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The Sherwin-Williams Co. (SHW)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for joining The Sherwin-Williams Company's Review of First Quarter 2020 Results and our Outlook for Second Quarter and Full Fiscal Year of 2020.

With us on today's call are John Morikis, Chairman and CEO; David Sewell, President and COO; Allen Mistysyn, CFO; Jane Cronin, Senior Vice President, Corporate Controller; and Jim Jaye, Senior Vice President, Investor Relations.

This conference call is being webcast simultaneously in listen-only mode by Issuer Direct via the internet at www.sherwin.com. An archived replay of this webcast will be available at sherwin.com, beginning approximately two hours after this conference call concludes, and will be available until Wednesday, May 13, 2020, at 5 PM Eastern Time.

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

I will now turn the call over to John Morikis.

John George Morikis

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

Thanks, Jessie. Good morning, everyone. I hope you and your families are remaining safe and healthy during the pandemic. Given the extraordinary circumstances over the last quarter, we've changed our typical format a bit today to provide you with some additional perspective. After my opening remarks, I'll turn the call over to Jim Jaye, our Senior Vice President of Investor Relations, for some short comments on our first quarter results. David Sewell, our President and Chief Operating Officer, will follow Jim and provide you with details on how we're responding to the pandemic. After David's remarks, I'll share some color on what we're seeing across our various end markets before turning it over to our Chief Financial Officer, Al Mistysyn, who will provide you with our revised outlook for the year.

Let me begin today by thanking the more than 60,000 employees of Sherwin-Williams for their courage, determination and resilience in the face of the COVID-19 pandemic. Their extraordinary efforts to serve each other, our customers, our company and our communities during this challenging time truly has been inspiring. This wonderful team has my deepest appreciation and my deepest respect, and I'm confident in their ability to meet the challenges ahead of us.

Clearly, we're in a much different economic environment than anyone could have imagined when we provided our 2020 outlook back in January. More than 26 million have filed for unemployment benefits in the US alone since mid-March, and other geographies also remain under significant pressure.

Sherwin-Williams is not immune from these realities. We are seeing major near-term impacts to demand in most of our end markets. We have a long tenured and experienced management team that has successfully managed

the company through a number of challenging times. Recession in early 2000s, the 2008-2009 financial collapse, and the integration of Valspar, the largest acquisition in the company's long history. Our entire global team remains undaunted and has taken actions to navigate this crisis. We remain very confident in our ability to manage the near term impacts we are seeing, while positioning ourselves for continued long-term success.

We've developed and are executing a comprehensive response to the pandemic both focused on the safety and well-being of our employees, our customers, our company, and our communities. We are implementing multi-phased contingency plans across our businesses to adjust to the near-term business environment. We are well-positioned from a balance sheet and liquidity perspective. We've adapted in order to stay connected to our customers through this crisis, including modified operations in our stores and increased use of e-commerce and other technology.

We believe we're seeing a pause in demand in many of our end markets rather than destruction of demand. We believe the long-term fundamentals remain intact. We intend to continue strategic investments to support profitable growth. These include continued investments in our stores, our products, our e-commerce platform, and other initiatives as we look for opportunities to expand our business.

But before moving ahead, I'd like to thank our team again for remaining focused and delivering on our first quarter plan, even as the COVID pandemic began to impact us.

Let me now turn the call to Jim Jaye for some additional comments on the quarter.

Jim Jaye

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

Thank you, John, and good morning, everyone. In addition to this morning's press release and our commentary on today's call, we've provided a slide deck on our website with additional information. All comparisons in my remarks are to the first quarter of 2019 unless otherwise stated.

Overall, Sherwin-Williams delivered a strong first quarter that was in line with our expectation with year-over-year improvement in sales, gross margin, profit before tax, EBITDA, diluted net income per share and net operating cash. First quarter 2020 consolidated sales increased 2.6% to \$4.15 billion, and consolidated gross margin increased to 45.6% from 42.9%. Consolidated profit before tax increased \$93.4 million to \$392.3 million. Diluted net income per share for the first quarter 2020 increased to \$3.46 per share from \$2.62 per share.

The first quarter of 2020 includes acquisition-related amortization expense of \$0.62 per share. And the first quarter of 2019 includes acquisition-related costs and other adjustments of \$0.98 per share, as described in the Regulation G reconciliation table included in our press release. Excluding these items, first quarter adjusted diluted earnings per share increased 13.3% to \$4.08 from \$3.60.

Adjusted EBITDA increased \$48 million to \$623.1 million, or 15% of sales. Cash from operations was \$54.9 million, an increase of \$91 million year-over-year in the quarter. As is typical for us in the first quarter, we use cash to build inventory levels in advance of the busier spring and summer selling season. We continue to monitor the demand environment closely.

From a segment perspective, The Americas Group grew same store sales by 7.4% and improved segment margin by 140 basis points. Consumer Brands Group and Performance Coatings Group also delivered improved segment margin performance. Additional details on our segment performance are included in the slide deck I referenced previously.

Let me now turn the call over to David Sewell for some specific comments on how we are responding to the pandemic. David?

David B. Sewell

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

Thank you, Jim. And good morning, everyone. Let me also add my sincere thanks to our entire global team. Without a doubt, our incredibly talented and dedicated employees remain our most important asset. And we have implemented a wide range of temporary policies and protocols over the last two months to protect their health and safety.

These actions include enhanced paid sick and/or family leave, alternate, flexible and remote work arrangements, visitor and employee screening protocols, social distancing best practices, additional PPE and sanitary procedures, and we have established a global crisis response team, among many other measures. We also took the unprecedented step of temporarily closing our paint stores sales force to further protect employees as we move to serving customers with curbside pickup and delivery option.

As for our customers, we provide essential products and services that are helping painters create and maintain clean and healthy living environments at healthcare facilities, manufacturing plants, residences and for other vital infrastructure. Many of these contractors have expressed their gratitude to us for keeping our stores open and enabling them to keep their businesses running, doing their jobs, generating income, and supporting their family.

We're also supporting industrial customers in mission-critical areas such as food and beverage packaging, healthcare equipment, food manufacturing, water treatment and energy infrastructure. During the crisis, we have delivered critical coatings product to producers of ventilators, oxygen tanks and hospital bed frame.

At this time, all major architectural and industrial plants and distribution service centers are in operation. Utilization rates vary based on manufacturing site and customers served. We have had no significant issues with raw material availability or supply. We've had a very small number of North American stores closed intermittently during the crisis related to varying government orders. The vast majority of stores remain open.

All of our businesses have developed and are executing on multi-phased contingency plan to adjust to the near-term business environment. We have taken targeted action to reduce cost, pause, or eliminate certain programs, cut general expenses and delayed filling open positions. We've also made adjustments to a small percentage of our workforce through involuntary leave and reductions in force. We have additional levers we can pull if necessary.

Through all of this, our employees continue to support the communities where they live and work. To-date, we have donated hundreds of thousands of masks, gloves, and lab coats to those on the frontline fighting the virus. We have also manufactured and donated hand sanitizers to many hospitals throughout the country. Our entire team remains focused and determined as we manage through this crisis. And we're confident we will emerge from this as a stronger company.

John George Morikis

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

Thank you, David. As I mentioned in my opening remarks, we believe we are seeing pause in demand rather than destruction of demand, and we continue to feel confident in the long-term trajectory of our end markets. While

some economies cautiously begin taking steps to reopen, the pace and scale at which this will happen is far from clear. We believe April will be the most challenging month of our second quarter from a comparison perspective with some gradual improvement as the quarter progresses.

Whether the recovery gains momentum in the second half of 2020, or not until 2021, remains to be seen. We believe providing additional granularity on our end markets and how they might begin to emerge from the current environment may be helpful to investors.

Let me begin in The Americas Group with our North American stores. Again, first quarter trends were very strong, with same store sales up 7.4%, reflecting robust underlying demand. We've seen a dramatic near-term pause brought on by the pandemic with all end markets except DIY being significantly impacted.

In residential repaint, customers are delaying interior work related to social distancing concerns and having painting contractors in their homes. We expect this demand to return gradually as the pandemic subsides and customers and contractors implement appropriate protective measures. We expect exterior repaint work to gain momentum near-term which will help to offset some of the interior softness.

In new residential, starts were up strong double digits to begin the year. As workers return from stay-at-home orders, work on these homes should resume. Our national homebuilding customers remain positive long-term, though cancellations have increased and order rates have softened near term.

Activity should eventually improve as mortgage rates are low and the supply of homes is limited. As a reminder, there's about a 90-day to 120-day lag from the time construction began to the painting phase. In new commercial, many of our customers were reporting strong backlogs and our first quarter sales were up mid-single-digits. Construction has been deemed as essential in most locations and jobs in progress will be completed. Work is largely continuing, albeit at a slower pace due to increased jobsite restrictions and labor challenges. We expect starts to be delayed in the second quarter, but we're optimistic that they will pick back up as the economy begins to reopen more broadly.

In property maintenance, overall renters' demographics are favorable, though apartment turns have slowed dramatically near term. Management companies remain positive and expect renter movement to begin quickly once the economy reopens. Maintenance related to hotels and restaurants is likely to return more slowly. Some CapEx projects have been put on hold in some areas due to local mandate. Our DIY business is strong as consumers are nesting and using stay-at-home time to work on affordable home improvement projects such as painting. We expect our DIY business to remain solid in the second quarter before returning to more normal, low single-digit rates as stay-at-home orders are lifted.

In protective and marine, approximately 40% of our sales are tied to oil and gas which has fallen sharply over the last quarter. Major oil and gas companies have suspended or delayed capital expenditure projects, which have and will continue to impact our results. Conversely, our sales in other end markets such as water and waste-water treatment, pharmaceutical, flooring, rail and marine remain as planned, which will help to offset the softness from weaker oil and gas business.

While we're seeing short-term disruptions and headwind, the long-term drivers we've cited in the past remain intact, including household formations and demographic trends. Given these long-term drivers, we intend to continue to invest in our business. We anticipate opening approximately 50 new stores this year while continuing to focus on sales reps, management trainees, innovative new products and productivity-enhancing services.

Moving on to an update for our Consumer Brands Group, DIY demand in North America continues to be strong as stay-at-home mandates have increased home improvement demand. Sales to home centers and other retail channel partners continue to perform well, and we are encouraged by growth prospects with multiple customers in this channel.

Looking at our international businesses, we expect our sales to be under considerable pressure through the second quarter. Our expectation is for these businesses to slowly return to more normal activity in the third quarter as the economies of the world begin to open.

Lastly, let me comment on trends in Performance Coatings Group. Overall, we anticipate industrial demand recovering more slowly than architectural demand. From a geographic perspective, North America remains the largest region in Performance Coatings, and was our strongest performer prior to the pandemic. We would expect that to be true going forward. We have started to see some recovery in China at a slower pace than anticipated. We expect continued pressure in Europe and Latin America.

In packaging, demand for food and beverage cans remains robust. We anticipate strong continued demand and additional business wins driven by sustainability trends and our non-BPA valPure V70 coatings.

In coil coatings, we're seeing a temporary pause and slower pace of some commercial construction projects. Jobs in progress will eventually resume. And coupled with continued capture of new business, we expect this business to remain one of our best performers.

In general industrial, we're seeing substantial demand weakness in various end markets including heavy equipment, agriculture, transportation and general finishing. We expect this recovery will be slow and we'll see continued pressure throughout the rest of 2020.

In industrial wood, softness across various end markets including furniture, kitchen cabinetry and flooring has continued. It is difficult to forecast the timing of improvement though many of the same drivers influencing new housing could benefit this business.

In automotive refinish, the business has been impacted by the various stay-at-home mandates that have been instituted across the country. The decrease in miles driven has led to a decrease in collisions. The pace of recovery in this business will depend on how quickly stay-at-home orders are lifted and people begin to return to their normal routines. Let me reiterate that while we are seeing near-term pressure across most end markets we serve, we're confident in the long-term trajectory.

Now I'll turn the call over to Al Mistysyn, our Chief Financial Officer, to talk more specifically about our revised 2020 guidance, our cash and liquidity position and our approach to capital allocation. Al?

Allen Joseph Mistysyn

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

Thank you, John, and good morning, everyone. We anticipate the negative impact of COVID-19 on the US and global economies will most likely continue through the second quarter. We do not expect immediate, meaningful improvement ahead in most end markets we serve, and we're unable to predict when any noticeable improvement in those end markets will occur.

Given the near-term trends and indicators we see at this time, we anticipate second quarter 2020 consolidated net sales will decrease by a low to mid-teens percentage versus the second quarter of 2019. Looking at our

operating segments for the second quarter, we anticipate The Americas Group to be down by a low double digit to mid-teens percentage, Consumer Brands Group to be up by a high single digit to low-double-digit percentage and Performance Coatings Group to be down a high-teens percentage.

For the full year 2020, we are revising our sales guidance to reflect uncertainties in the timing and pace of improvement in the US and global operating environments. If economic conditions begin returning to normal in the third quarter 2020 and continue improving through the fourth quarter, we anticipate full year consolidated net sales to be flat to down a low-single-digit percentage. If economic conditions do not materially improve until the first quarter 2021, we anticipate full year 2020 consolidated net sales to decrease by a mid- to high-single digit percentage. This revised full year 2020 consolidated sales guidance is compared to our previous full-year guidance of an increase of 2% to 4%. On an operating segment basis for the full year, we anticipate The Americas Group to be flat to down by a mid-single-digit percentage, Consumer Brands Group to be up or down by a low-single-digit percentage and Performance Coatings Group to be down by a high-single-digit to low-double-digit percentage.

Considering our revised range of potential sale, we are revising our diluted net income per common share for 2020 to be in the range of \$16.46 to \$18.46 per share compared to our previous guidance of \$19.91 to \$20.71 per share and compared to \$16.49 per share earned in 2019. Full year 2020 earnings per share guidance includes acquisition-related amortization expense of approximately \$2.54 per share. On an adjusted basis, we expect full year 2020 earnings per share of \$19 to \$21. One key assumption embedded in our outlook is the raw material deflation we expect to realize for full year 2020. We expect the raw material basket to be lower year-over-year by a low-single-digit percentage.

Switching to our balance sheet, which along with our liquidity position, remains the strength of the company. At March 31, 2020, we had \$239 million in cash and \$2.5 billion of unused capacity under our revolving credit facility. At the end of the first quarter, our leverage ratio improved 3.1 times on a net debt to adjusted EBITDA compared to 3.5 times a year ago. As Jim noted earlier, during the first quarter, we used cash to build architectural inventory levels in advance of the spring and summer selling season. However, our teams reacted quickly to slowing demand in various businesses and regions where it occurred and aggressively reduced inventory, which helped reduce our year-over-year working capital \$151 million.

We have completed a number of actions over the past year to reduce our risk and improve our financial flexibility. We recently completed a bond issuance in March for \$500 million of 10-year notes at 2.3% and \$500 million of 30-year notes at 3.3%. These are the lowest coupon rates in the history of the company. The proceeds of these issuances were used to complete a tender offer for \$500 million of 2.75% notes due in 2022 and will also be used to pay off the \$429 million 2.25% notes that are coming due in May. Our next long-term debt maturity in 2021 is \$25 million.

In the first quarter, we repurchased 1.7 million shares of our company stock and increased our quarterly dividend by 18.6% to \$1.34 per share. We are committed to maintaining this dividend increase through the rest of 2020.

As David mentioned, we are executing contingency plans to reduce spending and conserve cash. As part of those plans, we are lowering our full year 2020 capital expenditure forecast from \$320 million to \$180 million and temporarily delaying our share repurchases until we see improvement in the end markets we serve. Finally, we have put a pause on spending related to our new headquarters and R&D facility projects but continue to work through various planning processes.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting the question-and-answer session. [Operator Instructions] Our first question comes from Chris Parkinson with Credit Suisse. Please proceed with your question.

Christopher Parkinson

Analyst, Credit Suisse Securities (USA) LLC

Q

Great, thank you; good to know everybody's doing well. So I'll leave this fairly open-ended, but could you speak to some of the key trends in The Americas Group, such as the sustainability of the DIY boost? Any color on the magnitude of the divergence between exterior and interior paint trends, and just how to think about things on a sub-regional basis from what you're seeing in April; is there any differences between, for instance, the Southeast versus the Northeast? Thank you very much.

John George Morikis

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

A

Thanks, Chris. First, I would say regarding the DIY business, as we mentioned in our prepared remarks, the nesting phenomenon, if you will, of our customers, largely is a result of their spending more time at home. And we believe that that will continue, largely through the stay-at-home orders. Historically, if you look at the underlying principles that have us believing that this gradually shifts back to the do-it-for-me as opposed to DIY primarily, because we think those are still intact, those are the ageing demographics, the home appreciation, the ageing housing stock. And as well I would say that if you look at the last recession in DIY, it grew not in huge amounts, but it was not protracted either. Here we have a much more significant jump in DIY business, and we're experiencing a DIY business in our stores, for those customers that are still preferring a more specialty store experience, and through many of our customers in our Consumer Brands business. And we're working hard to serve them as well.

As it relates to your next question regarding the – what was it – interior versus exterior, both were up double digits in the first quarter. And we expect that, as the season starts to turn a little bit here, that we'll start to see more lift in the exterior business as a result of more contractors getting the go-ahead from homeowners, who in some cases right now are preferring not to have – or in many cases right now, are preferring not to have painting contractors enter their home.

And regionally, you asked a question what we see regionally. I'd say that we are starting to see more estimating and I would say the close rates in those estimates are growing largely in the Southeast and Southwest right now. They're lagging in the Northeast and in the Midwest, which you would expect, heavily influenced by what's happening in New York, what's happening in Illinois and Michigan. So, I'd say, going back to the point that we referenced a few times in the prepared remarks, we feel structurally there's not been much shift. So we expect this do-it-yourself to continue short term, gradually shift back to do-it-for-me, and we love our position with those customers to be able to capitalize on that.

Christopher Parkinson

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you. That's a great color. Also, just as a corollary to that, could you just very quickly just break out the trends in P&M across The Americas Group and PC? If you go through the oil and gas, protective, anti-corrosion and then just [ph] the small ranges (0:29:46), anything changing there in terms of your thought process? Thank you very much.

John George Morikis

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

Yeah, so I'd say in P&M we mentioned that that represents about 40% – I'm sorry – oil and gas represents about 40% of our P&M business to our stores. We have a very strong position there. I'd say that the oil price has had an impact primarily in the upstream business where your – offshore, shale, et cetera, midstream with storage. Downstream I'd say in refining and cracking there's still quite a bit of investment going on.

What I'm really pleased with is the shift that our teams are putting into place – the pivot to where the business is – not necessarily where we are. We have a very strong position in those areas that are under pressure. We've got wonderful talent, wonderful products and we're doing a very good job, I believe, in moving into some of those areas that are underserved by Sherwin right now in the oil and gas, as well as other areas that we mentioned. Those are the water, wastewater, food and beverage, even pharmaceutical, flooring. So it's a pretty experienced team we have here. And we're taking advantage of those experiences that – the scar tissue, if you will – from some of the past experiences. We're not waiting for things to happen. We're trying to capitalize and drive things and make them happen.

Christopher Parkinson

Analyst, Credit Suisse Securities (USA) LLC

Thank you.

John George Morikis

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

Yes.

Operator: Thank you. Our next question comes from Ghansham Panjabi with Baird. Please proceed with your question.

Ghansham Panjabi

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

Hey, guys. Good morning. I hope everyone's doing well.

John George Morikis

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

Good morning.

Ghansham Panjabi

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

Good morning. Hey, John, just kind of picking up on the last few comments, right. So your comments have been that there's sort of a pause in demand versus not necessarily a disruption in demand. But some of the metrics in terms of US unemployment and credit markets have changed dramatically over the past couple months. I guess,

what gives you confidence that apart from the dislocation that you and others will see in 2Q that this is, in fact, a pause versus something that's going to have a tail with it?

John George Morikis

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

A

Yeah, so I think in each market when we look at the drivers of those segments, we look through and understand, we think, with a pretty good line of sight on what's going to happen. I think if you look at, for example, in new residential, we feel there is a pause – that there is a fundamental need for housing in the country and that while the short-term traffic in models and the feedback that we're getting from our large new residential customers clearly indicate some concern with the shorter term, we're not running the company to have a great second quarter here, and that's it. We're doing the best we can with the cards that we were dealt with in the second quarter.

But we're looking at the fundamentals. And we believe that if you go by segment through our business that there are some very sound fundamentals. In areas where there is some softness, we're not waiting. We're moving into those areas that offer opportunity. And so, segment by segment, we're dissecting our business. Understand we have the right people doing the right things to capitalize on those opportunities.

Allen Joseph Mistysyn

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

A

And Ghansham, I'll just add to that. And that's partly why the unpredictability about how our segments come out of this and the timing of that, that's why we, if you will, bifurcated the guidance to say, okay, if we see things start improving in the third quarter and then continue to improve in the fourth quarter, we think, flat to down low single digits. But if the true recovery doesn't start until the first quarter of 2021, we're looking at that mid- to high-single-digits down estimate. So we perfectly understand the uncertainties, but that's why we're giving a range of the timing of when we expect the businesses to come back.

Ghansham Panjabi

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

Q

Understood. And then just on the DIY piece that you're benefiting from in the stores group, how are consumers engaging with your associates? I mean, generally, your stores offer a very high [Technical Difficulty] (0:34:28) consumers. How are your associates pivoting towards this new reality of social distancing? And then just sort of related to that, are you seeing any, from a high-level standpoint, are you seeing any specific trends that are visible in terms of maybe the DIY piece being a bit more price-sensitive in terms of the [Technical Difficulty] (0:34:45)? Thanks.

John George Morikis

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

A

Thank you for that question because it gives me a terrific opportunity to recognize a wonderful team. We've got a terrific leadership team in Pete Ippolito and Bill DeSantis and all our division presidents there. But more importantly, as strong as those leaders are, we've got just a wonderful team in our stores and are close to our customers and sales reps that are doing a terrific job. And your question gives me just that, the opportunity to thank this wonderful team for everything they're doing.

You're right. It's changed things. We are curbside only. So it's given us an opportunity to leverage some of the investments that we've made in our digital platform. We have orders coming in via the digital platform that we've been investing in, with much greater utilization. So we're excited about that.

And I would tell you, we've been inundated with emails and notes and even phone calls from customers that have gone out of their way to comment and recognize our employees and their willingness to work with people. We've begun utilizing our color fulfillment. So customers can go online, order colors, and have them into their homes in a relatively short period of time. And our people in the stores are eager to help these people over the phone to make sure that they're taken care of. And then the transaction takes place, it's a contactless transaction when these customers pull up into our stores and their product is ordered to the back of their car.

I don't know, I couldn't count how many points of contact I've had with people recognizing the wonderful service and approach that we're taking. And that's on our stores. I would say that we're blessed with a number of really, really strong and good customers on our Consumer Brands team. And Heidi Petz and Keith Valore, the two leaders running that business have really helped us to try to be as responsive as we can to that important segment and channel to our customers. And we're trying to instill as much as we can in our learnings from our store-side into those customers and vice versa and just really providing solutions to our customers. So we're really excited about this. And I'd say that the trend that we're seeing in our DIY business is exciting on the consumer side as well as our stores.

Ghansham Panjabi

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

And the pricing sensitivity piece?

Q

John George Morikis

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

I'd say that on pricing, we continue to see a positive mix in our business. I'd say that much like contractors who recognize that 90% of their projects are labor costs, many homeowners, particularly those that are shopping at a Sherwin-Williams store are typically willing to pay a little more to get the finish that they're looking for and have it be as productive as possible. So we are seeing a positive mix shift in both the contractor business that we see as well as the do-it-yourself business.

A

Ghansham Panjabi

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

Okay, perfect. Thanks, John.

Q

John George Morikis

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

Thank you.

A

Operator: Thank you. Our next question comes from John McNulty with BMO Capital Markets. Please proceed with your question.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Yeah, thanks for taking my question. I guess two points. So on the raw material side, down low single digits just given what we've seen in oil prices, in propylene. It seems a little bit on the low side. Can you give us a little bit of color into what you're seeing in the various baskets for raw materials and how you're thinking about how they trend throughout the year?

Q

John George Morikis

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

A

Sure. And good morning, John. What I would say is, given the significant decline in crude as you point out, we do expect to realize lower year-over-year raw material costs throughout the remainder of 2020. The full year will be down by low single digit percentage as we talked about compared to our prior estimate of being flat for the year. I think the rate in the second half of the year will depend largely on how the downstream derivatives like propylene and ethylene react to the declines in crude. And I would say also if demand does not improve through the second half of the year, then we could potentially see a more meaningful benefit. The majority of the benefit year-over-year is going to be on that resins and solvents side.

If you take a look at the TiO2 side, I think we've seen strong demand there in the first quarter and the second quarter. But it's probably too soon to fully understand the supply-demand impact and the effect on pricing there. I would say, at this point, we do anticipate stable to potentially lower prices for TiO2 in the back half. Historically, weaker global demand has resulted in lower pricing. But again, I think the decline that we're expecting to see in the basket is tied more on that petrochemicals side and it's really going to depend on how propylene and ethylene respond.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Got it. That's helpful. And then I guess, in the stores business – so if I understand it correctly, you shut down the front part of the store kind of in late March. Is there a way to think about how much sales dipped when you went just to curbside pickup, just so that we can kind of think about when these required closures and that type of thing end, how to think about the snapback? Can you give us a little bit of color or anecdotes on that?

Allen Joseph Mistysyn

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

A

Yeah, John. It's hard to say exactly how much of a decline we're seeing or we saw. But in our second quarter guidance, we're talking about The Americas Group down low-double digits to mid-teens. I think this commentary, as we've seen April progress, the weekly sales on architectural have improved week to week from a dollar volume standpoint. As a reminder, April was our toughest comp a year ago. If you think about how North America paint stores progressed through the second quarter last year, April was our strongest quarter. And then it ticked down in May and ticked down in June. So we were fully expecting April to be our toughest comparison. So that's what makes it a little bit harder to gauge, how much is related to the shelter-in-place and the changes to our sales floor.

John George Morikis

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

A

John, I would add this though. David Sewell here, our COO, has got all our businesses leaning forward in a very positive way. So I'm a bit more optimistic, I might say, in the sense that we've come into this business with a pretty strong performance, a strong comp store sale number. And David has our teams, every one of them, including our stores, taking the activities right now that will help us grow even faster coming out of it.

And so the activity that we have in new accounts and product demos and information, this is probably some of the most aggressive time we've had because we have had some customers on the professional side that have had interior projects that have been delayed, they're not able to get on the exterior projects and so it's provided our teams more accessibility to some of these customers. And our new account activity is actually up as a result of this. Our demos of new products are up. So, hats off to David and our teams, not only in our stores, in all of them, for what we're doing during these times.

And so I get what you're asking. As these stores close, how quickly do they rebound? Our desire, really strong desire is to come out of this much stronger than even what we were before.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Great. Thanks very much for the color, guys.

Jim Jaye

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

Thank you.

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

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Hi, guys. Good morning.

John George Morikis

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

Morning.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Thanks for taking my question. I wanted to go back to the comments you made earlier. I guess you referenced potential for opening 50 new stores this year. Maybe you can just discuss how you see that playing out. Are there particular regions that you're targeting, and if you could relate that to some of the performance that you saw in Q1 or Q2 that you're seeing right now. Are you targeting areas where maybe you're seeing some weaker performance regionally or is it just under-penetrated areas? Thanks.

John George Morikis

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

Yeah, it varies by division. We are looking at, in some areas what we call fill-in markets, where we have underserved markets in areas that we might have more penetration. But we're missing some gaps and there's a lot of areas, quite frankly, that we're just not happy with our performance yet in the area of market share and our position and we've got a long way to go. And so I'd say it's kind of a balance between the two. We'd like to take advantage of our position in the market while providing more accessibility to our customers, and at the same time, we have to get after some of these markets that are underserved.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Okay. Thanks. And then just as a follow-up, I just wanted to ask about the refinish business as well. We all have seen miles driven dropped significantly. Maybe just give us your thoughts; you've had some growth recently in the last couple years, it's a little bit bigger business for you now. So could you, yeah, just comment on that business and what you see for the outlook there? Thanks.

John George Morikis

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

A

Sure. You're right. We've seen miles driven down considerably. And we expect that impact could be for another 30 to 45 days following the end of stay-at-home orders. So it's a little bumpy right now, if you will, in that business, no pun intended. But our teams are really doing a nice job there.

I think I mentioned the last quarter. It was a bold statement and I stand by it. I think our position in this auto refinish business is as strong as it's been since I've been on this floor of the building here, and I've got a lot of confidence in our leadership in automotive, a lot of confidence in our Performance Coatings team and what we're doing and I think we've got a lot of determination in this business to outperform. We're going have to get some cars on the road to be able to see some of that, though.

I'd say here though as well, if I could, the effort that we have and the connectivity and virtual learning and the virtual demos that our teams are initiating here in that area – out of adversity sometimes comes the best. We've had a lot of things that we've been working on that we've been able to accelerate, and we believe it's helping to convert some of these customers, some of who were on the fence before, some who had just come online before the pandemic, and again, we expect to be able to capitalize on this as we come out.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

And just lastly, I know you talked about evaluating your business in Australia. Could you just comment on where you stand there and the progress that's been made? Thanks.

John George Morikis

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

A

Sure. Yeah, the virus impact on Australia has been severe as well. We're 100% contactless there. But I'd say that we've started to address, to your question, our SG&A and our position long before the pandemic. And I'd say that our adjustments not only in Australia, but I'd say in Europe, even in Asia – if you look at Europe, we had a 70% flow-through on our business there.

Australia, we've taken we think the appropriate SG&A steps there, as well as in Asia. Prior to the pandemic we've right-sized some of the business there and we've made some very difficult decisions in some areas and we've invested in some other areas to be able to capitalize on our growth. So I wouldn't limit it to just Australia. I think we're taking what we believe to be the appropriate aggressive steps for these businesses to drive the operating margins.

We've said time and time again, we're constantly looking at programs. We're looking at brands. We're looking at businesses, even stores, every element of our business. If it's helping us reach our goals, we want to put our foot on the gas. If not, we're making difficult decisions.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Great. Thanks.

Jim Jaye

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

A

Thank you.

Operator: Thank you. Our next question comes from Steve Byrne with Bank of America. Please proceed with your question.

Steve Byrne

Analyst, Bank of America Merrill Lynch

Yes. Thank you for taking my question. I was curious about your North American consumer business. Your guidance for second quarter is quite robust. Is the trend that you're seeing in April representative of your outlook for the second quarter, i.e., are you seeing that strong of a volume growth during the month of April?

John George Morikis

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

I would say unprecedented growth in April.

Allen Joseph Mistysyn

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

I'd agree with that, Steve. And we really started seeing it kick in about mid-March.

John George Morikis

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

Mid to late March.

Allen Joseph Mistysyn

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

And that trend has not only continued but accelerated into April.

Steve Byrne

Analyst, Bank of America Merrill Lynch

And David Sewell made some comments about trimming the sales force or the personnel in the TAG group in his remarks. Can you just comment on what you expect SG&A to be in the second quarter versus the first?

Allen Joseph Mistysyn

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

Yeah, we are not trimming – just to be clear, we're not trimming personnel in our TAG organization. In fact, we'll continue to invest, as John talked about it, in new stores. We will see the trend in SG&A decline in our second quarter because of the sales shortfall. We probably won't see the percent of sales improve but the steps that David talk about in our contingency planning, they're material. And as we talked about, as we see demand and the trends in demand develop, we have other levers ready to go to pull if we need to. But we are not going be cutting our stores organization.

John George Morikis

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

Yes, Steve, maybe just to make sure – I'm not sure what you may have picked up or the way we may have said it, but we're always looking at our investments. And there are times in our normal business that we might be skinny-

ing down in an area and investing in other areas. I think the idea that is important to hear is our stores business is a very sound, fundamental business that we expect to put more gas in that tank every chance we can.

Steve Byrne*Analyst, Bank of America Merrill Lynch*

Q

If I could squeeze one more in about housing starts. Are your contractors indicating to you that it's a slowdown driven by a delayed permitting? Or are they also seeing any problems with labor?

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

A

I don't know that the labor issue is coming up right now. I think – let me go back to the very first part of your question. We don't think that the fundamentals have changed and neither has our position in that market. We feel the gap in the Sherwin-Williams value proposition is wide and I'd say it's growing wider. If you look at rates – and this may go back to the question Ghansham asked as to why we have confidence.

If you look at rates are low, housing supply is limited. And while there's some short-term impact to the business, we feel as though the fundamentals are still there. I'll remind you that we have an exclusive relationship with 18 of the top 20 nationals. And from the regionals where we have the opportunity there, we have exclusives with 73 of the top 100. So there's more opportunity there for us to leverage. And I would tell you that the value that we bring in distribution, our reps, the products, even the design tools and local training are really areas that we're focusing on.

And so, I'd say our customers right now for the most part are dealing with the short term but I would tell you the discussions that we're having with them – in fact, last week alone, we had discussions with our – all top 10 builders had reached out to us, wanting to ensure of our supply chain and our capability to serve them. And I can assure you, we're ready, more than ready to serve them.

That's part of what gives us confidence. Yeah, there's going to be some bumps in the road in this quarter, no question, and maybe rolling a little bit into the Q3. Who knows? But we've got terrific relationships. We're going to be right there with them. And no one has the responsiveness to serve our customers like Sherwin-Williams.

Steve Byrne*Analyst, Bank of America Merrill Lynch*

Q

Thank you.

Jim Jaye*Senior Vice President, Investor Relations & Corporate Communications, The Sherwin-Williams Company*

A

Thank you, Steve.

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

Robert Koort*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks very much. I want to say thanks to Al or Jim or whoever's idea it was to give the sub-segment data in the slide deck. I think it's very helpful and appreciated.

John George Morikis

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

I'd give Eric Swanson a lot of credit for that, Bob.

[indiscernible] (0:53:30)

Robert Koort

Analyst, Goldman Sachs & Co. LLC

I wanted to ask about the CapEx reduction. It's a pretty dramatic decline. I know you mentioned you've got only 50 new store openings which maybe is about half of what is typical. Is that the bulk of that decline or where else are we seeing the CapEx reduction?

Allen Joseph Mistysyn

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

Yeah, Bob, within our global supply chain, we are paring back some of the capacity projects that we had scheduled to start this year going into next year. I would tell you that that decrease, the \$140 million, what we'll do throughout the year is monitor, again, how the demand trends are developing. And as we see, for instance, our stores architectural start building back up, we'll turn some of those back on – the timing that causes the delay. But I think the \$140 million would be kind of your max case. And then as we see things turn around, we'll start investing back in our plants and our distribution centers and the automation to help with our continuous improvement project and operating efficiencies and things like that.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

And I'm sorry if I missed it, Al, but you gave some guidance on second quarter TAG sales. Did you comment on what the daily receipts in April suggested? We were thinking down 30% or something for the acute, and then moderating. Is that reasonable?

Allen Joseph Mistysyn

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

Actually, our receipts have held up pretty well. I think maybe as you get into early May we're going to see a gap but then start improving as we get towards the second half of May and into June because as I mentioned, Bob, as we look at the progress in our weekly sales, that keeps improving. As we are staying close to our customers, we're not getting a lot of concern about bad debt or solvency of our customers. So right now as we look at it, I do expect a little bit of slowdown here in early May and maybe mid-May but then start picking up again.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Great. Thanks for the help.

John George Morikis

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

Sure, Bob.

Operator: Thank you. Our next question comes from PJ Juvekar with Citigroup. Please proceed with your question.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Yes. Hi, John, Al and the team. Good to hear from you.

John George Morikis

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

Thank you, PJ.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

How much is your online ordering up in the quarter from contractors or DIY? And how much of these orders are curbside pickup versus delivery? And longer term, do you think that's a new trend that will remain in place post-COVID?

John George Morikis

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

So you're probably not going to like these answers other than online is significant. Curbside versus delivery, I'd say the largest part of our – I'd say it's probably in the contractor side pretty evenly split. Obviously, the do-it-yourself curbside is delivered right outside of our stores. And I would say regarding the future, yeah, we want our customers using this system. We believe it helps in our customers' efficiency. We think it helps our efficiency. It allows us to be a better partner to them. And it allows our customers to move seamlessly through our business. And you really begin utilizing the tools and resources that we have much better.

John George Morikis

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

Yeah, PJ, it remains to be seen if curbside has staying power. I think, by and large, when you look at our residential repaint contractors, they like the interaction with our stores. They like the interaction with our reps. On the DIY side I think there's some color counseling that they like to get while coming into our stores, and currently, they're really not getting that interaction. So we'll see. They may have some staying power, but I do think there's still a lot of interaction and support they get from our stores on making recommendations on colors and different things like that.

John George Morikis

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

But I might add though, PJ, the curbside aspect of it, we think that has legs and that that will continue. It's one of the outtakes that customers enjoy in some cases, the ability to get in and get out. The majority of the customers that come in in the morning, start their business, have their crews at our stores, can still do that and those that want to come in and zip out, we'll offer the best of both.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Okay. And just related to that, let's say in the future it's an online order followed by delivery; does that lower barriers to entry in the business? Or is it an advantage for you because you have a local store and you can get there faster? Thank you.

John George Morikis

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

A

I'd say it's a huge advantage to us. It's really no different when you think about it as the customer picking up the phone and requesting an order and having us deliver that product to them. It's really no different from that aspect. But I would say that we really enjoy this store platform that we have and the ability to do both the multi-point distribution capability 30 minutes from you anywhere. And our ability to deliver in quick turnaround or with quick responsiveness we think is important.

But it's also a foundation we believe, is those customers that are in every morning, they're building a partnership with our employees. There's a loyalty that grows. And I'd say that loyalty grows both ways. It grows with a customer to Sherwin and Sherwin to the customer. And we think that distribution is one, and albeit one very important aspect of the stores. But we really value our role in our customers' success and I'd say, we may value it more than others because we have a terrific relationship with these customers. But I'd say these are valuable, important in building the partnership and that partnership includes problem-solving for the customers, training, job management, helping them really run their business.

And it evolves, it evolves from just a transaction to a strong relationship. And I will tell you, 35 years ago when I was in a store, I built some of those strong relationships. And unfortunately about a year and a half ago I lost my mom. And I will tell you, I was shocked when I went back home and found a few contractors that I had served when I was a store manager that came back and spent time with me there.

I share that story because I think it captures the essence of what we do in our stores. We build strong relationships and they last. And delivery is important but we do a lot more than just deliver.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for the color.

Jim Jaye

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

A

Yes. Thank you, PJ

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

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thanks, and hi, everyone. Glad everyone sounds well. I just want to ask on The Americas Group guidance for the second quarter and the rest of the year, we've talked about this on prior calls but you've clearly been gaining a lot of market share. And by my estimation, in the second quarter you kind of lapped that step-up in share gain that really started to take hold in the second quarter last year in that really bad weather period. So when you think about what you're telling us about 2Q and what you're telling us about the balance of the year, is that reflective of

sort of how you think the overall do-it-for-me or just the general paint industry is going to do or are you still baking in that you're going to continue to gain share even though the comps are maybe getting a little harder?

John George Morikis

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

A

We're going to gain share; we're very clear on that. We're going to gain share and we're just getting started. I look at what's happening and what we're doing during this time and the work that that leadership team and what they're delivering. I'd tell you, we've got the best people in the field, the best store managers, best reps. They've got great resources. And we're making investments, Vincent, during these times that we expect to come out of this pretty strong.

Allen Joseph Mistysyn

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

A

Yeah, and Vincent, when you look at those – we look at it at the long term and we got an SG&A question earlier but as we keep adding reps, we keep adding stores, we invest in product innovation and e-commerce platform, this gives us the confidence that we'll exit the environment and position better to grow multiple of the end market. And to highlight that point, this is similar to what we saw coming out of the 2008 and 2009 recession. And I'll highlight for you the three year, five year and 10 year compounded average growth rate of architectural sales in our North America stores grew at a high-single digit rate in each of those three categories, which we believe was a multiple of the end market and we believe the same dynamics are in this situation.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, no, that make sense. Glad to hear you guys are leaning into it. As a follow up, one of the other things we've talked a lot about over the last few years, when we had a low unemployment environment, it was a bit challenging in periods where there was pent-up demand from bad weather to prosecute that demand. But obviously, if we go through the summer, we're unfortunately going have some pretty unattractive unemployment numbers. I'm just wondering, have your customers talked to you about they're actually able to go out and hire more painters now. And so maybe we will see a benefit from that, at least for some period of time over the next few quarters?

John George Morikis

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

A

We might. I think it's a little bit early for that. But we might. And, again, that's where – I don't want to feel like I'm preaching on this store platform, but I mean, if our customers are hiring people that might be less skilled or less experienced, that's where we can shine for them. We work with those customers. It's the products that we provide and the [indiscernible] (01:04:32) that we use in our products to make sure that they flow and level better than others or the touchup, the fact that we own our own colorant [indiscernible] (01:04:40), that the touchup is easier and better. All of that allows maybe a less experienced or less skilled or growing in skill, maybe, painter to be a producer for our painting contractors. And so, we like this type of environment where we can shine. And that's what we'll continue to really try to leverage as we move through this process.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much, guys. Appreciate it.

John George Morikis

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

Thank you.

A

Operator: Thank you. Our next question comes from Mike Harrison with Seaport Global Securities. Please proceed with your question.

Michael J. Harrison

Analyst, Seaport Global Securities LLC

Hi. Good morning here in Central Time zone, but good afternoon, guys. Wondering, John, if you can quantify how many of your stores are closed in North America right now. And are those all situations where you've been restricted by the government or are there situations where you have a handful of stores and you've decided to consolidate business from that handful into one or two locations?

Q

John George Morikis

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

Yeah, Mike. Let me have David Sewell answer that one.

A

David B. Sewell

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

Yeah, hi, Mike. Right now, we probably have close to 30 stores in North America that are closed. Those are – all those stores are due to government mandate. The team's doing a really nice job in trying to fulfill orders and deliveries from other locations that are open. And then, as that continues to hopefully open up, those stores will immediately open up when the government allows.

A

Michael J. Harrison

Analyst, Seaport Global Securities LLC

And also, was wondering a little bit about the cadence of demand from contractors, as we're probably going to see some slowing in existing home sales and as some of these commercial projects may get deferred. Your competitor yesterday talked of a coming air pocket in some of that commercial business in particular. Is that something that you see as well or do you think it's going to be steadier?

Q

John George Morikis

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

I think there's structures coming out of the ground, right now. And while there's some delay in getting on those – one, because of the stay-in-place or stay home, and the other, in some of those areas where they're allowing workers to come in, it's with restriction. So there will be likely some delay in those. But our customers are still feeling good about those.

A

And the other thing I would mention is, we track very closely requests for specs, for colors, for data sheets, all things that we look at as data points in helping us to understand kind of the trend. And they're very strong. And so, we think short term, there's going to be some bumpiness in this quarter. We get that. Again, second quarter's going to be a challenge. We're going to get through that. And as our contractors and our specifiers and our architects are working on projects, we're going to be the ones right there with them, helping them.

Michael J. Harrison

Analyst, Seaport Global Securities LLC

Q

All right. And then just quickly, you guys introduced this microbicial paint a couple years ago, a paint shield. Has that been tested for effectiveness against this coronavirus? And are you getting increased interest in that product for either commercial or residential applications right now?

John George Morikis

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

A

Yeah, we do. But it's not a virus – it's not a coating that kills virus. That is a micro – microbial. Very easy to say. So it'll kill some bacterias, but it will not kill a virus. Now, that said, we've had an interest, as overall health and well-being, the concern of ensuring that you have as safe an environment as possible, has helped us in this area. And we do have more interest on that product.

Michael J. Harrison

Analyst, Seaport Global Securities LLC

Q

All right. Thanks very much.

John George Morikis

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

A

Thank you.

Jim Jaye

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

A

Thanks, Mike.

Operator: Thank you. Our next question comes from Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Good afternoon. I was wondering if you could speak to the price contribution embedded in your same store sales growth. I think you had an increase of 3% to 4% on January 1. Perhaps you can enlighten us as to how much of that has been realized at this point?

John George Morikis

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

A

Yeah, Kevin, that price increase has gone as expected. And we've realized just under 2% of effectiveness in the quarter. We do expect that to get a little bit better into the second quarter, but progressing as planned.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Very good. And then secondly, AI, with regard to capital allocation, I see you paused share repurchase activity. Is it safe to say that M&A activity is likewise paused for some period of time or how would you characterize level of interest for bolt-on or larger acquisitions at this point?

Allen Joseph Mistysyn

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

A

We have a lot of interest in the acquisitions. I think what we're continuing to do is work with the teams on generating the targets and filling our pipeline. Obviously, in this environment, it is challenging. That being said, I feel very good about our liquidity, the amount of cash we generate. We have \$2.5 billion in available liquidity sources. We've done a lot of work pushing our near-term maturities out. So I feel very good about our balance sheet and our capacity to make M&A as we come out of this and we see some of these targets maybe coming to the market. So I feel very good about our position.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Okay. Thank you very much.

John George Morikis

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

A

Thanks, Kevin.

Operator: Thank you. Our next question comes from David Begleiter with Deutsche Bank. Please proceed with your question.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good afternoon. John, AI, how should we think about decremental margins in your various businesses in Q2 here?

Allen Joseph Mistysyn

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

A

Yeah, when you say decremental margin with all the businesses except for our Consumer Brands being down, what I think you see is all the actions that these groups have taken and continuous improvement, I'd point to our Performance Coatings Group who as we saw demand through the second half of last year slowing, they really have done a nice job controlling costs, improving even how their operations are. You saw a nice pickup in their first quarter operating margin was up. So I think the way I look at it is, all the actions that we've taken coming into this and all the actions we're taking now, I would not expect to see – it's not a dollar-for-dollar decrement, if you will. I think you're going to see us do better than that. How much, obviously, it depends on volume. But I think we've done and taken the right action?

John George Morikis

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

A

Yeah, I think if you look at that business, particularly the Performance Coatings Group, strong leader there. Ed Thompson there over the last over a year period has been really driving a wonderful leadership team beneath him that are driving expense reductions down to be in a position to leverage everything that we can here. So I think there's been a lot of good work, and it will only continue.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

And, John, just from Consumer Brands, very strong result. With whom are you – are you gaining share in this business or just the underlying growth of the market as we see it right now?

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

I think it's too early to tell. I think right now we're working very hard to be the best supplier we can. And as data comes out, we'll know better. But right now, we're trying to build the brands, the products, and make sure that we're servicing our customers better than anyone else could.

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

Thank you very much?

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

Thank you.

Operator: Thank you. Our next question comes from Truman Patterson with Wells Fargo. Please proceed with your question.

Truman Patterson*Analyst, Wells Fargo Securities*

Hi. Good morning, everybody. And thanks for taking my questions. Glad to hear you all are safe and healthy. So, John and Al, you all have touched on this quite a bit, but I'm hoping to ask it a little bit differently. In The Americas Group, you're expecting the second quarter sales to be down low double digits to mid-teens. And then for the full-year, flat to down mid- single-digits. At the low end of that full-year guidance, I think it implies that revenues improved to kind of a mid-single digit decline in 3Q and 4Q. Could you just walk us through how you all are getting there? And maybe some of the assumptions that you're making, that even at the low end, we're going to kind of improve versus the second quarter?

Allen Joseph Mistysyn*Chief Financial Officer & Senior VP-Finance, The Sherwin-Williams Co.*

Yeah, Truman, as we start seeing – where this is really going to come in is as we start seeing states start opening up and the shelter in place executive orders are removed, and job sites start opening up more and we can get back to work, I think as that progresses through the quarter, I expect to see improvement in the trends in the weekly sales rates. And then when you get to the third quarter and the fourth quarter, I expect that to continue. Exterior, even in the second quarter coming into the third quarter. On Res Repaint there's opportunities as John talked about. I mean, there are commercial projects that are in place today that need to get painted. There are housing units in place today that need to get painted. And we expect those to happen here. It's just timing. And as we carry the additional stores and reps that we put in last year that we're putting in this year, you would expect the ramp-up as we get through the third quarter and fourth quarter.

Truman Patterson*Analyst, Wells Fargo Securities*

Okay. Thank you for that. And then on the Performance Coatings demand you're expecting it down high single digit to low double digits in 2020. Could you just give us an idea whether you're seeing any of the pricing contracts start to soften, especially in the face of a lower raw material environment?

Allen Joseph Mistysyn*Chief Financial Officer & Senior VP-Finance, The Sherwin-Williams Co.*

A

Truman, let me just jump on the pricing. The amount of sales we have indexed or pegged to an index is probably less than 10% within Performance Coatings. It's less than 3% overall. I just think historically, and I'll even go back to my experience in 2000 and 2001, industrial just seems to be a slower recovery than the architectural side of our business. Asia-Pacific, which is by and large back to work is slowly growing but I think you'll see China in particular pick up a lot faster as the US and European economies start getting back on their feet. Our business has a significant component that's export related. And then it's just what do you think Europe and Asia – I'm sorry, Europe and North America, how we come out of that? So it's going to be a little bit choppy across businesses, across geographies, but like we talked about, packaging is going strong. We expect that to continue as we get back to work and people driving their cars, we'll start seeing auto refinish pickup as John mentioned. So I just think the cadence is a little bit slower than architectural.

Truman Patterson*Analyst, Wells Fargo Securities*

Q

Okay. Thank you, Al.

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

A

Thank you, Truman.

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

John Roberts*Analyst, UBS Securities LLC*

Q

Thank you. And glad you're all well. You gave us some June quarter sales guidance but not earnings guidance. Where in your cost structure is the most uncertainty that you can't flow that through? Is it in labor costs or the stores cost or raw materials? What are you most uncertain about there in your cost structure?

Allen Joseph Mistysyn*Chief Financial Officer & Senior VP-Finance, The Sherwin-Williams Co.*

A

We haven't. We've given sales guidance only in – through 2018 and 2019. I saw no reason to start giving EPS quarterly guidance now. I don't think there's uncertainty around our cost structure. I think the plans – the actions we've taken to reduce our costs, reduce our discretionary spending, hold open items are all going to impact the second quarter but we're not managing the company for the second quarter. We're managing it for the long-term. And we're really looking at the recovery coming out of the third quarter and fourth quarter and really driving momentum into 2021. That's what we're looking at.

John Roberts*Analyst, UBS Securities LLC*

Q

Then to comment earlier on the raw material basket being down low single digit percent, I assume that's a price index for the raw materials. Do you have significant inventory of raw materials to work down that your dollar purchases of raws would be down more than that low single percent?

Allen Joseph Mistysyn

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

A

No. John, really the vast majority of our dollars are in bulk tanks at our factories. We're not buying ahead of any material nature. We're staying close to our suppliers and making sure they're able to service us best. In particular, I would say the team has done a very good job of managing this rapidly increasing, unprecedented DIY demand. I think they are retrofitting plants. They're moving products around to build capacity. And our suppliers have done a terrific job making sure we have the raw materials needed to keep up with that demand. And I think our procurement teams and our global supply chain team need to get a lot of credit for that. But no reason that we would be buying ahead on raw material.

John Roberts

Analyst, UBS Securities LLC

Q

Okay. Thanks. Stay well.

Allen Joseph Mistysyn

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

A

Thank you.

John George Morikis

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

A

Thanks, John. You too.

Operator: Thank you. Our next question comes from the line of Garik Shmois with Loop Capital. Please proceed with your question.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Oh, hi. Thanks. Just wanted to be clear, just on the 2Q Consumer Brands guidance. Does that include the Ace exit and, I guess, softer Asian fundamentals? Because if it does, it does seem that the retail piece is running mid-teens, if not better, if I'm not mistaken.

Allen Joseph Mistysyn

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

A

Yes. It does include both of those. Just the one comment on the Ace business that we exited. Because we're getting towards the end of that agreement, I mean, we are shipping Ace the final, I would say, inventories of the private label in this quarter. It will be all done. So I would say that from a quarterly standpoint, the second quarter is probably the least impacted. And then third quarter will get back to a little heavier. Then fourth quarter will moderate a little bit just because it's a small quarter. And it does include Asia as well.

Garik Shmois

Analyst, Loop Capital Markets LLC

Q

Great. Thanks. Just wanted to also follow up just on a comment earlier around exterior here in the Americas gaining momentum. Just wanted to see, is this just seasonal or are you seeing an increase in contractor backlogs as kind of driving some of that momentum that you identified earlier?

John George Morikis

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

A

I think it's a number of drivers. I think, certainly, seasonal when you look at sequential improvement. There's a piece of that. I'd say that our teams are doing a very nice job of really focusing on this business through contractor relationships and as well through product technology. In fact, you may recall last quarter I talked about a product, this flex temp. We're having really good feedback and interest from residential customers as well as new residential. This is a product that can be applied down to 35 degrees or up to 120 degrees without sacrificing performance or application. And so it's that type of innovation along with service and the relationships that we're building in our stores that has us believing that we're going to grow here and outpace the market.

Operator: Thank you. We'll move onto our next question, which comes from the line of David Bellinger with Wolfe Research. Please proceed with your question.

David Leonard Bellinger

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good afternoon, and thanks for taking my question. Hope everyone's staying safe. The comparable sales, again, very strong here. Can you talk about what you were seeing early in the quarter from an underlying demand perspective? Seems overall housing metrics were improving at a pretty good pace. And regarding early trends into Q2, how long do you think the DIY's performance, the outperformance there, can hold up? Is there some potential to pull forward in demand at the back half of the year?

John George Morikis

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

A

All right. I'll take the first run at this and then let AI jump in. When you asked about our run early, I would say life is really, really good. We were having, we thought this was the year. And we still, again, feel the fundamentals are there. But we were smoking. On DIY, I'd say, then, AI, you can come back if you want to add anything on that. DIY I'd say that it's hard to say if you're pulling forward. There might be some of that. We'll have to see how it unfolds. When you think about the professionals that are going in and doing homes, oftentimes what you'll find is DIY customers more willing to take on projects like small room bedroom, living room, whatever, not typically two-story foyers. Oftentimes exterior's off limits because the scope of the work there was scaffolding and the work that goes there. And you want to try to complete a project. Those projects typically take a longer time, so DIY consumers are typically more focused on smaller more manageable projects. And what you see is a lot of activity right now.

And quite frankly, we like it. We think that the idea that not just the short-term benefits of having customers purchasing product, but the idea that customers are enjoying the benefits of a repaint we think is a positive longer term. These customers can get an idea of the impact of relatively low cost investment can have on their home and certainly their mental well-being. And at that time like this when a lot of people have a lot of anxiety and stress, it's relatively inexpensive. Some of them they'll tackle themselves. If some of them down the road say, you know what, I got to go back to work but this room would look nice painted as well, then that might carry over as well. But we'll have to see if it's a pull-forward [indiscernible] (01:25:10) some of that or not.

Allen Joseph Mistysyn

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

A

Yeah, I think it will slow as people get back to work. And if unemployment ticks up, we don't expect to see a continued surge in DIY. And we're also monitoring on the Res Repaint side, we believe and again, we'll see how this plays out but, by and large, that the people that want to do a DIY project aren't going to hire a contractor. The people that tend to hire contractors – painting contractors to do the work are going to continue to hire painting contractors. We're not expecting a big hit in our Res Repaint due to the surge of DIY. Certainly, on exterior, as we talked before, typically those are going to be done by painting contractors.

David Leonard Bellinger

Analyst, Citigroup Global Markets, Inc.

Q

Got it. That's all very helpful. As if you tie your comments there, I think the words – the pricing increases planned throughout the year, has there been any data that suggests customer pushback on higher pricing in this environment? And how is that shaping your thinking towards further pricing opportunities from here? Thank you very much.

John George Morikis

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

A

It's not impacted as we can see right now the choice of products. In fact, as I mentioned earlier, we are experiencing a positive mix shift in quality. And just like we have in the past, we get together monthly as a management team, review our total cost basket, and we make decisions on a monthly basis. When we do that, we talk to our employees, our customers, and then we share with the financial community.

Jim Jaye

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

A

Jesse, I think we're ready for the next question.

Operator: Thank you. Our next question comes from Rosemarie Morbelli with G. Research. Please proceed with your question.

Rosemarie J. Morbelli

Analyst, G.research LLC

Q

Thank you. Good afternoon, everyone, and thank you for hanging on for me. I was wondering one area we didn't talk about really is Latin America. Could you give us a feel for what is happening there in terms of the demand, the shutdown if any or the lack of shutdown actually, which may create more issues going forward?

John George Morikis

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

A

Sure, Rosemarie. I'd say Chile is likely maybe the best described as the closest to having normal operations. I'd say Argentina and Ecuador for the most part are closed for most intent. In Mexico, about 60% of our stores are operating normally and roughly balance are running on curbside or have a very small percentage closed. But for the most part, it's split between the normal and curbside. And then Brazil, I'd say roughly about 34 of our stores are closed. And the remaining open about, which was 53%, those 53% represent over 70% of our gallon. And so, that's through our own stores there. If you look at our business through our dealers, about half of our dealers are closed and about 60% of the home centers are closed, but offering delivery only. So a little bit of a mix in Brazil.

Allen Joseph Mistysyn

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

A

And, Rosemarie, I would just add, in the first quarter, if you look at the impact of FX on our Latin America team, it was in the mid-teens and better than our Q2 guidance, as that'll accelerate because we continue to see the devaluation in the real, the Argentinean peso, the Mexico peso. So that's going to be an additional drag on those businesses in the second quarter.

Rosemarie J. Morbelli

Analyst, G.research LLC

Q

So in the past, you used to give us the number of stores in Latin America and in North America. You have now put them both together. Are you still closing down stores in that region?

John George Morikis

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

A

Last quarter, we did close eight in Latin America. And I think this goes back, Rosemarie, to the point I made earlier about our ongoing, I call it, a pretty rigorous review of businesses, brands, customer programs, other investments. And we've closed eight. And those were in areas that were persistently soft markets. We've got a terrific leadership team down here as well. And David and that team are working closely together to evaluate every one of these operations. They're going to stand on their own or we make tough decisions. And we've made some tough decisions. And we'll continue to look at that business. We want to continue to grow that business. There are some dynamics in that market that make it a little more challenging. But we've got a lot of upside potential we should be gaining as well.

Rosemarie J. Morbelli

Analyst, G.research LLC

Q

Thank you. And then lastly, if I may, can you talk a little bit about any changes in the competitive environment? Everyone is trying to gain share. Everyone is trying to offset the impact of the pandemic. Can you give us a feel for what is going on in the marketplace?

John George Morikis

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

A

Are you talking just in general or?

Rosemarie J. Morbelli

Analyst, G.research LLC

Q

Yes. In general. But if you can look at the different areas you are doing business in.

John George Morikis

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

A

Well, yeah, it'd be hard to do that for every part of the company in every region. Maybe I could make this statement that we have a lot of respect for our competitors. We have very good global competitors, and we've got a lot of really good regional competitors. Everyone's business is different. These are really challenging times, we're going to do what's right strategically for us and our customers through our strategic vision and model that works for us. And other companies may be taking a different path. But we have a lot of respect for them. And it keeps us motivated and driven. It's a healthy paranoia, if you will, because good competition makes you better. We've got a lot of really good competitors.

Rosemarie J. Morbelli

Analyst, G.research LLC

Okay. Thank you very much.

Q

Jim Jaye

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

Thank you.

A

Operator: Thank you. Our next question comes from Greg Melich with Evercore ISI. Please proceed with your questions.

Gregory Scott Melich

Analyst, Evercore ISI

Hi. Thanks, guys, and thanks for getting through all these questions. It's really helpful now. I had two. One was on pricing. You mentioned architectural. Could you talk about Performance Coatings Group, the price environment there, given everything that's going on? And then I had a follow up on stores?

Q

Allen Joseph Mistysyn

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

Greg, as you know, we've kind of been chasing the price in raw material through 2018 and 2019. So we did go out with selective price increases in the first – early in 2020. We talked about the small number of contracts we have on indexing. But I think the dynamics within our Performance Coatings Group are similar to the dynamics that we talk about in our Architectural. And that is we continue to invest in innovation that helps our customers be more effective, more efficient, drive faster line speeds on their manufacturing lines that drive their total cost of application down. And it's really what we're looking at. To move off of just price kind of cost metrics – and I think that's important to continue to focus on and we'll continue to do that. We'll continue to expand our services to our customers to drive growth for the both of us.

A

John George Morikis

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

Yeah, help them make more money. Help them achieve their goals. Help solve their problems. Everything we can do.

A

Gregory Scott Melich

Analyst, Evercore ISI

Great. And then second, on the Stores business, what percentage of the orders are you now taking via e-commerce, whether it be the app or website as opposed to just I guess the phone or a walk-in order? And are there any products that your customers, especially new accounts, are asking that you add to the assortment in this environment where you can really leverage the stores network?

Q

John George Morikis

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

Regarding the online, I would say this, Greg, it's a growing – it's a high percentage growth, but it's relatively low overall. So while we're excited with the percentage, it's off of a relatively low base as we're really now getting behind this. We expect that to continue and we're going to come out of this better as a result of it. As far as

A

products that our customers are asking for, yeah, there's some and we're looking into them. We'd like for you to find them on our shelf before we talk about them.

Gregory Scott Melich

Analyst, Evercore ISI

Okay. Sounds good. Good luck, guys. Thanks.

John George Morikis

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

Thank you, Greg. Stay safe.

Operator: Thank you. Our next question is from Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Thanks very much. Are the social distancing practices of Sherwin-Williams uniform across its store network or are they different in different states? And how do you expect them to evolve from now to the end of the year? Will the state set your guidelines or will you set them?

David B. Sewell

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

Hi. This is David. Thanks for the question. We have some standard protocols that we follow for social distancing. As our stores come back, the team has done a phenomenal job. There will be details on floors. We'll be guiding walkways. So it's a little different dynamic than say, at our manufacturing plant where Joel Baxter and his team has done a great job ensuring strong social distancing practices. We follow CDC guidelines at a minimum. We have some healthcare professionals that we consult with as well so we take that very seriously and we try to go above and beyond everywhere we can.

**Jeffrey J.
Zekauskas**

*Analyst, JPMorgan
Securities LLC*

Okay. When you think about the next year or two in terms of the value of paint, we're going to go through a period where raw materials are going to come down quite a lot. The consumer's going to be distressed. The contractor market is going to be much looser. Now, Sherwin really likes to price for value as do many coatings companies. Do you think we're going to go through more of a deflationary period in terms of product pricing in paint with raw materials coming down and the margins being good? Or do you think we're going to have more of a continuation of the pattern before the recession where there would be intermittent general price increases as a base case?

John George Morikis

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

Yeah. Jeff, I think an important element to keep in mind is the cost structure of a contractor. When you mention the Sherwin stores, 90% of the cost of goods for a painting contractor is labor. And so, our focus is on driving the efficiency and productivity and profitability of that customer through innovative products and services. And we'll continue to invest in areas that will help them to do that. And we believe in turn, our position with that customer

improves. It improves from a royalty usage and acceptance standpoint. And so, not our intent – we know we have to be competitive in the marketplace at the price of entry, if you will, into the market. We'll continue to ensure that we're competitive, but we'll also be making those investments we think that will help justify the price that we're charging our customers.

David B. Sewell*President & Chief Operating Officer, The Sherwin-Williams Co.*

A

Yeah, Jeff, I think that's a very important point is continuing to invest in that innovation and making the painting contractor more effective where they can get more jobs done, the same number of people makes it paint such a small portion of their costs. But I would point to 2010, 2011 and 2012, when we saw the big run-up in costs, raw material costs, and they rolled over and we by and large held our price 2013 through 2016 and we saw a nice improvement in our gross margin. But you can only do that if you're continuing to invest in products, in services, that are going to continue to help the painting contractors make more money.

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

A

Yeah, you can't offer commodity, products and services and ask for specialty store margins or pricing.

Jeffrey J. Zekauskas*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you so much.

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

A

Thank you, Jeff. Stay safe.

Operator: Thank you. Our next question is from Christopher Perrella with Bloomberg Intelligence. Please proceed with your question.

Christopher Perrella*Analyst, Bloomberg LP (Research)*

Q

Hi Good afternoon. A quick question on inventory levels with the rapid drop in demand and naturally you guys building into the spring for robust business. I think AI touched on this a little bit. Where are your material standing? And what, to the best of your estimate, is the working capital impact in second quarter?

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

A

Yeah, so, Chris, we, I think, did a very good job of managing our inventory. And I would just say that raw material inventory is a much smaller part of our overall inventory. But we did a much better job, a very good job of managing inventory down where we saw weakness in demand. And that helped contribute to the \$151 million improvement we saw in working capital in our first quarter. I think you're going to – and we do and did build architectural inventory to what we had planned coming into this season.

As we're seeing a little bit softer – or we're seeing softer sales in our TAG group, we're still seeing, like we talked about, that unprecedented increase in the DIY through the Home Center channels. So you've seen a switch. And I talked about it earlier about our global supply chain. I mean, we're building and producing every gallon we can.

And we're continuing to look and work with our customers on getting the right products made, getting the right products in inventory and to the store shelves, both in our stores and with our retail partners.

So it definitely varies. Packaging, we're building inventory as much as we can across all the regions because we continue to see strong demand. But I can assure you, we'll continue to manage our inventories lower. And we've done a lot of different things. We've cut – we have more communication between the selling organization and our supply chain. We've cut batch sizes. We've cut safety stock. We've gone to more of a make-and-ship model in some cases versus make-to-stock. So there are a lot of levers that we've pulled and we'll continue to pull as demand environment unfolds.

Christopher Perrella

Analyst, Bloomberg LP (Research)

Q

All right. And one quick one. With the sales guidance for 2Q, is there any implied channel drawdown in your performance business or is that all basically straight volume out of your factory to the customer?

John George Morikis

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

A

It's all volume out of the factory. Again, I think in those markets, in particular, the team has done a nice job driving inventory down. So it's just more out of the factories.

Christopher Perrella

Analyst, Bloomberg LP (Research)

Q

All right. Thank you very much.

John George Morikis

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

A

Thanks, Chris.

Operator: Thank you. It appears we have no additional questions at this time. I would like to pass the floor back over to management for any additional concluding comments.

Jim Jaye

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

Thank you, Jessie. This is Jim Jaye. I just wanted to thank everyone for their questions and interest today. And I hope it came through very clearly on our confidence and determination to manage through this crisis near term as we go forward. Before we sign off today, I did want to do a housekeeping note to all of you. We will be postponing our annual financial community presentation, which was scheduled for June 3 in New York City this year. It's our intent to reschedule that event, hopefully later this year. Don't have that date yet. But as we have details, we'll let you know whether that's going to be a virtual presentation or not. So, thank you. As always, I along with my colleague, Eric Swanson, will be available for follow ups. And please contact Natalie Darr in our office to be added to the queue. And thank you. Have a great day.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Once again, we thank you for your participation, and you may disconnect your lines at this time.

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