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The Sherwin-Williams Co. (SHW)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining The Sherwin-Williams Company to Review of the First Quarter 2015 Results and Expectations for the Second Quarter and Full Year. This conference call is being webcast simultaneously in listen-only mode by Vcall 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 and will be available until Wednesday, May 6, at 5 PM Eastern Time.

After the review of the first quarter results, we will open this session to questions. I will now turn the call over to Bob Wells.

Robert J. Wells

SVP-Corporate Communications & Public Affairs

Thank you, Melissa. Good morning, everyone. Thanks for joining us. We're going to begin the call this morning, as usual, with a brief recap of first quarter 2015 results by John Morikis, our President and Chief Operating Officer. Then Chris Connor, our Chairman and CEO, will provide some perspective on the quarter and our expectations for second quarter and full year. Following their remarks, we will open the call to questions, and Sean Hennessy, our Chief Financial Officer, and Al Mistysyn, Vice President, Corporate Controller, are with us this morning to participate in the Q&A session.

Before I pass the microphone to John, let me remind you that 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 on our earnings release transmitted earlier this morning. In the interest of time, we've also provided some balance sheet items and other selected financial information on our website, www.sherwin.com, under the Investor Relations tab, First Quarter Press Release.

With that, let me turn the call over to John to review our performance for the first quarter.

John G. Morikis

President & Chief Operating Officer

Thanks, Bob. If you listened to our earning calls over the past few quarters, you may detect a familiar pattern in today's release. Once again, in the first quarter, we saw good momentum in most of our domestic businesses and less favorable results from our non-domestic operations. I'll begin by highlighting overall company performance for first quarter 2015 compared to first quarter 2014, then comment on each reportable segment.

Consolidated net sales increased 3.5% to a record of \$2.45 billion, driven primarily by higher paint sales volumes in our Paint Stores and Consumer Groups. Unfavorable currency translation decreased consolidated net sales 3.1% in the quarter. Consolidated gross profit dollars increased \$66.5 million in the quarter to \$1.13 billion.

Our consolidated gross margin increased 120 basis points in the quarter to 46.2% of sales from 45% in the first quarter last year. Most of the gross margin improvement in the quarter resulted from higher sales by Paint Stores

Group, our highest gross margin segment, and increased operating leverage from higher production and distribution volume.

Selling, general and administrative expenses increased \$45.1 million over first quarter last year to \$929.2 million. As a percent of sales, SG&A increased to 37.9% in the first quarter this year from 37.4% last year due primarily to the incremental investment in the Lowe's roll out. Interest expense decreased \$4 million compared to the first quarter last year to \$12.4 million. This decrease was due to the rate difference between the \$500 million in five-year notes we retired in fourth quarter 2014 and the comparable increases in our short-term borrowings.

Consolidated profit before taxes in the quarter increased \$27.2 million to \$193.2 million due primarily to improved operating results from our Paint Stores Group. Unfavorable currency translation reduced profit before tax in the quarter by \$6.4 million or 3.8%. Our effective tax rate in the first quarter this year was 32% compared to 30.5% in the first quarter of 2014. For the full year 2015, we expect our effective tax rate to be in a low 30% compared to the last year's rate of 31.2%. Consolidated net income increased \$15.9 million to \$131.4 million.

Net income as a percent of sales was 5.4% compared to 4.9% in the first quarter last year. Diluted net income per common share for the quarter increased 21% to a \$1.38 per share from \$1.14 per share in 2014.

Now looking at our results by operating segment. Sales for our Paint Stores Group in the first quarter of 2015 increased 7.5% to \$1.46 billion from \$1.36 billion last year. Comparable store sales, sales by stores opened more than 12 calendar months increased 6.4%. All the Paint Stores Group sales increase was due to higher organic paint and equipment sales volumes across all end markets. Price mix had a negligible impact on sales in the quarter.

Regionally in the quarter, our Midwestern division led all divisions, followed by Southeastern division, Eastern division and our Southwestern division. Sales and volumes were positive in every division. Segment profit for the group increased \$30.3 million or 20.7% to \$176.6 million in the quarter as higher paint and equipment sales volumes were partially offset by higher SG&A spending. Segment operating margin increased to 12.1% of sales from 10.8% in the first quarter of last year.

For our Latin America Coatings Group, first quarter net sales decreased 8.9% to \$166.2 million due to unfavorable currency translation that was partially offset by selling price increases. Volumes in the quarter were slightly positive, but currency translation rate changes decreased sales in U.S. dollars by 13.9% in the quarter.

Segment profit in U.S. dollars decreased to \$9.5 million in the quarter from \$10 million last year. Segment profit was negatively impacted by higher raw material costs and unfavorable currency translation, partially offset by selling price increases. Currency translation decreased Latin America segment profit by \$3.4 million in the quarter. As a percent of net sales, segment operating profit was 5.7% in the quarter compared to 5.5% in the first quarter of 2014.

Now, turning to Consumer Group, first quarter sales increased 8.1% to \$351.7 million due primarily to the initial shipments of the HGTV HOME by Sherwin-William's paint program to Lowe's stores. Segment profit for the Consumer Group increased \$4.3 million to \$55.4 million in the quarter from \$51.1 million in the first quarter last year. The profit improvement in the quarter was due primarily to increased operating efficiencies that were partially offset by higher SG&A spending related to the HGTV HOME rollout. Segment profit as a percent of external sales increased to 15.8% from 15.7% in the same period last year.

For our Global Finishes Group, sales in U.S. dollars decreased 5.6% to \$469.6 million in the quarter as unfavorable currency translation was partially offset by higher selling prices. Unfavorable currency translation decreased net sales for the segment 6.9% in the quarter. First quarter segment profit stated in U.S. dollars

decreased \$7.6 million or 16.3% to \$38.9 million due primarily to unfavorable currency translation rate changes, which decreased segment profit \$4.4 million in the quarter. As a percent of sales, segment profit decreased to 8.3% from 9.3% in the same period last year.

That concludes my recap of our results for the quarter. So I'll turn the call over to Chris Connor who will make some general comments and highlight our expectations for the second quarter and full year. Chris?

Christopher M. Connor

Chairman & Chief Executive Officer

Thank you, John. Good morning, everybody. Thanks for joining us. First quarter was a good quarter from a profit perspective, but revenue clearly came in a little below our expectations. This was largely a result of two factors: the impact of unfavorable currency translation on sales was a little worse than we anticipated in our guidance. And HGTV HOME by Sherwin-Williams shipments to Lowe's in the quarter were slightly lower than we expected due entirely to timing. This combination reduced revenue growth in the quarter by a little more than 150 basis points versus our guidance. But neither of these factors affects our expectations for the full year in any way. We remained bullish in our outlook for both sales and earnings as we were in January.

From a profitability standpoint, earnings per share in the quarter grew 21% and consolidated sales growth of 3.5%. Our incremental margin on consolidated profit before tax was more than 32%. As a percent of sales, gross profit expanded 120 basis points, operating profit margin improved 60 basis points, and profit before tax improved 90 basis points. SG&A was the only line in the P&L that went the wrong way in the quarter and that was by design to support the rollout of HGTV HOME at Lowe's.

Both of our domestic operating segments reported solid sales and profit results in the quarter. Paint Stores Group got off to a strong start in January, hit a soft patch in February, but regained their momentum in late March. Comparable store sales growth of 6.4% in the quarter overcame the drag from the 283 Comex stores now embedded in the comp. We're encouraged by the fact that the locations we have converted to the Sherwin-Williams format have shown immediate improvement in DIY and residential repaint business, the two highest gross margin customer segments.

During the quarter, Paint Stores Group opened 21 new stores and closed 14 redundant Comex locations. Our plan still calls for full-year store openings in the range of 100 net new locations. Today, our total store count in the U.S., Canada, and the Caribbean stands at 4,010 locations compared to 3,925 one year ago.

Consumer Group's 8.1% sales increase and 10-basis-point improvement in segment profit margin in the quarter both reflect the impact of the HGTV HOME load-in at Lowe's. If you back out the Lowe's shipments, the group's core sales in the quarter were roughly flat year-over-year. The profit margin on incremental sales was only 16.4% due to higher SG&A spending to support the HGTV HOME rollout.

Our Global Finishes Group and Latin American Coatings Group got off to slow starts for the year due in part to unfavorable currency translations and in part to soft end-market demand. Both segments, however, reported positive sales volumes in the quarter, but the volume did fall a little short of offsetting negative currency impact.

In spite of the inventory build to support the Lowe's program, our working capital ratio decreased to 10.9% from 11% in the first quarter of last year. If you back out the effect of the Lowe's rollout, working capital to sales would have been about 10% at the end of the quarter. The reduction in working capital, combined with the increase in net income, more than offset incremental cash used for Comex store integration and the HGTV HOME rollout in the quarter.

As a result, net operating cash in the quarter improved by approximately \$28 million compared to our first quarter cash performance last year. During the quarter, we acquired 2.0 million shares of the company's stock for treasury at an average cost of \$287.75 per share for a total investment of \$575.5 million. On March 31, we had remaining authorization to acquire 3.23 million shares. Yesterday, our Board of Directors approved a quarterly dividend of \$0.67 per share, up 22% from the \$0.55 we paid last year.

Our outlook for raw materials continues to evolve as we get further into the year. The drop in petrochemical feedstock prices, combined with steadily improving monomer supply, will likely result in declining latex and resin prices in the back half of the year. At the same time, high-grade chloride, titanium dioxide pricing has softened a bit in recent quarters due to continued weakness in global demand and excess supply. Based on these developments, we expect average year-over-year raw material costs for the industry to be down in the mid-single-digit range in 2015 compared to the low-single-digit outlook we gave in our year-end 2014 call.

As I commented in my opening remarks, we remain optimistic that U.S. residential demand for architectural paint will continue to strengthen as we move into the prime painting season, and we're encouraged by growing signs of a robust commercial recovery. This growth will continue to be offset to some degree by challenging conditions in Latin America and currency headwinds, particularly in the first half of the year.

Our outlook for the second quarter of 2015 is for consolidated net sales to increase 6% to 8% compared to last year's second quarter. With sales at that level, we expect diluted net income per common share for the second quarter to be in the range of \$3.70 to \$3.90 per share, nearly a 30% increase at the midpoint compared to last year's record, \$2.94 per share.

For the full-year 2015, we expect consolidated net sales to increase over 2014 by a high-single digit percentage. With annual sales at that level, we are reaffirming our expectation for full-year diluted net income per common share to be in the range of \$10.90 to \$11.10 per share compared to \$8.78 per share earned in 2014.

Again, we'd like to thank you for joining us this morning. And now we'd be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Ghansham Panjabi with Robert W. Baird. Please proceed with your question.

Ghansham Panjabi
Robert W. Baird & Co., Inc. (Broker)

Q

Hey, guys. Good morning.

Christopher M. Connor
Chairman & Chief Executive Officer

A

Good morning, Ghansham.

Ghansham Panjabi
Robert W. Baird & Co., Inc. (Broker)

Q

Hey. First off, can you just touch on the competitive environment in the paint industry in the U.S.? Just anecdotally, there seems to be a lot more of a promotional focus this year across many channels. Just wondering what you're seeing.

Christopher M. Connor
Chairman & Chief Executive Officer

A

Yeah. Ghansham, I don't think that we're seeing any more aggressive promotional activity than we would typically would at this time of year. We're kind of entering into the start of the paint season, and that's pretty typical for our industry to incent traffic and volume movement with promotions. Pricings are holding, as you can tell by our margin improvement, so I think it's pretty much business as usual.

Ghansham Panjabi
Robert W. Baird & Co., Inc. (Broker)

Q

Okay. And then just in terms of the timing that you called out on the HGTV load-in, can you just kind of give us some more color on that, what drove the shifts specifically?

John G. Morikis
President & Chief Operating Officer

A

Yeah. So, we're very pleased and confident in the rollout and our original projections. And what's happened here is that we gave some initial thoughts on how this thing would roll out. The quarter happens to land in the midst of a pretty major rollout. So there are some stores that are shipping a week, maybe two weeks later than the original plan, but it's nothing we're concerned with and we're very confident in the direction and the rollout and the way it's going.

Ghansham Panjabi
Robert W. Baird & Co., Inc. (Broker)

Q

Okay. And just one final one, if I could, on what you're seeing, if anything, different on wage inflation for your U.S. stores? I will leave it there. Thank you so much.

A

Christopher M. Connor

Chairman & Chief Executive Officer

Thanks, Ghansham. Our wage inflation has been pretty standard for a long time, Ghansham, based on a formula we look at. Given the current market indices, we adjust our annual compensation. Those wages have increased on average 2% to 3% per year per employee base for many years as they will again this year.

Q

Ghansham Panjabi

Robert W. Baird & Co., Inc. (Broker)

Okay. Thanks, guys.

A

Christopher M. Connor

Chairman & Chief Executive Officer

Thank you.

Operator: Thank you. Our next question comes from the line of John McNulty with Credit Suisse. Please proceed with your question.

Q

John P. McNulty

Credit Suisse Securities (USA) LLC (Broker)

Yeah. Good morning. Thanks for taking my questions. So with regard to your 2Q guide, it's implying pretty significant lift in the margin on a year-over-year basis on the operating side. So I guess, I'm wondering if you can walk us through some of the puts and takes on that? Is it just you'll finally have the Lowe's platform kind of out and ramped up, or I guess how much of it's being – is it just the end of some of the Comex headwinds from last year? I guess, if you kind of walk us through some of the major puts and takes that really give you confidence to hit that kind of a margin level, that'll be helpful.

A

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

Yeah. John, this is Sean Hennessy. Good morning. Yeah. When you look at the second quarter and when you look at that guidance going from \$2.94 to the midpoint of \$3.80, our margin – I don't think you can get into that kind of a range with that kind of sales gain without having margin expansion. And operating margin expansion I think is going to be – you're going to see margin expansion in the gross profit line and I think you're going to see some efficiencies in the SG&A line. It's the only way you can get there. But I think we are coming over – coming against the Comex integration. We feel really good about the Comex integration and this is where the business is at. I mean, we feel very good if we can get gallons.

It also has to do with the sales curve in the second quarter and the third quarter. The Stores Group and Consumer will be a larger percentage of our total sales. So a couple of things happened there. Number one, we've always said an incremental gallon in those two groups are the best incremental gallon flow-throughs we have in the company. And number two, even though foreign currency is going to be a headwind in the second and third quarter, with the sales curve again outside the country being a smaller percentage of the total, that headwind will actually be smaller in the second and third quarter that comes back in the fourth quarter.

So all those things are working in our direction; and I think operationally, the Stores Group is in great shape and the Consumer Group is in great shape and they're going to lead the profit improvement in the second and third quarter.

John P. McNulty

Credit Suisse Securities (USA) LLC (Broker)



Great. That's helpful. And then maybe just one follow-up question, with regard to the HGTV rollout, when we think about the actual costs and how they sequence in throughout the year, I guess how should we be thinking about kind of the lumpiness of that as you're kind of ramping this up? Do we see a lot in the first quarter and then it winds down or do we just see a lot and then it starts to get offset more by revenues coming in? I guess, how should we think about that?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President



I think a couple of things. The last quarter I mentioned that we have 12 months of SG&A because you can't just turn on organization in mid-March and we had 9.5 months with the sales. So the first quarter, because it is the smallest quarter, the SG&A impact was the greatest. And that's why you saw in the first quarter, our SG&A was 0.5 higher than last year.

In the second quarter, there's a lot of advertising, a lot of SG&A promotions going on in that second quarter, and then you're going to start seeing the SG&A flatten out. And so what you – and I think from the expense, the second quarter may be the largest, actually. But the first quarter is probably the most – the toughest comparison for us, and then you'll see the SG&A get to a more normal running rate in the third and fourth quarter.

John P. McNulty

Credit Suisse Securities (USA) LLC (Broker)



Great. Thanks very much for the color.

Sean P. Hennessy

Chief Financial Officer & Senior Vice President



Thank you, John.

Operator: Thank you. Our next question comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

Vincent Stephen Andrews

Morgan Stanley & Co. LLC



Thanks very much, and good morning, everyone. Just a question, if we can sort of try to bridge the full year from your – your guidance stayed the same. It sounds like in the quarter, you felt like your volume could have been a little bit better. You had the issue with the buy-in at Lowe's. Now you're saying that FX is obviously worse. Raw materials are going to be better across the balance of the year. So can you just kind of help us understand what's – in keeping the guidance the same, what are things like on an underlying basis? What's gotten better? What's gotten worse? And if we stripped out some of the things that are outside of your control, is the year progressing the same or better or worse than you expected three months ago?

Christopher M. Connor

Chairman & Chief Executive Officer



I think you did a great job of answering that question for us, Vince.



Vincent Stephen Andrews

Morgan Stanley & Co. LLC

Well, I'm looking for some dimension on those – I'm looking for some dimension on those issues, not just the high level.



Christopher M. Connor

Chairman & Chief Executive Officer

Yeah. We began the year with pretty robust guidance, EPS in the 25% plus range and strong domestic volume, and none of those things have changed for us at all. I think some of these issues are a little bit around the fringe on us. FX is definitely more of a headwind than we had anticipated at the beginning of the year. But as you know, this is a company that remains primarily a U.S.-focused revenue story. So for that end, it will be an impact for us but it won't be that much. Offsetting that is a little better raw material forecast than we had given you to begin with. We planned for good raw material, favorable impact, it's getting a little bit better than that. So you put a couple of those little margins, our puts and takes together, the real driver, as Sean just commented, it will be the strong results that we're expecting from our Stores Group and Consumer Group in North America in 2015.



Vincent Stephen Andrews

Morgan Stanley & Co. LLC

Okay. And if I can just ask a follow-up. You mentioned as related to your store business that Southwest was the weakest of all of them. Was there any particular reason for that or is there anything notable about that or is that just how it is stacked up?



John G. Morikis

President & Chief Operating Officer

Well, it's interesting that you point that out. If you notice also that Midwestern was the leading division and the time of year, it's odd to see our Midwestern division leading. Clearly, some of the weather that impacted Southwest had a direct impact on their sales. We don't like to talk about weather. We keep our head down and drive our sales – clearly in that division, it had an impact.



Vincent Stephen Andrews

Morgan Stanley & Co. LLC

Okay. Thanks very much.



Christopher M. Connor

Chairman & Chief Executive Officer

Thanks, Vincent.

Operator: Thank you. Our next question comes from the line of P.J. Juvekar with Citigroup. Please proceed with your question.



P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

Yes. Thank you. A couple of questions on HGTV. Can we begin to talk about the initial reception of the paint in the stores or is it too early? And what would be the margins on this product compared to your Consumer Group average?

A

Christopher M. Connor

Chairman & Chief Executive Officer

Yeah. So I'll give you some thoughts, P.J., and kind of the early run rate and let Sean comment on the margins, at least what we're prepared to say. As John mentioned, we're really right in the middle of this rollout. May 1 is the official and national rollout date. We will absolutely be set in every store and ready to go. I'd say we probably have two-thirds of the stores set at this point, John, and so, we are starting to see some really strong re-orders and excitement inside the aisles at Lowe's stores. The color of merchandising unit that has gone in has been terrific. It's really trading quite a stir. And so, I would say that from every angle that we can look at it, this program is really on track with our expectations and off to a good start.

A

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

And what we've said, P.J., about the operating margin, the only thing we've commented, and there's a couple of things. Number one, we're not going to put out a P&L by customer. We never have quoted a customer P&L and we really are not going to start doing that.

But what we have done is said that this program during the calendar year 2015 will give us low-single-digit increase for the company. Last year, our sales were around – were just slightly over \$11 billion. So that gives you an idea of what kind of sales we have in our guidance.

But when it comes to operating margins, we've said at the beginning, it was slightly dilutive in the fourth quarter for some of the expenses and it will be slightly accretive in the calendar year 2015. And then we're going to see much – a nice profit on our operating margins in 2016. And that's really all we're willing and prepared to say.

Q

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

Okay. Thank you. And Chris, in the past, you had talked about your global ambitions and making acquisitions outside the U.S. With the strong dollar, this seems like a good time. Can you just talk about your pipeline and what are your thoughts about that?

A

Christopher M. Connor

Chairman & Chief Executive Officer

I think we've been very open, P.J., with our investment community regarding our appetite here. We have a strong interest in continuing to strengthen our architectural coatings platform throughout Latin America, and we talk about our industrial coatings businesses on more of a global basis. And so, there are a number of interesting ideas that we're discussing, and at the right time, we'll be happy to let you know about them.

Q

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

Thank you.

A

Christopher M. Connor

Chairman & Chief Executive Officer

Thanks, P.J.

Operator: Thank you. Our next question comes from the line of Don Carson with Susquehanna International Group. Please proceed with your question.

Don D. Carson

Susquehanna Financial Group LLLP

Q

Yes. Thank you. Two questions. First, on Consumer, Sean, I think on the last call, you said that operating margins would actually decline year-over-year because of the cost of the HGTV rollout, and yet you're slightly higher. So I'm just wondering what went on in Consumer to offset that from a margin standpoint. And then secondly, just wondering on sort of your Q2, Q3 paint season outlook. What are your contractor customers telling you in terms of their bookings outlook both on residential and non-residential?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

Dan, I would tell you, probably one of the very nice surprises was the ability for our Consumer Group to have an operating margin improvement, and I think there's two pieces. There was the piece on the selling side, but on the manufacturing and the logistics side, they had a very good quarter. And because of that ability, they actually were able to have an operating margin one-tenth higher this year than last year.

But they were helped by the incremental gallons that they were producing and so forth, but – and they put some of those gallons on our balance sheet, which took a little debit and put it on there that you're going to see come off in the second quarter. But that's what really drove the operating margins in the first quarter to be one-tenth higher.

John G. Morikis

President & Chief Operating Officer

A

And I'll take the question regarding the contractors and how they're feeling. And I would describe it as very bullish. I've been around the country and talking with our people, as well as our customers. There's a very strong level of confidence. There's a very high level of bid activity. And they're very excited about this year. Our non-paint sales of spray equipment and related sales are very, very strong. And that's all tied to the confidence that they have in the market.

Don D. Carson

Susquehanna Financial Group LLLP

Q

Thank you.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Thanks, Don.

Operator: Thank you. Our next question comes from the line of Kevin McCarthy with Bank of America Merrill Lynch. Please proceed with your question.

Kevin W. McCarthy

Bank of America Merrill Lynch

Q

Yes. Good morning. In Paint Stores, would you comment on how your spray equipment volumes would have compared to the segment average same-store sales figure of 6.4%?

John G. Morikis

President & Chief Operating Officer

A

Our spray equipment sales are extremely strong, very strong.

Kevin W. McCarthy

Bank of America Merrill Lynch

Q

Double digits, perhaps?

Christopher M. Connor

Chairman & Chief Executive Officer

A

Yup.

Kevin W. McCarthy

Bank of America Merrill Lynch

Q

Okay. Good to know. Thank you. Then a second question for Sean, if I may, typically, your net debt balance expands seasonally it seems in the first quarter relative to the fourth quarter that this year the jump was roughly double what you had been running historically. Would you comment on that and what might be driving it?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

Yeah. I could tell you very quickly. We just had to do an accelerated stock repurchase, an ASR in the first quarter. So in the month of February, as Bob commented – John commented, we did purchase 2 million shares in the first quarter. We did that using an ASR. And so that's why you saw a use of cash of approximately \$585 million.

And so in the last few years, we've been a little more cautious in buying stock in the first quarter. But this year, when we were looking at the cash generation of the company and what we're going to do with the cash, we feel very good and we went out and we bought the 2 million shares. At the end of the year, we still believe that our debt, our total debt will be in that one to one range with our EBITDA.

Kevin W. McCarthy

Bank of America Merrill Lynch

Q

Okay. And the last one, if I may, it sounded like the HGTV load-in was running slightly later than you had previously anticipated. But other than that, were there any March to April timing shifts that you would consider noteworthy?

John G. Morikis

President & Chief Operating Officer

A

No. I don't know if there's anything noteworthy in that. And I'd like to just be really clear on that HGTV. We had some projections on how this would roll out. This is just a simple matter of having some areas that we had planned on moving a week or a couple of days in some cases, just falling on the other side of the line of the quarter. So I want to be clear we're not sending the wrong signal here. It's just a matter of very simple timing and where the quarter landed in the midst of this rollout. So, it's important you understand that as well.

Kevin W. McCarthy

Bank of America Merrill Lynch

Q

That's helpful. Thank you.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Thanks, Kevin.

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

Arun S. Viswanathan

RBC Capital Markets LLC

Q

Hi, guys. Thanks for taking my question. Just wondering if you can give us an update on what you're seeing I guess, or if it's too early, on the spring paint season if it's shaping out as you expected. Thanks.

John G. Morikis

President & Chief Operating Officer

A

We expected a strong start to the season and our contractors would tell you that they're very excited about that. There's a strong pipeline of bids, as I mentioned earlier, and there's a good feeling about that. I think many of the contractors experienced a little bit of a delay in some of those projects starting with some of the weather that they'd faced. So we're excited about the painting season.

Christopher M. Connor

Chairman & Chief Executive Officer

A

And, Arun, to put a little context around that, the American Coatings Association came out with their forecast of volumes for 2014 and 2015 a couple of days ago, and their outlook for this year is for annual growth of 5.6%, but first quarter growth more in the 3% range. So they kind of anticipated a slow start but a really strong season to follow.

Arun S. Viswanathan

RBC Capital Markets LLC

Q

Okay. And just some clarification on the industry numbers then, would that bring us closer to kind of a normal level of gallonage in the 750 million range or where do you we are tracking on the year?

Christopher M. Connor

Chairman & Chief Executive Officer

A

No. They actually took their 2014 number down a little bit. We've been talking about 2014 being 3.5% growth year. They actually knocked that down to about 2.5% or 2.8%. So they finished the year in the range of about 720 million gallons. If you put 5% on top of that, we're still not back to where we think this cycle is going to peak or even normalize with that.

Arun S. Viswanathan

RBC Capital Markets LLC

Q

That's very helpful. And then, just as a last follow-up. Can you differentiate any activity in new construction versus repair and remodeling and how the two segments are going? Thanks.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Yeah. Historically, repair and remodel has been about 80% of the industry. So a smaller percentage increase in that segment will move the needle on gallons a lot further. Repair and remodel recovered earlier than new construction. It has remained strong. We've commented for a while now that residential repaint is the strongest growth category that we've seen.

But if you look at the numbers, particularly in the housing market year-to-date this year, we've seen really strong activity in new home sales. So, in fact, permits have actually lagged sales so it's drawn inventories down. We would expect a very robust building season in the spring given that inventories are as low as they are now. So repaint has led the pack, but new home construction will be a strong contributor this year.

Arun S. Viswanathan

RBC Capital Markets LLC

Okay. Great. Thank you.

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

Robert Andrew Koort

Goldman Sachs & Co.

Thank you. Good morning.

Christopher M. Connor

Chairman & Chief Executive Officer

Good morning, Bob.

Robert Andrew Koort

Goldman Sachs & Co.

I wonder if you guys could help describe for me when a consumer comes into a Lowe's, what is the selling proposition of the HGTV brand? What is the differentiator there and maybe where it sits on that price point scale?

Christopher M. Connor

Chairman & Chief Executive Officer

When you walk into a start Lowe's store, Bob, you're going to see immediately the impressive color presentation that the HGTV HOME by Sherwin-Williams makes. That really starts the shopping experience. Those color centers are at the end of their drive aisles. They're close to the very entry points of their stores. A good number the Lowe's stores that we've been in since the rollout has begun, you're able to pick out that color center literally within steps inside the stores.

So I think that's going to create excitement and a freshness to the department. Once the consumer has made that choice, if it's an HGTV color then they're inclined to look for the HGTV product and then Lowe's associates will be trained to help to make that. I think as we've commented in the past that both Valspar and PPG remain in the department. They will have product offerings as well too.

So this will be a typical experience for all the boxes in managing multi-supplier lines in the department and it will be the merchandising and quality and name association, and it will help drive that preference for the HGTV HOME.

John G. Morikis
President & Chief Operating Officer

A

The confidence factor, I think, with the color selector and the coordinating of the colors is another compelling feature of the HGTV. So the consumer with confidence can choose a color as well as coordinating colors to go along with that.

Robert Andrew Koort
Goldman Sachs & Co.

Q

And do you guys – will you have completed by May 1 on-the-ground training at every Lowe's location?

Christopher M. Connor
Chairman & Chief Executive Officer

A

Absolutely.

Robert Andrew Koort
Goldman Sachs & Co.

Q

Okay. And then lastly, real quick, if I might. You mentioned in Latin America raw material inflation. Could you describe what was going on there in the context of expectations for deflation on the horizon?

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

Again, the majority of the raw materials are priced in U.S. dollars. So when the currency devalues, it de facto is a raw material increase for the different countries.

Robert Andrew Koort
Goldman Sachs & Co.

Q

Understood. Thank you.

Christopher M. Connor
Chairman & Chief Executive Officer

A

Thanks, Bob.

Operator: Thank you. Our next question comes from the line of Nils Wallin with CLSA. Please proceed with your question.

Nils-Bertil Wallin
CLSA Americas LLC

Q

Yeah. Good morning and thanks for taking my question. First off, I was wondering if you could size the accretion you might have seen from Comex this quarter.

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

This integration has gone great, and I think that what we've said is last year, we lost \$0.28, and for the year, we're going to be at \$0.10. We feel it's going to be there, but as it is so integrated now, we don't feel confident on a

quarter-by-quarter basis to give you that kind of detail. So that's why I think we've said that in the future, we're not going to be commenting on this acquisition.

Nils-Bertil Wallin

CLSA Americas LLC

Q

Understood. I'm curious. There wasn't – I mean, Paint Stores is usually pretty much a U.S.-dollar-type business. But obviously with Comex coming in, there's a heavier Canadian footprint, and the Canadian dollar did depreciate year-over-year. So was there any sort of FX headwinds in the Paint Stores Group?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

Yes. You're exactly right. With the Canadian sales in the Paint Stores Group, there was some headwind. But we break out the headwinds 3.1% for the company. We don't break it out to that finite by the segments.

Nils-Bertil Wallin

CLSA Americas LLC

Q

Got it. Got it. Okay. And then you just had mentioned in the previous question about the raw materials in LatAm being priced in dollars. So that sounds like it's a transactional-type FX effect. Is there any opportunity for you to switch that or buy more locally to offset that – those FX headwinds going forward?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

Not on the major titanium dioxide and some of the other major...

John G. Morikis

President & Chief Operating Officer

A

Resins.

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

...resins and so forth. So that's the situation we're in. There are some – a small percentage of the raws that we do buy locally, but not enough to offset this.

Nils-Bertil Wallin

CLSA Americas LLC

Q

Thanks very much.

Robert J. Wells

SVP-Corporate Communications & Public Affairs

A

Thank you, Nils.

Operator: Thank you. Our next question comes from the line of Dmitry Silversteyn with Longbow Research. Please proceed with your question.



Dmitry Silversteyn

Longbow Research LLC

Excuse me. Good morning. Just like to tie up a couple of outstanding questions that I have. In the Global Group, can you provide a little bit of a sort of granularity between volume and pricing what the components of revenue was outside of FX?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President



Yeah. What we've said is if you think about it we've said that our sales were down 5.5% and we said that our gallons were up slightly. So we did put pricing in there in the local currencies but not enough to offset the currency headwind.

Dmitry Silversteyn

Longbow Research LLC



Okay.

Sean P. Hennessy

Chief Financial Officer & Senior Vice President



But the buying was up slightly.

Dmitry Silversteyn

Longbow Research LLC



Okay. And the price increases, was that mainly, I mean, this is both for Latin America and the Global Group? The price increases that you mentioned, that was mainly to offset the deflation in currencies, I would imagine.

Sean P. Hennessy

Chief Financial Officer & Senior Vice President



Yes.

Dmitry Silversteyn

Longbow Research LLC



Okay. And in terms of your guidance for the year, it sounds like with increased foreign exchange headwind, you're nevertheless looking for high single digit growth for the year sort of reported sales. So it sounds like your organic sales growth expectations have improved. Is that a correct read-through? And sort of what's behind that? Is it just the optimism in the stores business with the contractors benefiting from commercial construction, or are there other drivers to your more sort of upbeat expectation for organic performance in 2015?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President



No. And I think everything you said there was accurate. We still believe that for the full year, we're going to make it, and we also believe that foreign currency is going to be a slightly stronger headwind than we did three months ago. I will tell you, we still remain pretty confident in that range, because, as I tried to point out, the 3.1% is very strong in the first quarter. Even if the currency remains exactly the headwind in the second and third quarter, that number should reduce.

And the other thing you have to remember is we did have some foreign currency devaluation in the guidance already. So that 3.1% was not 100% incremental. We did have some. So it's just that incremental piece. And when you look at the range of, let's say, 7% and 9%, that's 2% on \$11.220 billion. We still feel that we're in pretty good shape to get inside that range.

Dmitry Silversteyn

Longbow Research LLC



Got it. Got it. And then final question. You talk about a raw material tailwind of sort of mid single digits for 2015. You also mentioned that you expect that to really take place in the second half of 2015. So are we to interpret from that that second half 2015 we may see more like a double digit decline in raw material cost on a year-over-year basis?

Robert J. Wells

SVP-Corporate Communications & Public Affairs



I don't think so, Dmitry. This is Bob. I don't think it will be that strong. We'll have to see – I think the linchpin is going to be TiO2. We'll have to see what happens with TiO2 in the back-half. But I would say that back-half will likely be in the mid, maybe upper mid single digits.

Dmitry Silversteyn

Longbow Research LLC



Okay. Okay. So the back-half will be mid to high single digits. Okay. Got it. Thank you. That's all the questions I had.

Robert J. Wells

SVP-Corporate Communications & Public Affairs



Thank you.

Operator: Thank you. Our next question comes from the line of Dennis McGill with Zelman & Associates. Please proceed with your question.

Dennis P. McGill

Zelman & Associates



Hi. Good morning, guys. Thank you. First one, just Chris, you had mentioned, I think, the way – the term you used on February was low in February. And then I think you said that it took till the second half of March to pick up. Just want to confirm that the first half of March looked more like February. And then if you could maybe just frame a little bit what was the difference between what you saw kind of exiting the quarter and what you were seeing during that low period? And I'm thinking...

Christopher M. Connor

Chairman & Chief Executive Officer



That's exactly what we...

Dennis P. McGill

Zelman & Associates



...Paint Store sales. Sorry.

A

Christopher M. Connor

Chairman & Chief Executive Officer

Yeah. Sure, Dennis. And that is exactly what we said. February was a soft month for us. March started a little bit soft. It really started to pick up. And John made a brief comment about weather in the quarter. As we started to see some warmer days, we really were seeing the acceleration of all this confidence that's pent-up out there with this professional painting contractor.

I think what's notable is that it's a winner in the fourth quarter. It's supposed to be cold and Boston's supposed to have the kind of snow it had and we had stores closed, et cetera. That really wasn't the impact. It was the cold south of the Mason-Dixon line that really had the impact.

And just as we commented about our Southwestern division kind of lagging a division that typically lead to that time of year. When we got some warm weather in those parts of the geography, we really started to see it to rebound. And now that we're into the second quarter weather really diminishes, if it has an impact at all, again back to the strong guidance we're giving.

Q

Dennis P. McGill

Zelman & Associates

And I guess just indirectly, the guidance you're giving on sales on an organic basis in the second quarter sort of suggest Paint Store sales are getting back to that high single digit rate.

A

Christopher M. Connor

Chairman & Chief Executive Officer

Correct.

Q

Dennis P. McGill

Zelman & Associates

Yeah. Okay. And then separately on the Global side, I think when you back out FX, this quarter was modest growth and have been something more in the four, five range recently. Can you just talk to whether you think that continues, and if so, just sort of give some color on what you're seeing in different geographies and different end uses?

A

John G. Morikis

President & Chief Operating Officer

Well, the performance by business unit varied. And not surprisingly, our business in North America, across every category, was stronger than a relatively weaker performance in Latin America, in Europe, and obviously part of that was due to the currency. We expect in local currency for these businesses to improve, and over the balance of the year, we feel that we'll get on top of it. So we're confident about the year and the projections that we've given you.

Q

Dennis P. McGill

Zelman & Associates

Okay. And then...

A

Christopher M. Connor

Chairman & Chief Executive Officer

Yeah. I would say....

Dennis P. McGill
Zelman & Associates

Q

Right.

Christopher M. Connor
Chairman & Chief Executive Officer

A

In Latin America, Dennis, in the first quarter, we had volume gains in every country with the exception in Brazil and that's been a while since we've seen that. So we're starting to feel better about our prospects there as well.

Dennis P. McGill
Zelman & Associates

Q

Okay. Perfect. Thank you, guys.

Robert J. Wells
SVP-Corporate Communications & Public Affairs

A

Thanks, Dennis.

Operator: Thank you. Our next question comes from the line of Greg Melich with Evercore ISI Group. Please proceed with your question.

Gregory Scott Melich
Evercore ISI

Q

Hi. Thanks. I wanted to follow up quickly on SG&A just to make sure I got this right. So the – if you hadn't had the HGTV program, would SG&A have levered in the first quarter? And if you were to think about it going forward, we do expect to lever at the corporate basis in the second quarter but probably not in consumer. Did I summarize that right, Sean?

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

Yes. The only thing that we did not say is that we would have shown some efficiencies in the first quarter with SG&A. Without that, I think that – we don't want to break that out, and the reason we don't want to do that is to tell you how much we spend exactly on the Lowe's program, but we would not have had the 0.5 increase in SG&A. That's right.

Gregory Scott Melich
Evercore ISI

Q

It would have gone the right way. It would have been down. We don't know how much.

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

Yeah.

Gregory Scott Melich

Evercore ISI

Q

Okay.

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

Yeah.

Gregory Scott Melich

Evercore ISI

Q

And then the follow-up, I want to talk a little bit more about the outlook or ask you on there. I know we've talked a little bit about resi, and it looks great there in the contractors. What about commercial and industrial? What sort of read can you see there? Is there any sort of project work going on, or is that not dialed up, or is that just sort of as plan?

Robert J. Wells

SVP-Corporate Communications & Public Affairs

A

No. In fact – Greg, this is Bob. There's quite a bit of project work going on. And due to the long start to paint cycle in the non-residential space, you kind of got to look back a year or more at the data. And if you look at 2014 data in terms of signed contracts, non-residential rebounded pretty strongly, up about 7% in total with, as we've pointed out before, some really strong categories in office and bank, hotel and motel, manufacturing, et cetera.

And so, there are certainly – there is certainly growth across the country. There are specific categories that we can target to grow faster than the market in total. And by the way, those were contracts I just talked about, but we also saw a big jump in starts in the fourth quarter of 2014. There's a lot of projects coming out of the ground that will be painted this year. So it's looking a lot better than last year. And that's mostly driven by occupancy rates which also implies that the repaint market will be strong in non-residential this year.

Gregory Scott Melich

Evercore ISI

Q

Great. And then lastly, again, I know it's early days, but what do you expect the HGTV program at Lowe's to do to the program in your own Paint Stores Group? Do you expect it to help, to hurt? Anything on there in terms of your plan will be helpful.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Yeah. The HGTV HOME program inside the Sherwin-Williams' Paint Stores Group format is not significant contributor to our overall revenue. Having said that, we think the additional exposure for the brand, the additional advertising, some of the upgraded color features and labeling which will impact both the Sherwin store offering, as well as the Lowe's store, will have a positive impact. So it should be marginally better to flat will be our expectation.

Gregory Scott Melich

Evercore ISI

Q

And, Chris, is there a lag to that that you think or do you think it sort of happened as the advertising, et cetera, kicks in or do you, or is it...?

A

Christopher M. Connor

Chairman & Chief Executive Officer

I think we'll see it in the second and third quarter when we really start to ramp up the marketing activities.

Q

Gregory Scott Melich

Evercore ISI

Right. That's great. Thanks.

A

Robert J. Wells

SVP-Corporate Communications & Public Affairs

Thanks, Greg.

Operator: Thank you. Our next question comes from the line of Ivan Marcuse with KeyBanc Capital Markets. Please proceed with your question.

Q

Ivan M. Marcuse

KeyBanc Capital Markets, Inc.

Hi. Just a couple of quick questions, I believe your gross margin range, typically, I think you've said it past couple of quarters 43% to 47%. With lower gross margin – with lower raw materials, do you expect to exceed that range this year or would you expect to sort of move that range over time with the impact of the additional volume that you've gotten over the past couple of quarters?

A

Christopher M. Connor

Chairman & Chief Executive Officer

Yeah. And Ivan, you're absolutely right. We believe that this range, what we've been talking about, the 43% to 46%, 44% to 47%, we think we're really in a 44.5% to 47.5%. I would tell you that would be the range that I would give today.

Q

Ivan M. Marcuse

KeyBanc Capital Markets, Inc.

Okay. Great. And then, you mentioned that there's weather every year which there is. I'm curious. Have you seen any impact of the lower oil cost hitting the economies of Texas or any other energy impacts in terms of construction or housing or anything to that effect?

A

John G. Morikis

President & Chief Operating Officer

Not really. I mean, we've spent some time with our team down there and they're feeling pretty good about the marketplace. So there's not been any impact in our business down there.

Q

Ivan M. Marcuse

KeyBanc Capital Markets, Inc.

Great. Thanks for taking my questions.

A

Robert J. Wells

SVP-Corporate Communications & Public Affairs

Thanks, Ivan.

Operator: Thank you. Our next question comes from the line of Jay McCanless with Sterne, Agee. Please proceed with your question.

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

Good morning, everyone. First question I had, I'm trying to catch up with Comex and how many of those stores are now part of the actual comp group to make up your comp store sales for the Paint Stores Group?

Christopher M. Connor
Chairman & Chief Executive Officer

A

283.

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

Got it. On a percentage basis of the stores you acquired, where does that stand?

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

Well, we had – we acquired 306. So 283 divided by 306 is about 93.5%.

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

Okay.

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

I did that in my head real quick.

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

It's a meaningful part of the comp group at this point. You're not going to get anymore catch up from the stores rolling in?

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

Well, we have approximately close to 4,000 comp stores. So there are 293 of the 4,000 stores actually...

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

Half of 1%.

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

Yeah. It's half of 1%. I'm sorry, I thought you were asking a question of how many we remain.

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

But we've had is – yes, September of 2013, right? So they're fully in the comp number, that's the point we're making.

Christopher M. Connor
Chairman & Chief Executive Officer

A

Jay, do you mean what percentage have we converted to Sherwin stores?

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

No. I wanted to see if they were part of the comp group already. No, you only have...

Christopher M. Connor
Chairman & Chief Executive Officer

A

Yeah.

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

All right. My other question is on SG&A in 2Q14, is there any one-time items in there that aren't going to reappear this year, just trying to frame our model for how SG&A is going to look?

Sean P. Hennessy
Chief Financial Officer & Senior Vice President

A

No, when you look at that SG&A, it was 31.8% to \$970 million. There really was no one-time only.

Jay C. McCanless
Sterne, Agee & Leach, Inc.

Q

Okay. Thanks, guys.

Christopher M. Connor
Chairman & Chief Executive Officer

A

Thanks, Jay.

Operator: Thank you. Our next question comes from the line of Chuck Cerankosky with Northcoast Research. Please proceed with your question.

Chuck E. Cerankosky
Northcoast Research Partners LLC

Q

Good morning, everyone.

Christopher M. Connor
Chairman & Chief Executive Officer

A

Good morning, Chuck.

Chuck E. Cerankosky

Northcoast Research Partners LLC

Q

You've covered a lot of ground, but the one thing I want to ask Sean is it looks like CapEx bumped up quite a bit year-over-year in the first quarter. Is there anything going on there?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

Chuck, we've said that our CapEx would be high this year around \$220 million to \$240 million. And what we're doing is converting those Comex stores. That's what's driving it this year. So as those conversions occur, we continue to spend approximately \$100,000 per store and that's an ongoing cost.

Chuck E. Cerankosky

Northcoast Research Partners LLC

Q

Will you get them all done this year?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

Go, John.

John G. Morikis

President & Chief Operating Officer

A

We'll get most of them done, I mean, the largest part of it. There'll be some perhaps in Canada that will roll over and maybe a little bit out on the West Coast. But the largest part, we'll get them mostly done.

Chuck E. Cerankosky

Northcoast Research Partners LLC

Q

Okay. And finally, any other significant projects in the CapEx budget for 2015?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

No. I think that's the major right there.

Chuck E. Cerankosky

Northcoast Research Partners LLC

Q

All right. Thank you.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Thanks, Chuck.

Operator: Thank you. Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.



Jeffrey J. Zekauskas

JPMorgan Securities LLC

Thanks very much. Can you remind us what percentage of Sherwin-Williams' consolidated sales are non-paints or non-coatings?



Sean P. Hennessy

Chief Financial Officer & Senior Vice President

Yeah. I don't think we've ever given that dynamic. I think we've talked about the stores and so forth, but I don't think we've ever given that. And the reason why is because it's diversified. We have brushes and rollers. We have caulk and so forth. So I don't think we've ever given that metric.



Christopher M. Connor

Chairman & Chief Executive Officer

Yeah. We've given you some directional help there, Jeff. I think we say our stores are 70%, 75% coating sales, the rest would be spray equipment et cetera. Our Consumer Group would be probably same range, 60%, 70% range in coatings, brushes and rollers whether you consider aerosol, paints as paints or specialty that might be a different way to look at it but, and all of Global Finishes Group would be coatings.



Jeffrey J. Zekauskas

JPMorgan Securities LLC

Okay. And then secondly, do you think that there will be any sequential change in your overall prices or for the industry in 2Q or 3Q? How does the general price outlook appear on a sequential basis?



Sean P. Hennessy

Chief Financial Officer & Senior Vice President

We think that if you look at the selling prices, there's a lot of activity going on, but pricing has been fairly stable. Just to remind you, the last time we put a price increase in was early January 2014.



Jeffrey J. Zekauskas

JPMorgan Securities LLC

Okay. And then lastly, what's the size of the DIY business in the stores? And will the consumer say, I can get Sherwin-Williams paint at Lowe's. I really don't need to get it at the stores. Do you think that there might be a trade off for the consumer or no?



Christopher M. Connor

Chairman & Chief Executive Officer

We've been consistently at about 15% of that Paint Stores Group revenue to the DIY consumer. We don't expect that to change substantially one way or the other.



Jeffrey J. Zekauskas

JPMorgan Securities LLC

Okay. Great. Thank you so much.



Christopher M. Connor

Chairman & Chief Executive Officer

Thanks, Jeff.

Operator: Thank you. Our next question comes from the line of Geoffrey McKinney with Bank of America Merrill Lynch. Please proceed with your question.

Geoffrey P. McKinney

Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Hi. Good morning. Thank you.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Good morning, Geoff.

Geoffrey P. McKinney

Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Just a follow-up on the share repurchase side. The utilization of short-term debt to fund that acceleration, should we think about the balance sheet kind of this being a normal debt balance, that coming down or being refined and termed out? I am just curious how we should think about that going forward.

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

I think you should think about that it's going to come down. Our largest debt at the end of the quarter will be the first quarter. I also think you should think about terming this out. We're looking at issuing some bonds this year. The timing is not exactly public yet because we haven't decided exactly when. One of the things about it, you've seen our interest rate was – our interest expense was \$4 million less in the first quarter than last year, which was positive, because when we did – when the bonds matured, our five-year bonds matured in 2014, we did not reissue. But we're so heavy into short-term debt. I think, as I said earlier, I think our debt by the end of the year will be in that 1 to 1 range of EBITDA, and you'll see our fixed notes being a much higher percentage of our total debt.

Geoffrey P. McKinney

Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Great. Thank you, guys.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Thank you.

Operator: Thank you. Our next question comes from the line of John Roberts with UBS. Please proceed with your question.

John E. Roberts

UBS Securities LLC

Q

Just in under the wire here. Good morning, guys.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Good morning, John.

John E. Roberts

UBS Securities LLC

Q

You're up to a slow start of the new store openings there. It's normally a little bit of a hockey stick anyway and back-end loaded, but it looks even more so this year. Should we expect you to get fully caught up there?

John G. Morikis

President & Chief Operating Officer

A

Yeah. You should expect us to continue to run around that 100 new store rate. We tried to press these deals earlier in the year. For some reason, a lot of them ended up at the tail end of the previous year, but there's a really very good pipeline, we've got good teams working on it. We're excited about our pipeline of new stores this year.

John E. Roberts

UBS Securities LLC

Q

And then if the raw materials are down mid-single for the year and down mid- to high-single in the back half of the year, what are the things that are down the most in that sort of outlook? Is TiO₂ something that's at the higher end or some things above the high end of that that might be down even double digit?

Christopher M. Connor

Chairman & Chief Executive Officer

A

I think, John, from a timing standpoint, we're seeing more relief on the petrochemical side of the basket early in the year. And to get to mid- to upper-single digits by the end of the year, we would need to see a slide in TiO₂. So I think that that would probably, on a percentage basis, perhaps put TiO₂ down more than the petrochemical than most of the petrochemical side of the basket; but right now, that is not the case.

John E. Roberts

UBS Securities LLC

Q

Okay. Thank you.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Thank you.

Operator: Thank you. Our next question comes from the line of Rosemarie Morbelli with Gabelli & Company. Please proceed with your question.

Rosemarie Jeanne Morbelli

G.research, Inc.

Q

Well, thank you and good afternoon, by one minute. Thank you for taking my question. I was wondering, we talked a lot about some selling price increases offsetting FX devaluation and so on. But as your raw material costs are coming down, do you anticipate some selling price pressure, having to cut some of your pricing obviously outside of contracts?

John G. Morikis
President & Chief Operating Officer

A

Not significantly or have an impact at all, I don't think. Really, large jobs are always competitive. We quote those accordingly. Raw materials are one element of the products that we are – one component of what goes into the selling price are services that we provide and the quality of the product, the people that we have with our customers, all are a component of that. So I think we're going to continue to see the pressure. Well, we always have seen it but nothing any more than we have in the past.

Rosemarie Jeanne Morbelli
G.research, Inc.

Q

All right. Thanks. And then you also talked about the high level of, well, expectations, or satisfaction rather, from contractors. Do you see any change in the do-it-yourself? Do you see that particular part of the equation growing still this year? Or do you think that people have more or less repainted whatever they were going to repaint for the last couple of years?

Christopher M. Connor
Chairman & Chief Executive Officer

A

Well, we never think that, Rosemarie, that they're finished. But we continue to see across the entire country a shift towards a painting contractor away from the DIY just as the demographics of our country support, an aging population and less free time, et cetera. Having said that, the remaining portion of the market, which is around 40% of all the gallons are purchased by DIY, we would expect this to be a good year.

Bob has mentioned about residential repaint being one of the strongest segments. Residential repaint is both DIY and pro, and we've seen nice growth there as well, too. We have given color on our DIY sales gains inside the store's organization and the Consumer Group is mostly DIY. So we would expect to see nice results for this year.

Rosemarie Jeanne Morbelli
G.research, Inc.

Q

And the HGTV is also DIY, correct?

Christopher M. Connor
Chairman & Chief Executive Officer

A

That is correct and that will be an impact as well.

Rosemarie Jeanne Morbelli
G.research, Inc.

Q

Okay. And if I may, how long do you expect this housing recovery to continue based on your experience, based on historical data. Do you think it has another two years to go, another three years? Any thoughts?

Robert J. Wells
SVP-Corporate Communications & Public Affairs

A

You know, Rosemarie, this is Bob. We've said kind of – we've been saying for the last couple of years that we really like the pace of this recovery that we're not seeing huge year-over-year increases in activity on either the residential or non-residential side of the market. And at this measured pace, depending on where the market peaks exactly, it could certainly go another three years to five years.

We think that 1.3 million to 1.4 million residential starts is normal, but we've been running below that normal rate for quite a while now for a number of years now, and so there should be some catch-up required that would require us to go above the normalized rate during – at the peak of the recovery. So we could be three years to five years from the peak.

Rosemarie Jeanne Morbelli

G.research, Inc.

Q

Well, that is great. And if I may ask one last question for Sean. As you fix a lot of your short-term debt, you are obviously going to do it at a higher rate. Could we look at next year having interest expense increase by about 3%, is that more or less what we should be looking at?

Sean P. Hennessy

Chief Financial Officer & Senior Vice President

A

4.5% when you think about next year. And I would say that 4%, 4.5% between 2016 and 2014 depending on the timing we saved \$4 million in the first quarter. If we do a bond deal this quarter, you're not going to see that same savings. If it goes to the third quarter, you'll see two quarters of it. So that's why I think probably compared to 2014 is the right one, the way to look at it full year.

Rosemarie Jeanne Morbelli

G.research, Inc.

Q

And when you see – so, what you were saying, Sean, making sure I understand is that the rate will be about 4% to 4.5% above whatever you had in 2014 or is it that your interest expense will go up by that amount?

Christopher M. Connor

Chairman & Chief Executive Officer

A

The interest expense, the interest expense.

Rosemarie Jeanne Morbelli

G.research, Inc.

Q

Okay. Great. Thank you very much.

Christopher M. Connor

Chairman & Chief Executive Officer

A

Thank you, Rosemarie.

Operator: Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'd like to turn the floor back to Mr. Wells for any final remarks.

Robert J. Wells

SVP-Corporate Communications & Public Affairs

Thank you again, Melissa. As a reminder, our financial community presentation is scheduled for Thursday, May 28, at The Langham Hotel in Boston. The program will consist of our customary morning presentation with a question-and-answer session followed by a reception and lunch with company management. If you have not yet signed up and would like to attend, registration is still open, send me an e-mail at rjwells@sherwin.com and I will reply with a link to our registration site.

As always, I will be available over the next few days to handle any follow-up questions that arise as you digest this morning's call. I'd like to thank you again for joining us today and thanks for your continued interest in Sherwin-Williams.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines, and have a wonderful day.

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