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The Sherwin-Williams Co. (SHW)

Financial Community Meeting

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MANAGEMENT DISCUSSION SECTION

Robert J. Wells

Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.

[Abrupt Start]... a category of professional that we call the remodeler, meaning, they work across a variety of categories and trades. You may hire them to remodel your kitchen, finish your basement or remodel the bath. So they're dealing with everything from lumber and drywall to electrical and plumbing, floor covering, and typically as a finishing step paint. And those pros tend to shop under one roof, so they shop multi-channel or multi-category retail outlets.

Then you have the DIY'er in the middle. And the DIY'er is still 38% of the market. The predominant share of the DIY market goes to multi-channel retail. We estimate that Home Depot, Lowe's and Menards represent somewhere between 65% and 70% of the DIY market.

A smaller share go to specialty retail. They are different than the DIY shopper that shops the multi-channel retail. You've probably seen this slide before; it shows the split of DIY and contractor in the market. Not surprisingly, the contractor share since the recession has rebounded and continues to rebound, driven primarily by demographics. And that would be the ageing of the population, but also by busy lives; two-pay check households or single-parent households, single-head-of-household households, more scheduled lives than you saw 20% or 30% years ago. So even the likelihood or propensity for younger home owners to do DIY projects is declining. And while the contractor share is not back to the all-time high, I think we saw 63% back in 2007, where we're certainly getting close to that.

That benefits our paint stores model and Pete Ippolito is going talk about our franchise with the contractor momentarily. The protective and marine market has gone from being a headwind over the last three years or four years to being a pretty good tailwind and the primary reason for that is we were very heavily skewed toward the energy production market, oil and gas in particular, as much as 25% to 30% of our Protective and Marine business was in some way related to energy production.

And as you know, the rig count continues to recover at a pretty good clip, that is driving demand for coatings, where over the last few years, we've seen a lot of postponed CapEx spending; we're seeing that coming back.

But also and this is just a general statement, that is the infrastructure paradox has bitten this country and North America for that matter pretty badly and that is the fact that we struggle to find funding to upgrade or to replace ageing crumbling infrastructure and yet everyone knows the cost of not repairing or replacing infrastructure is far higher.

So that's going to come to ahead at some point in time, the data you see up there on the repair backlog and the underfunded infrastructure is publicly available data. I'm sure you've seen numbers like this before, but it is very real. We need to invest in this nation's infrastructure.

On the manufacturing side, the – again good news with the global PMIs by region, all above that critical 50 mark and some of them moving historically high, consumer confidence in most regions are tracking with manufacturing activity. Not surprising because consumer confidence improvement positively affects demand for manufactured goods and across all of these categories we're seeing positive momentum in general industrial, the

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macroeconomic trends globally support growth in heavy construction equipment, machinery, ag and off-road equipment.

In industrial wood, the remodeling and building activity that we're seeing in North America and other parts of the world, but primarily North America, are driving demand for wood building products like cabinetry and joinery, doors, windows et cetera.

In packaging the conversion to non-BPA technology and the growing consumption in emerging markets is driving that business. And then in coil and extrusion there is strong building in the commercial space where there's a lot of coil extrusion on the exterior and a lot of metal building products use coil coatings and strength in construction is continuing to support that.

And then the final category I'll touch on would be auto refinish. And we've long talked about vehicle miles being the primary driver of refinish and collision repair and that still holds true. We've seen a very strong uptick in vehicle miles in recent years driven primarily by historically low gas prices. Now, how that's going to be affected by rising gas prices in the near term if history holds, you're going to see a decline in vehicle miles which would indicate a decline in accident rate as the accident rate tends to be fairly constant per vehicle miles. But there is two things happening in the collision repair industry that are noteworthy, because they are really changing the profile of the industry.

One is heavy consolidation amongst the shops, and you've heard the expression multi-shop owners, MSOs are rolling up this industry in North America and should continue to do so. That will change the complexion of the industry pretty dramatically, and you could see down below MSOs are expected to account for 50% of collision repair revenues by the year 2020.

And then the continued shift in technology to waterborne, more environmentally favorable products. And we – internally, we call technology shifts like this jump balls, because regardless of whose solvent-based product you were spraying when the technology shifts either by government mandate or by the economics of the business shifts to waterborne, you will not necessarily use the same supplier, so there's opportunities in the market driven by these two factors.

With that, I'm going to pause, because I'm probably inundated you – I've hammered you enough with data. I am going to introduce John Morikis, our Chairman, President and Chief Executive Officer to take you through a similar walk to the company.

John G. Morikis

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

Thank you, Bob, and thank you to everyone here in person and those listening on the webcast. I very much look forward to this opportunity every year as a chance for me and our team to give you the state of the union as it relates to Sherwin-Williams. So I'll begin by saying that Sherwin-Williams' state of the union is strong and growing stronger.

If we look back for a moment, 2017 was a remarkable year for our company. Of course, the headline news was the acquisition of Valspar. This business has exceeded our expectations in many, many ways, and you'll be hearing much more about that throughout the morning. In terms of our performance on a reported basis, 2017 was a record year in sales, net operating cash, free cash flow, EBITDA and diluted earnings per share.

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It was the seventh consecutive year of record sales and sixth consecutive year of record earnings. You might not be overly surprised by these results given that we had Valspar in our fold for seven months. We may not have fully appreciated among all the moving parts was the strength in our underlying core business. If you exclude the impact of Valspar and the deferred income tax credit, we delivered record results including 5.5% growth on the top-line and diluted earnings per share growth of 11.1%. As good as those results were last year, I'm even more excited about our future.

I'll just share some of the reasons why I'm so bullish on our future and why I continue to believe Sherwin-Williams is a compelling investment. I'll touch on these at a high level as you'll hear more from the rest of the team throughout the morning. Sherwin-Williams have an excellent organic growth opportunity in each of our businesses. M&A remains part of the mix. But the fact is that we don't need acquisitions to grow our business. The Americas Group will continue to be the growth engine of our company.

As Bob pointed out, demand drivers for new construction and repaint remain very strong. Latin America is a small part of our business today, but remains an opportunity for us to grow volume, add new stores and get prices when required, we continue to target mid- to high-single-digit growth in this segment.

In our Consumer Group, we've significantly improved our value proposition with the acquisition of Valspar, which is resonating with our customers. We're most focused on North America today, but we have longer-term opportunities in Asia, Europe, Australia, New Zealand. We believe the business can consistently grow at a low-single-digit level.

In Performance Coatings Group, we've improved our ability to serve large OEMs and smaller scale tier customers. We're in the early days of revenue synergies and excited by the added scale, expertise and customer relationships in our general industrial, industrial wood, protective and marine and automotive businesses. We've added exciting new businesses like packaging and coil and extrusion. We target Performance Coatings Group at a mid-single-digit growth rate across the cycle.

We offer an outstanding portfolio of brands, many are leaders in their categories and all are trusted by customers. It's a formidable array of brands for our competitors to match.

In The Americas Group, brands like our flagship Sherwin-Williams and product brands such as Emerald, Harmony, SuperPaint, ProMar and Cashmere. In our Consumer Brands Group, Valspar, our HDTV by Sherwin-Williams, brands like Minwax, Thompson WaterSeal, Dutch Boy, Purdy, Krylon, Cabot. In Australia, our Wattyl brand and in China our [indiscernible] (00:11:47) brand and in our Performance Coatings Group, another strong stable of brands, the Sherwin-Williams brand, the Valspar brand, DeBeer, valPure, Euronavy, Fluropon, [indiscernible] (00:12:00) , Sherwood. All these brands are known and trusted and have great brand loyalty by our customers.

Strategic partnerships are an important aspect of our growth strategy. We believe in partnering with our customers. We're successful when they're successful. We measure our success by our ability to help them grow their top-line and their bottom-line. Every one of our businesses could provide you with a very long list of customer partnerships that span many years. By way of illustrations, we have an exclusive with 16 of the top 20 property management firms, and an exclusive with 15 of the top 20 homebuilders.

Our expansion at Lowe's is a good example. And we have many more partnerships and we continue to grow these relationships by focusing our alignment with our customers. We listen to our customers. We build the products and services they need to help them win.

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Key to these partnerships overall is the service that we provide to our customers. In our TAG business, our controlled distribution allows us to serve the professional contractor at the highest level. In terms of number of stores, no one's close. Our sales reps, our application expertise, our e-commerce, our e-business platforms, and on-site delivery are all tailored by segment to help our customers reach their goals.

Through our Consumer Brands team, we help our retail partners serve the remodeler and DIY'er by focusing on associate training, both in person and online, optimizing product assortment, building brands and helping to improve close rates.

In our Performance Coatings Group, our industrial customers, we're now better equipped to combine high volume customers with small batch capabilities. These are enhanced by our design engineering, onsite technical support, color matching, an increased level of trial run effectiveness in our expanded global reach. All of these are designed to bring results to our customers. Our growth customers, partnerships and service model are underpinned by world-class global supply chain. We operate on every continent with 135 locations and 16,000 team members.

Our mission is to drive continuous improvement in every facet of the supply chain. Our team focuses on operational excellence, procurement, innovation, safety and acquisition integration. We benefit from a dedicated fleet which moves 95% of our tonnage in the U.S. and Canada. This team has done a fantastic job on Valspar integration and value capture with three facilities consolidated and four others announced and in progress.

Our customers have come to expect innovative products from Sherwin-Williams. We continue to feel very good about our ability to innovate and offer these solutions to our customers. Innovative products help our customers to be more productive at what they're trying to do and allows us to align our efforts with their goals. We released 25 new architectural products in 2017 and we're on pace to introduce more in 2018.

Valspar added significantly to our product development capabilities and our patent portfolio. Sherwin-Williams ranked highest in customer satisfaction among interior paints in the 2017 J.D. Power satisfaction survey. Valspar ranked highest in customer satisfaction among exterior paints in the same survey.

Valspar ranked highest in customer satisfaction among exterior paints in the same survey. On the industrial side, we continue to innovate with products to meet emerging trends, such as are now non-BPA valPure 70 for packaging and DeBeers Waterborne Coating Technology. Traditionally Sherwin-Williams is focused on the balance sheet as much as the income statement and that hasn't changed.

In 2017, EBITDA increased 17.3% to $2.28 billion and cash flow from operations increased 44% to $1.88 billion both compared to last year. Our capital expenditure requirements were modest, leaving us with significant free cash flow. In 2017 we paid down more than $1 billion in debt. We plan to pay down an additional $1 billion this year as we target reaching a debt to EBITDA ratio of approximately 3 to 1 by the end of 2018.

We see significant opportunities to reduce working capital through receivables and inventory management throughout Valspar operations. You'll hear an update on our 2020 goals for these metrics later this morning. We have a proven track record of attractive returns, over last 10 years our compounded annual total return rate is 21.6%. This has outpaced the market and our peer group.

Over that time we reduced our average shares outstanding from 131 million in 2007

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to about 95 million at the end of 2017. This year, we've resumed share buybacks at the level to at least offset dilution from equity compensation. We expect to begin more significant consistent repurchases in 2019 balanced against acquisition opportunities that can drive growth, serve our customers, and deliver value for our shareholders.

It's hard to believe that in a little more than a week we're going to celebrate the one year anniversary of the close of the Valspar acquisition. As I mentioned in my opening remarks, today the acquisition is exceeding our expectations. You'll hear a lot more in the upcoming presentations on the integration process or progress that we've made. Why we believe we're better together, and what this means for our future?

I'd like to point out just a few facts. First, we're increasingly operating as a single unified team with a shared culture. This unified team includes Valspar leaders, running our Consumer Brands business, our Latin American region, packaging, Coil & extrusion, our EPS business, our protective and marine business, and our Australia and New Zealand business.

Negative impacts to our customers have been minimal, and we've not lost a single large customer. We exceeded our 2017 synergy rate, and raised our target for 2018. At the end of Q1, 2018, we completed or improved 550 integration projects, and identified 125 to be verified. These opportunities are being added to our list every day more every week. There is still a lot of work to do, but I couldn't be more pleased with the success that we've had so far. Of course, nothing happens without great people. Our team is deep and experienced. We operate at Sherwin-Williams in a culture of accountability. We do what we say we will do. With Valspar, we've gotten even better. Over the last year, I've repeatedly described the acquisition as the greatest infusion of talent in the Sherwin-Williams history. I feel even more strongly now about this. We pride ourselves on the long-term tenure of our employees. We invest in our people and we work very hard to retain them.

An important measurement that we use at Sherwin-Williams is the voluntary turnover. If I look at 2017, I believe the Valspar employees are feeling good about their future at Sherwin-Williams. In fact in 2017, legacy Valspar employees' voluntary turnover was better than the legacy Sherwin-Williams employees. In other words, Sherwin-Williams retention, which has always been very good, performed well in 2017 and the Valspar retention was even better in 2017. So we're hanging on to these important people.

As we think about our future, we continue to feel very good about the new talent joining Sherwin-Williams. Every year, we recruit about 1,400 college graduates into our MTP program. I'm a proud of alumni of that program. And that brings us to our leadership team, which will take you through the rest of this morning. Today, you'll hear from our CFO, Al Mistysyn; the President of our TAG business or The Americas Group, Pete Ippolito; Aaron Erter, our Consumer Brands President and our Performance Coatings Business, David Sewell; and finally, Joel Baxter, our Global Supply Chain President. So, I, again, as Bob mentioned, I want to thank you for being here today. I want to thank you for your interest in Sherwin-Williams.

Now, I'll invite Al Mistysyn up to the podium. Thank you.

Allen J. Mistysyn

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

Thank you, John. Good morning, everyone, and thank you for joining us today. This morning, I am going to highlight the key financial metrics that drive our business performance and I believe drive shareholder value. I'm going to review our consolidated results excluding acquisition costs, the impact of the divestiture and the benefit of tax reform on our 2017 results and excluding acquisition costs, on our first quarter 2018 results, as I believe this gives a better picture of our ongoing business.

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We've provided detailed schedules at the back of my presentation to reconcile those results to as reported. And I'm also going to reaffirm or update our key 2020 financial targets that I presented last October. As a reminder, my presentation will include forward-looking statements that are covered under U.S. federal securities law and this forward-looking declaration.

2017 consolidated net sales increased 26.4% or just under $15 billion. Valspar added approximately $2.5 billion to the sales, and excluding the Valspar acquisition our core Sherwin's sales were up 5.6%. This was led by our Americas Group which were up 8.8% with the U.S. and Canada same-store sales up 6.3%. I want to reiterate our compounded average growth rate through 2020 at 4% to 6%.

And looking at our gross profit, our consolidated gross profit increased 14.5% to $6.9 billion. Consolidated gross margin decreased to 46% from the legacy Sherwin all-time high of 50% in 2016. Legacy Sherwin gross margins declined 80 basis points to 49.2% and Valspar added about $732 million to gross profit in the year.

If you include a full year Valspar for all periods presented, you can see the gross margin trend in a 2017 gross margin of 44.6% versus 45.9%. As we have discussed, the legacy Valspar businesses did not get a price increase in the first half of 2017 to offset raw material inflation which caused the gross margins to decline.

Price increases have been implemented in the fourth quarter of 2107 and our first quarter of 2018 to start offsetting this raw material inflation and we're seeing the sequential benefit in our first quarter of 2018. And I'll talk more about that when I get to that first quarter slide. And I am reaffirming our long-term gross margin guidance of 45% to 48%.

If you look at our SG&A expense, it increased to $4.7 billion and it was 31.2% of sales, down 340 basis points versus last year. Legacy Sherwin SG&A as a percent of sales was down 90 points versus last year and Valspar added $448 million in the year.

Again, if you look at it with a full year of Valspar, our SG&A as a percent of sales declined 120 basis points to 29.9% versus 31.1% last year. Legacy Valspar SG&A as a percent of sales was down approximately 270 basis points. So, nice control, and plus you see the impact of the synergies. The teams continue to do a good job of managing their expenses.

And as I mentioned, with the addition of this significant acquisition synergies, our SG&A is moving in the right direction. This results in operating income increase of 21% to $2.2 billion, and as a percent the sales was 14.7%. Legacy Sherwin operating income as a percent of sales was flat with last year. Valspar added about $248 million to this metric. Again, you can see the operating income as a percent of sales on a pro forma basis was 14.7% versus 14.8% last year. And as I mentioned, legacy Sherwin was flat and the Valspar operating income was down about 40 basis points.

In this slide, you have profit before tax in the light blue bars and profit after tax on the dark blue bars. PBT increased 13.2% to just under $2 billion. It was 13.1% of sales. Legacy Sherwin PBT increased as a percent to sales 10 basis points to 14.7%. Profit after tax increased 17.8% to $1.4 billion, it was 9.5% of sales. Legacy Sherwin profit after tax increased as a percent of sales 60 basis points to 10.8%. Valspar added $116 million to PBT and $76 million to profit after tax.

When you look at our earnings before interest, taxes, depreciation and amortization or EBITDA, EBITDA increased 22.4% to just under $2.5 billion. As a percent of sales, EBITDA decreased to 16.4%. Legacy Sherwin

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EBITDA as a percent of sales increased to 17% versus 16.9% last year. Valspar added $332 million to this metric. And we're iterating our 2020 target EBITDA margin range of 18.8% to 21%.

These are our first quarter 2018 highlights and the highlight here is we had a strong first quarter with sales up 43.6%, Valspar added about or just over a $1 billion in the quarter. Our legacy Sherwin business was up 4.9% and the Valspar legacy business was up 13.4%. On a pro forma basis, consolidated sales were up 7%.

We saw increase across all our groups led by our Performance Coatings Group which was up on a pro forma basis 9.8% and we see nice momentum in this group. If you go back to – on a pro forma basis, third quarter was up 5.8%, our fourth quarter was up 6.9%, our first quarter was up 9.8%, so very strong performance in the quarter and a lot of momentum there.

The Americas Group increased 6.6%, with the U.S. and Canada same-store sales of 5.2% and this was on top of a strong first quarter last year of 7.5%. And our Consumer Brands Group was up 3.8% on a pro forma basis. Consolidated EPS increased 36.8% on a pro forma – on a – versus 2.61% last year. And this primarily was due to increased volume, the traction on our pricing actions that we're seeing and the realization of significant synergies.

And how do I know we're getting price? The Americas Group operating margins increased 60 basis points in the quarter. Our Consumers Brand Group pro forma operating margin – operating profit excluding acquisition related costs was 16.2% versus 12.6% last year. Our Performance Coatings Group, which was the group most impacted by the increase in raw materials in the first part of our year here was slightly below last year on an operating profit basis.

And if you look at the progression, on a pro forma basis our operating profit in this group was down 59 in the third quarter, down just about 9% our fourth quarter, down 1.5% our first quarter. You cannot get that progression without getting price in the market.

And the other point I would make is our Valspar business made $0.68 in the quarter. This is on top of $0.21 in the fourth quarter last year and $0.80 from the closing on June 1 through the end of the year, so nice progression in our Valspar performance, and then EBITDA increased 49% to $582 million.

This is a slide we've shown before. It shows the allocation of run rate synergies by category in the pie chart and the run rate synergies by year on the bar chart. As John talked about, we feel very good about the progress we are making on the integration and we are ahead of schedule. I expect to realize $140 million to $160 million of synergies in the P&L in 2018, and this is in addition to the $60 million we realized in 2017.

On the right, you can see we exited 2017 with run rate synergies of $230 and I expect to increase to $320 million as we come out of 2018. Because of my confidence in achieving these synergies, we increased the bottom of our long-term run rate synergies to $400 million from $385 million last year and this is primarily due to SG&A savings that I expect to get. And as a reminder, our original estimate of long-term synergies for this acquisition was $320 million. So, well ahead of our synergies targets.

Working capital, this chart shows working capital dollars on the bars and the line represents percent of sales. You can see the results including a full year of Valspar in 2017 and 2016 with working capital as a percent of sales of 12.7% at the end of 2017. Our legacy Sherwin working capital decreased 60 basis points in the year to 10% of sales.

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On the far right of the chart is working capital for the first quarter 2018 versus 2017. You can see a slight increase as a percent of sales to 13.9%. This was due to a slower start to the painting season. The increase was related to an inventory – higher inventories on the legacy Sherwin business. I'd like to highlight a nice decrease in the legacy Valspar working capital down $76 million or 9.3% from year-end as we progress and making – as we make progress in implementing our system.

We are confident in our ability to improve our working capital. As we integrate Valspar and implement our systems, tools and processes, we believe working capital management is a core competency of the company and we'll be targeting working capital as a percent of sales of 11% to 11.5% by 2020.

Cash flow performance. This slide shows net operating cash on the light blue bars and net operating cash less CapEx on the dark blue bars. 2017 net operating cash was strong and increased to $1.9 billion and increased as a percent of sales to 12.6%, this was primarily due to an increase in the net income and a reduction in the working capital that I just talked about.

Net operating cash less CapEx was $1.7 billion or 11.1% of sales. With this strong performance and the favorable impact of the tax reform and targeting a steady state future, net operating cash less CapEx as a percent of sales to greater than 11%. This is an increase versus October of last year where we're looking at more greater than 10% of sales.

Net operating cash less CapEx by quarter, and the main point here is that we have generally been a user of cash in the first quarter due to increasing inventory ahead of the U.S. summer – selling season. You can see over the past two years we're breakeven or positive, so we're making nice progress and minimizing that impact. Then you see a significant increase in the sources of cash as year progresses and I expect this trend to continue this year.

Debt to EBITDA with the dark blue bars being debt and the light blue bars EBITDA and the line is the leverage ratio. You can see at the end of 2017, our debt to EBITDA was 4.3 to 1. As John mentioned, we expect to exit 2018 at a leverage ratio of 3 to 1 and this is on track or a little bit ahead of what we talked about when we first made this acquisition, and I'm targeting – reaffirming our long-term debt to EBITDA ratio target of 2 to 2.5 to 1.

Maturities of our long-term debt highlight here is we're committed to paying down – reducing our debt by a $1 million – a $1 billion in 2018. And this will be a reduction of our short-term borrowings and of our term loan.

We have a consistent capital allocation policy. We will not hold cash. We're targeting a high BBB rating and at our target debt to EBITDA ratio of 2 to 2.5 to 1, I believe we can get there. And this will mean – allow us to maintain our financial flexibility.

2019 and beyond with our leverage ratio at target we'll reinvest in our business in the form of CapEx and again the target there is less than 2% of sales. Return to our dividend policy of paying out 30% of prior year earnings by 2020. And we'll make strategic acquisitions. As the industry continues to consolidate, we'll target acquisitions with great technology or provide a fit and geographic gap that we might have. Absent acquisitions we will buy back our stock.

Quick snapshot of our – of where we currently are in our short- and long-term ratings and the outlook. Moody's reaffirmed the ratings in April of 2018 and the others have not changed since we issued the acquisition [indiscernible] (00:37:27) May of last year.

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And look at our consolidated net operating cash for the combined companies from 2011 to 2015 on the pie chart on the left and then from 2016 to 2020 on the pie chart on the right. And the chart on the right was updated to $10.2 billion from $9.7 billion last October. The $500 million increase was updated for the 2017 actual on the favorable impact of tax reform on our results from 2018 through 2020. And I'll note the entire increase went into the treasury stock purchases slice on the pie chart on the right. And as we generate cash ahead of our plan, we'll go to either acquisitions or share buybacks.

We have consistently returned a portion of our cash generated from operations to shareholders in the form of dividends and share repurchases. 2017 was the 39th consecutive year of dividend increases. To conserve cash, we increased the dividend $0.04 in 2017 and 2018. We will return to our policy of returning 30% of prior year earnings by 2020.

Slide shows treasury stock acquired since 2010, we maintained our commitment of no share buybacks in 2016 and 2017 to conserve cash. As John mentioned, in 2018 our goal is to offset option dilution and you can see we purchased 600,000 shares in our first quarter. The average option dilution over the past three years has been around 1 million shares and we take a consistent long-term approach to treasury stock purchases. And prior to 2016, we purchased stock every quarter for the previous 15 years. In 2019 and beyond, absent acquisitions, we will buy our stock and return to this consistent long-term approach to returning cash to our shareholders.

We've a strong financial profile and it's getting stronger. Our liquidity sources have increased $500 million since last October to $2.6 billion. And a strong annual cash generation allows us great flexibility to pursue growth opportunities. And again, we're committed to reducing our debt here in the short-term.

We showed this chart last October, but added 2017 pro forma results and 2018 guidance. The highlight here is we increased two of our 2020 financial metrics from last October. The first, I already talked about, we're increasing our free cash flow as a percent of sales to be greater than 11% versus greater than 10%. And we're increasing our core earnings per share full year compounded average growth rate to be 11% to 14% versus 9% to 12%. This is primarily due to reduction in our effective tax rate to low- to mid-20% versus our previous guidance of mid- to high-20% range.

I reaffirmed our sales compound average growth rate and our EBITDA margin target previously. If you look at our pro forma 2017, it includes January to May Valspar operations plus annualized synergies less new debt interest expense. And as our actual results excluding acquisition costs in 2017 was $15.07 that tells you we added about $0.91 for the first five months of the year.

In our 2018 guidance, our sales were mid- to high-single-digit increase. And at the midpoint of $18.65, an increase of 23.8%, that includes the $0.40 per share hit for the Lowe's program. This will cover the upfront costs of resetting the department and we're excited about this program. And in 2019, this program will be both accretive to the top line and the bottom line, and Aaron will talk more about that in his presentation.

So, the management team will continue to focus on our core operating disciplines. Our core businesses are delivering strong organic growth. As John mentioned, after one year, we feel more confident about the strategic fit of the Valspar acquisition, and the integration is ahead of schedule and delivering synergies well ahead of the pro forma. We're excited about the new business at Lowe's, and the positive impact that program will have on our future sales and earnings growth. All combined to accelerate our already strong net operating cash generation. This allowed us to reduce our debt quickly and this gives us many options, starting in 2019, and will allow us to return to our historical rates of returning cash to our shareholders.

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Thank you. Now, it is my pleasure to introduce Pete Ippolito, President and General Manager of The Americas Group.

Peter J. Ippolito

President-The Americas Group, The Sherwin-Williams Co.

Thank you, Al. Good morning. This morning, I'll discuss The Americas Group which consists of United States, Canada, Mexico and South America. The TAG organization is made up of six operating divisions, four of which are in the United States, one which manages Canada and one division that manages Latin America. Latin America is three different regions: the Andean region is compromised (sic) [comprised] (00:43:45) of Mexico, Ecuador and Colombia; the South Cone, which is made up of Uruguay, Chile and Argentina; the third and final region is Brazil. While different in geography, all the divisions are focused on the needs of our customers and a customized experience.

The Americas Group ended 2017 with $9.1 billion in revenue, $1,770 million in profit, a little over a 10% improvement, and return on sales improved 20 basis points. The first quarter of 2018 sales grew 6.6%. Segment profit improved 10.5% with a 60-basis-point ROS improvement. Our North America store density continues to grow and meet the demands of our diverse customer base. Today, in the United States and Canada, we average about one store per 33,000 households.

If you look at the total number of households, there are about 137 million households in the United States and Canada. If we break that down to our target of 25,000 households per store from the 33,000, the United States and Canada could support 5,500 stores. If household formations grow at their projected rate for the next several years and we take our target down to 22,000 households, North America will support over 6,200 household stores.

In 2017, we will open 87 new stores and we'll open somewhere in the range of 90 to 100 new stores this year. That is a growth rate of about 2.5%. We are confident with this growth rate as it allows us to grow at a pace that matches our human capital plan, while developing the highest quality banks in the industry. You may ask why not faster, this cadence and pace allows us to continue to generate cash and returns for our shareholders.

In Latin America, we have a multifaceted approach to our customers and the markets. We have company-owned stores and dedicated dealers. A dedicated dealer looks and feels exactly like a Sherwin-Williams store inside and out. Just like our North American business, we do not own the asset. Region by region, we continue to evaluate the most effective way to bring our products and services to market.

At Sherwin-Williams, we are proud of our brand. Our brand position is strong with our key customers, as we are the number one preferred brand by professional painters. In North America, we are the most recognized paint brand. As we'll be discussing this morning, we're focused on continually growing this brand awareness.

In Latin America, Brazil is our largest market and our dealer partners are important to our success. We are excited that they recognize Sherwin-Williams commitment to their business. This recognition builds upon the importance of Brazil and our dealers. As a company, no matter where in the world we do business, we are committed to the well-being of our employees and our customers. We believe this type of culture and commitment is key to our exceptionally high employee and customer retention rates.

When you look at our commitment to our customer throughout our business, both in North and South America, we train our stores and reps to understand their customers business challenges and present the best solution, whether it'd be the products, colors, business advice or programs that we put in place, they are all focused on the

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needs of our customer by segment. This type of approach truly understands our customer needs, which in turns allows us to be a better partner to their business.

Turning to key initiatives, we'll dig in a little deeper to each this morning. When you look at these, they are focused on our ability to add value to our customers and to our shareholders as well. Expanding our distribution is important lever for us. In 2017, we added 87 new stores bringing our total to 4,267. That is a new store about every four days. In Latin America, we added 17 stores and 67 dealers, bringing our total to about 350 company-owned stores and 703 dedicated dealers.

If you think about it, we add more stores in one year than many of our competitors have in total and we'll continue to expand our store count this year as well. Our store lay-in will be continued to be North American-centric. The key to this slide is not only the fact that we continue to add stores, but that we continue to refine the process. Our goal is to continue to shrink the time that it takes for a new store to become profitable and we're getting better at this all through our [ph] tech (00:49:54).

While this graph shows the magnitude of our North American store count versus our competitors, what it really shows is our commitment to our customer. We want to ensure our customers have the ability to quickly access our products and services. We're focused on making it as convenient as possible to do business with us.

Our goal for our sales force is straight forward through our products and services combined with sales representative expertise. We aim to help our customers reach their goals and objectives. By investing in additional 150 sales reps a year, we drive our market segment approach, meaning a res repaint customer will have a rep that is focused on that specific market much like a commercial rep will focus on the commercial segment. The breadth of our rep force allows us to focus on our customers' needs. It also provides us with deep insights that we use to grow and improve our products and services.

Very much like our stores we are dedicated to the needs of our customers by providing personalized professional expertise where customers need it most, in their office, their shop and out on the job site. Our customers' ability to run their business more effectively translates and creates a bond with Sherwin-Williams and that bond creates loyalty, whether it is an existing customer or a new customer, this partnership allows both organizations to grow and to grow profitably. We have multiple channels of distribution in Latin America, similar to the United States, we have company owned stores, as well as dedicated dealers that look and feel just like company owned stores.

We have exclusive products that we sell through our controlled distribution. Additionally, we have strategic alliances with multi-brand dealers that allow us to extend their market reach with our innovative products. We also sell through home centers. To create points of differentiation between the channels, we have created unique product lines for this channel as well. Account growth is a core competency of Sherwin-Williams. Every day we look at the needs of our customers. We are, more importantly, our people are customer obsessed. We hone in on this approach, a process we call G3, get them in, get them going and get them up.

Customer acquisition is the lifeblood of Sherwin-Williams. Our goal is to make our customers more successful by providing them with the right tools, products and services. This allows us to build relationship with our customers centered on trust, and this trust makes them loyal to our company. We have seen tremendous success with this program, increasing our new account base and growing our share of wallet with current customers. We've also done an excellent job of increasing sales of our premium products. This is a win for our customers as well. It helps their employees be more productive and efficient, while at the same time allowing them to achieve a greater satisfaction with their customer. G3 is a win-win proposition for Sherwin-Williams and our valued customers.

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We continue to look at which programs and services are valued by our customers in Latin America. We utilize the U.S. knowledge and transfer best practices to enhance our approach to the market. G3 is gaining traction in our Latin America division. Another piece of our Latin America strategy is to partner with our customers by building awareness and customer loyalty to help ensure that there are enough people to apply paint, we host a Painters Academy in Latin America. That includes extensive hands-on training. This program was originally piloted in Latin America and aspects of it are fueling our programs in North America.

As you would expect, we are working creatively to help our customers source and train additional qualified labor. We have initiated programs that assist in developing qualified painters. This while not the sole solution to labor constraints in the market it does increase our credibility as a partner in their business. In 2018, we are launching tools that are focused on our customers' challenges. Our online trading portal will help impart basic skills for someone that is new to the painting trade. Additionally, we have leveraged industry leading recruiting practices and packaged it into a program that provides resources for our customers to recruit, hire, and retain new employees.

Finally, as the industry leader and as a partner to our customers business, we assist in telling the story of how the painting trade is a terrific profession. Our national account activity continues to be robust. As most of you are aware and as John pointed out, we have agreements with some of the largest national accounts. We have exclusive agreements with 16 of the top 20 property management firms in the United States. On the homebuilder side, we have exclusive agreements with 15 of the top 20 builders. And on the retail side, we have agreements with some of the largest retailers such as Walmart, Kroger, Circle K, and Costco. As far as hospitality is concerned, our agreement with Avendra makes us the preferred supplier to the likes of Marriott and Hyatt.

The agreements that we do not have are viewed as an opportunity. Ones in which our teams are laser-focused in securing. We have taken the sale-focus approach and have implemented it in Latin America. In Mexico and South America, we have positive relationships building, the yearly returns – having secured such agreements as Walmart remodels in Brazil. We have an exclusive agreement Prologis in Mexico and Brazil and we have an exclusive agreement with Yum! Brands in Mexico and Ecuador. In South America, we have supply agreements with the Latter-day Saints and Jehovah Witness organizations to supply paint to their locations. We've made nice progress in Latin America, we're not satisfied and we're working to increase the pace of growth.

Moving on to product innovation, a key component of our customer segment approach is segmentation. By having stores and sales people dedicated to our customers in a manner that aligns with their business, we become a greater partner to their company. The same holds true for our product portfolio. Each of our market segments has some unique needs. [ph] Res Repaint (00:58:02) is looking for quality products that ensure customer satisfaction and we're committed to creating the right product for their needs.

Our customers continue to reward us. We have experienced double digit sales growth in this segment in 16 out of the last 18 quarters. These sales gains are driven by unique innovation, such as Duration Home with moisture-resistant technology, which ensures return to service in as little as two hours with excellent moisture resistance. Quick Returns make our customers more profitable and makes their customers happier with a project that is completed sooner.

Earlier, I mentioned our efforts to provide resources to help our customers to address the challenging labor market. Our product development platform also takes this into consideration, recognizing the [ph] needs (00:59:01) for products that apply easily while meeting stringent customer requirements. Our commercial customers are looking to increase their productivity and throughput while meeting MPI specifications. The depth of our product line does just that. Take our ProMar 200 High Performance Zero VOC coating. It is made for

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commercial and light industrial jobs because of its high performance durability, abrasion resistance formula and outstanding hide. This product has zero VOCs and is MPI compliant in key categories, including high performance architectural products such as LEED v4 emissions testing and GREENGUARD Gold testing, all leaders in the commercial space.

In Latin America, for our commercial painting contractors, we are going to market with a line of white industrial products under the name Ultra Protección that allows them to reach the simplistic but targeted customer base that they serve.

When you look at the needs of the new residential market, it runs the gamut of product quality needs, as well as needed product quality. We have a product line-up that will please the track painter as well as discerning custom homebuilder. Our Builders Solution, Painters Edge, and A-100 offer exceptional touch-up for our new residential customers at a great value. For our upgraded homes, we offer a beautiful and durable finishes with SuperPaint and Cashmere. All these products have been formulated to meet the rigors of the construction site application with a wonderful finished product.

In Latin America, in order to grow the new residential market and increase efficiency, we have created national products that are sold throughout the region. Products like Pro Constructor and Pro Craft have enveloped specifically to meet the needs of our professional painting contractor partners. Apartment turns are a challenge because they are painted on a tight timeline at a very competitive rate. Our new Extreme Cover Interior Stain Blocking Paint and Primer in One is an efficient all-in-one solution that provides great value and a beautiful final appearance. This professional quality coatings offer a durable finish that stands up to repeated washings and exceptional blocking against common stains like grease, grime, food and cigarette smoke. Our property manager customers want to upgrade unique products like Harmony is a great option.

Harmony is a zero VOC formula that helps reduce common indoor odors from pets, cooking, and smoking. This acrylic paint is GreenGuard Indoor Air Quality Certified and GreenGuard certified for Children and Schools. These product examples are indicative of our approach towards the true leveraging of our controlled distribution relationship.

We work very hard to understand the opportunity to bring unique solutions to our customers. Some articulated by our customers, others discovered through our research. All designed to benefit our relationship with our customer. As we move on to continuous improvement, we look at these initiatives, while we are continuing – continually looking to improve current products and introduce new ones, we maintain a disciplined approach towards cash in both our North America business and Latin America business here is an example of our discipline at work as it relates to skew rationalization. We hold our team's accountable for the cash they use and generate.

To support and leverage our 4,200 stores and our 2,200 sales reps in North America, we have over 2,900 delivery trucks making over 2 million deliveries a year, sometimes the same day or the next day to our valued customers. While these services help us help our customers, we think we can get better by being more efficient and expanding our delivery capabilities. We're working both with our global supply chain team as well as leading truck and logistics software companies to safely make more deliveries with our current fleet.

In the paint world, color is everything and consistency of color is paramount to the success of our customers, while we lead the industry and our ability to accurately tint custom colored paint. We have a team of dedicated people to increasing our efficiency while optimizing the amount of tint we use. Our goal with continuous improvement is delivered, continued to improve the services we provide our customers while maximizing our investments.

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Sherwin-Williams is the leader in a customized experience. We have specialized stores to support our different customer needs. They include commercial, protective and marine, residential and even floor covering stores, all focused and designed to provide unique service set to targeted segments.

Our customized experience expands far beyond our stores, rep and website. Let's take a look.

[Video Presentation] (01:05:06-01:08:16)

Peter J. Ippolito

President-The Americas Group, The Sherwin-Williams Co.

I trust you found that video exciting and informative. I would like to refocus your attention to our people. At Sherwin-Williams, we often refer to our people as our secret weapon while we hire over 1,500 college graduates a year. 32 years ago, I was in fact one of those hires just like John Morikis, I'm a product of our management training program. We hire college students not because it takes a college degree to run a paint store. We do this to have fully developed pipeline of future leaders. We provide the training, the resources and most importantly the environment and culture that people can win in and want to stay in for a long, long time. We continue to operate with an industry leading single digit turnover. We build relationships and retain our well trained people. Trademark service is a key Sherwin-Williams differentiator. We support our customers and answer any question they may have. We are committed to helping our customers build their business and complete successful painting projects.

Our people are not just experts, but they take the time to personally help with color selection, surface preparation and product selection. By segment, we design the products and services, which help our customers reach their goals. Our trademark service extends to the e-commerce world, an exciting initiative rolling out across the country is our digital relationship. Customers now have 24-hour access to their account information. Areas such as job history for example, whether it'd be product quality, color or sheen customers can look up and review pricing by project and they could order online any time all of this 24x7.

These are just a few of the items that we – that are part of our initial roll-out that enhances our relationship with our customers. Expect to see more features and services introduced to our customers, which will result in an increased ability for our customers to reach their goals. We have 4,200 stores and 2,800 reps in the market with our customers. This initiative leverages their relationship and takes it to the next level. We also customize our expertise through color and product specification. On this wholesale line, we have 36 account executives calling on architectural firms to assist with industry-leading product specification and 28 designer account executives helping designers with the latest color trends. For our homeowners, we have updated our award winning ColorSnap app. It now features instant paint with augmented reality. We'll be adding this feature to our Spanish and Portuguese ColorSnap apps to support Latin America later this summer. ColorSnap is available for both iPhones and Androids. Let's take a look at this great new feature.

[Video Presentation] (01:11:50-01:12:45)

Pretty cool. Our customers will love how this tool takes the guesswork out of choosing colors and will help them confidently move on with their painting project.

I appreciate your time and attention this morning. As you can tell, I'm excited to share with you our approach to our customers and the products and services we have in place to grow both Sherwin-Williams business as well as our customers.

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TAG has had solid consistent performance and we've had terrific momentum. This momentum energizes us to accomplish even more. We are a hungry team of leaders, you could say we are insatiable and obsessed with adding Sherwin-Williams shareholder value.

Thank you for your time this morning. It is now my pleasure to let you know that we're going to take a break. And after the break, Aaron Erter will join us to discuss the excitement around our Consumer Brands Group. We'll have a 10 minute break. So at about a quarter to the hour, we'll be back in here. Thank you very much.

[Break] (01:13:52-01:28:02)

Aaron M. Erter

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

Okay, if we could have our seats please? All right. We'll get started here in one minute. Okay. All right, [ph] Lizzie (01:28:26). Good morning, everyone. I take it as a good sign that it looks like pretty much everyone has come back. So hey I'm going to kick off the second half of our program. My name is Aaron Erter and I have the pleasure of leading our Consumer Brands Group, and we're excited to tell our story today. I want to share with you overview of our business as it is two combined groups into one. Progress we have made since the Valspar acquisition and highlight some of our key growth drivers.

Before I begin and I think you're going to see a trend of videos and I will just say this, the consumer team was first with videos, now everyone else is trying to do videos, [ph] PD (01:29:16) even had two of them. So there'll be a vote at the end of this on videos. But what I want to do is start out with a video that I think captures the assets of our group. So we'll roll the video.

[Video Presentation] (01:29:28-01:31:25)

All right. I want to have some bragging right, so can I get a round of applause.

All right. Okay. So you notice a theme there, a lot of world-class retail partners and a lot of premier brands. We're going to use two terms for those you'll hear a lot today in my presentations. And that strategic partners, which means partners that want to invest in us and grow with us like we do with them. And you'll hear the term Hero Brands. Hero brands are brands that we believe we can take from a national perspective invest in and drive and really move the needle for our business.

So let me talk a little bit about our group and just what it is, because there are some new folks in the room. As I said we're relatively new as of just a year. So what does the Consumer Brands Group. It's a combination of the legacy Valspar Global Paint business and the Sherwin-Williams Diversified Brands Group. Since the Valspar acquisition, we are one group. And we focused on this really early on.

We said within the first 45 days of the acquisition, we were going to come together as one group, because we thought it was important to operate as a combined team and to be one face to our retail customers. We sell primarily architectural coatings and interior and exterior paints, stains, aerosols sundries, and specialty products. We're rich in brands that are leaders in their categories and trusted by customers around the world. You can see brands like Valspar, HGTV by Sherwin-Williams, Purdy, Cabot some international brands you may not be as familiar with Ronseal, which is the premier wood brand in the UK; Wattyl, Australia and New Zealand, a key brand and then Huarun, the number one domestic brand in China.

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We're also able to distribute these brands with world-class retailers like Lowe's, Ace Hardware, Menards in North America. B&Q in the UK, Mitre 10 in New Zealand and some premier distributor partners in China. These are really just to name a few.

With our strong range of retail partnership, we're also able to service a wide range of customers. I think one of the things that is unique to our group is, we really cover almost every segment, whether it'd be DIY which there's many segments within them, whether you're buying paint, whether you're buying stain, whether you're buying a paint brush, we like to call remodelers. So, you could say that's a pro or a light pro, but a lot of these go to our retail partners. And then there's a new trend out there and that's do-it-for-me, which in China it's primarily, do-it-for-me, and in the U.S. we're seeing more and more of that. So the reason I mentioned this in all these retail, all these segments is we have to when we came together we knew it was paramount to be laser focused on the consumer and you'll hear more and more of that theme as we go on.

So how are we doing thus far? I think it's no secret the last couple of years whether you're looking at the Valspar paint business or what was the Sherwin-Williams diversified paint consumer business is the business did not perform to expectations. There are a lot of different reasons for that, and what we feel is we've done a lot of heavy lifting in 2017. We planted seeds that we're starting to see progress on.

Although one quarter is not a trend, we're really encouraged by the progress we're showing. So just to look at our numbers, our sales and what I would say is a challenging DIY environment, we're up 3.8%. Our profit increased 23.7% the last year, which was 16.2% of sales, which was a 260 basis points increase versus the previous year. Really these improvements were driven by a few things. Number one, our team's focus on cost synergies which they've done an outstanding job on, progress in getting price increases and then execution with our key retail partners and then lastly disciplined expense control.

So, good progress but we're not satisfied and we're going to keep driving to increase our performance. So within 11 months or call it a year, what have we done? Since the closure of the Valspar acquisition, I think we've had some key accomplishments and I'll mention just a few. We talk about our brands and we were blessed with a stable of a lot of different brands. But one of the things that we've realized is there is an opportunity to really optimize our brands. And you can see on the slide here, we really categorize our brands in three different segments and that's grow, which we're going to invest money in, defend and then rationalize. So we think we have an opportunity and we've already started down the path of optimizing our brand portfolio and really to focus moving forward which I'll talk more in a moment on our Hero brands.

One of the other things that we're extremely excited about and I think a lot of the questions that I've had thus far is our strategic partnership with Lowe's. Lowe's is one of our largest customers and we couldn't be more thrilled with entering into this agreement with them. And I think what excites me more than anything and calling on retailers for over 20 years is we have a retail partner where we have a 100% alignment with, a 100% alignment. I think that is key to say when you think about all the different roadblocks, what we're focused on is how do we deliver the best products and the best experience to the customers that are coming into the Lowe's stores.

And last but not least, we're very proud of assembling a world-class organization. And it's pretty evenly split from a leadership team of legacy Valspar and legacy Sherwin-Williams. And I'll just point out Rob Lynch, who's in the background, who leads our North American business, Rob if you could just wave your hand and say hello. All right. But what I think I'm most proud of is the fact that after we came together since day one, we really haven't had any disruptions to our business or have we lost any customers. That is something that was key when we came together and why we put the team together so quickly after day one.

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So as we move forward, there is a few things that we're really laser-focused on. Number one is simplification, whether that be line design, merchandising, product development our team, how do we make it easier for our consumers to select and use our products and for our retail partners to do business with us. This is not a complex business and I think we've made it complex. So look for simplification from us with our strategic partners.

The other thing which goes without saying is execution. There's a lot of things that we've executed on, but it's key to do what we say we're going to do. And one of the big things that we have in front of us from a North American standpoint is executing on some key initiatives we have with our strategic partners like Lowe's.

And then really building our capabilities, as we came together, we looked at our team and said where do we want to go, and do we have the team and we have the capabilities to get there. And I would say we were pretty strong in most regards, but there were other areas that we needed to invest in. For instance, we needed to bring category management to our team, we needed to bring channel marketing to our team. And those are some of the things that are going to help us succeed, as we move forward.

So as we look at the opportunity ahead, our business spans across a number of different regions, APAC, EMEA, Australia, New Zealand and of course North America. And North America is by far our largest region, and what I would say just in full transparency where we've made the most progress since coming together.

With that said, and John mentioned in his opening remarks, we're going to spend the majority of our time on North America today and we're going to highlight our growth potential and our initiatives that are happening in the region. What we believe makes us unique in North America, which we'll be able to transfer over and a lot of the other regions is a value proposition. And we believe our value proposition is providing our strategic channel partners access through a portfolio of industry leading brands supported by best-in-class high touch service. And I think it's important to mention this we do this while being consumer focused and customer driven. Consumer focus and customer driven, so everything we do is focus on the end user but we also need to work with our customers to be able to get to that end user.

Being consumer focused and customer driven requires a relentless focus on insights, which day one was a capability we build up and continue to build. It enables us and our retail partners to delight our consumer. We really look at from an insight standpoint the total experience as someone goes to do a project. You probably heard this from different companies and even from our own, the paint experience is roughly about 110 days. 110 days to paint a room and that's because there are so many steps along the journey.

And as we look at the journey, there's all types of highs and lows whether it'd be someone lacks color confidence, someone doesn't know the applicator to choose you name it. We're focusing on the whole journey and how do we scale that time down in the journey for them. Understanding these [ph] paint (01:42:13) points means we are innovating in and out of the can. We use this term a lot in our group. I think so much in the way of innovation is what's in the can, which is very, very important.

Now a lot of consumers I think see what's in the can is table stakes. You're going to have paint and primer and one, you're going to have a durable paint. How do we solve for that and continue to make that better, but how do we solve for other things. Innovation could be innovation in merchandising. How do we help someone select a color, how do we help them have more confidence in that, how do we design a website for our retail partners to give someone inspiration, these are all keys for us. And this innovation as we move forward is really going to be showcase through our leading stable of Hero brands.

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So as we look at our business. I'm speaking specifically of North America in here as this is where we're going to focus. We believe there's a solid path of growth in bringing our value proposition to life. We're in progress of implementing this with some of our key strategic partners like Lowe's. And key drivers of this proposition are our Hero brands, our field sales support, category management, digital leadership and merchandising excellence. We believe these are areas we do extremely well. We did well legacy Sherwin-Williams wise, we did well legacy Valspar and now we do extremely well as one team.

When we bring these to our retail partners and have alignment, we can delight our collective consumers and what we can do for us and our partners is increased close rates, gross sales and enhanced margins. So what you're going to see here is I think sales synergies at its best

To really unlock the value proposition, the potential of it, we needed to have an anchor paint brand. I would say Sherwin-Williams Consumer Brands Group on its own did not have this. Valspar brings that to the equation. Valspar is the most widely distributed brand in North America, a lot of people don't know that. It has some of the highest brand equity in the United States and it ranks really, really well with some of the key segments or the growing segments out there.

Valspar alone could not unlock the value proposition potential, because it didn't have a stable of Hero brands, they can really round out a department. If you think about it and just map out the paint department here, we have a good percentage of that department covered and what we're being able to offer to our consumers and retail partners. Some of these hero brands and Valspar is just one of many, but you see in pictured here, HGTV by Sherwin-Williams, Minwax, Purdy, Krylon, Thompson's, Cabot are just a fraction of the brands we have. These are listed because what we've done is we've worked to really simplify the messaging here.

As I said before, large stable brands, these are going to be the Hero brands that we move forward with from a national standpoint that we're going to invest resources in. That's not to say there's not going to be brands in our stable that we're not going to utilize, but these are going to be the brands that are going to be moving forward and we believe can move the needle for our retail partners and for us as Sherwin-Williams. This is something we're really excited about as we can focus our resources. This also allows us to speak specifically to the segments of customers who desire these brands.

Key to the stable of brands I just mentioned and to our retail partners' success is our outstanding sales and service reps. Pete had mentioned this as being our secret weapon within TAG, we believe the same thing in our Consumer Brands Group. These are dedicated teams that have vast product knowledge, they are experts in training, merchandising sales, and working with their respective stores to ensure success. We see a lot of opportunity areas for this team to help our retail partners, of course, help close rates, help simplify line design. And one thing I'll mention is vendor focused training. As we look at what these folks do in the stores day in and day out, our greatest return comes from being able to train store associates and our retail partners.

We have looked at what our training rates are going to be this year and how many hours they're going to spend in training associates. It's well over a million hours that this team will spend in North America in training our key strategic partners. And I think a question is always asked. What's different now, right? What's different from when it was just Sherwin-Williams? What's different from what it was just Valspar? One thing is, we're a combined team which I think is key. The other piece is with our key strategic partners I mentioned this before, we have a 100% alignment. That makes this team's job a lot easier and to really again focus on what's best for the customer.

So as we talk about alignment with our retail partners and so many different areas, we think one piece that's critical as we move forward and I talked about this being a new capability for us, is inventory management. We've

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added this capability within our group to really ensure that we're going to have the right product at the right time. That's key, because I think so many times if you have a customer coming in and they'll give you one chance, right. You walk into store, you don't have a product, they're going to walk out and never give you a chance again. Aligning with our retail partners on category and management is going to ensure we're going to have the right product at the right time.

You hear so much about digital leadership and all this slide is for us and what I want to make the statement on is, our retail partners are the ones who are going to be doing the selling. Our role with this and part of the value proposition we bring is a platform of tools to help the consumer, whether that be on our websites or within our retail partners' website, like you see here Lowe's with the paint visualizer or Ask Val.

We bring some really cutting-edge tools. Pete talked about some of them in the TAG Group. But if you look at Valspar, we're the only paint brand to partner with Pinterest, one of the biggest areas of inspiration out there where we have a Pinterest Analyzer. So what a customer can do is, this analyzer will look at all their different pins and will get a color scheme and will transfer these over into Valspar colors. You can get samples of the colors and it will drive you into a designated retail to get these colors. So, some good digital leadership here.

The other piece is, merchandising excellence. I'm not unveiling this here, but I can guarantee when you go into some of our retail partners here in the summer, you're going to see some unbelievable merchandising that really simplifies the experience. This is so key for consumers along the journey and we do that now day in and day out. I'll use the example of our [ph] HGTV (01:50:15) by Sherwin-Williams designer color palette. It's for those who want what they see on TV curated by a designer, but also you're not going to make any mistake. You're going to pick the right color and has the right corresponding colors. So this is something that you'll see from us moving forward.

So, as I start to round this out and I talk about, hey, these are all great things and we're going to do them. The fact of the matter is, we're doing them. In North America, these are some of our key strategic partners. Lowe's, we're doing it with; Ace Hardware, we're doing it with; Orgill; Do it Best; some of the independents out there; and then of course, Menard's. So anchored in a key paint room surrounded by hero brands. And I think the interesting thing here is, we curate the experience for these respective retailers as well.

So, as we move from North America and we talk about global growth opportunities, again North America is the farthest along. But what we think is, there's opportunities in the rest of the world, with key brands and key technologies. What we're doing now is really evaluating the best approach and our move-forward strategies in these areas. How do we use our institutional knowledge to move the business forward in these areas? This will be something we look forward to discussing with you all in next time we're together.

So just to round it out, we believe we have solid growth and profitability with a value proposition. It's consumer-focused, customer-driven and we're really focused on the following: strategic partnerships, how do we simplify the business with areas like brand optimization, innovating in and out of the can; and then as we talk next time, we're evaluating our key move forward with some of our global initiatives.

So with that, I thank you for your time and I want to introduce our President of Performance Coatings Group, David Sewell.

David B. Sewell

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

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Well, good morning. It is really a pleasure for me to represent the men and women of the Performance Coatings Group, formally the Global Finishes Group. And what I'd like to do is start by talking about how we got here as a newly created Performance Coatings Group. This time last year the Sherwin-Williams Global Finishes Group was comprised of three operating divisions; our Automotive Group, our Product Finishes Division and our Protective & Marine Division.

We had been working very hard to further segment and we split our Product Finishes business into two businesses; Industrial Wood Coatings and General Industrial, on June 1. That same time we acquired Valspar and their five industrial businesses, and this is how we integrated this into the newly created Performance Coatings Group. We first divested the North America wood business and merged the rest of the business in our industrial wood business and that gave us tremendous opportunity with the Huarun brand in China, with the new channel and new customer base which we didn't have.

We merged the two automotive business, where Valspar brought us presence in Europe and Australia and New Zealand, which Sherwin didn't have, and that complemented the strong presence of Sherwin Automotive in North and South America as well as Asia. We took the Valspar industrial business and we split that. We saw great synergies with their functional coatings group in General Industrial and we put that with our Protective & Marine business and we merged the remaining General Industrial business with our own General Industrial business and that brought significant opportunity with Sherwin's facility platform globally which I'll talk a little bit about.

And then of course, we added coil, packaging and EPS; three businesses we weren't participating in, but we have found great synergies with all of those businesses and that created our new group, our Performance Coatings Group, and I'm looking forward to sharing with you some of the stories of how we're better together as one organization. To start, to help us grow we have a terrific set of leaders. Six of the seven are here with us this morning. With over 210 years of industry experience, we have an excellent blend of legacy Sherwin and Valspar leaders that have deep expertise and knowledge of the industries and our customers.

And as a group, these are some of the areas that we really focus on to get better. Customer centricity, speed, innovation, developing that global talent, but really driving the utilization of our assets and resources around the world to optimize our efficiencies, to build profitability and drive growth, taking advantage of leveraging our seven industrial businesses together, where it makes sense to bring more value to our customers, the top line and the bottom line.

If you look at our financial results, here is the pro forma with Valspar history before the close. As you can see, our full year 2017 sales and our Q1 2018 sales show terrific momentum on the top line. And in addition, we also leverage our TAG distribution platform for sales [ph] to repeat (01:56:25) organization. We feel great about our sales momentum highlighted by the 9.8% growth in Q1. However, with the significant and rapid escalation of raw materials, we have seen that impact to our bottom line.

The teams have been partnering closely with our customers, driving price increases to cover this inflationary environment. And while ROS skyrocketed in Q1, we are moving as quickly as possible and are confident in our ability to capture price. We've made great progress and continued to expect sequential improvement.

I thought I'd do a very brief exercise to help make our divisions seem more real, and demonstrate all the opportunities we have and things you might see every day. So think about the last time you attended a sporting event. Starting at the tailgate simply with that barbecue; utilizing general industrial coatings; but then moving into the stadium, the shining new innovative design and color or coil coatings. As you move in the signage, the door

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handles, the railings, the turnstiles, metal detectors, ticket scanners, restroom mirrors and scoreboards, all coated.

The concrete floor, the structural steel, support beams and roof structure of the stadium, protective and marine coatings use it there.

As you look at the luxury box with the cabinetry, the mahogany table, the hardwood flooring, and even the locker room for the players are industrial wood coatings. That refreshing beverage can you may enjoy during the game, our packaging coatings. The plane flying overhead at the beginning of the game, our aerospace coatings, part of our automotive group. And finally in that rush to get home for that DIY project, you might get in that little fender bender, our automotive finishes group is there for any repair. Everyone was safe in this picture by the way I just want to add that. But the bottom line is, with our Performance Coatings Group, there is rarely a manufactured product or surface that has a coating that we can't provide. We provide the complete coatings solutions.

So as we talk about our ability to offer these solutions, there are a couple of areas I'd like to focus on this morning. Our ability and need to reach our customers globally. What we offer beyond coatings was specification and design, and our ability to innovate with technology and sustainability. And I'd like to provide some examples of all these opportunities held by coming together as Sherwin-Williams and Valspar, we can provide game changing solutions. In effect how we're better together, and how our relentless focus on our customers helps us partner to solve whatever challenge may present itself.

John shared or Bob shared our global sales platform. But if you break it down to Performance Coatings with our new consolidated group, we have more scale and infrastructure globally. Our OEM customers are demanding global connectivity yet they need local support. That's why we like to use the term multi-local as opposed to multinational. With Valspar and Sherwin now coming together as one group, we have the size and infrastructure to support these needs. This also enables us to diversify our talent and research capabilities and improve our cost structure to support emerging markets. Before the Valspar acquisition, we were certainly more skewed to North America with our technical labs and R&D. Now, we've expanded our R&D footprint, but more importantly we have doubled our R&D staff and added new development capabilities all while remaining on track for our value capture opportunities, more expertise in more countries that understand local needs all while being more efficient.

Another opportunity we're really excited about is to expand beyond our previous polymer strategy. Backwards integration and key raw materials helps us create differentiation, leverage cost and drive growth in industrial markets and it also brings more innovation providing the opportunity to grow share by leveraging key segment focus and expertise with new novel technologies.

Here is a great example of global reach expansion providing organic growth opportunities. In Australia, Valspar brings a large network of company owned Wattyl stores. They were selling a minimal amount of protective and marine products. Now by leveraging Sherwin-Williams' extensive P&M product portfolio, global specifications and our knowledge of leveraging this channel platform for growth, it is bringing enormous opportunity. The same goes for automotive in general industrial in Europe as well as opportunities in the Middle East, in Asia, and in India across multiple divisions.

One of the areas that Valspar really focused on was large batch factory direct shipments to large OEM customers. The opportunity to service small to medium batches with just in time deliveries with many of their customers quite frankly proved fairly elusive. Now with over 300 industrial blending facilities around the world, we have the ability to services business, bringing more value and incremental revenue opportunities. We are doing a lot of work

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building out the capabilities of these facilities to service these customers, while also building out our global color platforms to minimize inventory levels and improve our working capital.

But being a comprehensive coating supplier is also being comprehensive across the entire product development, manufacturing and finishing process. We feel a big component of our value proposition is to be there every step of the way with our customers, from product concept and color design to design engineering and plant optimization, all with the assistance of our design engineering team. Utilization of our global application centers to validate our coatings in similar manufacturing environments, so our customers don't have to disrupt their production and they can have confidence in the efficacy of our solutions. And complete product testing to ensure stringent customer and regulatory requirements are met. And finally, a fully trained and expert, field technical service team to deliver a smooth transition at our customers' manufacturing sites, so their lines run smoothly and efficiently. Global color design and specification is so important and here is a terrific example of how we work with our industrial wood customers.

Most U.S. furniture manufacturers complete all of their design and color trend work right here in the United States. However, most all of their manufacturing is done overseas in Asia. So we have invested significantly in our global color and design center to be able to partner with furniture OEMs to provide the support they need for development and design here in North America within seamless production in Asia. Here's a look at our GCDC.

[Video Presentation] (02:05:00-02:06:36)

So, speed the color is so critical for our automotive refinish customers as well as our other customers. But the synergies of Valspar and Sherwin-Williams coming together has enabled us to do several things much better. We have eliminated non-value-add activities for our customers with a new touchscreen innovation. We've reduced the amount of toners per mix which is reduced mix time by 25% and with new algorithms used in our spectrophotometers. This has resulted in a 40% reduction in the processing time to mix new colors. Overall, the customer quality experience now provides a 99.6% color accuracy for a first time mix, our new color system has been extraordinarily well received by our customers.

As I alluded to earlier with the sports arena example, we have an opportunity to be more holistic in our approach with architects and specifiers with large projects that require coatings across multiple divisions and technologies. We're embracing this opportunity and are now targeting representing a one Sherwin-Williams solution to solve all coating needs for these projects. With this approach, we can now bring a complete portfolio of products for both the interior and exterior. And more importantly bring value to our customers both architects and specifiers where they can now fulfill all of their requirements with one contact and be tremendously more efficient with their time.

Building out our complete product portfolio has really been a benefit of our two companies coming together. It's been tremendously complementary in nature. So for example, Valspar had a terrific technology with Fusion Bonded Epoxy powders that Sherwin-Williams did not have. And Sherwin-Williams had a very extensive product portfolio of protective liquid coatings that Valspar did not have. By bringing these two technologies together in our protective and marine business, we are now able to provide complete solutions in both liquid and powder to some of our key customers in key segments. This is allowing us to grow the market opportunity by 20% to 30% and make Sherwin-Williams a more powerful supplier to our customers.

Sustainability is an area where we are poised to lead and are in lockstep with the changes going on in the world today. And we actually view this as a tremendous opportunity and that comes from understanding a constantly changing regulatory environment and working very closely with our customers to develop technologies that will both differentiate and innovate, while also providing a drop-in solution for their production.

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In packaging, the demand for non-BPA coatings is growing dramatically. As part of this evolution, we need to have stakeholder engagement with universities, NGOs, media and brand owners about the non-BPA rationale, all while driving that differentiation and innovation. But more importantly, we also have to have engagement from the can maker and the applicator to ensure this transition is effective.

Developing non-BPA technology with epoxy means that applicators can now have the product that will behave the same as before is the easiest transition for their environment and with valPure, we are the only non-BPA epoxy solution in the market with 49 specialized patents to protect it. The success we're seeing with non-BPA is because we took every stakeholder into account and we have invested in innovation, technology and manufacturing capabilities around the world to support this demand. This is a really exciting example of bringing the best of both company technologies together.

Waterborne coatings for the automotive aftermarket continues to grow at an escalated pace, driven by both government regulations and customer demand to be more environmentally sensitive. To be a leader in this transition, you must have exceptional technology that makes the transition from solvent to water as easy and as efficient as possible.

We have built a system with Valspar waterborne toners and Sherwin-Williams primers and clear coats and we have delivered just that an exceptional technology. Here's a look at our new Ultra 9K from the eyes of a customer.

[Video Presentation] (02:11:47-02:12:50)

So a nice testimonial about this terrific new technology that we're rolling out right now. So in summary, we believe with our global reach our ability to win with specification and design and with game changing technology and sustainability, we are most certainly better together as Valspar and Sherwin-Williams. But the most important thing that brings this all together is our relentless and passionate focus on our customers and what's next on the horizon. In fact, you can even say it's an obsession of ours and here's a look.

[Video Presentation] (02:13:30 -02:14:38)

Thank you very much. It is now my pleasure to introduce Joel Baxter, the President of our Global Supply Chain.

Joel Baxter

President & General Manager-Global Supply Chain, The Sherwin-Williams Co.

Good morning. Now it's my pleasure to be here to present an update on the Global Supply Chain. And I'd start with just giving you a brief overview of who we are today. You heard this number, 135 locations across the world and 16,000 team members that came together June 1 as one focused organization, dedicated to sharing best practices worldwide from both legacy companies across the end-to-end supply chain. And when we talk about supply chain at Sherwin-Williams, and I noted this in the past, we do have a research and development organization within Global Supply Chain. So we do the architectural development for both Consumer Brands Group and for TAG and we operate a number of centers of excellence for things like polymer science, corrosion that we leverage across the company, so getting that leverage. But each of these functional areas in supply chain is charged with driving continuous improvement that adds value for all the customers that have been spoken of this morning. And we do that through a common business management system.

So when you're as big as we are at 16,000, you need to have everyone on the same page speaking the same language. So, our GBMS as we call it is anchored in these four elements, discipline management review that

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happens around the world in our facilities, in our departments every month, a continuous improvement process that is exactly the same no matter if you are a manufacturing distribution or in a back office supply chain task.

And when we have a problem, we do root cause the same way. So it may be in different languages, it may be in English in North America, it may be in Mandarin in China, but that process is the same. And because we're growing and we're focused, we like to be dedicated in our time to those things that are highest value to those customers I showed you on the end-to-end supply chain. All of this is enabled and executed and improvements are driven through people, systems, tools and processes. It's that simple.

And what are the accomplishes, it drives that higher customer satisfaction, while helping us reduce cost over time and positioning us to support accelerated growth of all the businesses that have been talked about this morning. We accomplished this through four focus areas currently, operational excellence, global procurement, innovation excellence and acquisition integration. And as I go through this, I think you'll see great alignment to what all the commercial divisions I've talked about. First with operational excellence. Since June 1 of 2017, we quickly said these are our five elements of operational excellence. How do we align with the team members that came from Valspar, and we checked all the boxes, the cultures were strong, the focus on safety and quality service cost and people aligned very quickly, which was really exciting for me as the leader of this organization.

So for example, proof positive. Both Sherwin-Williams and Valspar maintained recordable injury rates well below the industry average, and we track our results globally to United States Occupational Safety and Health Administration results or standards, which are the most rigorous standards in the world. You see we were nearly half the industry average at Sherwin and Valspar was even better than us. So this was one of the early opportunities for us to leverage a lot of the practices on Valspar back to Sherwin to make us stronger. The goal's always zero, because taking care of our people is our number one priority, and a core responsibility and a core commitment. But it also improves the morale and helps us lower cost.

Speaking of cost, there's a couple of opportunities that were identified pretty early. Average net fixed assets employed. In dark blue, I show you Sherwin for 2017 and legacy Valspar for 2017. One way to think about it is Global Supply Chain average net fixed assets with support in over $11 billion here; and on the Valspar side, it was a little bit over $4 billion. So in our continuous improvement and our synergy efforts, this is a major target that we're executing on. The same is true for working capital as a percent of sales. Al spoke of this earlier. We have historically operated Global Supply Chain on average negative working capital, here's the last three years, and you can see the results for Valspar, leveraging those systems and tools is helping us drive the legacy Valspar into negative territory as we move forward.

While synergy and integration projects are taking up a lot of time, but I want all of you to know, we've not lost focus on our core, and our core is operational excellence cost savings. And I take this chart back to 2008 to show you and demonstrate to you, there's a discipline behind driving efficiency through project execution in all of our core operations. So we have not stopped and pivoted just the integration. All of our core operations have continued to execute, and once again in 2017, it represents tens of millions of dollars of annual savings taken out of our operations. As we complete the integration activity, we will get the legacy Valspar facilities on the same type of trajectory through the common business management system I spoke of.

It's been talked about our fleet in North America, and I wanted to spend a minute sharing with you some information. I know transportation in United States has become a big topic. 2017 was our 36th year of operating our own company fleet. The Sherwin-Williams fleet is now the 60th largest private fleet in the United States. As John noted, we haul 95% of the volume that goes to our stores, and we do it safely.

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In 2017, we won the first place with the National Private Truck Council for highway safety. And second place already announced here in 2018. And the beauty part about this fleet, these are Sherwin-Williams employees. These are people that just like all of us in here today that present to you care about those customers.

Our turnover is well below the industry average. And I can tell you, we're a net adder of drivers and the turnover we do have about half of it is with retirements, because we have long-time 25-plus year drivers that help us execute this part of our supply chain. So very proud of this fleet, and finally, we plan on growing this fleet again this year in support of all of our newly-acquired business, as well as our new partnerships that have been talked about.

Another core thing that we did during this past year is, we opened a brand new distribution center in Waco, Texas. This facility shown here opened in first quarter of 2017. We were in another building in this city for nearly 30 years, and we outgrew it. So we opened this facility to service long-term all of our customers in the Southwest region of the United States. And this is being leveraged to our new business as well.

Go across the world, we had a new factory opened in Nantong, China outside of Shanghai. This state-of-the-art facility is allowing us to consolidate a number of facilities into Nantong, and at the same time exceeds all environmental health and safety regulations in China, not where they're at today, but where we think they're going. As well, this facility has the ability to cut across many of our businesses that operate, and will be a campus that will have work centers for specific operations in each different buildings shown on the screen here. So really excited about this new facility and how it's going to help us support growth for a long time to come.

Turning to global procurement, the other area of focus, we all know the headlines, it has been a rising raw material price environment out of 2017 into 2018. And here's just some of the headlines that support that, and based on those headlines, we've come together with our estimate of the average cost for raw materials for the industry. Now, I have to tell you, this is only our estimate based on overall assumptions and publicly available information, doesn't represent one coatings company or another, but together we see resins and latex at 44% of the purchases and being up nearly 3% to 5%, pigments being the second largest category at 26% of the purchase, and up 8% to 10% and container additives and solvents anywhere from flat to up 4% to 6%.

So based on our work here, we believe the industry will see average raw material price increases in the mid-single-digits. Regardless of what's happening with raw material price, we have long-term strategic initiatives that we work on, so whether the market's up or down, the three strategic areas of focus relate to alternate supply, internal development and efficiency projects. And you can just imagine coming together as one company, while Valspar was working on this too, so the number of opportunities has grown for us.

And then finally on acquisition synergies, I'll talk a little bit more about that later. But on the alternate supply, internal development and efficiency, it's really in those two major categories, long-term projects related to qualifying more sulphate versus chloride utilization, efficiency projects where we've been able to get more utilization out of a pound to TiO2 that we consume in our new formulation and high hiding latexes are now a normal part of the formulation platform, but the exciting news here for our team was legacy Sherwin had high hiding technology and legacy Valspar had high hiding technology. So we bring that together, gives us even more powerful tools to help us with our innovation, as well as, controlling our cost.

Speaking of the other major category of resins and latex, our strategy remains dual-sourcing of internal versus external. The exciting new piece here is the Engineered Polymer Solution (sic) [Engineered Polymer Solutions] (02:26:03) business that came as part of Valspar is opening up whole new opportunities related to new innovation that they were working on, as well as, opportunities to control cost.

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The external suppliers remain very important to us and we partner with them as well on new innovation to help us support where we're going to meet our customers' needs in the future. And where we're going is always going to go through this innovation pipeline. Both Pete and Aaron spoke about those attributes, those things our customers are looking for. This longstanding disciplined process of Sherwin-Williams always starts with the customers, always goes through a stage gate process, but the customer always comes first.

Maintenance and durability, visual appearance, custom solutions, sustainability and time and labor. If you think back, this was talked about earlier. All of our development efforts are in these areas. It's just a visual representation. The pipeline itself is substantially larger than what you see here on the screen. But what's the proof positive; the proof positives in our long track record of launching new architectural products. We started to hit a double-digit run rate in 2011. We achieved a high watermark in 2015 of 40 and we're on track for another strong double-digit new product launch year here in 2018, all in support of our customers. And as we move forward and we march forward, the focus is going to remain on reducing time to market with these new innovations, so get faster, maintain this double-digit rate in support of what our customers need and expect from us.

And then, in finishing up, I'd give you a little bit of an insight to what's been happening with acquisition integration activity within Global Supply Chain. First, the process, from the beginning, it's been anchored with dedicated teams, project management for all of the projects we've been executing, common reporting and metrics, and as John noted at the beginning, parking lot.

So every project that's underway, we ask those teams [indiscernible] (02:28:24). What other ideas are you coming up with when you're setting or executing, and we've been collecting those, and those are turning out more opportunities for us. The four major categories where we're achieving synergies, raw material savings, indirect spending, organizational design and operating efficiencies.

I put the map back up to show you, and I've highlighted with all the yellow circles here, we're all in the world we've been executing rationalizations. We talked about the three that were completed already, the four that we're working on. But I would add, prior to the June 1 close, we had three that we completed as well. So once the deal was announced, the early part of January, we got a head start on this knowing that there were three opportunities we could execute even before we close.

So right now today, we stand at a total of six with four in process of next phase to come, and specifically in North America, we're re-optimizing the supply chain. And so, we're moving product that could be better sourced geographically to different parts of the country so that we can speed our time of delivery to our customers, lower total conversion cost, and drive down working capital, while leveraging our company fleet to give superior service versus the market.

So in summary, just like before June 1 of 2017, we still remain a focused Global Supply Chain organization supporting all of our commercial leaders and the divisions that were presented here this morning. We're steadfastly leveraging our systems, tools and processes between legacy Valspar and legacy Sherwin to make our overall business system better with the one common goal of delivering best-in-class service to our customers.

So thank you for your time this morning, and I believe I'm going to give it back to John Morikis. Thank you.

John G. Morikis

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

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Okay. We are about to begin the Q&A session. Lunch is scheduled for noon. So we have just over an hour for questions, and then of course obviously more questions at lunch. I would ask, there are a number of microphones floating around the room, if you have a question wait for a mic to reach you, because we are webcasting and we want to pick up all the questions in addition to the answers.

QUESTION AND ANSWER SECTION

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

Who's first? Chris?

Chris Silvio Perrella
Analyst, Bloomberg LP (Research)
Q

Chris Perrella, Bloomberg Intelligence. With the raw material cost increases, it ran up in 2017, in the early part of 2018 here, how is pricing been implemented across the company? Have you caught up on 2017 at this point and/or you anticipated 2018 and everything's in place so there's more work needed to be done?

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

So let me start with our Americas Group, and we had gone out in December of 2016, [ph] 3 to 5, we went out with another 3 to 5 (02:31:41) in October of 2017. And we believe, we're covering our costs in that segment. If you look at our first quarter operating margins up 60 basis points, we feel really good about that and where that's headed. That being said, as you know, we look at this every month, and see what the outlook is going to be, and then we'll make a decision on whether we have to go out again. We'll tell our customers first and then come back and talk to the Street.

As far as Performance Coatings Group is concerned, I talked about it earlier about being behind in – we have gone out with price increases in the fourth quarter. We saw a spike in epoxy and zinc in our first quarter. We had to go out again, but we're one behind, and there's more to come, and those discussions we're having with our customers now to say, listen we haven't gotten enough we're not whole, we're providing the service and the quality and all the support you need. We're going to need to get another one in the near future here.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

So David, you want to maybe add on – at all any comments you have?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

Yeah, sure. It varies a little bit by division on what impact the raw materials had. But I would say that, the teams are out there consistently, I think, some of the way our contracts are. There's a little bit of a lag as well, but we feel very confident in our ability to get price. We've shown that in our history as well as Valspar. And again sequentially, you can see the improvement we had in the first quarter and that sequential improvement will certainly improve with additional price increases that have been announced to support it.

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Chris Silvio Perrella
Analyst, Bloomberg LP (Research)

Q

Thank you.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.

A

Eric.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Eric Bosshard, Cleveland Research. At the outset, John, you talked about, I think the growth expectations by group, and the two I'm interested in specifically Performance Coatings you talked about 4% to 6%; and Consumer 1% to 3%. The market share assumptions within that, are you assuming that you're gaining share in Performance Coatings and how do you think about the share outlook in Consumer?

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

A

Yeah, I'd say in both of those we feel as though we're growing share. In the Consumer piece, we think that's a relatively flat market. If you look at what's shifting from a do-it-yourself to a do-it-for-me will capture that likely on the store side if that continues. If that grows faster, we expect to grow faster in the Consumer business.

We think we are growing share at that rate. On the Performance Coatings side, we absolutely feel as though, we're growing share there. If you look at the performance and the run rate that we've had, and as David just mentioned, we feel as though we're implementing these price increases that we need to implement while growing shares. We're very comfortable with the progress we're making here.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.

A

Chris Parkinson.

Christopher S. Parkinson
Analyst, Credit Suisse Securities (USA) LLC

Q

Chris Parkinson, Credit Suisse. When you think about your longer-term margin guidance, what are the two or three other levers you can pull to reach the high-end of that guidance other than price [indiscernible] (02:34:50) how integral is getting the incremental price increases, especially in Performance to achieving the high-end of that target, and what else should we be looking at? Thank you.

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. I'll take the first swipe of that. When you look at the different levers, part of that when you look at innovation and what we're doing with introducing new products, we think that, that's a key driver to driving up towards the higher-end. So we see a steady shift in quality into higher quality products, better solutions for our customers, things that are helping them make more money are opportunities for us as well.

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Joel Baxter
President & General Manager-Global Supply Chain, The Sherwin-Williams Co.

A

I would just add on the volume. As we've highlighted in the past, as we get volume both through our Stores Group and through our Performance Coatings Group, it helps our operating efficiencies that helps to drive margin improvement. And also you know we did pick up EPS business that David talked about as part of Valspar that allow us to integrate some of our resins and continue to develop new resins that we can manufacture in-house that will lower our overall costs.

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

A

Last thing I'd add to that is, Joel's terrific work on capacity, as we look at further synergies on the manufacturing side that flow through on a smaller footprint will help us [ph] as well at launch (02:36:15).

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.

A

Okay. We're going to go to P.J. next. And P.J. if you would hand it to Bob, when you get done with your questions.

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

Q

Thank you. John, I think you mentioned that you could get it back into M&A in 2019 or 2020. Are you looking at bolt-ons or could you do something bigger and do you see yourself getting into automotive OEM industry?

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

A

No. We don't see ourselves getting to automotive OEM. And I would say, from the opportunity in both realms, the opportunity for bolt-ons are certainly something that we're actively engaged in now. You heard a number of the Presidents talk about technology bolt-ons and these are opportunities that are terrific for our company. As our platform has grown, the opportunity to acquire technologies that can then be distributed to a larger platform of distribution are terrific for us. But we look at each one of our businesses, and I'd collectively say that we're looking for opportunities to create shareholder value, right. And so, we're looking for those that might fit technology, they might fit geographic needs or other opportunities for us to bring solutions to our customers that will also allow us to reward our shareholders.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Bob Koort from Goldman. Aaron, since you're in my line of sight here I've got one for you. I guess I understand the synergies that bringing the Consumer Brands and Valspar together creating, still not quite sure I understood what went off the rails for the Sherwin Consumer Group in the last couple of years, can you give me a little more detail on why that business struggled?

Aaron M. Erter
President-Consumer Brands Group, The Sherwin-Williams Co.

A

Well I think, one of the things that I mentioned that is important to have with your key customers is alignment, right. And I think we have that more than ever, particularly as we talk about the Lowe's strategic partnership that ensures that we're focused on the consumer and that we're working with our retail partner to do that. I think if we

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look at legacy Valspar even as well, we didn't necessarily have that in the last couple of years with our key partner. And we have that moving forward.

A

I'm going to go with Steve, first over here.

Stephen Byrne
Analyst, Bank of America Merrill Lynch

Q

Yeah, continuing with you Aaron, what would you say are the primary drivers of the gap in sales per store for Lowe's versus Home Depot and it just the confusion of so many different product lines that Lowe's had and where do you think you're going to take that to?

Aaron M. Erter
President-Consumer Brands Group, The Sherwin-Williams Co.

A

Well I'll let Lowe's talk to what they think the gap maybe. I think what we'll be able to bring is what I mentioned in the presentation is simplicity and focused on the needs for the customer. That is what we are laser focused on moving forward. And we're going to have that with Lowe's. I think the other piece is from a service standpoint, we're adding more reps. So we'll be able to train and educate Lowe's associates like we do with a lot of our strategic partners and that's going to be a big focus moving forward. As we talked about, the pain is a journey and a lot of times, it's assisted sales. So it's going to be key that we have knowledgeable, trained associates along with our reps present in the stores.

Truman Patterson
Analyst, Wells Fargo Securities LLC

Q

Truman Patterson from Wells Fargo. Al, thinking about your guidance versus last October's Investor Day. You pretty much reiterated revenues and your margin targets. You bumped up the low end of synergies and we now have a lower tax rate, but it looks like the EPS at the midpoint was lowered by about a $1. Could you just kind of bridge that gap there for us?

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

A

Yeah. When I talk about the four year compounded average growth rate and maybe I should have defined this very clear. It's still off the 16 base and the 1,657. That's the base that it's been, that's how we're looking at it going forward. We knew we'd have a tougher year in 2017 based on the raw material inflation and the lack of price. So to be clear the 11% to 14% compounded average growth rate is using the 1,657 base running out through 2020.

A

Okay. Let's go to Mike next.

Michael J. Sison
Analyst, KeyBanc Capital Markets, Inc.

Q

Mike Sison, KeyBanc. Just wanted to know how confident you are that brand will stay on your building in 2019 and just – not joking.

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

A

[ph] How are you, Mike, how are you (02:41:01)

Michael J. Sison
Analyst, KeyBanc Capital Markets, Inc.

Q

So in terms of new store growth you put up a nice little map. It was pretty blue, for most of that map. You want to get your stores to 5,000 sounds you can get to 6,000. What are the areas you think you can sort of fill in to continue that store growth?

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

A

Pete, do you want to take that? Pass the mic...

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

A

One of the areas we're looking at as we continue to look at the density of a lot of the urban areas. I mean we were just talking last night for example, we've recently opened up a store in Philadelphia that would be really in Philadelphia proper, where the neighborhoods are [ph] regentrifying (02:41:41). And you see the customer base both from the wholesale side and from the retail side that are very far right into our wheelhouse of specialty paint store.

And so we continue to look at markets like Chicago, Seattle, New York, Philadelphia, as really areas where there's high density and we have low store count. And then we also look at areas that they can continue to grow. I mean we look at the way – Florida continues to grow and there's plenty of opportunity there. So we really go state-by-state and take a look at what is our – where are our gaps and the density and where are our customers and where do we have the ability to put a store in and really service their needs? Then another part I talked about earlier is how do we continue to drive the profitability of the stores quicker through the way we open a store and really the process that we go through.

Q

I just have a follow-up on that, and another question for David. But Pete, you mentioned the account growth initiatives, I'd love to get some context from maybe the comp contribution from the penetration there and what the market opportunity is there for outgrowth?

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

A

Well, as Al mentioned for the first quarter, our comp stores were up 5.2%, but the key to that is every one of our stores every day through the disciplines that [ph] win (02:42:58) still are making some type of initiative to move forward and increasing your active account base. I mean through our POS analytics, and then our marketing data analytics, we're identifying customers that may be primary users, a middle of the road user or really not a user at all and either our store manager, our assistant managers are contacting them on a regular basis to increase our ability to sell them or dedicated sales force is taking what we call hot leads from them and calling them out in the marketplace.

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Q

I'm just trying to get some context from the outgrowth as you think about these targets and these ambitions, this is the engine here, just thinking about the outgrowth potential from your existing base from these initiatives I think that would be helpful. I think for David, question on the revenue synergies and the mid-single-digit target, are those mid-single-digit targets contemplating the synergy potential and any cost to achieve those synergies would be helpful?

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

A

Yeah, let me, address the stores comment. On the outlook, our expectations will grow 1.5 to 2 times the market. We still continue to believe that. So when we look at our full year sales guidance mid to high-single digits, we always talk about stores being in the high-end of that range. And as we go forward, again, stores is going to grow faster than the rest of the company, and as we give guidance going forward, I would always expect stores to be in the high end of that guidance range.

A

David?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

So, on the revenue synergy side, that is probably one of the more exciting things that we continue to discover more every day. I alluded to a few of them there, but the examples continue almost on a weekly basis just new opportunity. So for the guidance piece, I think we're well in line with that, but I would say that we feel terrific. Even in businesses, we weren't in before like coil or packaging that we continue to find these synergies on top of the ones where we were integrated with wood and GI and automotive. So, just tremendous opportunity, I think it is in line with the guidance though that has been given.

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

A

And I would add to your question about cost to achieve these. I don't think there's significant cost. In many cases it's just the way in which we approach our businesses and how we connect these businesses across to our company that allow us to achieve some of these. We might have existing assets that current business – in our current structure are limited to one or two businesses that we feel now collectively we can open up and pursue, same with sharing technologies. So there are a lot of opportunities there. Some might cost a little bit a CapEx or something to be able to pursue but nothing significant.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Hi, Matt DeYoe, Vertical Research. So a question on the pricing issues at legacy Valspar. Was that kind of just a slow start, just as a lapse of management direction during the merger or was there a difference in the way of Valspar management went to market with price? And if it's the latter, can you talk about how Sherwin's approach and what you're doing to drive the change at some of the legacy of Valspar businesses?

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

A

Yeah. I think if you look at it historically both Sherwin and Valspar had been very successful in implementing price increases. I'd say during the 15-month process that we went through with the FTC. They weren't as diligent as they had been in the past. If you think about that period of time, we are in front of the FTC having discussions as to why we feel this agreement comes and makes sense. We're not able to do have discussions with Valspar management on pricing [ph] with their competitor. Had we (02:46:51) you certainly would have seen them move as we did in our industrial side. But historically, they've been able to do that, we're taking those same steps now. We have a lot of confidence in our ability to achieve that.

You heard David mention earlier. Sequentially, we're improving every quarter. We expect that you should continue to see sequential improvement in the pricing and the traction.

A

Okay. We're going to get equal time to the back of the room, so John.

John Roberts
Analyst, UBS Securities LLC

Q

In the back and the [ph] bleachers (02:47:20) here. John Roberts, UBS. There are only a few suppliers that could pull off a Lowe's type broad based exclusive situation. Do you think the channel will evolve towards that? I mean there are a lot of other not only home centers, but mass merchandise retailers and so forth, they probably carry lots of different brands. And so if you're successful at Lowe's, do you think the channel will evolve towards more partnerships in the DIY retail channel or is this more exceptional?

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

A

I'll take a run on it and Aaron you can jump in here. I think this is a unique moment and unique opportunity. I wouldn't want to necessarily paint the picture that it's a broad based across the entire industry. I think that there was an opportunity for us with our brands to partner with a customer, who we had shared goals with. They were interested in acquiring a broad basket of brands. And we saw the opportunity to align ourselves in this case with the customer whose goals were very similar to ours. Our efforts now with them assures that we both win. And if those opportunities create a win for both of us, I think we'll both continue to invest and grow in that business and we were excited about that opportunity.

As it relates to other partners or in the channel, I wouldn't want to jump across the line here John and say that we think that's going to be the same in the channel. We think that this was a unique opportunity.

Lee M. Rosenbaum
Vice President, Loomis, Sayles & Co. LP

Q

Hi, Lee Rosenbaum, Loomis, Sayles. Just a couple of broad industrial questions. We know that John Deere is a valuable partner of yours and customer. They are currently integrating the Wirtgen acquisition. I was just curious if [ph] Deere (02:49:18) an existing client of Sherwin or if there's an opportunity for them to become so under the broader John Deere umbrella. Second, was just in luxury vinyl tile, is that a coating area for the company. And then the statistics you provided on the homebuilders and property management earlier in the presentation, the

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exclusive partnerships there. Do you have any kind of information you can share on the engineering construction end market as well?

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

The end market.

Lee M. Rosenbaum
Vice President, Loomis, Sayles & Co. LP
Q

Similar to the – I think you cited 16 of the top 20 property firms in 15 of the top 20 homebuilders. Anything similar in the E&C sector for energy related end markets some of the pipe activity that you do? Thank you.

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

So, David, why don't I give you, you've got that John Deere, well actually most of these would fall in your area, right. So do you want to talk about the John Deere, first?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

Sure. I'm not sure how much.

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

Yeah.

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

... I can talk about a specific customer but I would tell you that segment is a very important segment to us and a big piece of our general industrial business. We feel like where we really win with this is we are one of their preferred suppliers, they do have a preferred supplier base, but what we're able to do now with Valspar and Sherwin coming together is as I mentioned earlier, so, Valspar was doing a lot of large factory direct, but now with this global approval, all of those tier manufactures that like to use local small batch with our 300 industrial facilities that Valspar wasn't able to reach. We can now service that business. So we think those customers with those tier suppliers are tremendous opportunity for us in the heavy equipment space, in ag and construction. I apologize I [ph] can't take the other question (02:51:20)

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

Yeah, the second question was just on flooring. I'll group tile, all flooring together. It's a segment with opportunity for us. And combined, this is one of those areas with the basket combined with the relationships that we have and the product assortment that we have now, we think we could be more meaningful in that space. And then the last area, the end markets of energy maybe just – maybe a broad-based P&M and [ph] Pete (02:51:46), maybe from a commercial standpoint maybe, we'll take both of those would that be [indiscernible] (02:51:51)

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

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Yeah. The other piece that, and I'll talk about Valspar first is we did not have that fusion bonded epoxy powder which is really important in pipe. We had obviously a leading position in our liquid protective coatings leveraging the 4,200 stores in North America. By bringing this together, it's really opened up enormous opportunities and we're actually breaking down that energy segment, upstream, midstream, downstream and really targeting and focusing on how we can win and differentiate in each one of those segments. And with the distribution platform we have and now with a total complete portfolio that we have and the global specifications, we really see it as a huge win.

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

A

Yeah, we're often asked about this, just in the basket of synergies and opportunities. I mean it's really amazing when you go back that our various business leaders in the back, when you talk to any one of them and I would encourage you to do that over lunch, you'll find a wide variety of opportunities. So we try to capture one or two of them to give you some examples. But in every one of our businesses, I mean it's really exciting to sit and talk with them about what it is that they see in everyday we're finding more and more areas where we can connect the dots. Pete, you want to just talk about, might be a little bit of a stress [ph] Lee (02:53:08) what you're talking about, but a little bit about what you're seeing in the commercial business?

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

A

So on the commercial end as I referenced earlier that we have over 30 what we call architectural count executives, that's their primary responsibility to call on the leading architectural firms throughout the United States and Canada. We're specified in one way or another and over 80% of the specifications that are led, and to build upon what David was talking about, since we have these relationships and as we see some of these products coming in from the Performance Coatings Group, we've gone through the training to train our architectural count executives and how to identify the opportunities that could parlay in some of the business that David and his team is moving forward.

A

Let's take Greg next, and then, Matt.

Gregory Scott Melich
Analyst, MoffettNathanson LLC

Q

Hi. Greg Melich with MoffettNathanson. I had two questions, one on Lowe's relationship and then a little bigger picture on stores and other ways to get synergies there to grow it. On Lowe's, given that they now have a new CEO announced, Marvin Ellison, who was from Home Depot, what contractual arrangements or other certainties do you have that, given what you're doing with Lowe's and the money you're investing this year to really build the program has some real longevity?

And then the second question was on stores. You've done such successful operations to build this network, that seems so unique and so dominant in paint contracting. Is there any thought given to expanding that into other categories, like working partnerships maybe into other pro categories that might not be the traditional coatings paint contractor, but flooring, plumbing, other areas, do you think there's any synergies to that external sales force given that you guys have shown really how service can really differentiate?

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

Yeah. We're a little limited by what we'll talk about the contractual agreement that we have with Lowe's, but rest assured, we went in this with open eyes and our shareholders are very well protected. This is a terrific opportunity for growth, but we both us and Lowe's have gone in, we believe [ph] struck (02:55:10) a terrific deal that protects both of us. So we're only excited. We had a wonderful relationship with the existing CEO. We're thrilled and excited about whatever the next chapter is based on a very strong foundation of a relationship. Aaron, anything you want to add to that?

Regarding the stores, and expanding, you might be surprised that we are actually a very large supplier of floor covering. We have a number floor covering stores and I would say that while we're not out looking for adjacent markets that will pull us away from the middle of the fairway meaning paint and coatings, those types of opportunities in flooring help us to sell more paint. So you're not going to see our Mission Drift for the sake of just getting into something for the sake of sales, it's going to be an adjacent and enhancement to what it is that we're out to do, which is paint and coatings.

Brian McGregor
Analyst, Baird Capital Partners Europe Ltd.
Q

Good morning. McGregor with Baird. Just wanted to press on the raw material outlook a little bit more, your 4% to 6% range for inflation has been remarkably consistent, when you think about the supply variability at the beginning of 2018 and the way we've seen crude oil ramp up since you guys last reported, can you talk a little bit about what that outlook entails as far as assumptions in the back half of the year for your various raw material costs and things like that? And how was your cost basket changed since the addition of the Valspar business, have there been any adjustments there?

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

Do you want me to take that John?

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

Yeah. Why don't you take?

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

Okay. A couple of notes on the 4% to 6% inflation outlook that does not include or take into consideration the most recent run up in crude oil. Now, our thesis is that that recent run up is not sustainable and that you're not going to see crude oil in the mid to high-70s. West Texas you're more likely to see some decline going forward. But crude oil is an X factor that will affect the basket. And if it continues to escalate then we'll likely update our range. We did comment on our first quarter call that due to some inflationary items beyond our expectation for the first quarter namely epoxy and zinc, primarily propylene early in the year as well. That the basket is likely going to skew to the high end of that 4% to 6% range, so if you thought 5% to 6%, you'd probably in the range.

We are expecting as we also indicated on that call some moderation in the rate of year-over-year inflation as we get into the back half. So the first quarter was tough, the second quarter is going to be equally tough. And then as

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we move through the back half of the year, we should see some year-over-year moderation. And that expectation also includes probably some moderation in the inflation rate in epoxies.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

Does that answer to your question, Matt? Are we good?

Q

[indiscernible] (02:58:17)

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

Yeah. John, you want to take that?

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

Could you repeat that question please?

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

Yeah. It was the – how the raw material basket changed with the acquisition of Valspar from the legacy Sherwin basket to the Valspar-Sherwin combined basket.

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

Yeah. So with the mix change and the industrial became a bigger piece with the industrial businesses that joined. But that's probably the most significant piece there.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

That would be you know a little more petrochemical intensity than we had in our legacy Sherwin basket. Yeah. Chris?

Christopher Evans
Analyst, Goldman Sachs & Co. LLC
Q

Thanks. Chris Evans, at Goldman Sachs. Al, what if any capital allocation are you baking into your 11% or 14% EPS CAGR?

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

What I talked about is, we'll get that dividend back up to the 30% by 2020. Absent acquisitions, we're going to buy our stock back and I'm not going to lay out a roadmap on how much I think that is over the next couple of years, but you can see how much in debt we've paid down over the last year and a half, if you count all of this year, that will be a $2.2 billion. And I think, in 2019, we're comfortably in the $2 billion to $2.5 billion debt-to-EBITDA range

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and I would say any excess cash on that absent acquisitions will go to buybacks and that will continue as we go forward.

Christopher Evans
Analyst, Goldman Sachs & Co. LLC
Q

So just to be clear, so in your model, it's all excess free cash flow is just going into repurchase?

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

And I think that would be consistent with – if you look prior to – 2016, any excess cash we had absent acquisitions, we bought stock back and we bought it, every quarter for the previous 15 years and I think that's the expectation I have going forward.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

Yeah, let's take the question from Dave.

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

Thank you. Dave Begleiter, Deutsche Bank. David, in auto refinish [ph] big purses (03:00:17) large competitors, given that dynamic, how do you grow, how quickly can you grow and is it a disadvantage not having a auto OEM business on the back of that, refinish business?

Thank you.

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

Yeah, good question. So our automotive business, we don't feel it's really a disadvantage not being in the OEM space. There is a different global specification teams usually with the automotive OEMs that focuses on refinish and then the first part of your question was -

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

How do you grow, how quickly can you grow?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

Yeah, yeah, so it's a really interesting dynamic. So if you look at it, geographically, there's a lot of growth in Asia for example and it might be a lot lower growth in North America. So we feel very good about that. Now, with Valspar in Europe, that's helping us tremendously expand in Europe. And then in North America as John alluded to in his remarks, there's a lot of consolidation as you know in the North American market.

Having those partnerships and we are the only ones with a controlled distribution model in North America. So as these body shops have 400 or 500 locations, we are the only ones that have a controlled distribution that can support them consistently around North America. So we feel very good with that differentiation and our ability to serve the market.

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

Yeah. I might add. I mean, you saw the video of our customer there that spoke to of technology has been a key differentiator as well. I turn around, I look at it that as you're right. There's a terrific opportunity for market share growth for us, we've got technology of controlled distribution, wonderful people, great leadership. We think there's a terrific opportunity for us to grow here in North America.

Tom Narayan
Analyst, RBC Capital Markets LLC
Q

Hi, thanks. Tom Narayan, RBC. The question is for Aaron, I know Bob has warned us never to read too much into Q1 results. But if I were to read into Q1 results, what was really behind the strength in Valspar Paint and some may suggest there may have been some pre-buy with the price increases, how should we think about that for the rest of the year?

Aaron M. Erter
President-Consumer Brands Group, The Sherwin-Williams Co.
A

Yeah. So no pre-buy. What I would say is you have to look at the results of our group in total, right. And the presentation I mentioned, we are one group, so if Valspar was up, legacy showroom was down. I think that's irrelevant, you have to look at as one group, because we have one team selling the best product for the customer, that's what we're looking at, and as we move forward John mentioned this, we see our business is low to mid-single-digit growth in a tough DIY environment. We think we're taking market share with that.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

In fairness, I'd also say that when you look at our comparison first quarter 2017, it was a soft quarter for us. So the comparisons were a little bit easier for us as we lap 2018.

John, we'll come back to you in a second.

Eileen Nora Riley
Vice President, Loomis, Sayles & Co. LP
Q

It's Eileen Riley from Loomis Sayles. John, you mentioned in the M&A question and then again briefly technology, can you speak more or other members of the management team speak more to where you see the biggest opportunities or risks, but it can be both positive and negative for technology in terms of – is it more product? Is it more distribution go-to-market, I'd just love to hear more longer-term thoughts on your business and how it's being changed?

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

Yes. I would say that we look at these types of technology opportunities first with product, unique technologies that, Case in Point and David's business, we bought a company in the UK that offers an industrial application for fire – to help with fire suppression, protecting steel, so that people can evacuate a building that's under fire – in fire. Those types of opportunities can be plugged in across the company and leverage. We see those in every one of our businesses, right, so we're not limited to any one of them.

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But to your further question about other opportunities for technology, we don't see them just for innovative products although that might be the largest there – we're looking for opportunities on everything from supply chain and distribution, the way that we grow efficient [ph] inside (03:04:45) of the delivery of our products, to the way that we run our stores and deliver product and so we're looking for those opportunities aggressively and we're not limited really by anything other than it has to pass our disciplined approach towards what creates shareholder value.

We're not doing things just for the sake of being bigger. I mean, if it makes us more efficient and helps us to better align with our customers we're interested. And that goes from a raw material all the way to the customer. And so when you looked at some of these technologies, Pete put up augmented reality, Aaron is looking at different technologies, we're proud that some of those were developed inside, but we're partnering with the right partners outside as well. So we're actively engaging and trying to find those ways to create shareholder value.

John Roberts
Analyst, UBS Securities LLC

Q

Back here again, John Roberts, UBS. In fact, and this question is for David. David, in in factory applied finishes, one of your competitors thinks there's an opportunity in paint services actually operating paint lines for customers or maybe even operating a multi-customer paint center and some of the key manufacturing hubs. How do you think about that?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. It's certainly a growing dynamic with a large manufacturing base. Not going to too much specific, we actually have a couple of programs right now with customers where we are managing this for them. That's working out very well. But we recognize that our customers look to us to be experts in the application of their coatings and their lines. We also never want to compete with our customers as well. That's very important to us as we approach the market. So there's a couple of different ways to do it. But it's high on our radar and it's all about partnering with those customers to improve their bottom line with our expertise and their expertise.

So we do have a couple of programs that we've rolled out that have actually gone very well in doing that as well.

A

[ph] Go ahead, Silke (03:06:51)?

Silke Kueck
Analyst, JPMorgan Securities LLC

Q

Hi, good morning. Silke Kueck, JPMorgan. You said that the new Lowe's program is like $0.40 dilutive this year to your earnings. And I understand you may not get all of those sales sell through this year, but I was wondering whether you can just talk about like how many additional reps you may have to add, like what are costs that will continue in 2019 and what are like one-time investments that you have to make?

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

A

Silke, maybe, just one broad response and tell me if this gets to what you're asking. If you look at the $0.40, about 40% of that is one-time costs, the balance will be investments in other areas. So, you're right. We're going to be

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adding some additional reps to make sure that the service and the associate at the store level is premier and work with our partner to help deliver the best experience and some other investments that we'd rather not lay out right now, we'll introduce those as they unfold, but there's some one-time costs in there that range about 40%.

Rosemarie Morbelli
Analyst, Gabelli & Company

Q

Good morning. Rosemarie Morbelli with Gabelli. I was wondering if you could give us an update on the Valspar business in China, wherein whether it is architectural on the wood area. And then if you could also give us an update on the – and I can't remember the real name of it, but the bacteria killer paint that you are going to offer hospitals and schools?

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

A

We'd like to call that bacteria-killing paint, Paint Shield. I'll let Aaron talk about the architectural and maybe David you could talk about the wood in China?

Aaron M. Erter
President-Consumer Brands Group, The Sherwin-Williams Co.

A

Yeah, sure. And from my presentation, we're evaluating the way we move forward with our business in China. And I think what we're seeing is a shift in the market from wood to emulsion which we were heavily involved in wood from an architectural standpoint with our business. We do have the number one domestic brand in Huarun, which we think is something we want to invest more in, that resonates with the customer over there.

I think, the trick with China is, it's a, do-it-for-me market. So figuring out the best way to partner with our distributor partners, and maybe even access technologies that we have available to us, but also a lot of institutional knowledge, and which we utilize with our Stores Group, we think, we can bring over to China and really maximize that business.

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. And just briefly on the Industrial Wood side, this is a really exciting opportunity for us because on the Sherwin Industrial Wood side, we were really more focused on large manufacturing, a lot of which was getting exported back to North America. With the Huarun channel that we have now, it's a little bit more local which we've always wanted to further penetrate, and a lot more distribution points with a very well-recognized brand. By bringing in a lot of the Sherwin technology to build off of that, it's really been a terrific partnership, and we've seen really a lot of growth ever since we brought them into the fall. It's been very positive.

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

A

And Pete, you want to talk about Paint Shield?

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

A

Our Paint Shield continues to grow as we'd expect, and what I mean by that is, it's one of the products that we want to arm both our sales reps and our store managers with to provide unique solution to their customers. So when they're out in the field and they're faced with a challenging application whether it'd be in a locker room or a

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hospital room or some type of extended living, we're finding that as the home as we intended for that. So it's moving along as we expected.

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

A

It's a good example, Rosemarie, when Aaron talked about evaluating. Some of the things that we're looking at around the world, if we're going to be in those markets, we don't want to just go to be another paint company with the same products be relegated down to just a commodity. Those are the types of products that we think, if we're going to be in markets that we can introduce and command a higher price and position our brand properly. So while it's growing here, those are the types of products we're evaluating for different parts of the world as well.

Q

Good morning. A question just on the slide that was in Pete's deck, around the store count. If you took into account distributors that kind of move one brand; what would your two or three or four top competitors look like as far as their ability to touch the market, because again here what we're really talking about is a professional contractor, that store-only. But if you add it in the distribution, what would that look like. I guess, market share wise what would that give you in the U.S.?

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

A

Yeah. I was just going to ask, you're talking about the U.S. right?

Q

U.S. yeah. [indiscernible] (03:11:58) in North America. Or is that a U.S. slide? Yeah, no that's a North American slide.

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

A

Yeah. I'd say that the dealer or distributor market is a relatively small and declining market. So I don't think it would be significant, I'm not sure if I understood your question.

Q

Well, no – so I'm just – if we look at the number of stores, could we extrapolate that to market share in the professional North American market? Is that – if we just added that up and looked at your 4,000 versus what everybody else has, is that a relatively good proxy for what market share is in that market?

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

A

We talk about the U.S. and Canada having somewhere in the range of 11,000 to 12,000 stores of that specialty paint store format, many more when you add home centers, hardware stores et cetera. But the combination of company-operated specialty paint stores and dealers would number in the 11,000 to 12,000 range. So, we run roughly a third of the channel. Then, you would have to break down kind of revenue per door and make your own

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assumptions there. But – and by the way that channel kind of expands and contracts in a recession it will contract little, and then it'll expand back out in a growth cycle.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

Dmitry.

Dmitry Silversteyn
Analyst, Longbow Research LLC
Q

Dmitry Silversteyn with Longbow Research. I just want to follow-up on the question on margins. So you've provided a gross margin outlook of 45% to 48% pro forma basis I think the highest you've done was just a shade over 45% in 2016, which was at the tail-end of a pretty beneficial raw materials deflationary cycle. So, can you either sort of flesh out how you're going to get there or maybe your long-term goal is really, really long-term goal? I'm just trying to understand what that four point delta is going to look like?

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

Yeah. How we're going to get there is the continued price increases and the effectiveness of those and putting those through, that is not a long, long-term. As David talk, we're going to have to be out with more pricing. We expect sequential improvement in that group in the back half here. And then to get on top of year-over-year in the first half.

There's other levers to pull, I mean there's the manufacturing and distribution savings that you all started to talk about, those take longer. So even if we announced the factory today, especially on the Industrial side, we're looking out 12, maybe 14, 15 months before we get that close, move the product and we start seeing the benefit. And the other thing I would highlight is, when we talked about raw material savings we had bucketed those in the three segments, leveling which are very quick, optimization which is a mid-term and then you have where we get into reformulations and other things that are going to help drive those margins up and that again, when I talk [ph] 45 to 48 (03:14:58) I'm talking in this window before 2020.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

Okay. We're going to get a question from P.J.

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

One more question on Paint Stores? I think, you have about 4,200 stores and you used to say that at saturation you could be at 5,000. Is that still the number or does the Lowe's relationship changed that?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

I'm sorry. What was the second half of that question?

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

Is that the Lowe's relationship, the new Lowe's business does that changed that?

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David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

No, I don't see the Lowe's relationship changing that. As the one slide that Bob walked through earlier, you look at the type of customer that Lowe's has in that re-modeler base, that continues to be really in that relationship with Lowe's. For us, we continue to focus on the customer that 75% or greater of their revenues is in the painting trade.

And when we look at that, we have markets currently that get down to what their target rate that we have that are 25,000 households per store or less. So yes, I am very confident we could grow that over that 5,000 store count right, just based upon the success we've had in other markets that had those type of household accounts.

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

And you still planning to open 100 stores in years, that gets you another 8 years of growth?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

I'm sorry.

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

That gets you another 8 years of growth if you open 100 stores?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

Yeah but we like the pace of somewhere between 90 and 100 stores per year, and as I mentioned earlier P.J., it really comes down to matching it with the cadence of our human capital plan. If you look at that, and then you look at the fact that we add about 100 to 150 new reps a year, that really – we have to be very focused and deliver it on the people we bring in the organization and make sure they are prepared to interact with our customers.

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

I'd also add though that as we continue to investment in our stores, we find even in those existing areas where we have heavier density, when we add a new store into that market what we find the new store we take some business from that existing store, we shifted over to that new store and then actually our new store and that comp store both grow aggressively. So I don't know, what we're doing is we're stepping towards a goal, but to be clear when we get to 6,000 we're not saying that that's the end. I mean, we see a long road of opportunity here and we've not found that market where we've said, you know, we've reached such a density that we can't continue to invest in. There's a long runway ahead of us here.

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

Thanks. Couple of questions some investors have raised with us. Transportation, I think you addressed that. The other one and Mr. Wells usually puts a little gloomy forecast out there about the contractor labor issues, I didn't

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hear you guys mention that today. Can you give us an update on whether that's going to limit your growth potential?

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.
A

The contractor labor availability issue is still out there. I would say we're probably in the third year of that. I think you see a couple of things. I think, one, you see our customers understanding the demands that they have and they continue to run their businesses more efficiently in order to secure the amount of work that they want and drive their businesses as they see fit. The other part that we continue to look at and I mentioned it a little bit is how could we partner with them to help them run their businesses more efficiently that allows them to have greater throughput and greater output from their companies, whether it be the type of products that we have, the services that we provide. We mentioned the e-commerce a little bit earlier, the fact that that allows them really to interact with us on really 24/7 basis and help them run their business a little bit more efficiently.

The other piece for us is we continue to focus on the new account growth and we recognize that if there is a little bit of a lag because of the labor supply out there, it's our responsibility to continue to gain share through acquiring new customers or activating customers who may be inactive in our stores.

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

Let's go to Chris.

Chris Silvio Perrella
Analyst, Bloomberg LP (Research)
Q

Chris Perrella again. I'll – on the use of cash slide you had the pie chart with $10 billion and how it was going to be broken up, the debt pay down of $3.8 billion outside of the term loan this year that you retire or is the balance of that just to retire the 2019 and 2020 debt and that's sort of when the cash outlay should be for that?

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

The short-term borrowings that we have will get paid off as you know we had $700 million come due at the end of middle of December and we move that to short-term, that will get paid off this year.

Chris Silvio Perrella
Analyst, Bloomberg LP (Research)
Q

Okay. And then you know the $1.2 billion for acquisitions that's on the slide there, that's sort of were you reserving for bolt-ons going forward and if that doesn't get done then it gets swept into repurchases or...?

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

Yeah. There's – some of that is just a catch-up in 2016 and – 2016 from when we true-up our acquisitions. But yeah, you have to put something, we have to put something out there to say look I think there's some acquisition opportunities. Is that the right number? I don't know, but you know if we don't make acquisitions that will go into buybacks.

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Chris Silvio Perrella
Analyst, Bloomberg LP (Research)

Q

All right. Thank you.

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.

A

I think Matt and Chris both have another question, so I'm going to hand it over here and Nick pass it along.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

This is Matt DeYoe again. So, can you help frame out the benefits to revenue of now signing certain Valspar industrial coatings products through the paint stores footprint, how large is this opportunity versus the existing Protective business and sell-through stores and you know is there any more room to leverage that?

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

A

Yeah. I'd say that's consistent now with our past. We've always had protective and marine sales in North America sold through our stores.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Yeah. But now presumably, you've got a larger industrial footprint with the Valspar business. I mean have you been able to kind of leverage that i.e., Valspar didn't really have an existing paint stores business?

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

A

Oh yeah. I'm sorry. Yeah. So, may be talking about the blending facilities. David, you want to talk about that? Do you need a microphone?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

Are you talking about Pete's stores, that TAG stores?

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Yeah. I'm talking about kind of TAG stores.

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. So for most of the P&M business that came from Valspar was mostly that fusion bonded epoxy powder that I talked about. Right now that's selling through our industrial facilities. But what we are doing is leveraging Pete's stores for all the associated product sales. And we've had a tremendous amount of wins where customers that were just only buying fusion bonded epoxy are now buying liquid through Pete's stores and are also buying associated products. So it's all been organic lift and I'm not sure if that answer your question Matt or not.

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Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

Sure.

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

No, no. I want to make sure I answered it.

Matthew DeYoe
Analyst, Vertical Research Partners LLC

Q

We can talk on that later about [indiscernible] (03:21:58).

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

Yeah. Because we also have our own blending facilities on the industrial side and that's what we're really focusing on, on bringing in like coil coatings, we're using protective and marine for certain technologies that can't be blended. So those blending facilities, we have about 300 around the world. Those are where we're really leveraging, bringing Valspar in where they did not have those blending facilities before. So not only P&M, but again coil and general industrial are able to leverage these footprints to smaller batches, medium-sized batches, lower cost and better service to the customers.

Christopher S. Parkinson
Analyst, Credit Suisse Securities (USA) LLC

Q

Chris Parkinson from Credit Suisse. I think we established that your – doesn't seem like you're too interested in the auto OEM business and you've developed a fairly strong presence in some key end markets through Valspar, coil packaging et cetera. What other end other markets either in the short- or long-term are you interested in further expanding in other than architectural i.e., is there anything else in coil extrusions, electrical, just any color on where strategically you see performance going in addition to what you've already articulated?

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

A

Yeah. Rather than lay out for everyone in the industry what our plans are for every other segments, Chris, we'll tell you that we're focused on those that are strategically a good fit and can reward our shareholders. Again, we're not going to get drifted into areas where our cash intensive and a tight or minimal return and a diminishing return or where there are some extremely large players with very strong positions that the investments would offset anything that would really justify – investing our shareholders money in those areas. So, we often say in our four walls, we don't need practice, right. So, we're out there trying to invest in those areas that we can make money. But I'm not going to list out any of those specifics.

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.

A

Let's go to John in back.

Q

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Hi. [ph] John Garden (03:24:06), Clearfield Capital. Thanks for taking my question. Al, I wanted to follow-up on a couple of things. First of all, you reiterated the revenue guidance and pointed that same-store sales tends to be on the high end. That would be an acceleration from here through the balance of the year. Could you just sort of elaborate on what gives you confidence on that? And then secondarily, more long-term, assuming you guys achieve the guidance this year for the 2020 plan, it assumes that things decelerate, yet you have a lot of synergies rolling on and you sound very optimistic about the top down, is that just conservatism or is there something that you can kind of point to that drives that deceleration? Thanks.

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

A

Yeah. So what gives us confidence about the same-store sales and pickup in those is, a lot of what Pete talked about in the demand environment, as you travel around talk to our customers, their order books are full. They feel very good about the raining part of the season. They will talk about the wet start to the season. And you don't lose those jobs, you just move them. So we expect to pick those up and with that demand environment our volumes to pick up.

Looking out, I don't see a deceleration going into the 2020. I think when you have the pricing that we have going in and more to come, you have the synergy increases. We talked about coming out of 2018 at a $320 million run rate, $210 million into our P&L in 2018. So again, you started seeing the benefit of those going into 2019 plus the additional projects that John talked about. We have 150 additional draft projects in the pipeline that were being – that are being vetted, and when we feel good about that, we're going to realize those. We'll lay those in and expect to see that number grow as well. So I'm not expecting a deceleration next year.

Q

Just a couple more qualitative questions if I can. I was wondering if the broader team can just talk about how you all work together to continue to preserve and strengthen and grow the culture at the Sherwin-Williams company? And then one of the slides talked about the efforts in Latin America to provide training to painters and bringing that to here in North America. Anymore that you could elaborate on that opportunity, and what do you think it's doing for you in the communities you serve? Thanks.

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

A

Yeah. Joel, you want to start maybe from a global supply chain and just culture, and then we'll work our way to Pete where you could talk about Latin America.

Joel Baxter
President & General Manager-Global Supply Chain, The Sherwin-Williams Co.

A

Okay. Yeah. I think as I showed in the slide, it was a pleasant surprise when – for what we do for the company with supply chain, and we started going through these operational excellence focus areas that there was great alignment. So the alignment was really refreshing.

And my time at the company is the first one we ever did when there was such a close alignment on those key areas that we drive in global supply chain. And I think as far as the four of us in what we do, and really our whole organization we're all focused on the customer. We all just talk about the customer and what we do, what our piece of the puzzle is to take care of that customer, whether it's architectural or industrial, and then we spend

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time. Our teams spend time out in the field, in fact I'm going to see customers tomorrow, understanding these new customers that we came and how we service them from a supply chain standpoint.

So I think that's the number one thing that pulls us together., and Sherwin-Williams culture, I will tell you, I tell people all the time when they ask me, what's the greatest thing about the company? This is what I said in 1990, what I learned always moving forward, when somebody at a college asked me, what's the greatest thing? The company is always moving forward.

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

David, do you want to talk about culture from your perspective on the commercial side?

David B. Sewell
President, Performance Coatings Group, The Sherwin-Williams Co.
A

Yeah. Sure. So from a commercial perspective, we really blended the two companies we are about double the size. So it was a pretty significant integration similar to Joel's Group and Aaron's. And the way we approached it was, we built up these Excellence Initiatives that we talked about, one of which on the commercial side for specifically as we have what we call Sales Excellence. And we have a pretty detailed program on our Commercial Excellence program, and we put – we're putting every Valspar commercial person through this program and that builds the culture. Then we put them on as Sherwin's compensation plan that rewards them on very specific metrics as well.

And then there are some things culturally that we do are 180 degrees different than Valspar on recognition and rewards that the team has really gravitated to. And John alluded to the low turnover rate and we have several Valspar leaders here that are – that are leading our businesses and I would certainly encourage you to get their perspective on their team and the fact that we haven't lost employees that we have kept by and large all of the Valspar customers, I think speaks to how well we've integrated. And I'd also say there's things from Valspar that culturally that we're bringing in as well as we grow globally. So...

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

Yeah. One last one, why don't we talk to Aaron? He's got an interesting perspective having come from Valspar.

Aaron M. Erter
President-Consumer Brands Group, The Sherwin-Williams Co.
A

Yeah. So as the legacy Valspar guy, and I'll just be real quick. What I'd say is what we had in common what Joel said is it's all about the customer first and foremost. But I think it was important for us as a Consumer Brands team as we did have some overlap to construct the leadership team throughout that was equally Valspar and equally Sherwin-Williams and we did take the best of the best and I think we have the best leadership team in the industry. The other thing I would say is what John has fostered is an openness that we're not going to do things necessarily the Sherwin way or the Valspar way, we're going to do them the best way. And I think that's what's been apparent in what we've done over the last year.

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

Pete, you want to talk about [ph] Painters Academy (03:30:22).

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

A

Sure. So what we learned from Latin America was we listened to the customer and what I mean by that is a year or two ago, last year and a year prior we tried the exact same thing they're doing in Latin America by trying to bring painters in and teach them the trade. And it wasn't as effective as we would have liked, or our customers would have liked and so we had focus groups with them and they shared with us we want to train our painters what we need is assistance in using your expertise in training programs, that's the online portal that we put together for them. Your expertise in how you recruit if you bring 1,500 college graduates in a year and you staff your stores on a regular basis share with us some of the things that you do, that would allow us to leverage that versus us having to reinvent that.

So for us the set of thing I think is really strong about our company is that, we do things, we ask, we review and we listen then we have the courage we make sure we can do the right thing that really benefits our customer. And then in turn benefits our company.

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

A

Dmitry?

Dmitry Silversteyn
Analyst, Longbow Research LLC

Q

Dmitry Silversteyn again with Longbow Research. It's not surprising from the consumer slide, that given the combination of two companies there are some products or brands that were put into the rationalization bucket. I guess, my question is, what's the intention of that bucket? Is that going to be something that's just going to be allowed to fade away or is there an opportunity to monetize some of these brands or some of these non-core businesses going forward and sort of do you have a timeframe for getting that accomplished?

Aaron M. Erter
President-Consumer Brands Group, The Sherwin-Williams Co.

A

Yeah, just to answer that, I think we have a very deliberate prescriptive plan with milestones on what we're going to do and we're evaluating every single option which includes some of the things you just talked about (03:32:16).

Robert J. Wells
Senior Vice President, Corporate Communications & Public Affairs, The Sherwin-Williams Co.

I'm getting hungry. We are coming to the end of the question-and-answer session and we're looking forward to the luncheon. What I would encourage you to do, is take advantage of the expertise in the back of the room in this corner back here. There's lots of more specific perspectives on some of the Performance Coatings businesses, the people who run those specific business units. So, look around, meet lots of people and ask lots of questions. Thanks very much.

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