued pressure there, but importantly, what the leadership team there is working on is expanding aggressively through market share gains while our competition, in some cases, is reacting to the market softness differently.

So, we're working on getting these gains with a focus on introducing new technology and I'll give you a quick example here. The example within our furniture category. This technology is going to allow our customers greater service, quicker turnaround and ultimately smaller batches which brings benefits to the customer with less working capital, less waste and less obsolescence. So, I'm bringing this to you just as another example of beyond what's in the can, how we partner with our customers, to bring them solutions that are meaningful to their business goals. So quick roll around this segment with just a little bit of color.

Michael Leithead

Analyst, Barclays Capital, Inc.



Great. Thank you.

John G. Morikis

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



Thanks, Mike.

Operator: Your next question is coming from Truman Patterson at Wolfe Research.

Truman Patterson

Analyst, Wolfe Research LLC



Hey. Good morning, everyone. Just following up on one of Greg's questions, just for a little clarity. Pricing trends during the quarter in each of the segments. Were you actually able to realize or capture incremental pricing in each of the three segments or was it really just kind of carryover from what was already in place in the fourth quarter?

Allen J. Mistysyn

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



Well, Truman, as for Paint Stores Group, it's mostly carryover for consumer, there's pockets where maybe we didn't have product and now we're able to better service the customer with improving alkyd resin situation. But in Performance Coatings Group, for sure, there was some incremental pricing across specific businesses and specific regions that John even talked about, where maybe we haven't been as effective as we needed to be in the past, or there's other inputs that are causing our costs to go up.

I use energy in Europe as one example, where we've had to be out to offset some of those higher costs, so maybe some incremental. The vast majority of it though is the carryover pricing from 2022.

Truman Patterson

Analyst, Wolfe Research LLC

Q

Perfect. Thank you. And then in Performance Coatings, op margin was up like 400 bps year-over-year to 15.7%. That's highest first quarter in like eight years, even though volumes were down like low teens. Normally, you see a sequential ramp in those margins in 2Q and 3Q. Were there any one-time items in the first quarter that we shouldn't think margins will follow normal seasonality in 2Q or 3Q, or is that kind of a good cadence to think about?

Allen J. Mistysyn

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

A

Yeah, I would say that's probably a good cadence. There wasn't anything one-time that jumps out, Truman, as you can imagine, across the global business. There's puts and takes every quarter but nothing that drove the over increase in our operating margin.

John G. Morikis

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

A

Truman, I'd give a lot of credit to our leader there, Karl Jorgenrud, and his lieutenants that are out driving every day. To your point we see this sequential improvement. There's a lot of hard work, the identification of the right customers, the right segments, the right technologies, and really, demonstrating the ability to help our customers to improve their profitability and we've said for a long time that we expect this to be in the high-teens, low-20s. And if Karl was in the room right now, I'd look him in the eye and tell him I'm expecting him to get there very quickly, so. And he would probably respond that he's going to. So we've got a lot of confidence in that team. A lot of expectations, high expectations and we are going to deliver.

Allen J. Mistysyn

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

A

Truman, the only other thing I would add to that is acquisitions were slightly dilutive in the quarter. As we continue to integrate those acquisitions, realized synergies as the year goes on, my expectation that that'll improve as the year progresses, and help drive better operating margin in this segment.

Truman Patterson

Analyst, Wolfe Research LLC

Q

Perfect. Thank you, all, and good luck in the upcoming quarters.

John G. Morikis

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

A

Thank you, Truman.

Operator: Your next question is coming from David Begleiter at Deutsche Bank.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. John, just on Q2. Historically you see about a say a \$0.75 increase sequentially from Q1. Would you expect a similar increase this year or perhaps a little bit less given the demand weakness that you've been talking about here?

John G. Morikis

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

A

Yeah, David, we're not going to give guidance on our second quarter EPS. I understand the question. What I think you can expect to see in our second quarter is – gross margin we expect sequential and year-over-year improvement. We talked about the price increases and a sequential carrying over and sequential improvement in raw material costs will have a positive impact partially offset by higher wages within manufacturing distribution.

I would say with SG&A, I do expect a smaller year-over-year increase in our second quarter as we annualize that merit increase from last year and we start realizing more of the cost reductions from restructuring activity. So we typically see an increase in SG&A as I talked about with Paint Stores Group ramping up the service, the increased sales. But as a percent-to-sales I would expect our SG&A as a percent to be lower in our second quarter because of that, seasonally higher architectural sales. So you do expect a lift in our second quarter because of the improvement in Paint Stores Group quarter-to-quarter, architectural sales, but we're not going to...

Allen J. Mistysyn

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

A

We expect to have a good second quarter. And we're going to update you at the end of the quarter. But as what we see right now we expect a good quarter.

Truman Patterson

Analyst, Wolfe Research LLC

Q

Understood. And John, just on the Paint Stores Group, are you seeing any price erosion or givebacks in that business?

John G. Morikis

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

A

No, actually, David, normally what we see is a small percentage of large perhaps what we might call marquee jobs that get a lot of attention, and we're all proud and some of us have egos. We admit that that we want to see our paint on specific projects, but for the most part what you'll see is a pretty disciplined industry because we all understand that it is competitive and the ability to continue to keep your company healthy and invest in those drivers that will help your customers to be successful requires that help. And so it's competitive for sure, but for the most part, it's a race to demonstrate the value that you can bring and we believe that in that race, Sherwin-Williams wins.

Truman Patterson

Analyst, Wolfe Research LLC

Q

Very good. Thank you.

Allen J. Mistysyn

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

A

You bet.

John G. Morikis

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

A

Thanks, David.

Operator: Your next question for today is coming from Josh Spector at UBS.

Joshua Spector

Analyst, UBS Securities LLC

Q

Yeah, hi. Thanks. Wanted to follow up on the Pro Contractor side of things. I think last call, John, you made some comments that to some of your customers, you needed to almost educate them about the fact that there are going to be market declines and they weren't really seeing declining in backlogs or anything to that extent. Has that changed, has that conversation changed and from what you guys have visibility on the backlogs now, has that changed much versus a few months ago?

John G. Morikis

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

A

Yeah, I should be careful in making general statements like that, because to characterize an entire industry like that can be challenging to say the least. But yeah, I would say that many customers that have in the past not been able to even return phone calls on bids, bid requests, are now either returning those calls or looking for some of those bid requests.

There's an understanding that there's an opportunity to continue to grow. If you look at the homes in the US, they are aging. The residents of those homes are aging, and while many of those people may choose to move into a new home, many are choosing to stay in those homes, and paint remains relatively inexpensive yet highly impactful project. And those painting contractors are pursuing those. So again, I mentioned earlier, I would describe it as a more normalized market. Contractors are looking and doing a lot of work, and they're also probably a little more aware that having a marketing aspect to what they're doing is an important part of their future success, and we're helping them with that.

It's an element that most people don't recognize, and when I say it's not just what's in the can, we've been at this for over 150 years obviously. And our ability to align with our customers, help them to understand not only that they should be looking around the corner, but how to prepare for that. They might have been great painters, now they own a paint company. And when they started the business they put a sign on a project and every person in the neighborhood came to them. We're helping them to understand how to reach out and grow their business, how to in some cases specify products, in some cases even how to interview potential painters. So, we're in lockstep with these firms, helping them to grow their business in ways that most people wouldn't understand.

Joshua Spector

Analyst, UBS Securities LLC

Q

Thanks. And I guess if I ask about the repaint demand side of things, just we've been in this downturn now for the last six, nine-months or at least when starts come down and some of the housing turnover softened. Given the higher DIY demand during COVID, and where interest rates are and more people staying put, I guess how do you square all of those to say is repaint that 75% which is more defensive, is that staying defensive? Is that less defensive, more defensive now, any way to characterize how you're thinking about that based on what you're seeing today?

John G. Morikis

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

A

I'm not sure I quite understand your question. But I might say that we see this residential repaint business and have seen it as an important element to offset some of the softness in the market, coming out of the last downturn, Al, myself, and many of the leaders that are currently running the company sat and reviewed during the slowdown what would – like we had experienced then, what would we like to have going forward, and it was a larger, a more meaningful residential repaint business, and we've been successful in doing that.

We were successful in growing new residential. Our position there, we love our position there, and we've over-indexed now given the success that we've had. And so the offset to that has been the residential repaint, the property management, and on the industrial side, businesses like our automotive refinish and some other, even the sub-segments within some of our areas. So we manage this business with a long-term view and we're always looking at the war game of, if this happens, then what? And residential repaint right now is an important element.

If you look at our DIY business, our DIY business was up double-digits, but it's because the comparisons were so small. Last year, we made the decision to de-emphasize. We weren't making our DIY product and the reason we did that is that we were allocating that to our DIY retail customers that are important. We want to maintain that long-term relationship. We took a hit there in last year's sales in DIY to help our large and important customers grow.

As a result our DIY comps look good now, but it's on a small base. Residential repaint business is an important element that we expect to continue to grow. DIY, we'll take that business, but our focus is on the 90% of the professional through our stores.

Heidi G. Petz

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

A

Josh, one more thing I would add to that on the residential repaint side. I think if you look at, back to your question on the backlogs and how we think about this business offsetting some of the other softening demand. We're introducing new products, so if you think about these contractors going in largely focused on the walls, we've introduced a new professional cabinet coating. It's essentially a one component that performs much like a two component epoxy. So excellent chemical and moisture resistance and allowing these contractors to go in and essentially help to complete an entire kitchen from the walls to the cabinets. So, really trained to arm them with the ability to take advantage of while they're in the home where else they can generate revenue.

Joshua Spector

Analyst, UBS Securities LLC

Q

Okay. Appreciate it. Thank you.

John G. Morikis

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

A

Thank you, Josh.

Operator: Your next question is coming from Aleksey Yefremov at KeyBanc Capital Markets.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks, and good afternoon, everyone. I had two questions on the cost side. One is on the labor costs, what are you seeing in terms of trends, any signs of inflation leveling out there? And the second part is on the real estate. As you sign new leases, or renew existing leases are you seeing any cost moderation there?

Allen J. Mistysyn

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

A

Yeah, let me, I'll take the first one, on our labor costs, we talked about mid-to-high single-digit labor costs through our non-factory distribution facilities. We do expect that to level out, especially as we get into our second half. In our factories and distribution centers, I would say the rate of increase has been higher to attract and retain those individuals in our sites.

I would say on that side, Aleksey, we're going to continue to do specific market studies to make sure we don't get out of bed, if you will, or outside of the market, in any given area. I think what I would admit to is we maybe got a little bit behind previously. We're not going to let that happen.

So, I believe it's leveled out, as we see more unemployment rates tick up, it'll put less pressure on wage inflation going forward. But I think we've got to be diligent in the manufacturing distribution areas to – each market is a little different, each one is going to be more specific to what's happening in that market. And we'll be more diligent there. But I do expect them to level out.

John G. Morikis

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

A

And on the rent side, I would tell you that for the most part, I'd say rents seem to be relatively flat. We make a very good tenant. We try to use that and leverage that. The fact that as the predominant or premium brand here, we like to talk about what it is that we bring. We talk about our financial strength, and the fact that we're investing in our industry while others are closing stores, we think plays well to those tenants that are looking for a long-term tenant that can pay their bills. And we fit that bill.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks a lot. Very helpful.

John G. Morikis

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

A

Thank you.

Operator: Your next question for today is coming from Arun Viswanathan at RBC Capital Markets.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. Hope you guys are well. So first question, I guess, was you guys have obviously many, many businesses. If you were to characterize maybe the top two or three that are performing better-than-expected or have the capabilities of performing better-than-expected, what would those be? Would that be maybe commercial and maybe new resi potentially not being as bad as you initially thought? Or how should we think about that? Thanks.

John G. Morikis

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

A

Well, I would say that commercial certainly has performed better. Our Property Maintenance has performed better. Our Protective & Marine has performed better. I think that our residential repaint is, we had high expectations of that going in. So I think, I would never say they are meeting our expectations. When they meet our expectations, we raise our expectations. On the industrial side I think our automotive business is really doing very well. And I'd say that there are some others that it's hard to answer this question, Arun, because in each of our businesses, there are opportunities. So in our business, the way we look at it, it's not a one or a zero. When our teams come in and talk about if you're looking at our Paint Stores Group, you can come in and talk about new residential being under pressure, but then the focus is on where are the opportunities?

And so even within new residential, we know there are opportunities there for growth. And so, as I often say there's no finish line. And in each of these businesses there are opportunities and the role of our leadership teams that have been through many of these in the past is to find those opportunities. And they exist in every single business. Even industrial wood where there's a lot of pressure, there are opportunities for growth, and we expect the team to find those opportunities, grow in those segments while improving their position within the segments or the sub-segments that we play in now so that when the market does return that we are that coiled spring and we take advantage of it. But we expected them all to grow faster than the market.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Okay. Thanks for that. And as a follow up, wanted to ask about the EPS outlook here a little bit. So prior to your last earnings report, I think several of us rightly or wrongly were in the \$9.50 to \$10 range for 2023. Yourselves and us have rebased our expectations to \$8.35, we're still at the midpoint. So does that \$1.50 or so that we had to remove from our outlook, what would it take for that to come back in 2024? Is it mainly lower, better affordability environment, driving higher [indiscernible] (01:18:22) turnover? I know there are several things that you can probably mention, John. But similar, what are maybe a couple of the top drivers that would get you back into that near \$10 range on EPS? Thanks.

John G. Morikis

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

A

Yeah, Arun. The first and always the biggest is volume growth. I mean, there's been a lot of macro headwinds, there's a lot of uncertainty and you hit some of the mortgage rates are higher, existing [ph] arm (01:18:46) turnover is lower, new single-family starts are lower. As we keep investing in new stores, in new reps, and some of the other long-term growth opportunities, reps across each of the businesses, as the market improves, because of the added investments we've put in over time, we expect to grow much faster than markets. So instead of a headwind with a macro environment becomes a tailwind and then we grow. I keep going back to 2008 and 2009 because I believe it's a similar environment and a similar dynamic. So we expect to grow not 1 to 2 times the market but 2 to 2.5 to 3 times the market. And that's how we're going to drive that operating margin back to where we expect it to be.

Allen J. Mistysyn

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

A

Yeah. And it's capitalizing, Arun, mentioned in the last response, that in every one of these segments. I agree volume is the key and growing share is important. And even we talk a lot about new residential and we point to single-family frequently when we're having that discussion. But the fact that multifamily starts have been more robust since last summer is a terrific opportunity, and our ability to shift resources and attention to those

opportunities is what differentiates us and why we believe that we'll get there and the opportunity to really see that expansion, we're not just waiting for the market to come back. We're working every day to take that volume and be in a better position to capitalize on it once the markets improve.

Arun Viswanathan*Analyst, RBC Capital Markets LLC*

Q

And just one last quick one. I know you guys have moved the FCP to August. Was that mainly just so you had a little bit more visibility into the year, or I guess usually it's done in May or June, so just if there's anything to that just wanted to understand that move, thanks.

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

A

We wanted to bring you into Cleveland in August. It's a beautiful time to be here. It's...

Arun Viswanathan*Analyst, RBC Capital Markets LLC*

Q

Great.

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

A

Yeah, I mean, it's – to bring you in and be able to talk a little bit more about our line of sight in August is going to be much better and quite frankly, we're proud to put our teams in front of you and we think we're going to have a lot of really good things to talk about, so we're looking forward to hosting you here.

Arun Viswanathan*Analyst, RBC Capital Markets LLC*

Q

Thanks.

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

A

Thanks, Arun.

Operator: Your next question for today is coming from John Roberts at Credit Suisse.

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

Q

Thank you. Your Auto Refinish business has been consistently strong for a long time right now. During the pandemic I thought it was Dupli-Color, but now we're out of the pandemic and it's still strong. Is it controlled distribution, is it new products? What's driving that above-market performance?

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

A

Yes, it's controlled distribution. It's technology. We talked about the combination of the technology system between some technology combining Sherwin and Valspar technology. We have wonderful leadership. We have great products, great distribution that's controlled, and we've been talking to your point, John, about our position

here for some time and expected it to grow and we think the numbers are proving exactly what we said was going to happen is in fact happening.

John Roberts

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then you've got over 300 stores in Latin America. Now that they're in the Consumer segment, do you run them differently? Are you going to be repositioning those stores?

John G. Morikis

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

A

No. All along, we've been sharing talent as well as best practices amongst the Consumer Brands and our Paint Stores Group. There is a realization that more and more of that business represents or mirrors a business that might most likely be found in our Consumer Brands Group. We've got talent in our Consumer Brands Group. Todd Ray and the team has really done a wonderful job, and we think bringing their expertise to that market where we can leverage their experiences will be terrific and quite frankly it'll work both ways.

We have terrific leaders in Latin America as well and we expect to learn from what it is that they do down there and bring some of that back to North America, so it's a win-win for both businesses and certainly for customers on both sides.

John Roberts

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you.

Operator: Your next question for today is coming from Kevin McCarthy at Vertical Research Partners.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Good afternoon, everyone. With regard to your Performance Coatings Group, is it your sense that customer destocking is done as we sit here in April? Or is it still playing out among certain businesses within the segment?

John G. Morikis

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

A

I would say it's likely played out, although I would say there might be some differences in region-by-region, Kevin, but if you look at what's happening in Europe as an example, there's a lot of concern in the market, so we might have some customers that might still be in a unique position, but for the most part, particularly here in North America, I don't think there's a great deal of inventory in the segments that we play in.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Good to hear. And then secondly, if I may. What percentage of your Performance Coatings Group sales are linked to contracts that would feature some sort of indexed pricing mechanism as it relates to raw materials?

John G. Morikis

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

A

A very small percentage.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Okay. So when you say in your prepared remarks, John, that you hang on to the majority of your price increases, it sounds like that would be a vast majority indeed if index pricing is quite small.

John G. Morikis

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

A

That's correct.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Okay. Thank you very much.

John G. Morikis

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

A

You bet.

James R. Jaye

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

A

Thanks, Kevin.

Operator: Your next question is coming from Duffy Fischer at Goldman Sachs.

Duffy Fischer

Analyst, Goldman Sachs & Co. LLC

Q

Yeah, hi. Just first question on structural raw materials. A year ago, you guys were shorted and couldn't supply your customers what you wanted. Obviously, now things there's slack in the system, we're seeing prices roll over. If we get back to a normal demand level, let's say, next year, are raw materials structurally short again or have you guys taken steps and what steps have you taken to increase the availability of raw materials if we get back to a normal demand level?

James R. Jaye

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

A

Duffy, I would say they will not be structurally short. The availability has recovered very nicely for us. We've taken a number of steps over the past couple of years in response to what we've seen. One of those was certainly our purchase of Specialty Polymers, which has increased our internal resin production. We've worked closely with many of our suppliers. We've simplified the portfolio as well, so there are maybe not as many raw materials that we would have to procure as we would have in the past. I don't know...

John G. Morikis

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

A

I'd say from an assurance of supply, it's very important to understand, Duffy. We're not trying to return to a supply chain of the past. Our goal has been to improve our position and our ability to supply our customers, and we've taken appropriate steps.

For competitive reasons we are not going to lay out what those steps are, but Heidi and her team, Heidi is leaning on the edge of her seat wanting to answer this question. We are not going to get into those details right here right now. I would tell you that we have been very forward-thinking in how we're going to work through future issues, and we learned a lot during this process, and I'd say we're coming out better and smarter as a result.

Duffy Fischer*Analyst, Goldman Sachs & Co. LLC*

Q

Fair. And then a decade ago, the Glidden brand bumped you guys out of Walmart once before, and I think, if my notes were right it was like a \$250 million opportunity back then. This time, does it move the needle? It's no longer Dutch Boy but it's Valspar, but does it move the needle for you guys or that's kind of a non-event in what we'll see in your printed numbers?

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

A

Yeah, we don't think this will really have any impact to be really candid with you. And I think if you look at the business in general, Walmart, it's still a very important customer to us. We sell them a lot of our key brands such as Minwax, Thompson's, Krylon, and while we have, to your point, enjoyed the private label in the past, I think this is an exciting opportunity for us as we move forward, because we're going to continue to service the existing brands that we have, and we will look forward to an opportunity in the future. If there comes to be something where we can both create value on both sides for both companies we'll absolutely be interested in looking at that.

Duffy Fischer*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you.

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

A

Thanks, Duffy.

Operator: Your next question for today is coming from Adam Baumgarten at Zelman & Associates.

Adam Baumgarten*Analyst, Zelman Partners LLC*

Q

Hey. Good afternoon, everyone. Just one from me. Are there any other businesses at this point in the portfolio that are under strategic review or are you kind of through that process?

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

A

Adam, we look at every business, every brand, every program, everything constantly. We have that discipline.

Adam Baumgarten*Analyst, Zelman Partners LLC*

Q

Okay. Thank you.

James R. Jaye

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

Thanks, Adam.

A

Operator: Your next question is coming from Chuck Cerankosky at Northcoast Research.

Chuck Cerankosky

Analyst, Northcoast Research Partners LLC

Good afternoon, everyone.

Q

John G. Morikis

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

Hey, Chuck.

A

Chuck Cerankosky

Analyst, Northcoast Research Partners LLC

When you look at the Paint Stores Group, DIY was up double-digits in the quarter, and I think you touched on some of that, but in the Consumer Group in North America DIY was soft. Was there more to talk about there than just a short supply as a year-ago at Paint Stores?

Q

John G. Morikis

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

Not really, Chuck. I'd say we had really de-emphasized DIY last year to serve our customers, and so we now have product to sell, and so it's on a smaller base, because of last year, and again, I think it's important to mention that our focus and our success is going to largely be determined by the professional sales that we have represented by 90% of what goes through our stores, so we'll take the DIY business where it helps us but the focus is on our Pro business.

A

Chuck Cerankosky

Analyst, Northcoast Research Partners LLC

Got it. Thank you.

Q

John G. Morikis

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

You bet.

A

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

Garik Shmois

Analyst, Loop Capital Markets LLC

Hi. Thanks for taking my question. I wanted to follow up just on the inventory fill that you saw at Consumer Brands. Was that across both DIY and Pro and do you expect any of that to bleed into the second quarter?

Q

Allen J. Mistysyn

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

A

Typically, what we see in our mid spring and summer selling months are, you'd start seeing declines in inventory as we come out of the season, so I wouldn't expect to see inventory builds like we saw in our first quarter, so I think you'll see a more typical seasonal inventory pattern this year. Raw materials are in a good place, like I said, we're through – the total supply chain inventories are in a good place, so just to put it in perspective, we're back to servicing our customers at the level that we expect to service them at, and they expect to be serviced at, so I would expect that management of inventory will happen similar to the flow of past cycles.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Got it. Thanks for that. Just wanted to follow up. It doesn't sound like it, but just want to confirm if you're seeing any trade down or any change in mix at all be it in Paint Stores or in Consumer Brands.

John G. Morikis

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

A

No. The opposite. It's a positive mix shift.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Okay. Thank you.

John G. Morikis

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

A

Customers that have a labor as a percent of sales continue to learn that the higher-quality product might cost them a little bit more per gallon, but that they actually make more on a project, so our mix is positive in our stores.

James R. Jaye

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

A

Thanks, Garik.

Operator: Your next question is coming from Eric Bosshard at Cleveland Research.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

A follow-up for you, AI, I guess. On gross margin, the upside performance in the first quarter or strong performance, however you'd characterize it, I'm assuming there was some benefit from strength in volume. What I'm trying to figure out is the volume behaves differently in the coming quarters as you've talked, do you build from the 1Q gross margin? Is that having an impact on the gross margin? How should we think about the linkage between volume and gross margin as we move through the balance of the year?

Allen J. Mistysyn

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

A

Yeah, it certainly, because Paint Stores Group had a better – had increased volume and it's our highest gross margin to margin segment it certainly improves our gross margin going in the first quarter for sure. I think, as

we're moderating some volumes, but still Paint Stores is still going to be our best performing segment in our second quarter and we do also expect to hang on to the price and get to see that sequential raw material moderation.

So, I think, the volumes helped for sure, and when the Paint Stores Group is stronger than the other segments because of that mix dynamic, it will help our gross margin, but I do expect to see sequential and year-over-year improvement in gross margin in our second quarter. And then we'll give you an update, Eric, on the rest – second half after the second quarter.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Okay. That's all I have. Thank you.

Q

James R. Jaye

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

Thanks, Eric.

A

Operator: Your final question for today is coming from Jaideep Pandya at On Field Research.

Jaideep Pandya

Analyst, On Field Investment Research LLP

Thanks. The question really is on Industrial Wood. Could you tell us when did the destocking actually start, and is there any signs of early destocking or weaker demand coming towards an end?

Q

And then the second question really is on the multifamily homes. One of your competitors was sort of alluding that there was a decent backlog this year but there could be some air pocket next year as the project sort of finish, so do you expect weakness in the multifamily homes or for that matter in commercial/property management in 2024 or it's not something you worry about? Thank you so much.

John G. Morikis

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

Well, on the Industrial Wood, in multifamily, I'd say let me start with the multifamily and work backwards. I'd say our line of sight right now, both commercial and multifamily is strong for the balance of this year and certainly going into next year. We'll see what happens as we move forward, but right now, our confidence is high and the pipeline is full. We're bidding a good amount of activity with contractors in this space, so I'd say our future looks pretty positively on that.

A

On the Industrial Wood, timing, it's been under pressure, likely along with housing, so if you want to look at housing starts as a good precursor for this business, it's not exact, but will give you some insight as to how that business has behaved and again, our expectation is that there are opportunities in this business to outpace the market, and in both – in all the segments you talked about, multifamily as well as Industrial Wood we have teams that are out there focused on it and growth every day.

Jaideep Pandya

Analyst, On Field Investment Research LLP

Thank you.

Q

John G. Morikis

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

A

Thank you.

Operator: We have reached the end of the question-and-answer session and I will now turn the call over to Jim Jaye for closing remarks.

James R. Jaye

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

Yeah, thank you, everybody, for joining us today. I did want to remind you to please save the date for our annual Financial Community Presentation. That will be in Cleveland, as John said, on August 24. The event will also be webcast. Registration details on that will be available soon, and we'll look forward to seeing many of you here.

To close out the call here, you heard today that we're off to a very good start to the year, with today's results, and at the same time, our team knows we still have work to do. We're prepared to do that. We know there's going to be macro headwinds as the year progresses, but we'll deliver strongly in those conditions, and we're going to remain focused on what we can control.

So thank you for attending today, and as always, I will be available, along with Eric Swanson for your follow up phone calls. Thanks for your interest in Sherwin. Have a great day.

Operator: This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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