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# The Sherwin-Williams Co. (SHW)

Analyst Meeting

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## MANAGEMENT DISCUSSION SECTION

### James R. Jaye

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

Welcome to The Sherwin-Williams virtual Financial Community Presentation. My name is Jim Jaye, and I'm Senior Vice President of Investor Relations and Corporate Communications. Thank you for taking the time to join us today.

We're very encouraged by the progress we are seeing in overcoming the COVID-19 pandemic. Vaccinations continue to roll out across the globe and over the last few weeks, we've had more and more employees returning to the office at our headquarters in Cleveland. This is really good news. However, given our planning lead time and out of an abundance of caution, we made the decision to make our event virtual again this year. It's my sincere hope that this will be the last time we'll have to do this event virtually. And speaking on behalf of our team, we look forward to potentially seeing many of you in person later this year.

While we can't be together in our traditional format today, we still have an excellent program for you. Here's a quick snapshot of today's activity. You'll hear from multiple members of our leadership team. We're excited by the many profitable growth opportunities ahead of us. We're confident in our solutions-based approach to meeting customer needs, and we have the very best team in the industry executing at a high level every day. Following our prepared presentations, we'll conclude the day with a moderated Q&A session. The presentation slides will be available on our website following today's webcast.

Before we begin, I'd like to point out our cautionary statement regarding forward-looking information. I'd ask that you familiarize yourself with the language, the terms, and the limitations on this slide as they do pertain to information that we're going to cover today. As always, I, along with Eric Swanson, our Vice President of Investor Relations, will be available for your follow-up questions.

I'd also like to recognize two people without whom this event would not be possible: [ph] Mandy Paulovich (00:02:26) for her outstanding work in developing the slides that you'll see today; and Natalie Darr, our Admin Extraordinaire. Thank you, both, for everything that you do.

We'd like to begin today with a coatings industry overview, including a snapshot of some key industry data and trends. Based on the scale of our US architectural business, it's important to understand this side of the industry in more detail, along with some of the more relevant demand drivers. It's not an exact science, but based on multiple sources and our own market intelligence, we believe US architectural paint volume was about 858 million gallons in 2020, representing low-single digit growth over 2019. 2020 marked another year of Sherwin-Williams outgrowing the market.

Looking at this chart on the left, you might conclude that the industry has exceeded its previous peak and that volume growth might be at the end of the cycle. We disagree. Why? If we look at the chart on the right with US building stock data, we believe square footage has increased by approximately 19% since the last peak in 2004. In sum, there's a lot more out there to repaint today than there was at the prior peak. But the fact is, we see great opportunities in all of our architectural segments.

Again, based on various sources and our own intelligence, here's a view of the industry by segment. The strength of Sherwin-Williams is that we are well-positioned in all of these segments. We've deliberately structured the

company so we can capitalize on changing market conditions. Last year's pivot to surging DIY demand is a great example. We're in a great spot this year as commercial and property management demand begins to return and residential repaint and new residential both continue to be very strong.

This slide is a good summary of where we think we are right now. In new residential, starts are strong and customers are bullish. Strong household formations bode well for the future. In residential repaint, exterior and interior projects are strong. Consumers are increasingly comfortable with having contractors in their homes again. Long-term drivers and demographics are favorable.

In commercial construction, resumption of projects started prior to the pandemic is gaining momentum. Painting of those projects should pick up as the year goes on. The pace of new starts remains choppy and is below pre-pandemic levels, but it's generally trending better sequentially. In property management, apartment turns are improving. Vaccination rates, loosening restrictions and resumption of travel should aid activity related to hotels, restaurants and other facilities.

And in DIY, we're now comparing to the unprecedented growth we saw a year ago. The good news is that we're still tracking above 2019 levels. As heightened nesting gives way to a return to normal, we expect this market to revert to a more sustainable low-single digit growth rate.

Let's take a deeper look at some of the drivers. We'd like to say you can't repeal the laws of demographics. And when we look at the US, we see a demographic tailwind that should drive demand for years to come. Baby boomers are aging in place and remodeling. Gen X and millennials are moving up or buying their first homes and engaging in professional repaint or DIY projects. And waiting in the wings is the largest generation in US history, Gen Z.

Here's the recent dynamic on new residential. As we've said before, new residential painting typically starts 90 to 120 days after a start. Following a brief pause related to the onset of the pandemic, starts have been robust. Many of our customers are reporting record order rates and very favorable mortgage rates are also an incentive.

If you remember last year, we were frequently asked about a potential air pocket or gap in painting projects following the pause in starts. We have not seen this. Our new residential business has had strong growth since the third quarter of last year. This includes double-digit growth in the first quarter of 2021 against a high-single digit comparison in the prior year.

In addition to the current strength, the long-term drivers we've often spoken about remain intact. Demand is not the issue. Sustained household formation underpins housing demand and household formation looks to remain very solid for the next several years. 72 million millennials now ages 24 to 40 are forming households, becoming first-time homebuyers and driving demand for entry-level homes. The issue is housing supply. We've gone from a significant housing surplus prior to the Great Recession to a significant housing deficit today. Vacancies have largely been absorbed during that time. The bottom line remains unchanged from what we have been saying for several years, we need to build more housing in this country.

Residential repaint is the largest business in our TAG portfolio. It's also where we believe we still have the most opportunity even after five consecutive years of double-digit growth. After a one quarter pause due to COVID, our residential repaint business has grown strong double digits the last three quarters, including more than 20% the last two quarters. Exterior and interior projects are both strong. Harvard's leading indicator of remodeling activity has gained momentum and is projected to be positive well into next year. As you know, painting a room in a home

is easy, impactful and affordable. We believe paint is even more resilient than what is shown on this chart which also contains larger, more expensive remodeling projects.

A traditional driver for repaint activity has been existing home sales. The current homeowner refreshes their home with new paint prior to the sale and then the new homeowner repaints it to make it their own. After a short COVID-related pause, existing home sale activity has been very robust. Demand is so high that available inventory has become extremely tight. This has caused some homeowners to pause moving until the market cools. They're opting instead to repaint right where they are.

Other factors driving repaint are intact. America's homes are getting older and are in need of maintenance. The median age of the nation's 137 million homes is 40 years and 54% were built prior to 1980. Home price appreciation also gives homeowners confidence to remodel and repaint. Since the 2012 timeframe home values have continued to increase. This gives homeowners confidence to invest in repairs, renovations and remodeling. This trend has stayed strong right through the pandemic.

We also continue to see the trend of baby boomers aging in place and renovating. Many of these projects will require paint. Will people hire contractors for painting or will they do it themselves? In 2020, we saw DIY grow as a percent of the total for the first time since the Great Recession. This was driven by consumers nesting during the pandemic and taking on DIY projects.

If we look back to the Great Recession, we saw a similar pattern where DIY expanded for a relatively short period of time. But over the long term, the trend reverted back to do-it-for-me. We believe we'll see the same dynamic this time. Do-it-for-me will be driven by aging demographics, home price appreciation, dual-income families, stock market wealth, and aging housing stock. Millennials have also shown tendencies towards do-it-for-me. The good news is that Sherwin-Williams is well positioned to serve the market, no matter which way the trend may go, either through our stores or our retail partners.

Moving away from residential, I'd like to make some comments on the commercial construction side of the business. Here's the recent dynamic on new commercial construction. The industry saw strong starts activity in late 2019 and early 2020 before the pandemic. As we've said before, new commercial painting typically starts 12 to 18 months after a project starts. Given this dynamic and also accounting for a complete pause in many projects due to COVID, we should be seeing these projects reach the painting and completion phase throughout the rest of 2021 and into 2022. We are seeing improvement in these projects, though the pace of recovery remains choppy.

Since last summer, the pace of new projects being started remains down year-over-year, though we are seeing sequential, albeit choppy, improvement. It's too early to tell if there's a permanent shift from urban commercial construction to residential suburban construction. The good news is that commercial indicators continue to move in the right direction. The Architectural Billings Index is an indicator of future commercial construction activity. The index has reached strong expansion levels not seen since prior to the Great Recession.

To my earlier point, the strength of our model is that Sherwin-Williams has excellent positions in all of its architectural end markets. This should let us manage through demand dynamics better than our competitors. Our share of wallet and new account initiatives should also allow us to manage through short-term fluctuations in any given area.

In addition to new commercial projects, we feel good about maintenance opportunities. According to the Census Bureau, about \$3 trillion of commercial construction has been put in place since the last recession. Many property

maintenance activities simply stopped during COVID. This work cannot be delayed forever. We're starting to see some momentum here driven by increasing vaccination rates, loosening state restrictions, improving apartment turnover and a return to travel. I'll remind you that we currently enjoy exclusive relationships with a very high percentage of the top 20 property maintenance contractors.

Let me now turn to industrial and special purpose coatings, which make up about 60% of the global coatings market. These are great opportunities for Sherwin-Williams. We believe we operate in the right industrial segments, the ones where we can differentiate ourselves from others and make the kinds of returns our shareholders expect. We seek to avoid more commoditized segments such as automotive OEM where the lowest common denominator is often price.

Portions of the industrial coatings market were hit particularly hard by the pandemic. The good news here is that we are seeing strong recovery in all regions over the last several months. While the Purchasing Managers Index is not a perfect correlation with our business, it does give us directional context. As a reminder, a PMI reading above 50 indicates expansion of activity and a reading below 50 indicates contraction. In April, the US and Europe were at their highest levels since data collection began.

Let me take you through the trends we are seeing in our industrial businesses. In industrial wood, new residential construction continues to drive robust demand for kitchen cabinetry, flooring, molding and furniture applications. We're also seeing heightened consumer interest in customized finishes and colors for wood products. Industry disruptions related to many producers transitioning from China to Southeast Asia also are now largely behind us. In general industrial, we had high-teens growth in our first quarter. Sales have been strong within heavy equipment, building products, containers and general finishing. And while there's some element of inventory restocking in these numbers, growing end market demand is the larger driver given what our customers are telling us and the recent PMI data I just mentioned.

Our packaging business grew right through the worst of the pandemic and this market continues to show great strength. Robust demand is expected to continue due to shifts from plastic, growth in new categories and shifts to non-BPA coatings. Our customers are investing in capacity expansion and so are we. Our coil business also delivered a strong growth year in 2020. It is poised for more of the same this year. Appliances, HVAC, residential and commercial construction are all showing momentum. This division has also done a fantastic job of winning new business in multiple regions through a combination of innovation and service.

In auto refinish, miles driven, traffic congestion, and gasoline consumption are among several metrics we track closely. All of these are improving sequentially, but they are still not back to pre-COVID levels. We've had a large number of new product and system installations in North America as well. This is a good indicator of momentum and should support growth going forward.

Demand in protective and marine has improved sequentially for the last three quarters. Industry forecasts expect a rebound in non-building projects starts this year and comps are favorable. We expect delayed maintenance projects in the oil and gas industry to gain momentum as the year goes on. We're also focused on other end markets in this business, such as water and wastewater treatment, food and beverage plants, and flooring. And obviously, we would welcome some positive resolution to the US infrastructure bill.

I'll close out my remarks with a quick update on the raw material environment. In an already challenged supply chain due to COVID-19, the February natural disaster in Texas further impacted the complex petrochemical network, causing significant disruptions. These production disruptions, coupled with the surging architectural and industrial demand we are seeing, have pressured supply and rapidly driven commodity prices upward. Recovery

has been significant in recent weeks and it's improving, but it is still incomplete. As we communicated on our quarterly call, we expect raw material inflation for the year for the industry basket of raw materials to be in the high-single digit to low-double digit range.

This slide illustrates our best estimates for the various commodities within the industry basket. We anticipate some moderation of costs in the back half of the year, though they will still be elevated year-over-year. As we've previously described, there is a lag of about a quarter from the time we see inflation in commodities to the time we see the impact in our results. Given this timing, we expect raw material inflation in our second quarter will be the highest of the year. The pace at which capacity comes back online and supply becomes more robust remains uncertain.

We've been highly proactive in managing the supply chain disruptions to minimize the impact on our customers. We expect to be in a similar mode throughout the summer months, as reduced raw material availability resulted in lower than anticipated inventory build during our first quarter. Our close working relationships with customers and the strength of our global supply chain give us great confidence in managing through the challenges we are facing.

We've also been highly proactive in our pricing actions to offset the raw material inflation we're seeing. We've issued price increases in all three of our operating segments. As we described during our quarterly call in April, we likely will need to take further pricing actions if raw material costs remain at these elevated levels. Our Chief Financial Officer, Al Mistysyn, will be talking about further pricing actions during his presentation later today.

We are fully committed to combating rising raw material costs. We also recognize that the timing of price realization will likely result in some near-term margin pressure. As we've said many times, our goal in managing these situations is to adjust pricing, continue to demonstrate the value we provide and keep the customer over the long term. As raw material costs eventually moderate, our margins typically recover and expand over time.

And that wraps up our overview of the industry and demand environment. I would sum it up by saying we're seeing sequential recovery and year-over-year growth in nearly all of our pro architectural and industrial businesses. We're growing with current customers and we're aggressively seeking to win business with new customers, and we're highly confident in managing through challenges in the raw material supply chain.

And now, it's my pleasure to turn it over to John Morikis, our Chairman, President and CEO, to provide an overview of the customer-driven solutions approach we take throughout the company.

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## John George Morikis

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

Thank you, Jim, and good afternoon, everyone. I'm excited to be here with you today. In fact, I believe it is one of the most exciting times for Sherwin-Williams in the 36 years I've been with the company. As we continue to emerge from the pandemic, we are extremely well-positioned. We have tremendous opportunities for continued long-term growth and margin expansion across each of our global businesses. Our people are energized and they are on offense.

If we look back for a moment, 2020 was a remarkable year for our company. We delivered record performance across many measures, including sales, EBITDA, net operating cash, net income and net income per share. At the same time, we continued to make investments in the business as many of our competitors pulled back. As a result, I think of the company as a coiled spring right now, poised for significant above-market growth just as we

saw coming out of the Great Recession. We've been seeing strong trends now about halfway into 2021 and we're confident in delivering another very strong year of results.

I'd like to start with a slide that highlights the scope and scale of our company. Sherwin-Williams is a global leader in the manufacture, development, distribution and sale of paint, coatings and related products to professional, industrial, commercial, and retail customers. In 2020, we generated revenues of \$18.4 billion. We operate in over 120 countries through more than 4,700 company-owned stores and we have over 61,000 talented and dedicated employees.

We operate in three global segments: The Americas Group, our Consumer Brands Group, and our Performance Coatings Group. These groups provide our customers with innovative solutions which ensure their success no matter where they work or what surfaces they are coating. The success of each of these segments is supported by a highly efficient global supply chain where our scale allows us to leverage our expertise, drive synergy, and deliver world-class service, innovation and efficiencies.

While our format is a little different this year and our group presidents are not presenting, I would like to spend a few minutes on the incredible opportunities ahead in each of our reportable segments. Even though each of these businesses has a long track record of success, I'm convinced that in many ways we're just getting started. With \$10.3 billion in sales in 2020 and a high-single digit average growth rate over the last 10 years, some investors might be wondering if The Americas Group is reaching the end of an incredible run. Nothing could be further from the truth. As I mentioned, we're just getting started here. We have distinct product and service offerings that meet the unique customer needs in each of our market segments. And under the leadership of our Group President, Heidi Petz, TAG will continue to be the growth engine of the company.

We expect growth that continues to outpace the market driven by ongoing trends described earlier today. We continue to develop innovative products that make customers more productive. We're not even close to market saturation in terms of stores. We see a pathway to add 80 to 100 new stores annually for many years to come. We have a huge runway in terms of share of wallet and new account growth activity. We have a robust digital experience for our customers and we're investing to make it even stronger. We continue to add talent every year through our management trainee program and we have numerous continuous improvement and margin enhancement opportunities. I can't wait to see where Heidi and her team take this business.

The Consumer Brands Group is coming off a terrific year in 2020, and I couldn't be more proud of how this team supported our partners during the pandemic. We've indicated 2021 will be a bit of a challenge from a comps perspective, but we continue to feel great about this business over the long term. We have an excellent leader at the helm here in Brian Padden, who has 27 years of experience in our organization. We're positioned well in this business and have high expectations going forward.

We're aligned with the right retail partners who share the same aggressive growth goals as we do. We have a highly recognizable portfolio of hero brands that will continue to attract consumers. We expect to continue growing our DIY business over time, especially with consumers that may have experienced our products for the first time during the pandemic. We have a focused effort on growing the Pros Who Paint who prefer the big box channel, and we have great opportunities for international growth and profitability improvement.

The Performance Coatings Group is a collection of high quality and differentiated businesses and it's off to a great start in 2021. Justin Binns, with over 20 years of Sherwin-Williams service, is leading this business with energy and clarity of mission. We have multiple businesses levers to a global economic recovery. We have many share of wallet and new account opportunities. We continue to accelerate innovation by leveraging the combination of

Sherwin-Williams and Valspar technology. We can further leverage our global blending facilities to offer differentiated solutions to a wider range of medium and small customers. We have significant optimization opportunities in Europe and Asia and we can further reduce SKUs and complexity throughout the group.

We are not backing off our target of expanding margins to the high-teens, low-20s level. We also believe the industrial space offers numerous high quality bolt-on acquisition opportunities for us. We're focused on adding differentiated businesses that will add to our momentum in which we can leverage across our existing platforms. The diversity of our reportable segments is a strength. I like to think of our company as being built to thrive. By this I mean, we've consciously designed the company to grow and perform in a wide variety of economic environments. In 2020, you saw the defensive nature of our company. Our positions in DIY, residential repaint and packaging enabled us to deliver record consolidated results, even as other parts of the business were under significant pressure.

This year, we'd be better categorized as a growth stock. As the economy recovers, we're seeing significant growth in general industrial and industrial wood with commercial construction, property management and protective and marine also gaining momentum. Residential repaint, new residential, coil and automotive refinish are also showing strength. Whichever way the proverbial table may tilt, Sherwin-Williams will be there finding opportunity, serving customers and delivering value to our shareholders.

Underlying our business is a clear corporate purpose. We inspire and improve the world by coloring and protecting what matters. How do we do it? With a solutions mindset. We're geared toward solving our customers' toughest problems. Who do we benefit? We take a holistic view and seek to create benefits for key stakeholders. This includes customers, employees, communities and you, our shareholders. How do we act? Every day we operate with Sherwin-Williams timeless values. And finally, how do we measure? Sherwin-Williams has a culture of accountability. We count on people to do what they say they will do. Our core metrics for driving shareholder value have remained unchanged: driving sales growth, improving return on sales, driving return on net assets employed, and driving cash generation.

And while we've always been a company that does business the right way, we've elevated our commitment to driving sustainability, inclusion, diversity and equity, and community engagement. Let me spend just a moment on the top line of this chart because I believe it is so important to our success, and that's our solutions mindset.

Sherwin-Williams takes a customer-centric approach, and our core commitment is to provide solutions. It's pretty simple. We want to solve our customers' most difficult challenges. We want to help them grow and be more profitable, and when they win, we win. This core commitment is why we are so confident in our future.

Improving customer productivity is a relentless focus across our commercial, R&D, and technical service teams. Our customers are under continuous pressure to get more out of their labor and to maximize throughput. Sherwin-Williams is there with the solution. It's not about the lowest price per gallon, it's about reducing the customers' total applied cost.

Our customers have come to expect innovative products from Sherwin-Williams, and we continue to deliver. We ranked highest in all four customer satisfaction segments in J.D. Power's 2020 Paint Satisfaction Study: interior paint, exterior paint, exterior stain, and paint retailer. Innovative products help our customers be more productive at what they're trying to do. From maintenance and durability, to color and visual appearance, to sustainability, we bring solutions.

I'm excited for you to hear much more about our approach to innovation later today. We provide a premiere level of service that is tailored to each specific customer's needs. This allows us to create the right experience whether it's for a small independent residential repaint contractor or the largest global OEM: convenience store locations, highly knowledgeable store employees, specialized field sales reps, targeted training, robust digital capabilities, job site deliveries, technical support, blending facilities. The list goes on and on.

We're committed to service that helps our customers be more productive. We have the distribution model and platforms to reach, meet and exceed our customers' needs. This model includes more than 4,700 paint stores, approximately 300 industrial blending facilities providing customization and just in time delivery, logistically positioned close to our customers, several thousand strategic channel partner locations and nearly 140 manufacturing and distribution centers around the world. And we connect all of this with the largest company owned fleet in the industry including over 700 tractors and over 2,100 trailers and 3,000 delivery vehicles. Needless to say, we can serve our customers when and where they need us.

Throughout our company's history, we've faced challenges. Whenever these challenges arrive, we use this solutions mindset to solve the problem at hand. Last year, for example, we talked at length about COVID-19. We moved quickly from defense to offense to help our customers in ways competitors would not or could not. This year, we're responding to yet another major challenge. We've previously described the severe impact Winter Storm Uri has had on the petrochemical supply chain network. We're bringing all of our assets to bear to minimize disruptions to our customers in a unique and differentiated way. We want them on the job with the paint and supplies they need, completing their projects. We want to be the solution partner they turn to in times of crisis.

We see these challenges as opportunities to further differentiate ourselves in the marketplace and to further integrate ourselves with our customers. But above all, our solutions begin with our people. We have the best team in the industry. A great example of how we continually build our team year after year is through our innovative management trainee program. The program began nearly 40 years ago and, as you can see, it has had a major positive impact on our company. Six of our current group and division presidents and 26 vice presidents have gone through this program, and I'm proud to say that I also began my career in this program.

Our culture is a strong one and it contributes to people staying. We provide a path for career development, promotion and personal wealth building. Our employees are our single largest shareholder. Our average voluntary turnover for the company is in the 7% to 8% range, it's even lower for our store managers and sales reps, who are closest to the customer. These types of retention numbers are largely unheard of for a business with such a large retail component. We think it speaks volumes about the kind of company we continue to build every day.

I mentioned some of our group presidents earlier, and I'd like to recognize our entire executive leadership team which is deep and experienced. This team has seen recessions, natural disasters, pandemics, and many other challenges over the years. Again and again, this team refuses to waver, stands together and leans forward. I'm highly confident in this group's collective ability to drive us forward, and you should be too.

Having just had our group presidents present to you in September of last year, we thought we'd take a different approach this year and let you hear from some other terrific leaders in our company. At every level of our organization, we're focused on solutions, continuous improvement, and differentiating ourselves from our competitors. Chris Piazza and Steve Revnew are going to highlight our innovation efforts on both the industrial and architectural sides of our business. Bob Israel and Yentil Rawlinson are going to take you through highlights of our ongoing ESG efforts. I know you'll find their presentations highly informative. And Al Mistysyn, who you've all heard many times in the past, will conclude with a financial update. The entire team, including our business

group presidents, will be available for the Q&A session following the formal presentations. Thank you for your attention this afternoon and thank you for your trust in Sherwin-Williams.

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## Steve Revnew

*Senior Marketing Vice President, Product Innovation-The Americas Group, The Sherwin-Williams Co.*

Good afternoon. I am Steve Revnew, the Senior Vice President of Product Innovation in The Americas Group. I have been with Sherwin-Williams for 33 years. Through the course of my career, I have worked in R&D, sales; and for the past 20 years, I have focused on innovation.

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## Chris Piazza

*Senior Vice President, Research & Development-Performance Coatings Group, The Sherwin-Williams Co.*

And I'm Chris Piazza, the Senior Vice President of Research and Development for our Performance Coatings Group. I have almost 30 years of experience in color and technology, and I've been with Sherwin-Williams for almost seven years. I have experience in all facets of business from R&D to manufacturing, to sales and marketing, and P&L leadership. Today, we're excited to share Sherwin-Williams' approach to customer inspired innovation and technology-driven solutions. We'll highlight our R&D capabilities, how we keep the customer at the center of everything we do, and some of our more recent product innovations. We believe our technology at Sherwin-Williams is a differentiator in the marketplace and key to our sustained growth.

Let me begin by touching on our 150-plus year legacy of innovation at Sherwin-Williams. Innovation is in our DNA. It's at the core of what we do. It's how we help our customers be more successful because when our customers are successful, we are successful.

Two of our earliest innovations revolutionized the paint industry. The first ready-mixed paint and the resealable can both made it easier to paint and allowed our customers to get jobs done more quickly and conveniently. We continued to improve our customers' efficiencies by introducing the first water-based paint. This made cleanup easier. We also introduced the roller-coater which made application less complex and more productive. We always focus on color and the Kem Colormeter made it easier to tint and mix color.

More recently we introduced SuperPaint with our long-lasting durable exterior technology. This was the industry's first paint with a 10-year warranty. We continued to innovate, adding functional properties to our products such as odor eliminating technology and low-temperature application performance. You'll notice a key theme throughout our entire presentation, improving productivity for our customers.

[Video Presentation] (00:41:29-00:43:21)

We have an incredible team at Sherwin-Williams. Today, we have over 2,000 employees focused on research and development across the globe. These employees span our architectural and industrial businesses. They're close to our commercial organizations and deeply embedded near our customers. Together, these employees have a collective 22,000 years of Sherwin-Williams experience. The average tenure of these employees is over 10 years.

We're also incredibly proud of our deep portfolio of patented technology. As of today, we have 1,962 active global patents. Today, we have a global footprint for both our architectural and industrial research and development teams. We have labs and support locations worldwide that are located close to our customers and business units. This proximity to our customers enables us to quickly bring innovative solutions to the market. These smaller locations are complementary to our global R&D center headquartered in Cleveland, Ohio.

Our global R&D teams focus on nine key areas to drive innovation. Our innovation begins with an emphasis on material and polymer science. We leverage the core expertise and knowledge in these focus areas to deliver differentiated, high-performance product solutions to our customers. Leveraging this technology on a global scale helps us to continuously innovate as we learn more about customer needs and market trends.

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## Steve Revnew

*Senior Marketing Vice President, Product Innovation-The Americas Group, The Sherwin-Williams Co.*

Our relentless focus on innovation has been key to our growth and the customer is at the center of everything we do. We work tirelessly to understand their needs. Our approach leverages all of our assets to gain deep insights into our customers' challenges. For example, in The Americas Group, we have over 3,500 sales reps and technical product managers out in the field at customer jobsites, understanding their pain points and working with them to grow their business. We gain additional insights from customer interactions in our 4,700 plus stores every day. We leverage this unique and differentiated capability as frequently as possible.

In our Industrial businesses, we have technical reps embedded at our customers' manufacturing facilities. We seek to understand the entirety of their processes, driving throughput, increasing efficiency and reducing waste. We continuously bring these customer insights to chemists and engineers across our global R&D facilities. This combination of customer intimacy and technical expertise is unique and provides innovative solutions to our customers' biggest challenges, a marked difference from pursuing commodity businesses. Our solutions move the needle for our customers.

As we continue to listen and partner with our customers, we use these insights to help us identify key areas where we have the opportunities to solve their problems. The opportunity territories on this slide are informed by the key global megatrends and customer insights. Each of these provides unique value and custom solutions to our customers in all market segments. The disciplined use of these territories provides us with knowledge and technology that are leveraged across the entire organization. For example, within maintenance and durability, we look at products that offer improved durability and less corrosion, while being able to withstand extreme weather conditions.

In visual appearance and visualization, we focus on unique appearances of our products and differentiated color solutions. We also evaluate areas in the painting process that help our customers improve productivity and profitability by making application more efficient and easier. And finally, sustainability is a major focus of ours as we develop products and technologies that are more environmentally responsible and reduce energy consumption. You'll hear more about our sustainably advantaged products later in today's presentation.

We take the insights we learn from our customers and put them into a very disciplined stage-gate process. The process begins and ends with customers in mind. It starts with a concept that aligns customer insights with technology possibilities and finishes the development process with the potential commercialization of customer-driven innovation.

This disciplined approach enables us to maximize every R&D dollar spent by making quicker and more informed decisions. We're able to weed out bad ideas sooner and get more winners to the end of the pipeline. We spend less and have more success. We serve a wide range of customer segments in the architectural coatings market. These include do-it-yourself, commercial, new residential, property management, residential repaint, architects and designers, and national accounts. Each of these customer segments have unique needs and challenges. The products and services needed by a pro customer are dramatically different than those of a homeowner or that of an architect or a designer.

Our process is proven over time and has led to a continuous stream of innovative products that solve needs in each of these segments. For more than a decade, we've had double-digit annual new architectural product launches each year, all while continuing to rationalize our SKUs. This is a pace that continues to add to our profitable growth, while further differentiating us from our competitors.

For example, we continue to add new innovations to our premium Emerald product line. Last year, we added Emerald Rain Refresh, which is formulated to be self-cleaning by shedding dirt upon rain or water contact, thereby keeping exterior surfaces clean. We also added our Emerald Designer Edition Paint, which combines the luxury of a smooth, uniform finish with our [indiscernible] (00:49:58). Additionally, it provides designers 200 brand new colors, including brighter, cleaner whites exclusive to this paint line. Our finest interior paint and primer in one is the perfect choice for giving walls a virtually flawless appearance.

Now, let me talk about some of the most recent exciting new products we've announced this year. These products on this slide are in response to our customers' increasing demands for more sustainable, healthy and clean environments. Our SuperPaint, with air purifying technology, improves indoor air quality by reducing VOCs and it inhibits the growth of mold and mildew on painted surfaces. Our SuperPaint, with sanitizing technology, keeps walls sanitized 24/7 and provides lasting antibacterial action.

We're also very excited about Latitude, with ClimateFlex technology which was just launched this month. Latitude improves productivity for our customers. It's ClimateFlex technology provides ease of application in hot and cold environments, along with resistance to early moisture. These key productivity improving properties deliver smooth uniform finishes and the protection from late afternoon dew or rain in a single product. Given continued labor constraints, this product helps enhance our customers' productivity and improves their profitability.

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## Chris Piazza

*Senior Vice President, Research & Development-Performance Coatings Group, The Sherwin-Williams Co.*

Thanks, Steve. Just like in our Architectural business, our Industrial business follows a customer-led process that leads to a continuous stream of innovative products, solving customer problems and driving profitable growth. And like the Architectural business, we've had double-digit new Industrial product launches each year for more than a decade.

Now, I'll share just a few recent highlights. Ultra BC8 is a premium European design, solvent-borne automotive refinish system, featuring 65 toners. Color is absolutely critical for our automotive refinish customers. This line of products takes color and visual appearance to the next level, by pairing these toners with our primers and show quality clearers. Ultimately, this gives our customers a wider array of color possibilities. Similarly, our new FIRETEX FX products offers exceptional ultra-fast drying, passive fire protection of structural steelwork. Essentially, this product protects structural steel during a fire for up to 120 minutes. That's more time for occupants to safely exit the structure or remove the source of heat and extinguish the fire. In addition, the product is fast-drying, which improves the painting contractor's productivity. Powdura ECO powder coatings are a next-level approach to sustainability. This transformative product collection elevates powder coating sustainability to new heights. It provides customers a more eco-conscious solution to product protection, color and performance.

The innovation behind Powdura ECO powder coatings is extraordinary. Plastic waste converts into a durable, high-performing polyester resin that contains 25% pre-consumer recycled plastic. In other words, each pound of Powdura ECO coatings contains the equivalent of 16 16-ounce recycled plastic bottles and delivers the same performance as conventional polyester powder coatings.

Let me close out our recent industrial product innovations with a video about our new Fluropon coil coatings. This product offers best-in-class performance for metal wall panels and roofing. Fluropon coatings are available in unlimited colors and effects and are extremely durable to keep your design looking new for decades.

[Video Presentation] (00:54:24-00:56:29)

We're certainly not resting on our success. We know we have tough competitors and we're driven by the need to help our customers grow their business and get even better. So in addition to our current approach to innovation and technology, we are also investing in our future. We expect to break ground later this year on our new global R&D facility in Ohio. This facility will become a global center of excellence where we enable cross-functional teams to leverage knowledge and technology globally. This center also will help us retain and attract the very best talent, accelerate collaboration and innovation and help widen our competitive advantages.

At Sherwin-Williams, we look at innovation as a key profitable growth driver. We constantly stay on top of the trends, are in constant engagement with our customers to gain valuable insights to their challenges and keep a keen eye on emerging technology globally. By staying close to the customer and understanding their needs, we're able to leverage our world-class technology. We develop unique solutions that delight our customers. We differentiate ourselves from our competition. We generate profitable growth and we ultimately create shareholder value today and in the future.

And now, I'd like to introduce Bob Israel, who will take you through our ongoing sustainability journey at Sherwin-Williams. Bob?

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## Bob Israel

*Vice President, Global Sustainability, The Sherwin-Williams Co.*

Thank you, Chris and Steve, and good afternoon, everyone. As Chris mentioned, my name is Bob Israel and I am Vice President of Global Sustainability at Sherwin-Williams. I have a total of 37 years of industry experience, including the last 9 years at Valspar and Sherwin-Williams. I am currently a member of the SASB Standards Advisory Committee and Chair of the American Coatings Association Sustainability Committee.

We are excited to bring to you today some highlights of our sustainability efforts and even more excited to present the next phase of our journey. Sustainability is not new for Sherwin-Williams. It has always been top of mind for our company and goes hand-in-hand with building long-term sustainable shareholder value. Sustainability is reflected in our core values and deeply embedded in our culture and our business practices.

Our strategy is based on a holistic approach to continuous improvement in all we do; every business, every region, and every function. And as we know, sustainability makes good business sense, not as a separate thing, but when integrated in all we do.

We're proud of our track record and what we've accomplished, and here are some of our most recent achievements. We've reduced our carbon emissions by nearly 17% since 2017. Injuries to employees are down by nearly 50% since 2015. And I'll note injury rate in stores is 61% better than average for the retail industry. And the injury rate in our manufacturing facilities is 65% better than industry average.

Under our industry's Paint Care Recycling Program, Sherwin-Williams has collected 2.5 million gallons of paint over the last three years that otherwise would have gone to landfill or, worse yet, down the drain. We have pioneered the development of our industry-leading non-BPA epoxy coatings for the food and beverage packaging industry.

Our Powdura ECO powder coating is the first in the industry that uses recycled plastics as the powder coating resin. Each pound of Powdura ECO contains the equivalent of 16, 16-ounce plastic bottles that would otherwise have gone to trash. We've had exponential growth in the number of products with favorable lifecycle assessments and ECO-label certifications and we've had exponential growth in the number of products that help our customers achieve lead points toward their building certifications.

Over the last three years, we have re-imagined and strengthened our ESG governance process and structure. Ultimately, our board of directors has oversight of risk management and ESG policies, objectives and practices. I am a member of our Sustainability Steering Committee, a high-level cross-functional group of executive leaders that provides periodic updates to the CEO and board and ensures ESG is embedded throughout the organization.

The Steering Committee provides oversight to the Sustainability Council. Our Sustainability Council takes ESG to the grassroots of the organization. This is a talented team of subject matter experts focused on making recommendations for goals and then implementing and managing projects to meet them. Over the last few years, our strategy has been twofold: first, enhance disclosures in our reporting; and second, prepare for the next phase of goals in our journey.

First, let me address disclosure. Given the humble nature of our corporate culture, we historically have been fairly quiet about our approach to ESG. We simply have done what we know is right without a lot of fanfare. We've recognized that more recently, there is an increased interest among investors to hear more about what we're doing and we've taken those requests to heart. We are proud of the enhanced disclosures we've made. These disclosures include: our investor ESG summary, which summarizes key metrics and trends in easily digestible format. We've expanded our reporting under CDP. We began reporting under this SASB standards and increased visibility to our ESG governance structure and process.

To prepare for the next phase of our journey, we worked with a leading consultant to conduct a comprehensive materiality assessment. This assessment was completed in early 2020 and helped us gain insights on the most important sustainability topics for our internal and external stakeholders. As a result, we are focused on the following material topics: climate and footprint, product stewardship, lifecycle assessment, occupational health and safety and talent acquisition and employee engagement. The materiality assessment has also moved us to further enhance our sustainability disclosures and to develop our next-level targets and goals.

Today, I'm very excited to discuss our new framework for our new sustainability goals at Sherwin-Williams. The three pillars of our framework include: our environmental footprint, which focuses on our facilities, stores and fleet; our product blueprint, which focuses on chemicals, products and stewardship; and our social imprint, which focuses on health and safety, employee engagement, inclusion, diversity and equity and community involvement.

Let me begin with our environmental footprint. Here, you see the aggressive next-generation targets we are setting for the company. We have used science-based targets to put us on a path to do our part to keep global warming well below 2 degrees Celsius. Our specific goals focus on: reducing greenhouse gas emissions, increasing renewable energy, improving energy efficiency and reducing waste. These near-term goals will help put us in a position to consider a broader aspirational goal of net carbon zero by 2050.

Our future plans also call for development of a Climate Action Report utilizing the TCFD framework. We expect our 30% carbon reduction will be achieved through a combination of increasing renewable energy and improving our energy efficiency. We also commit to reducing waste by 25% by 2030.

Moving on to our product blueprint. We know our customers are looking for more sustainable solutions. We have led the industry in using lifecycle assessment in the development of our products and to show the sustainable value to our customers. For this reason, we are launching Sustainability by Design. This is a process that integrates sustainability attributes into the innovation and product development processes. Using this process, we expect to accelerate the growth of sustainable solutions across our business and continue developing world-class products with sustainable benefits to our customers.

We are also announcing that 30% of our portfolio today consists of sustainably advantaged products. These are products that need a third-party sustainability standard or can be shown through data to be significantly more sustainable than current technology. In the future, we plan to establish targets and increase this number.

While we continue our journey, we're proud of the deep portfolio of sustainably advantaged products we've already introduced. We believe it is one of the most sustainable portfolios in our industry. We have one of the largest portfolios of products which help our customers achieve certification under the US Green Building Council LEED program for green buildings. These products consist of low and zero VOC architectural products such as EcoSelect and Harmony, to name a few. Many of these products have been subject to environmental product declarations and lifecycle assessments.

Other examples on this slide include our AquaGuard shipping container coating. This is a water-based and zinc-free coating and offers better corrosion protection than traditional zinc-based products. And finally, Krylon Quik-Tap allows you to get more paint out of each can with easy disposal of empty cans in recycling our waste bins. This avoids the need for hazardous waste disposal for our customers.

Last, let me touch on our social imprint. Our main areas of focus include employee safety, community engagement and inclusion, diversity and equity. Again, social concerns are not new for us and we are proud of our long track record of doing things the right way. Our safety journey includes intentional focus on people, systems, tools and processes. Additionally, we have a talented team of field environmental, health and safety leaders and have expanded environmental health and safety ownership to the entire workforce from site leadership to manufacturing, distribution, fleet and stores.

Our Process Safety Management program standardizes EHS management and achieves sustainable performance, driving continuous improvement. We've also developed a risk-based EHS capital allocation process to fund and remedy the highest risks each year. We are also committed to occupational health by reducing ergonomic injuries. We deploy specific ergonomic interventions annually, including procedures, better floor plans and other intentional ways to support our employees. Like everything at Sherwin-Williams, we are committed to continuous improvement and safety. Since 2015, we have cut our recordable case rate nearly in half. We seek to achieve a 0.8 recordable case rate by 2025. This goal represents a 7% improvement year-over-year through 2025. Ultimately, to be clear, our goal is zero injuries. We've built an entire system of EHS standards, tools and training resources that will continue to drive our results.

Another area I'd like to touch on is community engagement, which takes shape in many ways at Sherwin-Williams, led by our employees. As a company, we look for ways to help the community at every turn, utilizing the devotion of our people and the performance of our products. As an example, US employees helped to strengthen their communities in 2020 by serving on more than 120 nonprofit boards. Employees provided financial support to more than 800 nonprofit organizations.

Additionally, each year, the Sherwin-Williams Foundation contributes to hundreds of organizations that are most important to our employees. The foundation is specifically committed to supporting access to safe and healthy

housing, advancing a skilled workforce that sustains inclusive, vibrant communities and beautifying and preserving assets around the world.

Perhaps no better example of our community engagement can be found in our response to COVID-19. We donated hundreds of thousands of masks, gloves, and other personal protective equipment. We manufactured and donated hand sanitizer to hospitals and other organizations across the United States. We provided hundreds of donations from our local paint stores to local first responders and we provided financial support to the Cleveland COVID-19 Rapid Response Fund. These are just a few examples of how we try to give back to the community.

And for the final piece of our social imprint, let me now turn it over to my colleague, Yentil Rawlinson who will lead us through our Inclusion, Diversity and Equity initiatives.

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## Yentil Rawlinson

*Vice President, Inclusion, Diversity & Equity, The Sherwin-Williams Co.*

Thank you, Bob, and good afternoon, everyone. My name is Yentil Rawlinson and I have the honor of serving as the Vice President of Inclusion, Diversity and Equity for The Sherwin-Williams Company. I'm excited to share the meaningful steps we've taken to enhance our social imprint through inclusion, diversity and equity. I've been in the diversity field for over 10 years and continue to be excited about the steps that create meaningful sustainable change in this field.

At Sherwin, we've been intentional at advancing this within our culture, company and family. While we have work to do, I'm excited to share the progress we continue to make on this journey. The importance of our people has long been a core value at Sherwin-Williams. As part of that core value, we recognize that inclusion, diversity and equity are part of what makes us stronger.

Our company is committed to advancing a culture of inclusion where differences are welcomed, appreciated and celebrated to positively impact our people and our business. This commitment is solidified through our key goals. Through our efforts, we seek to attract underrepresented groups into the talent pipeline by expanding our efforts with colleges, universities and professional associations. We seek to increase underrepresented groups in leadership roles through intentional talent planning efforts at all levels.

We also seek to drive employee engagement levels by building on our culture of inclusion and belonging to ensure that a diversity of thought and experience thrive and influence performance. To further demonstrate this commitment, each division is charged with developing an annual ID&E action plan that includes actions and metrics that support each of these goals.

Now, I'd like to share some key highlights from 2020 for each goal. To attract women and underrepresented racial and ethnic groups to Sherwin-Williams, we have been very intentional about developing a diverse pipeline by working with 44 colleges in the Hispanic Association of Colleges and Universities, partnering with 16 historically Black colleges and universities and hosting over 100 events with student organizations and professional associations, specifically targeted for underrepresented groups.

For example, we've hosted special student events featuring our Employee Resource Group leaders to help potential candidates understand that this is the kind of place you want to work, but more importantly, the kind of place where you want to build a career and progress. As a result, 40% of our management trainees identify as an underrepresented racial and ethnic group and one of three identify as women.

Our goal for talent progression is to increase women and underrepresented racial and ethnic groups in leadership roles. In 2020, 58% of newly appointed vice presidents were women and 21% were underrepresented racial and ethnic groups, which were significant increases from previous years. This photo shows an example of our strong history of focusing on engaging and advancing women. Our women's leadership event in 2019, keynoted by one of our female board members, had over 1,000 attendees. We're focused on engaging our employees, including women and other underrepresented groups, while educating our leaders and our workforce. We are proud of the over 100 chapters of our six Employee Resource Groups, including the African-American Network, Global Women's Network, and our efforts focused on LGBTQ+, military and veterans, Hispanic and LatinX and our multicultural networks.

These ERGs are crucial to developing our talent and increasing feelings of belonging for our workforce, while contributing to the communities we serve. For example, one of our African-American Network chapters organized a supply drive for the homeless, gathering toiletry donations at each of the region's 109 local stores. The Sherwin-Williams Women's Club raised \$70,000 through a virtual run which had over 800 global participants. Funds from the event were donated to Youth Challenge, an organization dedicated to helping young people with physical disabilities.

We also drive ID&E by supporting the communities we serve through donations to PCs for people and support of minority-owned businesses. This is a journey and we know we have work to do. At Sherwin, we are always focused on continuous improvement. So we've set aspirational goals given our current environment. We established these goals by studying our data and trends since 2016 and benchmarking against companies within our industry. By 2025, we seek to: increase women in management roles to 30% globally; increase underrepresented racial and ethnic groups in management roles to 30% in the US; we also set a goal for inclusion by leveraging the new Employee Engagement Survey that we will implement in the third quarter of this year. The new survey will allow us to establish and measure in inclusion index. By 2025, we seek to not only achieve, but to improve upon a favorable inclusion index. These goals are a starting point. Just like our financial metrics at Sherwin, when we reach a target, we raise the bar.

We seek to accomplish these goals by focusing on our key areas, what we call our building blocks. Our building blocks shape our overall approach to educate and communicate the business case, build the pipeline to attract the best talent, develop and engage talent through our employee resource groups and other initiatives and to progress talent. We educate and communicate the business case through our education and training on bias in simple ways to mitigate it daily. We fill the pipeline of talent by taking a deliberate approach to enhance the candidate experience and remove barriers for underrepresented groups.

Developing and engaging talent is where we create intentional pathways to leadership roles by providing professional development, networking, mentoring and exposure opportunities for our people, most notably through our Employee Resource Groups.

Our last building block is to progress talent. At the end of the day, we want our leadership teams to reflect the diversity of our communities, customers and workforce. So we are intentional about striving to incorporate inclusion and equity wins into our systems, tools and processes.

Our building blocks are built on a strong leadership commitment. This commitment is demonstrated through our CEO Action for Diversity and Inclusion where in 2018, Sherwin-Williams joined the coalition of more than 1,400 CEOs, pledging to take action to cultivate environments where diverse experiences and perspectives are welcomed and where employees feel comfortable and encouraged to discuss inclusion and diversity.

Our conscious inclusion, education and training sessions are designed to help leaders and employees be mindful of unconscious biases and provide them with practical actions they can take to create and lead more inclusive teams. This is an active area of focus for the company. And in 2020, at a minimum, 100% of our leaders were required to attend an ID&E learning session, focused on mitigating bias and leading with empathy. We ask each leader to lead with an inclusion mindset to be open, aware, intentional and brave.

Since 2018, CEO, John Morikis, and members of the executive team have hosted CEO forums on inclusion across our various US locations and virtually over the past year. The forums encourage open dialogue on how employees are feeling about how well the company is addressing inclusion, diversity and equity issues. We've leveraged feedback directly from our employees to inform and impact our work. For example, during the forums, an employee shared, this is the first time I've shared my sexuality with colleagues because I wasn't sure how the company would respond. To break that fear and assumption, we embedded this into our communications strategy by developing a video featuring our LGBTQ+ employees and allies in honor of National Coming Out Day. It takes big actions, but also small actions like these to support how the culture is evolving.

Sherwin-Williams' leadership also supports ID&E in the industry through the Policy Advisory Board through the Joint Center for Housing Studies at Harvard University. As Chair of the Policy Advisory Board, our CEO, John Morikis, had the idea of launching a forum focused on inclusion, diversity and equity. The forum is focused on listening, learning, and best practice-sharing that would drive sustainable progress throughout the industry. Every quarter, we host this forum for the CEOs to hear from leading experts and professionals, while sharing what they are doing in their respective companies. Topics include promoting equity in the workplace, inclusive talent management and sustaining an ID&E strategy. To-date, 90% of the member companies have attended at least one forum.

We continue to take meaningful steps to attract, progress and engage diverse talent while fostering a culture of inclusion. Although we have work to do, our many years of deliberate efforts are increasingly being recognized publicly. For example, Forbes recently recognized us as a Best Employer for Diversity for the third year in a row.

Best Employer for Diversity for the third year in a row. This is exciting, but the biggest award and recognition is that these accolades are aligned with how our culture is evolving and how our employees feel. Our employees have said that they feel that we are taking the right steps because they belong and feel valued for their differences. And as John mentioned earlier, our employee retention rates continue to be very strong. We know the better job we do in reflecting the diverse customers and communities we serve, the better we will do as a company.

Thank you for your time. I appreciate the opportunity to serve this great company.

[Video Presentation] (01:23:31-01:33:52)

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## **Allen Joseph Mistysyn**

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

Good afternoon and thank you for joining us today. Earlier today, you heard John talk about our ability to deliver customer value and our focus on solutions for our customers. We're committed to helping our customers be more successful by meeting their toughest challenges. This solutions-based approach allows us to differentiate ourselves in the marketplace, resulting in sustained financial performance and the creation of shareholder value over the long term.

Today, I am going to present the consolidated financial metrics and results we believe drive shareholder value. These consolidated results exclude acquisition-related costs and other adjustments, any reference to shares or per share metrics or comparison have been adjusted for the 3-for-1 stock split completed on March 31, 2021. We have provided detailed schedules in the appendix to reconcile these results to the results as reported.

I will spend my time on 2020 results compared to 2019, our capital allocation philosophy and an update to our sales guidance for the second quarter and sales and EPS guidance for the full year 2021. As a reminder, my presentation will include forward-looking statements as defined under US federal securities law.

Consolidated sales. The highlight here is the four-year compounded average growth rate from 2016 through 2020 on a pro forma basis, including a full year of Sherwin and Valspar in 2016 was 4%. This was right in line with our target growth rate of 4% to 6% over that same period. Our five-year compounded average growth rate was 10.1% from 2015 through 2020 with no adjustment for Valspar. For the first three months of 2021, sales increased 12.3%. We highlighted segment and region trends during that period on our April call.

I will review our updated second quarter and full year sales expectations later in the presentation. As a reminder, over the next three slides, the green line for 2016 and 2017 is pro forma, including a full year of Valspar and the black line is Sherwin-only. For the full year 2020, gross profit increased 7.7% to \$8.7 billion. Gross margin increased 220 basis points to 47.3%. We experienced gross margin expansion in each of our segments. We had a number of favorable impacts to our gross margin starting with the strong volume, particularly in the second half of the year.

In the Americas Group, we realized favorable customer mix, with strong DIY and residential repaint sales and product mix with exterior sales stronger than interior. In Consumer Brands Group, we generated strong DIY sales. But beyond volume, we also completed a number of actions to improve gross margins, including the exit of the ACE private label business at a lower gross margin and a significant improvement in our consumer international businesses, including price increases and SKU rationalizations that have led to improved operating efficiencies in our global supply chain.

Performance Coatings Group improved their operations with SKU rationalizations and the implementation of appropriate contingency plans during the tough first half of 2020 and then stronger volumes in the second half led to nice flow through. Raw material costs moderated during 2020, with the second quarter having the largest year-over-year decline.

As Jim reiterated earlier today, we expect raw material costs to be up high-single digits to low-double digits in 2021, with the second quarter likely being our highest year-over-year increase. We've seen a rapid and significant increase in our raw material costs through the first quarter and this range is higher than our original forecast we provided in January.

With the higher raw material cost outlook, we are reporting today The Americas Group has announced a 7% price increase effective August 1, 2021 and there are additional pricing actions being taken in our other groups. We continue to expect our long-term gross margin to be in the range of 45% to 48%. We will continue to monitor and update the Street when we have a better line of sight to a long-term change in gross margins.

2020 SG&A increased 4.8% to \$5.5 billion and was 29.9% of sales, up 60 basis points compared to 2019. We continued to invest in our long-term growth opportunities in 2020, including new stores and sales reps in North America. We opened 54 new stores and added over 100 sales reps in the US and Canada compared to last year and continued to invest in our TAG e-commerce initiative.

In Consumer Brands Group, we continued to invest in our hero brands and those programs that drive increased gallons through our customers' department, including investments in the pro-who-paints. And Performance Coatings Group continued to provide increased services and solutions our customers value.

The investments we have made and continue to make give us confidence we have positioned ourselves better to grow a multiple of the end market demand. We do not give guidance on SG&A as a percent of sales. But you can expect us to continue to get leverage on SG&A as end market demand returns to more normal levels.

Our focus is on growing operating margin either through gross margin expansion or SG&A leverage. 2020 operating income increased 13% to \$3.2 billion. Our operating margin increased 160 basis points to 17.4%. Our five-year compounded average growth rate for operating income was 14.2%. We also announced the divestiture of our Australia Consumer business at the end of the first quarter 2021, which will also help improve our longer-term operating margins.

This slide shows full-year profit before tax on the light blue bars and profit after tax on the dark blue bars. 2020 profit before tax increased 15.7% to \$2.8 billion. PBT as a percent of sales increased 180 basis points to 15.4%. Profit after tax increased 14.5% to \$2.3 billion and was 12.3% of sales, up 130 basis points versus 2019.

Adjusted EBITDA increased 12.6% to \$3.4 billion and was 18.7% of sales, up 160 basis points. We continued to make progress toward our 19% to 21% adjusted EBITDA target we laid out in 2018. The five-year compounded average growth rate was 13.7%. We will continue to drive results through volume growth as we continue to invest in our controlled distribution model and sales reps in the US and Canada paint stores, e-commerce platform, product innovation and providing our customers programs and solutions to help them succeed. And we will continue to implement our continuous improvement projects to drive operating margin growth.

Working capital, defined as accounts receivable, plus inventory, less accounts payables. This chart shows working capital dollars on the bars and the line represents percent of sales. We believe working capital management is a core competency of the company. 2020 year-end working capital was \$1.8 billion, a decrease of 16.1% compared to last year and 9.6% as a percent of sales, down 210 basis points.

2020 year-end inventory levels were lower than planned due to the stronger than anticipated demand in our fourth quarter. As John reviewed in his remarks, Winter Storm Uri severely impacted the Gulf Coast and a significant number of our raw material suppliers and a large portion of other industries were also affected, which has put further stress on our inventory levels. We will continue to work closely with our customers to service them until raw material supply comes back on line at 100% or more to planned levels. We will continue to build capacity to ensure we can improve our service through the rest of 2021 and build the right inventory as we progress into the first half of 2022.

Our target working capital as a percent of sales is 11% to 11.5% and you will see us build up our inventory to more normal levels as quickly as the current difficult situation allows it. This slide shows cash flow performance, full year net operating cash on the light blue bars and net operating cash, less CapEx, on the dark blue bars. The company generated a strong \$3.4 billion in net operating cash in 2020, an increase of 47% compared to 2019 and 18.6% of sales, an increase of 560 basis points. The five-year compounded average growth rate was 18.7%.

Net operating cash, less CapEx, increased 56% to \$3.1 billion or 16.9% of sales, an increase of 580 basis points compared to last year, including approximately \$77 million spent on our Building our Future headquarters and R&D project. Excluding the building projects, the five-year compounded average growth rate was 21.3%. And

although our first quarter is a small quarter, we started 2021 strong in both of these categories, with net operating cash increasing \$141 million and net operating cash less CapEx increasing \$183 million.

We are increasing our targeted steady state future free cash flow to be greater than 12% of sales compared to 11% in prior years. This is excluding the capital we will spend on the Building our Future projects. This is over the longer term as we continue to grow sales at a multiple of end market growth, increase our US Architectural and Global Packaging Coatings capacity and implement systems that will allow us to improve service and manage our inventory more efficiently.

We have a consistent capital allocation philosophy. We will not hold cash. Our target debt-to-EBITDA ratio should yield a high BBB rating. With our strong 2020 net operating cash generation, we returned over \$2.9 billion to our shareholders in the form of dividends and share buybacks compared to \$1.2 billion in 2019. We continue to reinvest in our business in the form of CapEx with a long-term target of less than 2% of sales, excluding the Building our Future projects. In 2020, we spent \$304 million, including \$77 million on our Building our Future projects. For full-year 2021, we forecast a core CapEx of \$370 million, plus an additional \$100 million for our Building projects.

I will highlight dividends, acquisitions and Treasury share buybacks in the coming slides. But first, I wanted to show this pie chart which shows net operating cash as reported over the past five years from 2016 through 2020 and uses of cash over that same time period. We have generated approximately \$10.9 billion of net operating cash over this time period or 13.5% of sales. Over this time period, we have returned over \$5.7 billion to our shareholders in the form of dividends and stock buybacks. We've also reduced our debt over \$3.5 billion over the past four years. Our debt-to-EBITDA leverage ratio is trending to a targeted range of 2 to 2.5 times and as EBITDA grows, you can expect us to maintain or slightly increase our total debt level to stay within this range.

We've also invested back in our business in the form of CapEx of \$1.3 billion or 1.6% of sales. We also completed three acquisitions for approximately \$77 million in 2019. This chart shows debt-to-adjusted EBITDA, with the dark blue bars debt, light blue bars adjusted EBITDA and the line is the leverage ratio. Our 2020 debt-to-adjusted EBITDA ratio declined to 2.4 times compared to 2.8 times in 2019. We continue to target a debt-to-adjusted EBITDA ratio of 2 to 2.5 times. This is excluding operating leases and we expect to be in that range at year-end 2021.

This chart shows our maturities of long-term debt as of the end of 2017 on the blue and light blue bars and at March 31, 2021 on the red and gray bars. Our Treasury team deserves a lot of credit for completing bond issuances in 2019 and 2020 at the lowest rates in the company's history. They also completed corresponding tender offers to take advantage of the low rate environment, reduce our immediate term risk and extend our debt ladder to later years. Highlight here is we have flexibility with long-term debt maturities of just \$25 million this year and \$660 million in 2022.

We have consistently returned a portion of our cash generated from operations to shareholders through cash dividends and share repurchases. 2020 was the 42nd consecutive year of dividend increases. In 2019, we returned to our historic dividend policy of returning 30% of prior year earnings to our shareholders and increased the dividend over 31%. In 2020, we increased the dividend 18.5% and in 2021, management has proposed a dividend increase of 22.9% to \$2.20 per share, which will require approval by our board of directors for the remaining quarters of 2021.

Acquisitions are an important component of our capital allocation philosophy and our long-term growth strategy. We have a long track record of successfully acquiring and integrating targets into our company and getting an

above average return. As we have de-levered quickly over the past four years, we continue to fill the pipeline with targets. We target companies that accelerate our long-term strategy and leverage our capabilities to accelerate sales growth, operating margin expansion and cash flow generation.

For example, we look for industrial companies, including synergies that help accelerate our Performance Coatings operating margin to the high teens to low 20%. These include companies that bring new technologies that we can then leverage across our footprint to other regions of the world, including giving us expanded capabilities that build on our higher Industrial margins in the US and Latin America.

We're also looking to fill geographic gaps in our Industrial footprint. At the same time, because of our ability to grow organically, we maintain a disciplined approach to M&A and look for the right acquisitions that fit our strategy. In 2020, we purchased 11.7 million shares at an average share price of \$209.08. We temporarily paused our share repurchase program in the second quarter 2020 related to the onset of the pandemic crisis. But with the strong operating results and cash flow in the second half of 2020, we restarted share repurchases in the third quarter of 2020.

In the first quarter of 2021, we purchased 3.3 million shares for \$775 million or \$234.96 per share. Over the past 10 years, we have purchased 93.6 million shares. This includes no share repurchases in 2016 and 2017 as we focused on conserving cash to service our debt. We take a consistent long-term approach to Treasury stock purchases. And prior to 2016, we had purchased stock every quarter for the previous 15 years. Going forward, absent acquisitions, we will buy our stock back.

We have a strong financial profile and it got stronger in 2020 despite the challenges brought on by the pandemic. Our liquidity sources were strong at the end of the first quarter 2021, with \$2.7 billion remaining in available liquidity sources. And our strong annual cash generation allows us great flexibility to pursue growth opportunities both organically and through M&A.

In March of 2021, S&P upgraded us to BBB from BBB-. And in August 2020, Moody's upgraded us to Baa2 from Baa3 and has since upgraded the outlook to positive from stable. Fitch also elevated the outlook to stable. We continue to build on our strong foundation and focus on our core operating disciplines. We have an experienced and determined management team. We are confident about our strategy and delivering strong results in all economic environments. We are confident in our core businesses delivering above-market organic growth and expanding our operating margins over the long term. We are confident in continued strong cash generation that allows us to invest in our business and future growth opportunities and return capital to our shareholders in the form of dividends and share buybacks. Also, as John described, we will continue to provide our customers with the product and service solutions that allow them to succeed and provide a return to our shareholders.

Now, let me turn to an update on our near-term guidance. Coming out of the first quarter, we issued second quarter 2021 consolidated sales guidance of up mid to high teens. And you can see what our expectations were by segment. Today, we are revising our second quarter sales guidance to be up by high teens percentage as The Americas Group and Performance Coatings Group are performing better in the quarter than expected, while Consumer Brands Group is performing slightly worse.

Our original full year 2021 consolidated sales guidance issued on January 28 was to be up mid to high single digits. And you can see what our expectations were by segment. Because of the better sales performance in the first quarter and an improved second quarter outlook, today, we are increasing our full-year sales guidance to be up high single digits to low double digits. And again, you can see the outperformance of The Americas Group and The Performance Coatings Group with a decrease in our Consumer Brands Group outlook.

This chart adds our original EPS guidance issued on January 28 for diluted net income per share for the full year 2021 to be in the range of \$7.66 per share to \$7.93 per share. It also shows the original adjusted full-year diluted net income per share of \$8.80 per share to \$9.07 per share. At the midpoint of \$8.93 per share, this is an increase of 9% compared to \$8.19 per share in 2020. Today, we are increasing our diluted net income per share guidance for the full year 2021 to be in the range of \$8.01 per share to \$8.31 per share compared to \$7.36 per share earned in 2020.

We are also increasing our adjusted full year 2021 diluted net income per share guidance to be in the range of \$9.15 per share to \$9.45 per share. At the midpoint of \$9.30 per share, this is an increase of 13.6% compared to \$8.19 per share earned in 2020. We are having a stronger first half than our original expectations in January.

As I showed previously, sales in the first quarter were better than expected and our second quarter outlook has improved. Even though raw materials are a stronger headwind than our original guidance, we expect to offset those cost increases with additional price increases in all segments and with stronger demand trends, we expect to see better results than originally anticipated. We're operating with a lot of momentum and I hope you see why we continue to be very optimistic about the future of Sherwin-Williams.

You heard Jim talk about strength across our Pro, Architectural and Industrial end markets. You heard John talk about the strength of our people, our global capabilities and our solutions-based approach for our customers. You heard Steve and Chris talk about innovation and the many products we continue to introduce. And you heard Bob and Yentil talk about how we continue to do business the right way. We're confident in our approach and our ability to deliver strong financial performance over the long term in all economic environments.

Thank you for joining us today. And I'll have the pleasure of announcing a 10-minute break before we get into the question-and-answer portion of the program.

[Break] (01:56:30-02:00:06)

## QUESTION AND ANSWER SECTION

**Operator:** Good afternoon. Thank you for joining the Sherwin-Williams Company 2021 Financial Community Presentation Q&A session. I am Rob, your conference operator, and I'm joined today by Sherwin-Williams' management team. With us on the call today are John Morikis, Chairman, President and CEO; Al Mistysyn, Senior Vice President of Finance and CFO; Jim Jaye, Senior Vice President, Investor Relations; Presidents of each operating division; and our Technology and ESG presenters. This Q&A session is being webcast simultaneously in listen-only mode by Issuer Direct via the Internet at [www.sherwin.com](http://www.sherwin.com).

An archived replay of this webcast will be available at [www.sherwin.com](http://www.sherwin.com) beginning approximately two hours after this conference call concludes. We will now begin the Q&A session. In the interest of time, we ask that you limit yourself to one question and you may requeue for any additional questions. [Operator Instructions] We will now take a moment to queue for questions. Mr. Panjabi, please proceed.

### Ghansham Panjabi

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

Q

Yeah. Thank you. Hi, everybody. Hope you're doing well. I guess my only question is going to be on the 7% increase that you announced for the TAG segment effective August 1. Can you, John, just give us a reference as to whether you've implemented a price increase of that magnitude in the segment previously? And also, how we should sort of model the effectiveness of this increase in terms of the flow through versus previous iterations of price increases? In other words, will it be faster than before or should we sort of model the same sort of flow through?

### Allen Joseph Mistysyn

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

A

Yeah, Ghansham, this is Al Mistysyn. The 7% is really based on what we see and have seen the raw material basket move as I talk about through the first quarter and even into our second quarter. So, what we've tried to do is maintain discipline around our pricing. You noticed we didn't go out in the middle of the summer as we talked about on our first quarter call, trying to make sure our customers are ready and able to pass through that price increase to their customers. So, we held off, put it on August 1 to get through most of the summer.

As far as history, if you remember I talked about on our first quarter call, in fact I answered your question that we went back to 2010, 2011 and 2012 where had six price increases in a 22-month span. And so, it may be not that one-time of an increase, but really over cumulative 22 months really six price increases. So, the discipline is still there. And I expect that the effectiveness will be similar to previous price increases. And if you look at the cumulative price increase for the year, including the 3% to 4% we went out with February 1, so we're looking at probably a mid-single digit effectiveness for the year.

### John George Morikis

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

A

Yeah. Ghansham I'm going to ask Heidi to jump in here for just a moment, but I think the approach here is really important that Al spoke to. We view our role with the contractor specifically as a solution-based approach and it's a relatively small percentage of their total cost of goods. If you think about the cost from the painting contractors, about 80%, 85% labor. So, when you think about the increase of paint on a project, let's say, a \$10,000 project with a 7% increase, you're talking about less than 1% total cost to that painter. But the way we approach that, I

think is really important. Maybe I can ask Heidi just to take a second because I think it's important to understand the way in which we work with our contractors to ensure that when they're bidding and how they're approaching their jobs that they see us as a partner.

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**Heidi G. Petz**

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

A

Yeah. Ghansham, this is Heidi. I think just to pick up on AI's comment on a disciplined approach. I think our customers know that we're not going to bring in an increase unless we actually have to. And while there might be some of our competitors out there now in the – arguably the peak of paint – the beginning of paint season, working in partnership with our customers, honoring a lot of the bids, the coats, the activities that are out there, we want to come out of this doing this the right way both with an increase and with our customers. So, we're feeling good.

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

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**Vincent Stephen Andrews**

*Analyst, Morgan Stanley & Co. LLC*

Q

...everyone. Maybe if I could just add – ask on the reduction in sales guidance on Consumer Brands. The retail takeaway data as far as we can tell looks very strong still through April. And I know the tough comps are ahead. But what is it in particular that you're seeing that's causing you to take the guidance down? Are your customers destocking? Are you having raw material production constraints? Are there any company-specific issues that are driving this? Thanks.

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**John George Morikis**

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

A

Yeah. I think, Vincent, if you take a look at the past discussions or points that we've made, it's always been our expectation that the DIY would return back to a normal level. We're also very confident that other segments, particularly in TAG and Heidi's business within our Commercial and Property Management business, will more than offset that slowdown. So, there's a little bit of give and take here.

I think it's important to look at the business from a combined perspective. If you look at the combined Architectural business, we'd expect in the first half to be up low double-digits, in the second half to be up mid to high-single digits versus last year. So from an Architectural perspective, we are believing that the position that we have and how we position the company strategically to be able to take advantage of these different shifts in the market do position us to capitalize on those.

Now, I'm really excited about that from an Architectural perspective, but our shareholders should be looking forward to our continuing market share gains in that Architectural. You lay on top of that though the Industrial businesses and the growth there, it's a big part of why we're really excited. And Brian, maybe if I could just ask you as President of Consumer Group just to take a second and just talk at high level here, just take your time on some of the things that we're doing to help your customers on the Consumer side to overcome the challenging comps that they have.

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**Brian Edward Padden**

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

A

Yeah. Thanks. Thanks, Vincent. And we stay really focused on our hero brands. And as I think about the two-year comp, we still remain ahead double-digits and our customers are taking care of a new shopper in their stores, while we continue to focus on professional shopper as well to help drive growth.

**John George Morikis**

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

Yeah. Lot of good work there, Brian and his team in the aisles with sales associates, as well as with the key decision makers. So, we're feeling really good about our position here and expect to continue to grow.

**James R. Jaye**

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

Thank you, Vincent.

**Operator:** Our next question is from the line of David Begleiter from Deutsche Bank. Please proceed with your question.

– [05QCXX-E David Begleiter

Thank you, John. Given your M&A comments, how is the M&A pipeline? How is the quality of assets you're seeing today? And regionally speaking, where are you more focused on M&A right now?

**John George Morikis**

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

Well, we are feeling good about the pipeline. I don't know that I want to get into specifics, David, on where specifically we're looking. I would tell you that from a business perspective, not to look at it geographically, I would say, primarily, we're looking in Justin's business and that – or in the Performance Coatings area and the Industrial side. I think AI did a terrific job of laying out how we evaluate some of the segment opportunities. I'd like to just reinforce a couple really important points, though.

One is we don't feel as though we're desperate and out trying to buy a book of business. We're really very blessed to be in a position where prioritization of opportunities is what we're really focused on internally or organically. So we believe that there's terrific growth opportunities in the business that we have. Secondly though, when you do look at those areas, we're not just looking at a map for geographies where there's no Sherwin play. We look where we can earn and develop the trust and confidence of our customers by bringing solutions to them that allow us to solve and create more profitable customers that in turn allow us to be a better partner and create shareholder value for us. So we're not looking for practice. We don't feel we need to be everywhere doing everything for everyone. We're focused and we believe we can deliver and I think you should see that primarily on the Industrial side going forward.

**Allen Joseph Mistysyn**

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

David, I would just add to that. Why it's so important to invest back in our business and then drive that organic growth? I talked about the compounded average growth rate with the full year about [indiscernible] (02:09:40) in 2016 at 4%; that generated an additional \$2.6 billion worth of sales. And on that \$2.6 billion, we saw about a 25% flow through. So, you don't have to go out and acquire to drive our operating margin growth. We can continue to invest in our businesses and drive our operating margins faster.

**James R. Jaye**

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

Thank you, David.

A

**Operator:** Our next question is from the line of Mike Sison with Wells Fargo. Please proceed with your question.

**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

Hey, good afternoon everyone.

Q

**James R. Jaye**

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

Hey, Mike.

A

**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

John, in your opening comments you talked about making investments in the business where competitors may be pulled back. Can you maybe remind us, give us a little more color where those investments were and maybe talk about the growth that you can sort of generate from those going forward?

Q

**John George Morikis**

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

Yeah. Mike, I think if you look back historically, every one of these cycles, we've pulled the same playbook and we're very proud of the performance we've been able to drive as a result of that. You'll see in many cases our competitors, some of our largest continuing to close stores, territories, pulling back on key areas. We love that. We're going right at those customers. We're investing in our stores, territories. You heard two terrific leaders from innovation – leading our innovation.

A

If you look at the area in Heidi's business, the digital platform that we're building, in Justin's area, the facilities that were building in, in Brian's area, the pro-who-paints. I mean, every one of these areas, we're taking a very disciplined approach. But we – I think you should expect us – I made the comment that we're a coiled spring here. We love these opportunities. There's a lot of experience at the table here with me today and you saw that slide that showed the years that many of these leaders have with the company.

We've seen this movie before. We know how it ends. And during this movie, we're gaining ground. We're not trying to protect our hill. We're attacking hills right now and we've got a lot of confidence in what we're doing.

**Allen Joseph Mistysyn**

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

And Mike, I would just add to that. It's a similar, we believe it's a similar environment that we saw, found ourselves in in 2008 and 2009 where we continue to add stores, continue to invest in new products, continue to invest in new sales reps. And the 3-, 5- and 10-year compounded average growth rate of our North America paint stores was high-single-digit average, which we believe was a multiple of the market growth.

A

**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

Great. Thank you.

Q

**James R. Jaye**

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

Thanks, Mike.

A

**Operator:** Thank you. [Operator Instructions] . Our next question today comes from the line of John McNulty with BMO Capital Markets. Please proceed with your question.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Okay. Good afternoon and thanks for taking my questions. So a question regarding labor and wage inflation. I guess can you help us to understand how it may impact both your store's business but also your end customer, especially when we think about the repaint market?

Q

**John George Morikis**

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

Yeah. Why don't I start with that and I'll toss it to Heidi? I'd say first [indiscernible] (02:12:57) reports some labor, our turnover remains in low-single or in single-digits as we talked about during the presentation there. So, we feel really excited about the ability that we've had to recruit and retain talent. And we think that that's a big function of the culture that we have. And I'd say that it's a really important tribute to the leadership at this table here with me whom I think have been doing a wonderful job for many years. And so, when you first look at turnover, it's about where we were in 2019 and we expect that it'll continue to be something that we're proud of.

A

And personally because when you think about our model, when you think that we're out bringing solutions to customers, recruiting this talent and retaining them is an important part of that relationship that we build. But I'd also say that that culture is something that we work very hard at. And when you ask specifically about stores, maybe Heidi, you can just take a second talk a little bit about some of those key drivers that we use to help retain those customers, everything from progression through positions as well as those things that we do to really help from [indiscernible] (02:14:19).

**Heidi G. Petz**

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

Yeah. You bet. Thanks for the question, John. I think we talked a lot about sort of the early indicators that Jim Jaye referred to in the prepared remarks around the strengths of the repaint market in general. And so I think understanding that that pipeline is robust and certainly understanding that I think to John's comment, understanding where the cost of paint is relative to the overall cost of that job. The ability for these contractors to pass that along, we're feeling more and more confident there.

A

I do think that when you look at kind of the store side making sure that we're continuing to, we talk a lot about our discipline in our segment. This repaint market has been certainly critical to us. It's big contribution from a profit standpoint, as you know. So making sure that we're continuing to train, make sure that our teams are well versed on tools that these contractors are needing especially in this current environment, I would say is at an all-time high right now.

**John George Morikis**

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

A

Yeah. And specifically if you're asking about the labor of the repaint contractor, I'd say it continues to be an issue. I travel quite a bit, not nearly as much as Heidi and Justin and Brian. But when I've been with them, it's rare that the issue of labor doesn't come up. Nearly every contractor that I've spent time with would make a statement that they could do more work if they had more labor. And that's been that way for many, I think quarters now and I suspect that it's going to continue.

So, we've done a good job of battening down the hatches, if you will, with our people. We feel like we've secured them. Our customers would like to hire more, but they're working through. And again, I'd finish up with saying that this is an opportunity for us to shine when our customers are really trying to drive as much productivity as possible and looking for those partners that can help them be as efficient as possible and as profitable as possible. That's where our people fill that void and help them and it's a good partnership and as a result, we increase the loyalty with our customers.

**James R. Jaye**

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

A

Thanks, John.

**Operator:** Our next question is coming from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Thanks very much. In your presentation, you said that you thought raw materials would peak in the second quarter. And I was wondering if you were still sure about that in that epoxies have gone up and TiO<sub>2</sub> seems to be going up and solvents are moving up. And maybe propylene is down a little bit, but it's come back. And so, do you have much on material decline in your guidance in the second half?

**Allen Joseph Mistysyn**

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

A

Yeah, Jeff. No, we don't have a big decline. When you look at the range, up high single digits to low double digits, I agree with you, it's a fluid situation. As you know, we monitor raw materials every month. We go through that. We evaluate where they're headed. We look at offsets where we can. We look at internalizing costs where we can. And then all else aside, we have to go out with price. But I would tell you that we'll continue to monitor it. And as we see changes happen, if they're material and outside of that range, we'll give you an update on our future calls.

**John George Morikis**

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

A

And Jeff, I'd add to I think that point of the conviction that we have to protect those margins, we believe that we're doing it the right way. But as AI mentioned earlier, in 2010, six price increases over a 22-month period. We'll do what we have to to protect the company.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Thank you.

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

**Gregory Scott Melich**

*Analyst, Evercore ISI*

Q

Thanks. Wanted to extrapolate a little bit more on the pricing and [indiscernible] (02:18:26) dynamic and maybe talk about some of the other businesses. So if I look at how your guidance changed from the beginning of the year, top line is 400 bps to 500 bps higher. Would it be fair to say that pricing and mix is the majority of that change from where we were five months ago?

**Allen Joseph Mistysyn**

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

A

Yes. That's correct, Greg.

**Gregory Scott Melich**

*Analyst, Evercore ISI*

Q

Thank you.

**Operator:** The next question will be coming from the line of John Roberts with UBS. Please proceed with your question.

**John Roberts**

*Analyst, UBS Securities LLC*

Q

Thanks, guys. Good presentations. Could you talk a little bit more about Pete Ippolito's new role as SVP of Strategic Initiatives? Is it more than just M&A because Pete's background is in Architectural, but you indicated that M&A would be focused on Performance?

**John George Morikis**

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

A

Yeah. So thanks for calling out Pete Ippolito, a wonderful leader in the company with over 30 years of experience. And I know he's on the line here with us. So, hey, Pete. Pete is doing a wonderful job for us. We do have him working with both Architectural businesses along with our global supply chain. There's a tremendous opportunity with someone of Pete's leadership, experience and quite frankly, the equity that he has in the company. And so, there are elements of the businesses that we see as opportunities for efficiency, for growing sales as well as really taking some new opportunities and challenging some norms. And so Pete's actively involved with all group presidents and important member of my staff. Glad to have him.

**James R. Jaye**

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

A

Thanks, John.

**Operator:** Our next question is from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

**Kevin W. McCarthy**

*Analyst, Vertical Research Partners LLC*

Q

Good afternoon. If I compare your 2021 sales guidance for TAG issued today to the guidance issued six weeks ago, it looks higher. And so my question is, why is that? What have you seen over the last six weeks in terms of product lines or regional trends that has given you confidence to raise the full-year outlook today?

**John George Morikis**

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

A

Well, I would answer your question with one word, momentum. And if you ask me another one, it would be confidence. When we're talking to our customers, they're talking regularly about the strong pipeline that they have and the confidence they have in the market. And I'd say it's a very good market. Heidi, anything you want to add to that?

**Heidi G. Petz**

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

A

I would just add too, I think momentum's a great word. We see continued strength in the repaint market. We talked a little bit earlier in our prepared remarks around good signs of growth in terms of the commercial segment, property maintenance, property management. So the segments on the whole, across Architectural are in a really good position.

**John George Morikis**

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

A

And I'd add, I think that Heidi and her team are taking share right now. There's a strong level of aggressive pursuit of customers that I'm really proud of. New account activity, share of wallet, there's a lot of momentum here. So we're working to gain ground right now. That's what we do here.

**James R. Jaye**

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

A

Thank you, Kevin.

**Operator:** And this question is from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your question.

**James R. Jaye**

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

A

Hey, Arun.

**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Q

Great. Thanks. Hey. Good morning. Good afternoon. Thanks for all the details here. Yeah. So I guess just delving a little bit deeper, you guys have put up some very strong numbers in resi repaint for several years now. I guess when you look out, do you still have the same kind of algorithm, i.e. opening up kind of 80 to 100 stores every year? Assuming you do, should we kind of continue to expect resi repaint to continue to comp at double-digit growth or – and how does that kind of happen? I mean what are some of the drivers that we should be looking for there?

**Heidi G. Petz**

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

A

Yeah, Arun. I think absolutely. We're on pace from, we talked about the 80 to 100 new stores and we're on pace to deliver that this year. The teams are feeling really bullish, especially with the economics around us. I would also say relative to res repaint, in my travels, I'm out nearly every week with the team, with customers and the continued confidence that we're hearing from our contractor base here. They're talking about pipelines that extend well into 2022 at this point. So I think we're continuing to see positive signs of confidence, but more bullish than ever.

**John George Morikis**

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

A

Yeah. And I'd add to that, Heidi. The comments that we're hearing about new products and the services that we're providing and how – if you look at res repaint, it's the largest segment in [indiscernible] (02:23:32) the pro side and it also is the greatest opportunity for us for growth. So, there has been terrific momentum, but I'd say that we are actually trying to grow even faster than what we've been growing over the last five years, which has been double digits.

**James R. Jaye**

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

A

Thanks, Arun.

**Operator:** Our next question comes from the line of P.J. Juvekar with Citi. Please proceed with your question.

**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yes, hi. Good afternoon.

**James R. Jaye**

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

A

Hi, P.J.

**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

Q

I have a question on ESG, since you spent so much of your time on ESG today. You have a goal of carbon reduction by 30% by 2030. And John, you talked about a large fleet of trucks, trailers, ramps that you guys have. How are you trying to reduce that carbon footprint? Are you trying to electrify those trucks or maybe use hydrogen fuel cells? And how much of a carbon reduction would come from your fleet? And what are the other sources of carbon reduction? Thank you.

**John George Morikis**

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

A

Why don't I have – thank you for your question, P.J. Joe Sladek runs our global supply chain. Joe, why don't you take that [ph] first step (02:24:40)?

**Joseph F. Sladek**

*President & General Manager-Global Supply Chain Division-Consumer Brands Group, The Sherwin-Williams Co.*

A

Thanks, P.J. and thanks for the question. So, we have a team of people specific to our fleet looking at maximizing our gas mileage with the traditional fleet. But we're looking at all types of alternatives right now. We haven't decided on one and certainly the marketplace isn't mature quite enough yet. But we're right on the cutting edge of it. So, we'll be ready to implement all of those improvements.

**James R. Jaye**

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

A

Thanks, P.J.

**Operator:** The next question comes from the line of Eric Bosshard with Cleveland Research. Please proceed with your question.

**Eric Bosshard**

*Analyst, Cleveland Research Co. LLC*

Q

Good afternoon. Two-part question related to raw materials. First of all, it sounds like you've got some visibility within raws now and obviously within what you're doing with pricing. How should we be thinking about the gross margin path this year and how that extends into next year? And then the second part of the question relates to raw availability, if that's had any influence on your service levels or specifically volumes in the second quarter.

**John George Morikis**

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

A

So why don't I have AI take the first piece and I'll take the second?

**Allen Joseph Mistysyn**

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

A

Yeah, Eric. Let me start by saying, with our revised guidance, we're expecting another strong full year 2021 with an adjusted EPS guidance of 13.6% at the midpoint on top of a 16.4% increase last year and up 14% in 2019, so strong results and very different environment.

And as you know, in a significant and rapidly increasing raw material environment, we will see some short-term gross margin contraction, but again, we're focused on operating margin growth. And both with volume that's particularly strong this year, incremental price increases that we just talked about, and then we expect to get leverage on our SG&A, and primarily in what I would call our non-customer-facing functions where we're going to have good cost control.

But as John talked about, we're going to continue to invest in our business. We're going to continue to invest in new stores, reps, products, our e-commerce platform. And then – so as – from our – so as our history has shown, our gross margin [indiscernible] (02:27:05) short-term contraction. As pricing takes hold, we see a start to recovery and then as raws moderate, we see expansion.

And it's too early to tell – to say look at 2022, but as you can expect, if we continue to see the raw material inflation that we're seeing and as we get closer to – as the year goes on, we may have to go out with another price increase to maintain margins. It's just going to be how long does the raw material inflation last and the scale of it and then how effective the pricing is to help offset those increases.

**Joseph F. Sladek**

*President & General Manager-Global Supply Chain Division-Consumer Brands Group, The Sherwin-Williams Co.*

A

And Eric, on availability, I would say that it's absolutely been choppy. Joe Sladek and his team are doing a fantastic job working with the groups to ensure that we are as responsive as possible. There has been some choppiness, but I'd say the experience at the table here along with the resources that we have has allowed us to pivot as needed to be able to serve our customers. Our goal to do something like this is very similar to other challenges that we've had. It could be hurricanes or different issues that we have faced. We try to be as transparent as we can with our customers working with them. We believe we come out of these issues with greater loyalty as a result of the way that we work with our customers and we do leverage every asset that we have. P.J. just asked about our fleet of trucks. We are utilizing those in ways that we never intended. We are responding to the needs of our customers as quickly as possible and with as much transparency as possible and as a result we're trying to do the best we can to make them successful and when it's done, we want to be held up as the gold standard.

**James R. Jaye**

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

A

Thank you, Eric.

**Operator:** Thank you. [Operator Instructions] Our next question is from the line of Steve Byrne with Bank of America. Please proceed with your question.

**Steve Byrne**

*Analyst, BofA Securities, Inc.*

Q

Thank you. I had a couple of questions about your new products and innovation. One of them is this fire protection coating. Is there something particularly novel about this? I believe that technology has been around, is that 120 minutes differentiated and do you see opportunities to move that product into other fire protection applications such as battery pack?

**John George Morikis**

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

A

Steve, I'd say what's different and unique about this product, again – and I love that you ask this question. Again, it gives us the opportunity to demonstrate our focus on the solution to the customers. What's unique about this fireproof protection coating is the throughput that you get with – for our customers. Instead of having steel sitting around for extended period of time, and the asset then just literally waiting for the ability to move this product without damaging it, the throughput has picked up. And yes, it does help our customers to be more successful.

But we're always looking at better application. We're looking at not only ease of application, but ease on those that are applying the product. So, there's a number of facets with this product that we think are unique and as well as the [ph] film build (02:30:40) that it takes on the steel to minimize the weight of the structure itself, there's a lot of different elements here.

Chris, anything else that you want to talk – that you want to talk about on this?

**Chris Piazza**

*Senior Vice President, Research & Development-Performance Coatings Group, The Sherwin-Williams Co.*

A

Yeah. Yeah, good question, Steve. Obviously with technology, we're constantly trying to innovate and keep up with not only the standards in the industry, but as they continue to evolve. And especially when you look around fire, gets moved from 60 minutes to 90 minutes to 120 minutes, we always want to stay ahead of that and be ready for what's next.

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**John George Morikis**

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

A

But I think it's another opportunity – and maybe, Justin, you can talk a little bit about how we move technology around the world because this was initially a company that we purchased out of the UK, and we're moving that technology around the world. And I think it's a good model from an M&A perspective to talk about our intentions in M&A this way.

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**Justin T. Binns**

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

A

Yeah, absolutely, John. And thanks for the question, Steve. That's exactly it. It's our platform that we have to move these technologies around the world. And as we do these tech transfers, it create new opportunities for us in different parts of the world. In a lot of cases, what that allows us the ability to do is to be the leader and really have innovation that ultimately is focused on customer solutions and allows us the opportunity to earn more business.

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**John George Morikis**

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

A

So, it's really leveraging relationships that we have with new technology...

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**Justin T. Binns**

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

A

Absolutely.

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**John George Morikis**

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

A

[indiscernible] (02:31:56).

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**James R. Jaye**

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

A

Thank you, Steve.

**Operator:** Your next question is from the line of Edlain Rodriguez with Jefferies (sic) [UBS] (02:32:02). Please proceed with your question.

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**Edlain Rodriguez**

*Analyst, UBS*

Q

Thank you. Good afternoon, guys. John, if you could elaborate on a comment you made in your prepared remarks, you've talk about just getting started and part of that was expanding share of wallet. Like how do you see this playing out? Like is it going to be like a bunch of small wins or are there a few big categories you want to jump into? And how do you do that while you're trying to reduce your SKUs and complexity and so forth?

**John George Morikis**

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

A

How do I see it playing out? We win. How we do that is – I want to be careful in answering this because I believe that – I don't want to give the impression that there's one lever to pull. It's just not that easy. And the leadership team that I'm looking at right now at this table understands the many levers that you need to pull. And so, yes, it does begin with the customer looking all the way back to the company. So, we start with the customer, we go all the way back to the raw material and we build unique solutions for the customer all the way. So, I really don't have an answer to say it's just this lever.

What I will tell you is that I'm blessed to lead a team that understands the ecosystem that includes from the customer, our people, the reps, the managers, the stores or the channel distribution, the product, the services that our customers need, the ability to understand what is it that they face every day that creates the complexity or the challenge in their business and to uniquely bring that solution to them in a way that our competitors simply can't.

Many of our competitors will choose one or two things that we do and try to copy it. And that's, okay. We understand that. We want them looking at a basket of 20, 30 things that we're doing for that customer. And when a customer does make the decision for whatever reason, a [ph] SPAC (02:34:10) or a relationship that they go out and they try with someone else, we want them racing back telling us how much they really have learned to appreciate what it is that we do for them every day.

**Allen Joseph Mistysyn**

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

A

Thank you, Edlain.

**Operator:** Thank you. Our next question is from the line of Truman Patterson with Wolfe Research. Please proceed with your question.

**Truman Patterson**

*Analyst, Wolfe Research LLC*

Q

Hey, good afternoon, everyone. Thanks for taking my question. And so, Performance Coatings Group, very strong growth guidance that you all have. It seems like you're gaining some market share, especially with some of that technology and product innovation you brought up, but very heavy raw material inflation. Maybe there's some untapped synergies from the Valspar acquisition as well. But just wanting to understand is, your prior op margin guidance of kind of high-teens, low-20% range long term still in sight, and could you just walk us through some of the buckets of what levers you think you can pull to get there?

**John George Morikis**

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

A

[indiscernible] (02:35:18) take a look at it, and then I'll [indiscernible] (02:35:18) come behind.

**Allen Joseph Mistysyn**

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

A

Yeah. Truman, thanks for the question. So, if you take a look, we made really good progress in 2020. The second half operating margin I think was up right around 100 basis points. But one key thing for us is that the volume is very strong in 2021. And I know a lot of times we compare that to our 2017 and 2018 performance.

The other thing I would say is that we've been extremely timely in our pricing and we've been a little bit more aggressive. We're going to continue to take actions to manage our expenses and right-size our footprints, but I'd also tell you we're going to couple that with continuous improvement [indiscernible] (02:35:53) and SKU rationalization. So, with all these things in play, I would tell you that I have extreme confidence in our high-teens, low-20 targets and that the teams are focused and committed [indiscernible] (02:36:03) execution of these plans.

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**John George Morikis**

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

A

Allen, I will not be adding to that perfect answer...

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**James R. Jaye**

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

A

Thanks, Truman.

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**Operator:** Thank you. [Operator Instructions] Thank you. At this time, I'll turn to floor back to Jim Jaye for closing remarks.

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**James R. Jaye**

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

Yeah. Thank you, Rob, and thanks, everybody, for joining us today. I think you can hear from the team that we're operating with a lot of confidence and a lot of momentum. And as you heard AI say, it leads us to raise our full year guidance and our second quarter sales outlook as well. We're seeing really strong demand across the majority of our architectural business and our industrial end markets. I think the other key themes that you should take away from today, certainly we're being highly proactive with our customers to minimize any disruptions from the winter storms that we saw earlier this year. Nobody has more assets and capabilities to do this than us. I think we're also highly confident in going out [indiscernible] (02:37:21) some of the inflation that we're seeing. And as you heard, we'll do it the right way. We'll keep the customer over the long term.

And finally, we're really proud of the progress that we're making on these various ESG initiatives that we outlined today. So, we're on track for another great year. Thanks for your interest in Sherwin and have a great day. And as always, I'll be available along with Eric Swanson for your follow-up questions. Thank you.

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**Operator:** Thank you, everyone. This concludes The Sherwin-Williams Company's 2021 financial community presentation and Q&A session. You may now disconnect your lines at this time.

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