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The Sherwin-Williams Co. (SHW)

Investor Meeting - Financial Community Presentation

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MANAGEMENT DISCUSSION SECTION

James R. Jaye

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

Good afternoon, everybody, and welcome to the Sherwin-Williams 2022 Financial Community Presentation. My name is Jim Jaye and I'm Senior Vice President of Investor Relations and Corporate Communications for the company. And after two years of having to do this virtually, we are thrilled to be back with you in-person, live from New York.

I also want to thank those who are joining us via webcast today. So, thank you for taking the time to join us. I do have a few housekeeping items before we begin today. First, at Sherwin-Williams as many of you know, we have a habit of starting our events with what we call a safety grabber, and I'll do that today. So for today's safety grabber, I'd like to point out the exits at the back of the room. And in the unlikely event of an emergency, please make your way out the exits and out of the building in an orderly fashion.

Next, I would ask that you all please take a moment and silence your phones as a courtesy to our speakers and to the other attendees. Thank you very much for doing that. I'd also like to point out our cautionary statement regarding forward-looking information and third-party market data that we may cite this afternoon. I'd ask that you familiarize yourself with the language here, the terms, the limitations on this slide as they do pertain to some of the information that we're going to cover today.

So, we have an excellent program for you today. Here's a quick snapshot of today's activity. You're going to hear from multiple members of our leadership team about the many profitable growth opportunities that are ahead of Sherwin-Williams. We are 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.

We'll take a short break around 3 P.M. today and following our prepared presentations, we'll move to a moderated Q&A session. For those who are here with us today in-person, we'll conclude the day with a reception where you'll be able to engage directly with our leadership team. So please make your way to the lobby and downstairs where we will have that reception. And similar to the last two years, the presentation slides that you're going to see today will be available for download right after the events are finished today on our website. So, you'll be able to get those there.

In addition to today's presenters, I'd just like to recognize the other Sherwin-Williams' executive officers that are here in attendance with us today. So, if you could just stand real quickly when I call your name. With us today is Jane Cronin, our Senior Vice President, Enterprise Finance and Controller; Mary Garceau, our Senior Vice President, General Counsel, Secretary; Tom Gilligan, Senior Vice President, Human Resources; Joe Sladek, President and General Manager of our Supply Chain; and Bryan Young, our Senior Vice President for Corporate Strategy and Development, all fantastic leaders and wonderful colleagues.

And finally, putting on an event like this is no easy task. You see this great auditorium here all set up. It's awful lot of work to get to this point. So, I'd just like to recognize a couple other team members. First, if you stand is, Eric Swanson, our Vice President of Investor Relations. Many of you have talked to Eric over the past several years and I couldn't ask for a better partner or teammate in Eric. Next is [ph] Mandy Pavelich who – Mandy (00:04:08) is up manning the booth there. [ph] Mandy (00:04:11) put all the slides together that you're going to see today and no matter how much we change those slides, [ph] Mandy (00:04:17) never complained and always did everything

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that we asked her to do. So thank you, [ph] Mandy (00:04:21). And last is Natalie Darr, our admin extraordinaire. Where are you, Natalie? Over there. Natalie managed most of the logistics of today's event, and Natalie is the voice that many of you hear when you call Sherwin-Williams looking for me or Eric or anybody else. You're amazing at what you do, Natalie, and you always do with a smile. So, thanks to all of you for making this event possible.

So, without further delay, I'm extremely pleased to turn it over to an absolutely extraordinary leader. And that's our Chairman and CEO, John Morikis, who will provide us with an overview of the industry and the demand environment.

John G. Morikis

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

Hello, everyone. Great to be with you. To Jim's point, it's been two years and I might add it's been a wild two years. So, it is good to be here with all of you and to see you all in-person. There was one additional name I wanted to point out, our Chief Procurement Officer is here today, Colin Davis. So if you have some questions for him during the reception, I'm sure he'll be a popular man as well so. All right.

So let's get started. I'd like to begin today with some data and key trends on the coatings industry and the demand environment. So, let's begin with the architectural and view of the paint industry here. Most of you know that the architectural paint represents about 60% of total revenue for the company. Based on multiple sources and our own market intelligence, our best estimate is that the US architectural paint volume was about 868 million gallons in 2021. That's growth of about 1% over the previous year. That's 1% reflecting an industry that was held back by this pervasive raw material availability issue that multiple companies have spoken to over the past year.

Looking at this chart on the left, you see that gallons have grown almost every year for more than 20 years. Except for a decline in The Great Recession when there were nearly 4 million foreclosures, many of those foreclosed homes were not maintained on the interior or the exterior. The overall pace of growth in square footage also slowed in that period as new residential construction cooled, but nonetheless, square footage did continue to grow. Since that period, both gallons and square footage have continued to grow. Today, we find ourselves in an environment where there's 23% more residential and non-residential square footage out there since the prior gallon peak in 2004.

Additionally, those vacant foreclosures have either been destroyed or abandoned. We've underbuilt new homes since the recession such that there's a dire need for more new housing today. So in sum, there's a lot more out there today than there was at the prior peak. And we also believe there's more to come in new residential and all the architectural segments that we plan. Again based on various sources in our own intelligence, here's a view of the industry by segment. The strength of Sherwin-Williams is that we're well positioned in all of these segments. Through our strategy work and I will say this, we've been very deliberate in our approach to develop a strategy that helps us to structure the company so that we can capitalize on changing market conditions. And in 2020, I think the pivot to a surge in DIY demand during the pandemic is a great example. In 2021 we saw DIY moderate as the year went on and other segments gained momentum. And that strong demand environment has continued in 2022.

This next slide is a summary of where we think we are right now. In new residential, starts are strong and customers, they're bullish. Strong household formations bode well for our future. In residential repaint, exteriors and interior projects are strong. Long-term drivers and demographics are favorable. In commercial construction projects that resumed after the pandemic are in the painting phase, and new starts also remain strong. In property management apartment turns are improving. Return to office, loosening COVID restrictions and resumption of

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travel are aiding maintenance activities related to offices, to factories, hotels, restaurants, to schools and other facilities. And in DIY, we're seeing the market settle in a more sustainable, low single-digit growth rate, following the spike that we saw during the pandemic.

Let's take a deeper look at some of these drivers. 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, buying their first homes or renting. They're also engaging in professional repaint or DIY projects. And waiting in the wings is the largest generation in US history, Gen-Z, who will drive another wave of household formations.

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. That stretched out a bit here in some areas, as delays in some building materials have lengthened completion times. Starts have been strong, since the pause we saw during the start of the pandemic. Yes, mortgage rates have risen meaningfully near term, but by historical standards, they're still very reasonable. Our homebuilding customers indicate that these rates have not made a meaningful dent on their orders and they're not seeing significant cancellations.

In addition to the current strength, the long-term drivers we've often spoken about remain intact. Sustained household formation underpins housing demand and this looks to remain very solid for the next several years. 72 million millennials, now age 26 to 41, are forming households. They're becoming first-time homebuyers. They're driving demand for entry-level homes. The issue is not demand but rather supply. We've gone from a significant housing surplus prior to The Great Recession to a significant housing deficit today.

According to a 2021 survey by the Rosen Consulting Group, the underbuilding gap in the US total more than 5.5 million units over the last 20 years relative to household formation. When you add the loss of existing units through demolition, natural disaster or obsolescence, the implied cumulative demand supply gap totals 6.8 million units. In order to fill the gap of 5.5 million over the next 10 years and accounting for growth, building would have to accelerate well above the current trend to more than 2 million units per year. In 2021, just to put it in perspective, we built about 1.3 million units per year – for the year.

Residential repaint, this next slide is the largest business unit or business area of our America's TAG portfolio. It's also where we believe we have the most opportunity even after six consecutive years of double-digit growth. Harvard's leading indicator remodeling activity is strong and is projected to be positive well into next year. As you know, painting a room in a home is easy, it's impactful and it's affordable. And I suggest you all do it this weekend by the way. We believe paint is even more resilient than what is shown on this chart, which contains larger, more expensive remodeling projects. A traditional driver for a repaint activity has been existing home sales. The current homeowner, on the one hand refreshes the home with new paint prior to the sale. And then the new homeowner who has just purchased the home repaints it to make it their own.

The total number of existing home sales remains well above pre-pandemic levels, but year-over-year growth has cooled as available inventory has become extremely tight. Since it's hard to find an existing home to move to, many homeowners are opting to repaint their current home instead. Other factors driving repaint are intact. American's homes are getting older and are in need of maintenance. The median age of the nation's 140 million home is now 41 years old and half were built prior to 1980.

Home price appreciation also gives homeowners confidence to remodel and to repaint. Since the 2012 timeframe, home values have continued to increase. This gives homeowners confidence to invest in repairs and renovations and in remodeling. And this trend has stayed strong right through the pandemic. We also continue to see the

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trend for baby boomers aging in place and remodeling. Many of these projects will require paint also. Will people hire contractors for painting or will they do it themselves? In 2020, we saw DIY grow as a percent of 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, say, around 2008, 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. And we're seeing the same thing now. Do-it-for-me will be driven by age demographics, by home price appreciation, by dual income families, by stock market wealth and the aging housing market stock that I mentioned earlier.

Millennials also have 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 own stores or through our retail partners. We've also seen strength in commercial construction demand. And as we've said before, new commercial painting typically starts 12 to 18 months after a project starts. Stretching out a bit now with some of the areas due to shortage of building materials and/or labor and starts that began in the late part of 2022 and early part of 2021 are reaching the painting phase now. Starts remained strong through the balance of 2021 and have continued into 2022, which should provide continued opportunity for Sherwin-Williams going forward.

Commercial indicators continue to move in the right direction. The Architectural Billings Index is an indicator of future commercial construction activity. It's been positive now for 15 straight months and at levels not seen since prior to The Great Recession.

Other indicators, such as the Dodge Momentum Index, also remain strong. In addition to new commercial projects, we also feel good about maintenance opportunities. This property management activities that virtually stopped during the COVID experience are now being addressed. We're starting to see more momentum here driven by apartment turns, a return to office, a return to travel and other hospitality-related activity.

I'll remind you that we currently enjoy exclusive relationships with a very high percentage of the top 20 property maintenance companies. To my earlier point, the strength of our model is that Sherwin-Williams has excellent positions in all of the architectural end markets. This should let us help manage through demand dynamics better than any of our competitors. Our share of wallet initiatives and our new account initiatives should also help us to manage through short-term fluctuations in any given area.

Okay. So let me now turn to industrial and special purpose coatings, which make up about 60% of the global coatings market. And this is a great opportunity for Sherwin-Williams. We believe we operate in the right industrial segments, the ones where we can differentiate ourselves from our competitors, where we can drive solutions for our customers and make the kinds of returns our shareholders expect and quite frankly, deserve. We seek to avoid more commoditized segments where the lowest common denominator is often a race to the bottom on price.

We're seeing tremendous demand in our industrial end markets since the fourth quarter of 2020. While the Manufacturing Purchasing Managers' Index is not a perfect correlation with our business, it does give us directional context as new orders is the largest component of the index. As a reminder, a PMI reading above 50 indicates expansion of activity and a reading below 50 indicates contraction. This index has been strongest in the US, our largest region. It's also been very positive in Europe, our second largest region, though we're seeing slowing in some areas in this market. The PMI has been softer and China's continuous regional COVID outbreaks have disrupted production and logistics and manufacturing and naturally it's had an impact on demand.

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Even if new orders slow meaningfully over the next 12 months, there's a large backlog of existing orders that still need to be filled in many industrial end markets. All of us have experienced wait times in many different areas, everything from appliances to furniture. I'm sure either you've experienced yourselves or you've heard of others that have experienced the same type of situation. And all of us, I think, understand that this backlog should carry well into next year, if not beyond.

So let me take a minute here and walk you through the trends we're seeing in our industrial businesses. Start with packaging. Packaging is both a high growth business and a highly defensive business. Its business grew high-single digits in 2020 during the height of the pandemic. We've now delivered double-digit growth here for the last five quarters, including approximately a 30% average over the last three quarters. The drivers we've often cited here continue, the shift from plastic to cans due to environmental concerns, growing new product categories and a shift to our non-BPA coatings.

Both we and our customers are investing in capacity in this area. This is a terrific business for us and we're going right at this with our customers. We'd also categorize automotive refinish as a growth and a defensive business for our company. Miles driven have improved sequentially and it is now near pre-COVID levels. We've got a large number of new product and system installations in North America as well and this is a good indicator of momentum and should support growth going forward.

In Industrial Wood, new residential construction continues to drive robust demand in areas like kitchen cabinetry, flooring, molding and furniture applications. We're also seeing heightened consumer interest in customized finishes and colors for wood products, and that customized demand provides us an opportunity to demonstrate support and solutions to our customers in ways that many of our competitors cannot. Our coil business, another terrific business has been driven by momentum in residential and commercial construction.

[ph] Let's move into (00:23:24) general industrial. Heavy equipment growth is supported by the strong US construction market and it has a nice impact on our general industrial business, as does the infrastructure bill. Additionally, the strong US and Europe manufacturing PMI supports general finishing. And last, we're seeing great momentum in our protective and marine business, oil and gas maintenance activity that was delayed in some cases virtually stopped during COVID has recovered strongly. And the US active rig count is growing. The US infrastructure bill here should create ongoing opportunity as well. We're also focused on other end markets in this business, such as water and wastewater treatment, food and beverage plants, and flooring.

Before I conclude, I'd like to provide a quick update on the raw material environment. First, we believe we're through the worst of the industry's raw material availability challenges we previously described. The marked improvement we saw beginning in mid-March has continued, though we did enter this year's painting season with lower inventory than we normally would have. The 50 million gallons of architectural capacity we added in the fourth quarter in 2021 is up and running. This should allow us to keep pace with demand through the season. We'll then build inventory in the seasonally slower fourth quarter of 2022 here.

As we communicated on our April call, we expect industry raw material inflation for the year to be up in the low double-digit to mid-teens range. We're tending toward the high end of the range. We anticipate some moderation of cost in the back half of the year, though, they will still be elevated year-over-year. As you know, we've been highly proactive in our pricing actions over the past year and a half in response to this raw material inflation and you can expect us to continue down that path as necessary.

As I come to the end of my prepared remarks, I would summarize the demand environment as continuing to be very strong near-term with many long-term drivers also in our favor. Our people, they're energized and they're

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operating with momentum. They are focused on share of wallet, they're focused on new account activity and this is in all regions around the globe. At the same time, the market's not without volatility. And for that reason, our business is purposely designed to weather a wide variety of scenarios. We operate in growth and more defensive end markets. As we like to say, whichever way the proverbial demand table may tilt, Sherwin-Williams will be there and it's extremely well positioned with the solutions our customers need to win and we will win.

And with that, it gives me great pleasure and honor to introduce our Chief Operating Officer and President of the company, Heidi Petz. Thank you.

Heidi G. Petz

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

All right. Good afternoon. Thank you, John. It's great to be here in-person with everyone and again, welcome to those that are listening in on webcast here. I couldn't be more excited at this time in the history of Sherwin-Williams to take the helm as President and Chief Operating Officer. John as described there are many markets in which we're looking to continue to add value and drive profitable growth across multiple end markets. And we're going to hear from the group presidents here shortly to give you a bit more detail there. We're operating with a lot of momentum and confidence right now. Our teams are highly engaged. We're out in front of customers. We're making sure that we're understanding our customers' needs and finding ways to bring creative, probably now more than ever, creative solutions to their needs.

We're working side by side with our customers, making sure that our focus is on their growth, their success and their goals. And that hasn't changed. Today I'd like to talk about what differentiates Sherwin-Williams and John mentioned a bit, in terms of some of the businesses, but how we're uniquely positioned to win and ultimately what our priorities, ultimately my priorities are for the company going forward in the next year. On the next slide and many of you know this, but just to level set, as we talk about Sherwin-Williams as a global leader in manufacturing, distribution, development and the sale of paint coatings and related products across our professional, industrial, commercial and retail partners.

We've got revenues from 2021 at the $19.9 billion mark. And so, the team has been tasked to certainly surpass that here. We operate in over 120 countries with 4,900 company owned stores and we've got over 61 talented and dedicated employees. We operate in the three global segments that John referred to, The Americas Group, our Consumer Brands Group and our Performance Coatings Group. And these groups really strive to ensure that we're providing our customers with these innovative solutions that we've been referring to, again, to ensure their success regardless of where they're working or the services on which they're working. The success of each of these segments is supported by a highly efficient global supply chain team. Where our scale and our ability to adapt allows us to leverage our expertise, drive synergy, and, of course, deliver world class service, innovation and efficiencies.

On this next slide, you'll see as many companies and industries have also been through the last three years. We've weathered a lot as a company, a lot of unique circumstances over the last three years. I know I don't need to tell all of you, but maybe is a level set. We've all been through this together, global pandemic, social unrest, national – I can't say the word natural, not national, natural disasters, unprecedented and industry wide raw material shortages, labor challenges and relentless and historic cost inflation. I'm really proud of the 61,000 employees who have not only navigated these challenges, but found a way to turn these obstacles into opportunities. We continued to invest in customer facing activities while at the same time challenging our teams to focus on bringing simplification forward.

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You'll see here just a list of many of the accomplishments that the team has been able to deliver during these challenging times. But the key takeaway that I'd like you all to really think about here is that, this group is battle tested. Today, we're a better company and we're closer to our customers. We're closer to our suppliers than we've ever been. I'd like to address what has enabled us to really meet these challenges head on over the past few years.

And what gives me confidence in our ability to continue to do so emerging as an even stronger company. At Sherwin-Williams, we talk a lot. You could ask anybody in the organization. We talk a lot about the clarity of mission, making sure everybody is crystal clear on what's expected of them and what outcomes we are looking for them to drive.

When 61,000 people are aligned, there's nearly nothing that we can't do. Underlying our business is a clear corporate purpose and that is we inspire and improve the world by coloring and protecting what matters. How do we do this? You've heard about this earlier, but it's our solutions mindset. We are laser-focused on not only solving our customers' needs, but solving their toughest challenges. Who benefits? We do take a holistic view here across multiple key stakeholders. And when we talk about how we do this with our teams internally, it's how we operate every day. We operate with the same Sherwin-Williams timeless values.

And finally, we're all in the room because of how we measure this. Sherwin-Williams has a culture of accountability, period. 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 of course, driving cash generation. Our Chief Financial Officer, Al Mistysyn will be talking about these metrics in a few moments later today. Additionally, we've elevated our commitment to driving sustainability and inclusion, diversity and equity. I'd like to dig in to the top portion of the slide and share a little bit about what I believe is so important to our success, and that is our solutions mindset.

I'm going to cover briefly cover four key areas that we really focus on here. The first is our relentless focus on our customers and their unique needs and the keyword there being their unique needs. Our customers are under continuous pressure to get more out of their labor and maximize throughput. Our commercial R&D and technical service teams are focused on helping them achieve these goals. There's a relentless focus on listening to our customers and meeting their needs. We do recognize it's not just about the lowest price per gallon, but it's about reducing the customer's total applied cost and working in close partnership with them.

The next slide, you'll see we tailor this wide range of services to a very specific set of needs. The list includes, and many of you do know this list, convenience store locations, highly knowledgeable store employees, specialized field sales reps, targeted training, robust digital capabilities, job site deliveries, technical support, blending facilities and much more. This allows us to create the right experience, whether it's for a small independent residential repaint contractor or a large global OEM.

And the next slide, I'll make a few comments here on innovation. Our customers have truly come to expect innovation and leadership from Sherwin-Williams, and we continue to deliver. We received the highest score among paint retailers, exterior paint and exterior stains in the J.D. Power 2021 Paint Satisfaction Study of Customer Satisfaction.

Innovative products help our customers to be more productive and that's what they are trying to do. From maintenance and durability to color and visual appearance to be more sustainably focused, we bring solutions. We have a strong legacy of innovation, and we're doubling down on our efforts. As part of our Building of the Future project, we're building a 600,000 square foot global R&D center in Brecksville, Ohio, which is right next

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door to our new global headquarters. The facility will bring chemists, engineers, technicians and support teams together in a state-of-the-art innovation hub. And we will support product development, coatings research, color technology and process engineering. And we're expecting this new facility to be open by the end of 2024.

Importantly, on the next slide, we'll talk on distribution. We've got the distribution model and platform to reach, meet and exceed our customers' ever changing needs and expectations. This model includes our paint stores, as I mentioned earlier, approximately 300 industrial blending facilities that provide this customization that's so core to our business and just in time delivery. Logistically, it positioned close to our customers. The model also includes several thousand strategic channel partner locations, nearly 132 manufacturing and distribution centers around the world and we connect all of this with the largest company-owned fleet in the industry, including over 800 tractors and 2,100 trailers and 3,000 delivery vehicles. Simply put, we can serve our customers when and where they need us.

On the next slide, given the challenges of the past year, arguably the past two years, we have taken every step possible to be very proactive in enhancing our supply chain. We get better as a result. And we get stronger as a result of getting better. Within supply assurance, we've – like many, we've strengthened our agreements with our – with suppliers and also qualified new ones to make sure that we're always on firm ground. We also completed the recent acquisition of Specialty Polymers, which is contributing to our resin needs with production facilities in Oregon and North Carolina, which reduces our geographic reliance on the Gulf. We're increasing this capacity in our business with modest capital expenditures.

Within simplification, we've made tremendous progress during these times in rationalizing SKUs and product lines. And there is still additional opportunity in front of us to continue to do so. Reformulation and platform consolidations are other opportunities. Within logistics capability, our existing fleet of tractors, trailers and tank cars have proven to be a key differentiator for us. Over the last year, we've used our fleet to pick up raw materials from suppliers and deliver them directly to our production sites. We're nearly doubling our tank wagons from 200 to 400 to continue to allow us to be nimble and flexible.

Within the capacity expansion, as John mentioned, we did bring on 50 million gallons of incremental architectural capacity online at the very end of 2021. The capacity is up and running and we're enjoying every gallon. We've also announced a recent $300 million investment in Statesville, North Carolina to bring on more capacity in 2024. On the industrial side, we've made some additional capacity investments in packaging, one of our fastest growing businesses.

And I'll take a minute to talk about the future of work. We've touched on this a bit in the past as the availability of labor continues to remain a challenge going forward. We're working to ensure greater productivity in our factories and distribution centers through automation projects, digital transformation, greater collaboration and very importantly, employee engagement. We often talk about these initiatives as unleashing the hidden factory, if you will, within our existing operations. From a sustainability standpoint, this is becoming an increasingly important element in how we conduct our business.

Last year at this event, we took another step forward on our sustainability and ESG journey by unveiling an exciting new framework for our efforts and continuing to commit to new goals. These are all designed to facilitate our progress and expand our positive impact on the world around us. There's so many wonderful things that we are doing right now in this area and progressing each one of these pillars forward. We'll be – soon to be releasing a report that you can absolutely access and will be available on our website to hear more details about some of the incredible work that is underway. And it will include a summary incorporating much of the TCFD framework.

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And while we don't focus on ESG to win awards, here's some of the important acknowledgments that the team has been noticed for. And we're proud of what we've done here. But like all things at Sherwin-Williams, we are committed to continuous improvement and there's a lot of opportunity ahead. We do look forward to continuing to make to our sustainability platforms. Of course, none of this success happens without our people. We have the best team in the industry. A great example of how we continually build on our team year-over-year is through our innovative management trainee program. The program began nearly 40 years ago and as you can see, it has a major positive impact on our company. Six of our current group and division presidents have come out of this program. 44 of our vice presidents and our Chairman and CEO, John Morikis himself has gone through this program.

We provide a path for career development and personal wealth building where people are driven to stay. It's one of the reasons that we do have such a strong culture and why people stay within our organization. Our employees are our 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 the sales reps who are the closest to our customers. This type of retention is really extremely strong for a business with such a large retail component. We think it speaks volumes about the kind of company we continue to build each and every day.

In addition, in 2021, we collaborated with a third-party to conduct our global engagement study. The following results from the survey speak volumes about our efforts in fostering an inclusive and supportive culture. And as we drive our business forward, we strive to always focus on the right balance of working in and on the business. And while that might seem obvious, I might just take a minute to explain how we're thinking about this.

When we talk of working in the business, we're focused on execution, near-term delivery on our goals that we've set forth and certainly delivering the year. We're focused on prioritization, simplification, communication and engagement and end-to-end supply chain. When we speak of working on the business, we're focused on thought leadership. Seeing around the corner and developing solutions for what's next, we're focused on strengthening our core, strategy differentiation, of course, M&A strategy and addressing any knowledge gaps. Working with our leaders and our teams to focus both in and on the business is how we will ensure that we are delivering the year while we're ensuring that we're focused on delivering the future success of our business.

Like to briefly touch on some key priorities here and obviously with the few words on here, there's a lot of, a lot of detail underneath us, but so that I can make sure that you all have a kind of a perspective across the enterprise and you'll hear a bit from the groups. At an enterprise level, we continue to focus on the key metrics. And of course you will see a focused, laser focus on innovation, speed to market, talent, sustainability, digital enhancement and transformation, continuous improvement, simplification and safety. In The Americas Group, you're going to hear from the teams here shortly a lot of focus on continuing to keep our foot on the pedal, on our strategy.

New stores, new accounts, share of wallet, customer reactivation, taking nothing for granted. Reactivation is going to be a key focus for us and of course price cost. In the Consumer Brands Group, it is DIY share growth and a continued focus on the growing and emerging Pro Who Paints, price cost and our Europe, Asia strategy. In the Performance Coatings Group, core account growth is key. Share gains, international PO – ROS rather, price cost and a continued focus on M&A.

Our global supply chain, while it enables all of these groups to bring these solutions forward, the key focuses here are technology platforms, logistics expansion, supplier diversification, capacity planning, footprint optimization, raw material simplification and automation.

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As I start to wrap up here, I do want to mention despite of being over 156 years old as a company, the best really is ahead. When you put all this together, our entire leadership team is convinced that Sherwin-Williams will continue to lead. We're extremely excited about where we are going. We have strong organic growth and margin expansion opportunities in all of our businesses. We have powerful brands and a compelling value proposition that helps our customers succeed. We're investing in growth through capacity expansion, stores, innovation, sustainability initiatives, and people. We generate high levels of cash to fund multiple priorities, including dividends, share repurchases and targeted acquisitions. We have the best employees, strong retention and strong recruiting.

Our culture is strong and our experience is deep. And most importantly, our customer relationships have never been deeper and we will continue to invest in what will set us apart and help them succeed. We're confident and we will win. At this time, I'd like to introduce our presenters for the day. Justin Binns is president of The Americas Group. Justin brings 25 years of experience with Sherwin-Williams, 20 of which were spent in TAG, including leading the Eastern Division. Justin has extensive knowledge of our paint stores, products and services and has a deep understanding of customers' needs across our various architectural markets. Prior to his current role, Justin served as president of the Performance Coatings Group.

Todd Rea is president of the Consumer Brands Group. Todd has 29 years of experience with Sherwin-Williams. During my time as president of the Consumer Brands Group, I had the chance to work closely with Todd side by side, and he's one of the best leaders during the toughest times. You're going to enjoy hearing from him. He's a tireless worker with an outstanding track record. I have great confidence in Todd and I'm excited to see where he takes our business. Karl Jorgenrud is president of the Performance Coatings Group and brings 28 years of experience in the industrial coatings industry to this role.

I've known Karl since our days at Valspar prior to the acquisition and prior to joining Sherwin, he's run two of our largest and most complex global industrial businesses. I have no doubt that Karl will continue to drive the Performance Coatings Group forward. And then after they speak, we'll wrap up today with someone that many of you know very well. That is our Senior Vice President of Finance and Chief Financial Officer, Al Mistysyn. Al has been with Sherwin-Williams for 32 years and in this current role since 2017. You will not find a better business partner, steadier hand or stronger steward. It's now my pleasure to turn the presentation over to Justin Binns.

Justin T. Binns

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

Well, thank you so much, Heidi. I used to be super proud of my 25 years and so, till I saw that last slide. Now I know I'm in last place, so I got some work to do. So hello, everyone and I can't tell you how thrilled I am to be here with each and every one of you in person. And as Heidi mentioned, my name is Justin Binns and I'm happy to have returned to TAG after several years of serving our Performance Coatings Group. I started my career at Sherwin-Williams over two decades ago as Heidi touched on in our stores. Over the course of those 20 years, I've led Sherwin-Williams as an assistant manager, store manager, sales representative, district manager four times, Vice President of sales and general manager of our Eastern Division. Prior to Rejoining TAG, I led our Performance Coatings Group, which includes six global industrial businesses.

I have been in my role as The Americas Group president now for about four months and I look forward to sharing our progress with you all today. From the onset of the pandemic to the natural disasters that impacted the supply chain, the last two years have certainly been full of challenges which Heidi touched on. But despite the worst, our teams continued to be unrelenting, putting their best foot forward for our customers every single day. So let's talk about who we are. In The Americas Group or what we call TAG we focus on our customers' business and our profound desire to be their best partner, and that's earned us the reputation as a marketplace leader.

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We are the paint brand favored by painting contractors. We're most specified by designers, and we are top of mind across all of our customer segments. So, let's take a look at those segments and who we serve. We define our customer segments into the groups that you see here.

In new residential, we focus on the interior and exterior painting of single family homes. We have strong and exclusive relationships with many of the nation's largest home builders. Our residential repaint customers focus on the interior and exterior repainting of these homes. This is our largest customer segment by volume or by sales rather, but also where we have our largest growth opportunity. Our commercial customers focus on new construction in the office, retail, hospitality, and other non-residential buildings. We've very deep relationships with architects, designers, general contractors and of course painting contractors.

Our property management customers focus on repainting of multifamily and other commercial properties, and we've earned many exclusive relationships in this space as well. Well, TAG is mainly focused on the pro painting contractor, and we also do serve a specific niche within the DIY segment where we cater to the do-it-yourselfer that's truly looking for a premium experience. And finally, in protective and marine, we provide coatings that protect the high value assets, including bridges, oil and gas infrastructure, water infrastructure and many, many others. Our store model provides a high level of service to these diverse customers.

So, let's talk about how we serve. We're a customer-first company. There's absolutely no doubt about that. We focus on services and solutions that improve productivity. You've already heard that a couple of times today, so that our pros can spend more time on the job. And as their productivity increases, so does their profitability. Investing our energy in differentiated solutions not only helps our customers reach their goals more quickly, but it helps us stand out as an industry leader.

So, let's talk about what we own, our unique controlled distribution model. And if you only remember one slide from my presentation today, this is the slide that you need to remember. The key to our success and our customer's success is our unique controlled distribution model. Every day, we demonstrate how our model, which has been built over many decades, delivers differentiated solutions for the professional painting contractor. Why is this model so successful, you might ask, because unlike competing models, we own the key elements from start to finish to ensure that we can deliver a premium experience.

From talent development to product innovation, to store mission, to customer data, to logistics and much, much more, we only control the levers that enable us to provide highly tailored solutions to meet the unique needs of the different customer segments that I described in my earlier slide. And we're constantly investing in and working to refine these elements, making them even more impactful for our customers.

So let me walk you through what we often call our ecosystem of solutions and services. We own our talent development and our retention [indiscernible] (00:55:31) programs. Our stores are only as good as the people who run them. And you're going to hear us talk a lot about that today as well. And I've certainly seen that firsthand, when you take a look at my career path.

Our management trainee program, which Heidi talked about earlier, and she touched on, is the true backbone of our business as it develops our future company leaders. As part of that MTP or manager trainee program, our people learn everything that they need to know about coatings, our customers, and how to utilize all the productivity enhancing resources that Sherwin-Williams offers. In 2021 approximately 1,400 trainees entered that program, ushering in another generation of leaders who will model our trademark customer experience, partnering with customers to offer solutions, and services and products that solve their most complex challenges.

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Even in the face of shortages and industry disruptions, we continue to maintain our valued relationships with our customers. And where there were obstacles, as our people usually do, they saw opportunities to get creative and keep all of our customers in paint.

We continue to invest in our employees because people are our biggest asset. We added close to a 1,000 full time jobs in 2021 alone, implemented multiple targeted wage increases, and increased the amount of paid time off for our full time employees. We have also expanded our employee resource groups with now over 250 chapters around the country, led by almost 2,000 employees, which include the African-American Network and OLA, which supports our Hispanic and Latin communities. We also have a Women's Resource Group Network and a Pride Network. Investments like these are why we continue to be a leader in the industry for employee retention. Our stores are also supported by 3,600 reps who work to partner with our customers in the field every single day. We will further grow this customer satisfaction by investing in additional segment focused reps armed with detailed customer data that's unparalleled in the industry.

Our reps typically start in our management trainee program that I touched on earlier and progress through managing a store before we put them out into the field. These reps become embedded in our customers' day-to-day operations with a big focus on helping them to succeed. And the key is their specific knowledge of how their customers businesses work. The needs of a small residential repaint contractor are much different than the needs of a large commercial painting contractor. Property management customers have different needs than new residential customers. And no task is too small if it aids our customers in being more productive. Our reps are trusted partners to their customers. They provide personalized service and support, which can range from anything to helping develop project bids, recommending the right product for each job, and ensuring the product makes it to the job site.

Now I'd like to share with you a video highlighting our employees and the extraordinary actions that they've taken to serve our customers.

[Video Presentation] (00:59:20-01:01:20)

Our people truly are amazing. And what I would tell you, through all the supply chain challenges and obstacles that we faced last year in our stores, we never ran out of our premium product, which is our people. So let's talk about what else we own, like our store count and our mission. Our store footprint allows us to be right where our customers need us, whenever they need us. The US and Canada divisions continue to maintain a strong presence as your neighborhood Sherwin-Williams store with a total store count of over 4,500. As Heidi touched on, we also plan to increase our store footprint even more by opening 80 to 100 stores annually, continuing our tried and [ph] true (001:02:08) process of opening new stores to better serve our customers, knowing that our stores are the overall key to our success.

In addition, our store mission is tailored to local area business needs and can evolve over time based on customers' needs. This way, we are always serving our customers with the type of store experience that matches their business and ultimately serves them the best. We also own our customer data and a robust digital platform. We own our point-of-sale data. The thousands and thousands of transactions that we complete across our store footprint every day provide us with deep insights into our customers' needs. Our point-of-sale data and customer history is funneled through our proprietary CRM system, which provides our reps with recommended next best actions unique to their customer based on their customers' behaviors and actions. Having reps focused on specific market segments with centralized customer data gives us great flexibility to pivot in any direction depending upon how the market moves.

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Beyond rough support we also offer digital solutions that provide our customers with personalized resources, tools and savings to help them grow their business. We continue to invest in our e-commerce platform and other business solution technologies that are highly focused on helping painting contractors. This is going to be a surprise to you, be more productive and more profitable. In addition to our betting tool, we recently launched our pro color selection toolkit, which is designed for our painting contractors to use with their customers. This allows colors to be selected more quickly and confidently, and it prevents a very common reason for project delays and issues. We know these digital solutions are valuable to our customers as we continue to see strong adoption across the [ph] board (01:04:27) and we also know that spend increases with this [ph] ProPlus (01:04:31) usage as well.

Coming soon are a few new other features like customer dashboards and job folders, which will enable our customers to easily manage their businesses and self-schedule delivery. And we are also launching Scan the Can, which offers highly efficient ways to order online. We also own our product innovation and our offering. We own the product innovation process, which is based on the rich insights we gather from our close relationships with each and every one of our customers. We understand customer's articulated needs, but perhaps even more importantly, we understand their unarticulated or unmet needs. We developed highly proprietary and patented formulas and this is critical. We also own our own color and producer, which ensures that we have color consistency each and every time across all of our product portfolio.

Continually innovating with new coatings is a key reason that Sherwin-Williams enjoys such strong customer satisfaction. We focus heavily on coating application benefits as well as providing the right products for the right situation, yielding customer process efficiencies and profits. Some of our latest product innovations include Latitude with climate flux technology. This product offers a very smooth application in extreme temperatures as outstanding dirt resistance and excellent early moisture resistance and Scuff Tuff with its excellent wash ability and burnishing resistant, it stops scuffs before they even start. We also have the ability to manage our offering giving us great control and managing our SKUs and continually improving our mix with products that continue to deliver greater benefits.

We own a dedicated logistics and delivery fleet, whether through our stores, our reps, our door delivery, our daily interactions with our customers help them run their businesses. Through our high touch delivery service, our customers can spend more time on the job site and less time on the road. Pros who used our free delivery service frequently in 2021, on average spend ten more days painting instead of driving. We have over 3,100 trucks and 2,900 drivers that average over 2.3 million deliveries a year. That's over 8,900 deliveries a day. Many of these deliveries are also made the same day that the order was placed, which sets us apart from our competition. On top of that, our people also have a special understanding of customer job sites and where those products need to be stored.

We own consistent and disciplined pricing. While other retailers may be relying on someone else's conditions, Sherwin-Williams holds full ownership over pricing decisions and promotional activity. Our ability to take quick action without a middle person lets us respond to economic demands and market shifts without getting stuck in a bind. We have the upper hand and being able to maintain effectiveness on our terms, no matter the situation. We own inventory control.

We're in the driver's seat when it comes to inventory control, from capturing the right inventory to strategically locating distribution centers, we have the right inventory and insights to match where we think the demand is and where it's going. This advantage gives us the ability to control inventory and anticipate future needs, so we can focus on always providing the right product and the right product mix.

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Now, what do our customers have to say about us? As a result of our employees' efforts in a range of solutions 97% of our customers let us know they'll buy from us again and 95% would refer us to a friend. These numbers speak volumes, especially during a time when we were navigating supply chain challenges and all of this goes to show that strong customer service certainly leads to more business, more referrals, and that it's going to pay huge dividends for us in the future.

While competitors continue to add complexity through hybrid partnership models where no one has complete visibility or ownership of the customer, we add value through our controlled distribution model. From the development of our polymers to our own delivery fleet, we oversee the distribution process from start to finish, to deliver a consistent customer experience that's based on simplicity and intimacy. Whether it's the ease of doing business with our nearly 5,000 all company-owned stores, or our deep data-informed customer knowledge base and relationships, we own the process, and that quite simply, is how we win.

Thank you all for your time today. It's now my pleasure to introduce Todd Rea, our President of our Consumer Brands Group.

Todd D. Rea

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

Thanks, Justin, and good afternoon. As Heidi mentioned, I'm Todd Ray, President of our Consumer Brands Group. And I'm also excited to be here with you live in New York City. I've been with Sherwin-Williams for 29 years and spent the vast majority of my career on the consumer side of our business. I've had an opportunity to hold a number of different leadership roles in Consumer within the last 29 years, including my last role as the President of our North America business prior to coming into this role. I have experience working across pretty much all of our channels of distribution, including retail, mass, specialty and industrial. And I'm fortunate to lead an experienced and diverse leadership team that's focused on driving this business. And I look forward to sharing more about the Consumer Brands Group and the growth opportunities that I see going forward.

Consumer Brands Group provides our strategic channel partners with access to a portfolio of industry leading brands that are supported by best-in-class, high-touch service. We offer differentiated solutions and service that add value to our customers. Everything we do is consumer focused and customer driven. We bring in-depth knowledge of our consumer base to our strategic partners to give them and us the best opportunity to succeed. We serve our customers with the highest touch service possible to ensure execution in store and on shelf.

On the previous slide, I talked about our value proposition, and one of the key elements of this is our high-touch service. We think about our business as if we have to sell every gallon, every paintbrush, every can of stain, every single product twice. And what that means is we have to first sell to our strategic retail partners, and then we have to inspire consumers and pros to buy our products through their stores. And we do this by focusing on the right brands, the right partners, and, of course, the right solutions. Our goal is to demonstrate and grow the value of our brands by providing our retail partners with services that elevate each brand and ultimately drive traffic to their stores. We are only successful if we help our customers be successful. Our teams are hyper focused on end users and we use these trends and innovation that they are demanding to support our business. This is how we uncover opportunities and find new ways to customize our solutions to our customers. Throughout the rest of this presentation, I'll talk in more detail about what we are doing the right combination of brands, partners and solutions.

It all starts with having the right brands and we are confident that we have the right brands to execute on our strategy. We have assembled a portfolio of leading industry brands that are supported by products that

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differentiate and provide new technology. These are destination brands that attract consumers to shop at our retail partners. Our Valspar and HGTV Home brands at Lowe's continue to generate deep loyalty amongst DIY consumers and professional consumers. Our Dutch Boy brand at Menards has been trusted by consumers for decades. We have the best painting tool brand in the industry with Purdy brushes and rollers and our Minwax and Cabot brands as well as our Thompson's WaterSeal brands, are recognized as industry leaders by both DIYers and pros. With a strong distribution footprint, these hero brands are the core strength for CBG and present our biggest growth opportunity. Now, I'd like to share a short video that I believe demonstrates the power of our hero brands.

[Video Presentation] (01:15:20-01:16:55)

Hopefully this video gives you an idea of the role that our brands play and products play in inspiring consumers. Our portfolio of industry leading brands are sold through key strategic retail and channel partners, globally. In North America, we sell our products through two major home center retailers, Lowe's and Menards and we've been investing heavily in growing both the DIY and pro business for years.

We also have a broad reach of distribution through key partners like Do It Best, Orgill, Ace and Walmart just to name a few. We continue to make strategic investments to support our partners such as product innovation, digital tools, in-store merchandising and field support. In addition, in North America, we have architectural positions in both Europe and China. In Europe, we distribute our Valspar and Ronseal brands through key retail partners like B&Q and Homebase in the United Kingdom, Brico Dépôt in France and Castorama in Poland. And we expect to continue to grow our footprint in Europe with these great partners.

In China, we sell our [indiscernible] (01:18:17) brand primarily through retail showroom and project distributors that reach both the professional and the residential consumers. Our strategy in China continues to evolve as there has been significant challenges over the past couple of years.

You hear us talk about the Pro Who Paint segment, which presents a terrific opportunity for growth for us through our key partners. This is a customer that's a significant part of the market typically remodeler, renovator or general contractor that shops frequently and enjoys the experience offered by a [ph] Home Center (01:18:56) or a hardware store. We've seen strong growth in this particular segment of our business over the last few years, and we are encouraged by the investments that we are making, specifically ensuring our partners have a complete pro product offering of paints and supplies.

We're investing in customer engagement through sales rep support of these initiatives. Over the last few years we've invested significantly in new pro reps and we have plans to keep adding more. We offer best-in-class training for our partners so their sales teams know how to qualify a customer, understand the need of that customer, and ultimately drive conversion and loyalty. We work with our partners to expand distribution capabilities through driving fulfillment of products directly to job sites and supporting their online capabilities. And last, ensuring that there's a strong connectivity between their pro desk and the paint desks with both inside and outside support.

Innovation is a critical part of our growth and is core to our business and comes to life through unique products and brand touch points. We like to focus innovation on premium positions within our portfolios and product lines. Most recently, we introduced Valspar Defense, which has advanced water beading technology and is a one coat exterior paint and primer, as well as HGTV Home by Sherwin-Williams Everlast, which has self-cleaning technology and extreme weather protection. We also like to keep our categories fresh, and we look for ways to make painters more productive on the job.

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As you'll see with Purdy and our new organizational storage system, we help painters stay organized and be more productive, saving them time on the job. Every solution with our product, our brand touch point is always rooted in a consumer insight. When our brands successfully address these consumer insights, they establish high levels of loyalty, and ultimately make it easier for our retail partners to convert shoppers into buyers.

We focus heavily on superior category management so that we can make it simple for consumers to find the right products for their project every time they're in a store. This begins with how we compile insights from sales and marketing data to develop and drive channel strategies. Our customer strategy and commercialization teams use this information and provide services that help our partners successfully execute at store level. Some of the things we do make sure that the right assortment of products are on the shelves in the right markets based on customer demand. We use extensive data analysis and we work with our partners to assure inventory is optimized to drive productivity. We work to develop informative merchandising solutions to help consumers choose the right products for their project every time and we identify promotional opportunities and built activation plans to increase traffic and drive conversion.

A critical part of our value-add model is associate training and field support. It's a high-touch service model and we have a world-class training support for our partners, so that they are successfully – so they're successful selling every product twice. Our best-in-class sales organization and L&D teams have developed comprehensive training programs to serve all of our customers. These extensive training programs include deep product knowledge on all of our products [ph] color (01:23:14) confidence so our partners can assist customers in making this important decision. We train on project selling to drive attachment rates and general selling skills, so that they can increase close rates.

We've invested in and leveraged the most up-to-date technology, so that we can provide training to our partners in any format that they need whether that's in-store or virtually through innovative learning platforms. Our training enables our partners, employees to successfully assist customers with paint projects, which converts foot traffic into sales.

We know how important the in-store experience is and through research, we know that consumers make multiple visits during their project journey. This is in addition to online research, which is also a critical part of the shopping process. So we work closely with our partners to create an in-store experience with our brands that makes shopping easier and gives them confidence in choosing the right product for their project. For example, with paint. It all starts with the color journey. And we offer color tools in collections that make it simple for them to pick the right color for their project.

Our brand teams develop effective in aisle merchandising that make it easier to find the best product for their project and our in-store merchandising is focused on making sure that the consumer has the best possible experience for our brands. This includes a focus on the highest quality products that deliver the best features and benefits.

As we shift into a more digital world, we realize that we have to be where consumers want to be and when they want to be there on their journey. We know that our end users shift between in-person and digital platforms throughout their shopping journey and we have opportunities to inspire them throughout that entire process. Therefore, we work to provide a seamless omni-channel experience that produce digital tools that overlap with the in-store experience.

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This includes a new Valspar.com website that offers tools like free color chip delivery to your home or free online color consultation to simplify the color selection process. We've relaunched many of our brand websites on a new platform and will continue to heavily invest in our digital capabilities so that we meet customers wherever they are in the process.

Lastly, I believe there is opportunity for us to capture more value and we are not backing off our stated goals of margins in the high-teens or low twenties for this business. We are constantly evaluating our business practice to improve our returns, and we believe that we can optimize our business through simplification efforts and strengthening our core. Simplification can come in many ways and we are looking to reduce complexity throughout our entire operating model.

First, we focus on a disciplined product portfolio management that will improve our overall business mix. We've developed a robust stage gate process to assure that we are making prudent decisions with new product development without adding unneeded complexity to our operation.

Coming out of the raw material constrained environment, we realize that we have opportunities on SKU rationalization, and we expect to reduce a significant percentage of our SKUs by 2024 by looking at long tail products that introduce complexity. Our product teams are working with our R&D and our procurement teams to leverage product and technology platforms that will allow us to formulate products with more speed or are more efficient for our operations or for our suppliers.

And we'll continue to look at our distribution footprint in all of our regions. If you recall, last year we divested the Wattyl business in Australia, New Zealand, to enable greater focus on our core growth strategies. Ultimately, we have set new financial thresholds that will drive a more disciplined approach to how, what and where we will do business.

In closing, I am confident that we are strongly positioned to sell every gallon twice with the right brands and the right solutions as well as having the right partners that are strategically investing in their business for growth. As stated, we can only be successful if our partners are successful, and we believe our solutions-based approach is how we will achieve this goal. Additionally, we have the right talent. Our world-class team understands what it takes to deliver on our goals and have the products and tools to do so. Our seasoned leadership team is focused and determined to maximize profit in all regions.

Lastly, our efforts to simplify our business model will position us to create more value and maximize our profitability. I want to thank you for your time today. We will now take a break. Thank you.

[Break] (01:29:43-01:50:18)

Karl Jorgenrud

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

Okay. If you could please take your seats. We're going to start again with the presentations. All right, good afternoon, everyone. We're at the final homestretch here, but thank you for joining us. Welcome to the Performance Coatings Group section of today's presentation. My name is Karl Jorgenrud, I serve as the President of Performance Coatings Group and we refer to that internally as PCG. So you'll hear that a little bit this afternoon.

As Heidi mentioned, next week I'll actually be celebrating my 28th year of service with Sherwin-Williams. I joined the Sherwin family through the Valspar acquisition and have spent all of my career in the industrial and coatings

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space. Since joining Sherwin, I've been fortunate to be the – serve as the President and General Manager of our Protective & Marine division, as well as our President and General Manager of our General Industrial Group. And I'm really excited to be here with you guys to represent the PCG family and share all the great work that the team's been up to.

Like all of our industrial sectors in today's economy, PCG has experienced tremendous challenges throughout the past few years. But our customer-first team has pursued creative solutions across all of our market segments to continue to drive growth for us and our customers. As a reminder, the six divisions that drive PCG's success include Automotive Refinish, Coil, General Industrial, Industrial Wood, Packaging and Protective & Marine.

And supported by knowledgeable experts, our divisions work relentlessly to develop innovative, profit enhancing business solutions for our customers. And although each division serves its own set of niche markets, they all operate under one cohesive value proposition, which unites PCG together. So, bolstered by our customer-first culture, we are strategically structured to provide total business solutions that differentiate us from our competitors. And through our innovative products and technologies, global expertise and local service model, we're able to serve our customers in ways the competition simply can't. And our approach keeps evolving to meet the ever changing dynamic needs of the market and our customers.

Now, our value proposition is what differentiates us from our competitors, but our ability to capture and maintain market share is the direct result of our core capabilities and the knowledge, the skills and the dedication of our people exemplified day in and day out from the office out to the field. These competencies are what earn the trust of our customers, and they lay a solid foundation that allows us to sprint or pivot as necessary, and they position us for steady growth. And we'd be remiss, if we didn't mention the talented group of division presidents, who lead these efforts on a daily basis. These six individuals possess more than 173 years of experience, and they join me here today, and I do want to thank them for their dedication and service to the Performance Coatings Group and champion our customer-first culture. So, thanks guys.

So, now let's dive a little bit deeper into each one of these core competencies starting with our customer-driven innovation. So customer listening is a key component of our research and development process, from concept to commercialization, we focus on strategic solutions that propel our customers forward in their respective industries with the strong emphasis on driving productivity and profitability in their world. We also look at global trends that impact our customers, like environmental stewardship, health and wellness, labor shortages, digital disruption to anticipate their needs in the future as well. And a great example of a customer-driven project that fuses real-world insights and global trends is Collision Core.

This is our interconnected suite of apps for the Automotive shop owners, designed to improve cycle time and profitability, increase intake capacity, improve quality and optimize labor. The recently launched inventory app eliminates the need for manual ordering, which frees up valuable time for our customers and helps them control their costs. The production app allows customers to gain real-time visibility into what's in progress and what's complete, which optimizes shop scheduling for them.

There's also our line of award-winning FIRETEX products from our Protective & Marine division that deliver critical fire protection using advanced fireproofing technology. These products create solutions that address aesthetics, safety and shop throughput for engineering, procurement and construction customers. And we've seen success in the numbers, with sales expanding nearly 40% since 2020 for that product line.

In our Packaging division, we're excited to see the expansion of the valPure line, which now includes a revolutionary technology for light metal packaging. The V70 series meets the performance standards of legacy

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BPA can coating alternatives, but does not contain BPA and helps to meet both manufacturer and consumer demand. This versatile technology can be used for multiple pack types, too, which streamlines production capabilities for our customers. And our General Industrial division has launched Duraspar Prime High Speed primer, which uses innovative, rapid cure technology to reduce oven dwell times and speed up production lines. This technology also promotes exceptional hardness, which allows customers to start handling parts sooner, ultimately increasing throughput in their factories.

And finally, in our Coil Coating division, later this year, we look forward to introducing a new line of radiation cure coatings called RadGuard. Now, RadGuard is a 100% solid urethane resin product line that has very low VOCs and supports ultraviolet and electron beam radiation cure technologies, which uses less energy and allows for faster production rates. So now we're always excited to talk about innovation, but, but our real secret sauce that we have is, is our people. And that's our biggest asset. And with 1,800 sales managers and representatives, 1,300 technical representatives and 1,500 R&D associates, our employees possess the diverse skillsets needed to understand every facet of our operation and how to best serve our customers.

They're constantly offering expertise, support and solutions to our customers, whether we're onsite at a customer shop, demonstrating an innovative new product or working with our manufacturing, sourcing and supply chain teams to help keep our operations in motion. Our people provide the highest level of service in the industry. And that can be attributed to the length of service they've had with Sherwin-Williams. Our representatives possess an average of 20 years of experience with the company, which is amazing. And while it starts with our people, our connected global expertise extends through our wide network of training centers and labs, which serve more than 75 countries around the world.

And these facilities allow us to provide customers with local service while also using our global resources. And that combination is unmatched in the industry. And then there's our exceptional color and design ecosystem within Sherwin. And this has the best experts, tools and services in the industry. And our customers look for the latest and greatest in color capabilities, from inspiration to customization. And with brick-and-mortar design facilities that specialize in color ideation and dedicated color labs equipped to produce eye catching effects like sparkle or color shifts, we're able to make customer dreams a reality from a color perspective.

And for prospective customers or customers who like to stay on top of futuristic product design, our color trend forecasts serve as an inspirational and educational guide as they expand within the world of color and design. For our customers in need of precision, color matching and retrieval, we have convenient and easy to use and navigate color tools designed for ultimate accuracy, ranging from handheld color readers to state-of-the-art color reading systems, we have the ability to equip our customers with onsite tools that keep their operations running smoothly and quickly.

And as an extension of our global expertise and talent and then color capabilities, we own more than 300 industrial blending facilities and automotive branches throughout the world. At these locations, customers have access to inventory, tinting and blending and sales and technical support. And the service is fast. Our customers have come to rely on us for our quick turnaround capabilities, which help expedite the operation – their own operations, and stay on top of project timelines. And within the last few years, we've adopted new operating systems that allow us to measure our own efficiencies, like how long it takes to blend a gallon of paint or how quickly it takes to fulfill a customer order. And since then, we've been able to decrease costs and labor at these facilities and drive core count growth, which is a win-win for us and our customers.

As for sustainability, it's just part of how we do business at Sherwin-Williams. Our commitment to reducing our environmental footprint is evident across company-wide goals, such as increasing renewable energy usage and

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reducing waste disposal intensity. And I think especially noteworthy is our Sustainability by Design program, which is a significant effort in our five stage, stage-gate process to formally incorporate sustainability attributes such as lifestyle – lifecycle thinking within our innovation and product development processes. So, in the spirit of continuous improvement, this program enables us to evolve our processes to deliver and grow our sustainably advantaged product offering. And a great example of that falls within the valPure V70 Series from our Packaging Coatings division, which I referenced earlier in the Innovation Section.

This product line has achieved platinum level certification from the Cradle to Cradle Products Innovation Institute, which is the global standard for products that are safe, circular and responsibly made. We've also launched our line of Powdura ECO powder coatings from the General Industrial Division, which uses an innovative polyester resin comprised of 25% pre-consumer recycled plastic. So each pound of Powdura ECO powder contains the equivalent of 16 ounce plastic bottles. This coupled with Powdura ECO's ability to meet and exceed existing powder coating performance standards, appeals to both manufacturers and consumers looking to reduce their environmental footprint.

And in our Automotive division, we've launched A new product within the Ultra system line, the CC250 Dynamic+ Clearcoat. Not only does this product offer superior performance when compared to other clear coats, but it has fast application times and quick dry properties creating significant energy savings in the process.

And lastly, we'd like to highlight our cool roof coatings from the Coil Coating division, which contains solar reflective and thermal eminence pigments that reflect infrared radiation and absorb visible light. So essentially, these coatings make roof stay cooler, which lowers energy costs significantly. They also contribute to four LEED credit categories at which, as we all know is becoming increasingly more important for our customers in the building sector. So when it comes to acquisitions, we pursue strategic and selective opportunities that are driven by unique, high-value technology, geographic footprint, above-market growth and exceptional expertise and talent. And we seek prospects that will diversify and enhance our current capabilities whether that be through new product categories or production facilities.

And since the acquisition of Valspar, we've acquired seven additional companies that have all brought a unique advantage to our business. Each one has strengthened our market position and the roster of talent and expertise across the various industrial sectors we serve. And most recently, we announced our successful acquisition of Sika's European Industrial Coatings business, which brings unique anti-corrosive technology and manufacturing capabilities to our Protective & Marine division. We also acquired Tennant Industrial Floor Coatings, which diversified our high-performance floor coating portfolio. And supporting our General Industrial division, we acquired AquaSurTech, a leading manufacturer of durable water-based coatings for the vinyl and PVC building products market.

Now, all of these businesses have proven to be fantastic additions to the Sherwin-Williams family, and our pipeline remains very strong. In fact, we expect to announce another bolt-on transaction very soon. So now everything that we've talked about today ultimately leads to this final slide and why we have such confidence in our commitment to achieving an ROS in the high-teens, low-20s for the PCG business. And as we outlined today, these core competencies and our people are what drives our success. And as we move forward with the second half of 2022, the mission is extremely clear. These teams will continue to drive volume, win new business and take market share, and capture price to offset the cost of inflation.

And driven by our unique value proposition, which is really centered around customer-driven innovation and an unmatched ability to service and support our customers, we believe we are showing strong above market growth, outpacing overall industrial output. And paired with our platform simplification strategy, which has us consolidating

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raw materials and SKUs to reduce complexity and risk, these drivers enable our business to be more agile and ultimately allow us to save resources and improve our operating efficiencies, which will boost our bottom line.

And as for in terms of additional acquisitions, we will continue to seek opportunities that bring new and innovative technologies to our portfolio, strengthen our position in strategic markets, and diversify the expertise, the PCG uses to serve our customers. So, speaking of customers, I think it's about time we actually hear from them. So, next we're going to hear the voices from various markets we serve within Performance Coatings Group.

[Video Presentation] (02:06:40-02:08:50)

Well, hopefully you enjoyed hearing from the customers as much as I do. I love that video firsthand. And again thank you for your time today and now we're going to hear from our Senior Vice President of Finance and Chief Financial Officer, Al Mistysyn.

Allen J. Mistysyn

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

Thank you, Karl. Good afternoon, everyone, and thank you for joining us today. I'm going to reinforce many of the messages you heard from John, Heidi, and the Group Presidents that they highlighted today. You heard John talk about the favorable long-term market dynamics for our North American architectural and general global industrial businesses. Heidi talked 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. The solution-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. And you heard the Group Presidents talk about the many opportunities we have in each of our businesses.

Today, I'm going to present the consolidated financial metrics and results we believe drives shareholder value. These consolidated results exclude acquisition-related costs and other onetime adjustments. And we provided detailed schedules in the appendix to reconcile these results, the results as reported. I will spend my time on 2021 results compared to 2020, our capital allocation philosophy. And I will discuss our consolidated sales guidance for second quarter 2022 and full year consolidated sales and EPS guidance. As always, my presentation will include forward-looking statements as defined under US Federal Securities Law.

Sales in 2021 increased 8.6% to $19.9 billion. I'm not going to go through the detail by segment or region. I refer to you our 2021 year-end call in January for more information on those topics. As Heidi mentioned, we have been through a lot over the past three years and the team has responded. The three-year compounded average growth rate 2019 through 2021, excluding the impact of the ANZ divestiture, was approximately 5%. By segment, my long-term growth expectations for TAG are to grow mid-to-high single-digits, and this is we expect to grow 1.5 times to 2 times the market growth. Consumer Brands Group, growth of low single-digits and then Performance Coatings Group growth of mid-single digits including acquisitions.

We expect market share gains as we continue focus on customer solutions, including the convenience of new stores, support from dedicated sales reps, experienced store employees with low turnover, innovative new products, and digital solutions that help our customers be more efficient and make more money. For the full year, 2021 gross profit decreased 1.7% to $8.5 billion and gross margin decreased to 42.8%. On a three-year stack, we generated over $25 billion of gross profit and a 45% gross margin. We faced a number of raw material headwinds in 2021, including raw material shortages, due to natural disasters, which negatively impacted our architectural volumes, primarily in the Americas Group and significant raw material inflation was – which was up the low 20% range.

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And as Heidi mentioned, our team's response was quick and decisive. And many of the improvements, such as working more closely with our customers, improving our security of raw material supply and internal supply chain improvements, will provide better service to our customers long-term and improve our gross margins. Additionally, we implemented significant price increases across all of our businesses and regions to offset the raw material inflation.

TAG recently implemented a 12% price increase effective February 1, 2022, and the effectiveness of that price increase has been slightly better than previous increases. That being said, we have been out across all our businesses, in all our regions. And we will continue to monitor the raw material basket and other input costs and increase – implement pricing actions as required.

For 2022, as John mentioned, we maintain our raw material cost outlook to be up low double digit to mid-teens, trending to the higher end of the range. And as we stated on our first quarter call with improving volume, the pricing actions we've been taking and the continuous improvement projects that have been implemented, we're expecting sequential gross margin improvement as 2022 progresses. And as a reminder, as it's historically the case in a raw material inflationary environment, as raw materials increase, we typically see a short-term contraction in gross margins then as pricing actions catch up with the raw material inflation and we start to see recovery and then expansion as raw material costs moderate.

And acknowledging, there are differences in the drivers of inflation in this cycle. We believe we are in a very similar cycle to 2010 through 2012 where we experienced significant raw material inflation and implemented six-price increases in 22 months. As raw materials moderated, we experienced significant gross margin expansion to approximately 600 basis points from 2013 to 2016, with 2016 being the all-time high gross margin of the company. We continue to expect our long-term gross margins to be in the range of 45% to 48%. We have confidence in our ability to expand our gross margins long-term through required pricing and continuous improvement initiatives across the company.

2021 SG&A increased 1.7% to $5.6 billion and was 28% of sales, down 190 basis points compared to 2020. We continued to invest in our long-term growth opportunities, and we're very committed to this. As Justin talked about how we own the customer experience.

We continue to invest in new stores and sales reps in our North America Paint stores. We opened 79 new stores and added over 100 reps compared to 2020 and continue to invest in our e-commerce initiatives. Todd talked about selling every gallon twice. In our Consumer Brands Group, we continue to invest in our hero brands in those programs that drive increased gallons through our customers departments and including investments in the PRO paints. And Karl talked about our customer-first culture. And in Performance Coatings Group, we continue to provide increased services and solutions our customers value, including adding field service and technical reps. And in over a three-year period from 2019 to 2021, we invested over $16.3 billion or 29.1% of sales.

The investments we have made and continue to make give us confidence we have positioned ourselves to better to grow a multiple of end market demand. Although, we don't give guidance on SG&A as a percent of sales, you can expect us to consider to see leverage on SG&A over the long-term as we grow sales faster than our SG&A increases. Our focus is on growing operating margin, either through gross margin expansion or through SG&A leverage. Based on the factors we just – I just discussed, 2021 operating income decreased to $3 billion and our operating margin decreased to 14.8%. But on a three-year stack basis, we generated approximately $9 billion of operating income and our operating margin was 16%.

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This slide shows full year adjusted profit before tax in the light blue bars and profit after tax on the dark blue bars. 2021 adjusted profit before tax decreased 6% to $2.7 billion and PBT as a percent of sales was 13.3%. Profit after tax decreased 3.7% to $2.2 billion and was 10.9% of sales. On a three-year stack, profit before tax as a percent of sales was 14.1%, up 160 basis points compared to the full year 2018 and profit after tax as a percent of sales was 11.4% compared to 10% in 2018. Adjusted EBITDA decreased 6% to $3.3 billion and was 16.4% of sales.

Over the three-year period 2019 through 2021, we generated just over $9.7 billion and a 17.4% of sales. We're going to continue to drive our results through volume growth as we continue to invest in our controlled distribution model and sales reps in North America Paint stores. Our 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 EBITDA margin growth.

Return on net assets employed, as we define it as adjusted profit before tax divided by our average net assets employed, which includes working capital, net fixed assets, goodwill and intangibles. We use the average net assets employed to account for the seasonality of our business. Our teams continually focus on how to get the most out of our assets. We measure our performance on asset utilization with this metric. You can see the results over time. But the highlight here is we have grown this metric from the low teens in 2018 with a full year of Valspar, including all the goodwill and intangibles to the high teens in 2020 and 2021. And my expectation is we'll continue to drive our asset utilization and efficiencies to drive this metric over 20%.

Working capital defined as accounts receivable plus inventory less inventory. This chart shows the working capital dollars on the bars and that line represents percent of sales. We believe working capital management is a core competency of the company. 2021 yearend working capital was $1.9 billion, an increase of 6.4% compared to last year, it was 9.4% of sales, which is well below where we want to run the company. This is due to our 2021 year-end inventory gallons being below than – lower than normal due to the raw material available issues we faced. And it minimized our typical year-end architectural inventory build. As we discussed on our first quarter conference call, and John highlighted raw material availability improved throughout the first quarter and significantly in March.

And March was the single largest architectural manufacturing month in the history of the company. As we were able to begin utilizing, this 50 million gallons of additional architectural capacity that we – was recently completed, and you heard Heidi talk about that, you heard John talk about that, I'm talking about it because it's important. It's going to allow us to build significant architectural inventory in our – through our first quarter. But also, we're going to run these factories hard through remaining part of 2022 and into the first quarter of 2023 to allow us to build our inventory – architectural inventory back to more historical levels as we enter the 2023 architectural selling season.

Our target working capital as a percent of sales remains at 11.5% – 11% to 11.5% of sales. This bar 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 $2.2 billion in operating cash and $1.9 billion of net operating cash less CapEx, which was 11.3%and 9.4% of sales respectively. Over a three-year period, from 2019 to 2021, we generated net operating cash of approximately $8 billion or 14.2% of sales. And net operating cash less CapEx of approximately $7 billion or 12.4% of sales.

The strong cash generation allowed us to return $7.5 billion to our shareholders in the form of dividends and share buybacks. Our targeted steady state future free cash flow defined as net operating cash less CapEx is to be greater than 12% of sales. And this is excluding the capital we're going to spend on our building, our future headquarters and R&D projects. And this is over the long-term as we continue to grow sales at a multiple of end-

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market growth, increase our US architectural and Packaging Coatings capacity, and implement systems that allow us to improve our service and manage our inventories better.

We have a consistent capital allocation philosophy. We will not hold cash. We believe our target debt-to-equity ratio yields a high BBB rating. And with our 2021 net operating cash generation, we returned over $3.3 billion, an increase of 13.8% over the prior year, to our shareholders in the form of dividends and share buybacks. We continue to invest 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 2021, we spent $372 million, including $56 million on our capital – on our building projects. And our core CapEx was 1.6% of sales.

For full year 2022, we expect core CapEx of approximately $415 million that's 1.9% of sales plus an additional $450 million for our building projects. And I will highlight dividends, acquisitions and treasury stock in the coming slides. But first, this pie-chart shows net operating cash as reported over the last – past five years from 2017 through 2021 and the uses of that cash of that same time period. We have generated over $12 billion in net operating cash over this time period or 13.3% of sales. We have returned over $8.7 billion to our shareholders in the form of dividends and share buybacks. We've invested it in the business in the form of CapEx and core CapEx was 1.5% of sales.

As Karl mentioned, we completed seven acquisitions for approximately $300 million and we reduced our debt over $2.4 billion from the peak at the close of the Valspar acquisition at January 1, 2017, through the end of 2021. Also like to talk about our debt to adjusted EBITDA. And the dark bars are debt, the light bars are adjusted EBITDA and the line is the leverage ratio. Our 2021 debt-to-adjusted EBITDA increased 2.9 times – to 2.9 times, up slightly from 2.4 times in 2020, as we upsized our debt in the fourth quarter to primarily account for the Specialty Polymers and Sika acquisitions. The first quarter 2022 is included on this chart and you can see the uptick in the ratio to 3.4 times due to the higher debt to fund the acquisitions and the need to fund increased working capital needs as is typically the case in our first quarter.

For the full year 2022, I expect to be at the high end of the targeted 2 times to 2.5 times leverage ratio range as total debt will remain flattish and EBITDA growth primarily in our second-half will decrease this ratio as the year progresses. We have very manageable debt maturities with $260 million that came due June 1, which we paid off. We have no debt maturing in 2023, very manageable tranches out to 2026. And our target debt to adjusted EBITDA ratio of 2 times to 2.5 times excludes operating leases, which we will add about a 0.5 turn to the ratio.

We've consistently returned a portion of our cash generated from operations to shareholders through our dividends. 2021 was the 43rd consecutive year of dividend increases. In 2019, we returned to our historic dividend policy of returning 30% of prior year earnings to our shareholders. In 2021, we increased the dividend 22.9%, and the three-year compounded average growth rate through 2021 was over 24%. In 2022 management has proposed a dividend increase of 9.1% to $2.40 a share, which will require approval by our by our Board of Directors for the remaining quarters. 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 above average return. We target companies that accelerate our long-term growth strategy and leverage our capabilities to accelerate sales growth, operating margin expansion and cash flow generation. I'm just reinforcing what Karl said, and I'm going to reinforce that. We look for companies that bring new technologies that we can 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, in Latin America. And we're looking for even – we're also looking for acquisitions to

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fill geographic gaps. At the same time, I think this is important 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.

We take a consistent long-term approach to treasury stock purchases. And going forward, absent acquisitions, we will buy our stock back. Staying consistent with the past three years' performance, we have purchased 20 – almost 27 million shares at an average cost per share of $223.04. Over the past 10 years, we have purchased approximately 90 million shares for an average cost of $116.54, and that includes no share repurchases in 2016 and 2017, as we conserve cash, we conserve cash to service our debt. Our average diluted shares outstanding has climbed over 14% over that time period. And we continue to buy our shares in the first quarter of 2022, purchasing 1.45 million shares for $407 million.

We have strong financial profile and it remains strong in 2021, despite the challenges brought on by the natural disasters. We have great relationships with our banks and has strong liquidity sources. At the end of the first quarter of 2022, we had approximately $1.8 billion remaining in available liquidity sources. Strong annual cash generation allows us great flexibility to pursue growth opportunities both organically and through acquisitions, and our credit ratings have remained stable over the past year. We continue to build on our strong foundation and focus on our core operating disciplines.

As Heidi and the Group Presidents described, we will continue to provide our customers with the solutions they value that allow them to succeed and provide a return to our shareholders. We have an experienced and determined management team. We are confident about our strategy in delivering strong results over the long-term.

We are confident in the core businesses delivering above-market organic growth and expanding our operating margins over the long-term and we are confident in continued strong cash flow generation that allows us to invest in our business and future growth opportunities and return capital to our shareholders.

This slide shows the second quarter sales and full year sales and EPS guidance issued on April 26, 2022. We are reaffirming our consolidated second quarter 2022 sales guidance and our full year 2022 consolidated sales and EPS guidance. For the second quarter of 2022, we are experiencing strong sales trends in our TAG and PCG segments that is overshadowing the softness we are experiencing in our Consumer Brands, international and domestic markets.

As John mentioned earlier, this is a perfect example of how we have structured the company. Whatever way demand trends shift, we are well-positioned to capitalize on these shifts. On our July earnings call, we will give you more color on the second quarter sales trends, give the Street an update on our full year sales and EPS guidance. As a reminder, our full year outlook is heavily weighted to the second-half of 2022. We had a very strong first half of 2021 and a weaker second-half due to the raw material availability issues and the significant raw material inflation.

To sum up, you heard John talk about the favorable long-term North American architectural and global industrial market dynamics and our strong position to capitalize on changing market demand trends. You're heard Heidi talk about the strength of our people, our global capabilities and our solutions-based approach to our customers and you heard the Group Presidents talk about the strong demand in most end market segments we choose to participate. And customers reporting strong backlogs through the remainder of 2022, but also and more importantly, the long-term market share opportunities we have across all our businesses. We're confident in our strategy and our approach and our ability to deliver strong financial performance over the long-term.

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We're operating with a lot of momentum and I hope you see why we continue to be very optimistic about the second half of 2022 and the long-term future of Sherwin-Williams. And the best is still ahead. Thank you for joining us today. And now we're going to take a short break before we get into the question and answer portion of the program. Thank you.

[Break] (02:34:21-02:42:12)

QUESTION AND ANSWER SECTION

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

A

No. Yes. Can you guys hear me? Okay, good. Let me get started with our Q&A. We do have some people in the audience that are available with microphones, they'll – if you'll raise your hand, though. If you raise their hand, they might come running to. But if you raise your hand, they'll come running to you. The only thing I'd ask if you could is just when you receive the mic make sure you ask – you could start with your name and your organization, that'd be terrific. So with that, I see, Ghansham has his hand up. We'll start there and just keep flowing right across, okay?

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

Q

[Technical Difficulty] (02:42:55)

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

A

Ghansham, can I put you hold one second. We can't hear up here at all, if you could.

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

Q

Is this better?

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

A

Yeah. Good.

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

Q

All right. Ghansham Panjabi with Baird. In your comments, [Technical Difficulty] (02:43:10-02:43:45) thanks.

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

A

I couldn't hear what you say.

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

A

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I couldn't hear.

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

A

I wonder if, [ph] Natalie, could repeat (02:43:45) that?

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

A

[ph] Natalie (02:43:48), you're going to have to help us turn something here, so we can some – we can't hear at all. I'm sorry, Ghansham, just hold one second here. I wonder if we just simply turn one of these things, before I become the AV guy, [indiscernible] (02:44:02). Is it as simple as turning one of these speakers so that we can hear? All right. Can you try that one more time, Ghansham?

A

Test one, is that better?

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

A

Much better. Thank you. Sorry about that, Ghansham.

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

Q

No worries. Is that better.

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

A

Yeah. We can hear you know.

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

Q

Okay, great. I guess the question, is sort of paraphrasing a little bit, the backlogs [ph] you decided for your customers have been pretty strong, right? Inventory levels you gave have been pretty low. But many of the retail verticals that, over the last (02:44:41-02:44:48) couple of months, [indiscernible] (02:44:50-02:44:55). So how are you sort of thinking about that dynamic specific to Sherwin, especially as consumer [indiscernible] (02:45:02-02:45:08)?

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

A

Sure. Let me take a first one at that and I will ask Heidi to talk about it from the supply chain perspective. And then may be, Todd to talk a little bit about what we've experienced through our retail partners. Did you all hear that question? So, I would say this initially, Ghansham, that my grandmother used to say out of everything bad, there's something good, right? And so the fact that some retailers have responded to the changes in the market with, hey, we might have purchased too much inventory or maybe not the right inventory, the fact that we are really working through and supplying on a not a real-time, but near real-time where we have not built a lot of inventory gives us the opportunity to be very responsive with the precious raw materials that we have received.

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There is a lot of work that goes into that. Heidi can talk about that. And I think the same stands true for the most part for our retail partners is we're building inventory now and being responsive. I think they are in a very good position. But Heidi, maybe I can turn it over to you on the selling side.

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

A

Yeah. I want to make sure you probably heard your question. Was that we've got 90% of it. But I do think to John's point, especially right now in a normal season, we're continuing to build inventories on our end and certainly working with retail partners and other customers to rebuild inventories in their Q4s as well. And so while there has been a lot of kind of day-to-day, hand-to-mouth inventories and making sure we're getting all the products where they need to be at the right time within a week or within the month, there is still a lot of opportunity for us to recover those inventories in a healthy position through Q4. So, I would expect that as we start to get those inventory levels back up to what they need to go into 2023 with, we will continue to see some stronger pull for inventories as well. They are still trying to come in a strong 2023 and I don't think they're in a strong position until they can ramp up this Q4 and Q1.

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

A

Yeah. Good. Todd, anything you want to add to that? Because I think it's very similar, right?

Todd D. Rea
President-Consumer Brands Group, The Sherwin-Williams Co.

A

Yeah, nothing much that other than we've made really good progress with our retail partners and building inventory through the first quarter. But there's still some opportunity...

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

A

Yeah.

Todd D. Rea
President-Consumer Brands Group, The Sherwin-Williams Co.

A

...that we have in front of us.

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

A

Yeah. Good. Does that answer your question, Ghansham?

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

Q

Yeah.

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

A

Okay. Why don't we, why don't we just slide right down and we'll go to Nicola there, right here. And then, right behind, we'll go to Eric, next.

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Nicola Tang
Analyst, Exane BNP Paribas

Q

Hi, everyone. Thank you for the presentation. Nicola Tang, BNP Paribas Exane. I wanted to ask about the Performance Coatings [indiscernible] (02:47:48-02:48:04)? How confident are you from volume side? [indiscernible] (02:48:10-02:48:26)? Thank you.

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

A

Yeah. Thank you for the question. And I'll start with the confidence that we do have. We've modeled this in a number of different ways in a number of different formats. And I think with the confidence in our ability to reach that has been as – we're strong – we're stronger than we've ever been in our ability to do that. Before turning it over to Karl though maybe I can – because Allen and I have been working very, very diligently as you would expect and making sure that the glide path we're is something that we have confidence. And then I'll turn it over to Karl to touch on as well.

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

A

Yeah. So, just to reinforce a few data points that gives us the confidence. If you look at where we ended 2018 with a full year of Valspar and a full year of Sherwin, our operating margin was 12.9%. You look at year end of 2019, we moved that to 14.1%. And then in 2020, we're ended the year at 14.5%. And what I would say about 2020, the second half of 2020 was about – was 15.2% and third quarter was 16%. So if you look at the quarters on our industrial business, they're not as seasonal as they are in architectural, so they're more comparable. So we have been able to get to 16% we were at 15.5% in the second quarter of 2019.

So that gives us some confidence that we can move the needle towards that high-teens and low 20s. And even with that, we have some of our businesses that are already there or were there in the high-teens to low 20s, based on the operating models and how we go to market, we have a couple of regions that are already there, and we'll will continue to build on the strength in those markets because we still have a lot of opportunities for growth within the businesses that are already within that range. But also the regions that are in the range as you look at acquisitions and we leverage the technology and leverage those new services and solutions to these regions. We have a lot of opportunities. And maybe Karl can touch on the other continuous improvement type of projects that we have.

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

A

Yeah. And just real quickly on the demand side, really that strategy around providing solutions for our customers, we really believe we can continue to take share, whether that's a solution around technology, service, support, as Al mentioned, you look at our – many of our businesses are already at that point in some of our regions. We just got a few of our businesses that we need to take a look at continuing to refocus and make sure that we're working with customers where we can drive value and not just chase anything available. We're really looking at very focused on and again where we provide solutions to the customers.

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

A

Good.

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Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Eric Bosshard, Cleveland Research. Reactivating customers was an initiative [indiscernible] (02:51:29-02:51:43)?

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

A

Yeah. I'd say the reactivation that we referenced today is primarily in TAG. I will let, Justin talk to that, Eric. The metrics that we have, we won't be sharing any of those today. I would tell you that the approach that we are taking does have a lot to do with the supply chain issues that we had and not taking anything for granted. The assumption that – because we are where we are in the market is I think a fool's approach to the business. Our belief is that we're uniquely positioned in our controlled distribution model, and we want to make sure that we use the data that's available to us in a way to make sure that we remain close and build on the loyalty that we have with our customers.

And without getting into too much of what that means, I'm going to turn it over to Justin because I want to tell you what we did, not what we're going to do. So...

Justin T. Binns
President-The Americas Group Segment, The Sherwin-Williams Co.

A

Well, I think that's a great point that, John brings up. First and foremost, what I do want to touch on is I think that people hear reactivation and the first thing you think is we lost customers. And the reality of it is, is that's not the case, right? There might be some lost projects in there. But what we're really focused on the fact is we have to reactivate almost every customer in our mind because we want to make certain that we're delivering what we talked about today, essentially, which is our trademark customer service, the profitability, the productivity, that's really where our focus is. So again, as John touched on, we're not going to share metrics today. I would tell you that we're pleased with where it's headed. There's still lifting left to do. Our people are committed. It's something that we're focusing on, on a daily basis.

And ultimately, at the end of the day, we love where we're at because I think we're at that spot right now where for a lot of months, supply was the conversation, right? Supply is in a better position. Now we're back into our wheelhouse where we separate and we really focus on what we can do to help the contractor be more productive and more profitable in a market where it's pretty critical to do so, when you look at it from an inflationary cycle and wages going up. So we really like where we are. And again, that reactivation piece for us, it's not just, hey, we lost a customer. That's not the case at all. It's that we bring them back into the fold and we focus on what we do best. That's how we reactivate them.

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

A

And I'll rebuild on Justin's important slide that he referenced about what we own. The fact is, is that we are uniquely positioned with our control distribution model to be able to do some things that most people couldn't. What you should take great pride in as a Sherwin-Williams employee is that we take nothing for granted. So we're going to be working very hard to make sure that very strong relationships are built upon and that that these customers have become even more loyal as a result of our efforts.

Justin T. Binns
President-The Americas Group Segment, The Sherwin-Williams Co.

A

Absolutely.

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

A

All right. I think there were a couple more on this side, probably in the back. We can't see.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks. Arun Viswanathan, RBC. I just had a question back on the margins. So you have slide that showed me [ph] 450 or so (02:54:52) basis points of gross margin deterioration last year from [indiscernible] (02:54:56). I think the operating margins were down maybe 250 basis points. So could you just discuss that SG&A leverage you've had about 200 basis points of offset through SG&A leverage. Is that kind of what we can expect going forward? Is that kind of the productivity target? How do you drive that that [ph] 100 basis points to 200 basis points (02:55:16) growth? What is kind of the [ph] arrangement (02:55:18) and how do you drive it? Thanks.

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

A

Thank you, Arun. Al, do you want to take?

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

A

[ph] Hi Arun (02:55:22). I wouldn't say we're targeting that. I think you would expect to get even as the comparisons get easier in our second half, I would expect to even get more leverage on SG&A. I think what you can expect us to do is control the G&A part of SG&A tightly while continuing to invest in our long-term initiatives and all the things that we talked about with new stores, additional reps, the pro paints, hero brands, field and technical service reps and PCG. I think that's the commitment we have to have in that, that's going to allow us to grow a multiple the market, and also with the continuous improvement projects that we have to drive gross margin expansion along with volume and pricing. So, I'm focused on operating margin expansion, not specifically SG&A leverage, but the combination, gross margin expansion, SG&A leverage to drive operating margin expansion.

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

A

And through this process, so I think it's important that we do take a long range view of this.

We are investing in the face in some cases adversity, while our competitors are making bold moves on their part and perhaps closing stores, territories or other actions. We're going to take advantage of that. And it might – if it takes a little bit of investment that has a good payoff in the longer term, we're going to make those. So I often tell our team, we're not trying to run for the perfect quarter. We've been in business for 156 years. We're looking at the next 156 years. We're going to do what's right to reposition or to position the company to win in the longer term. It doesn't mean that we're going to go out and just spend money. These are good investments with good returns and good strategic value.

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

A

Yeah. And I could point back to Arun and you know this, if you go back to 2008 and 2009 and the housing bubble on the financial crisis and we kept putting in stores, we kept putting in reps in TAG, and you look at the 3, 5 and 10-year compounded average growth rates were high single digits for that business, which we know was a multiple of a market growth.

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

A

All right. Why don't we slide over to this side? We have Jeff and then we'll move up, okay. Right there. Right there. Yeah.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Hi. Jeff Zekauskas from JPMorgan. If I could ask a naïve question, when we look at the margins in TAG business, [indiscernible] (02:57:50-02:57:55) and you look at the margins in the Consumer Brands and maybe order of magnitude, [indiscernible] (02:58:01) and if you look at the margins over time, there was usually a premium in TAG by a few hundred basis points. Why is that? That is – is it that average prices in TAG are higher or that average costs in the Consumer Brands are higher and is there a normal relationship between those two margins as the business progresses [indiscernible] (02:58:32)?

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

A

Yeah, I, I think there are a lot of different dynamics there, Jeff. I'll take a run in here and Al, you can jump in as well, but I do think that as you look at our stores business and the value proposition that we bring to a customer and the prices associated with that, we often talk about our success is determined by our ability to help our customers to be successful. So when people are buying a gallon of paint and we add more services to that to help them to be more successful, that's incorporated into the cost of goods. And so to Al's point when we're looking at operating margin, we're driving that with that in mind. And our ability to invest in some of those areas and get a greater return on our stores side is something that we're going to accelerate. Conversely, in the Consumer Brands business, it's a little bit of a different model. And I'd also say that the other element I think to take into consideration is the pace and wave of the raw material costs that came in. I think there is maybe another lever that had an impact on it on the shorter term. Anything you want to add to that, Al?

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

A

I would just add over the longer term, Jeff, the volume growth that we see in TAG will be higher than what it is in Consumer. You take out the one-time [ph] loads-in at Lowe's (02:59:59) and different things. So that volume we get great leverage on, on our operating margin that helps drive that higher.

The other thing I would just highlight is that in Consumer Brands, we do have embedded in that our global supply chain that does have, over the last couple of years because of all the different things that have occurred with raw material availability, COVID, I mean, you get more – you get slightly more variability in consumer because of way costs ebb and flow within global supply chain. Over the longer term, we'd expect to see Consumer in that high teens, to low twenties and we keep building on our TAG operating margins into the low twenties to the mid-twenties.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thank you.

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

A

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Yeah.

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

A

I see Chris here. We'll have to zip around a little bit here. Chris is going to ask his one-part question today.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

[indiscernible] (03:00:57-03:01:03) Chris Parkinson, Mizuho. Given the 1.5 to 2 times market in TAG, clearly there's a market share gain at the Central America. Can you just kind of discuss where you kind of compete against your competitive environment when it comes to deliveries per location? I know I think we're talking about 8,900 per day or so. Obviously, e-commerce has been something we've been discussing for probably half of the decade. And then just obviously your store growth, so just kind of parsing out those additional contributing growth factors would be very helpful.

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

A

Chris, I want to make sure I understand your question. Are you asking by those elements, what's driving the incremental market share gains, is that?

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

Just [indiscernible] (03:01:43) contribute, when you talk about the 1.5 to 2 times market growth, how do you allocate that? Clearly, there's a market share gain assumption there. How to kind of allocate or attribute that to e-commerce, the number of deliveries per store and then also obviously [indiscernible] (03:01:59).

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

A

Okay. So let me start with Heidi and then we'll kick it over to Justin just because he's focused mainly on TAG.

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

A

Well, nice to see you again. I would say I'm going to answer your question with maybe a different lens, and then I'm going to come back to your question. I think if you were to look at the mix of what gives us confidence in the 1.5 to 2x, it really is driven by segment and our confidence and where we can source that growth by segment from a competitive standpoint and I'll let Justin comment on that. I would tell you, as you think about broadly speaking as a manufacturer, distributor and ultimately trying to provide solutions which now for us in this environment is giving choices to our professional painting contractor.

So, if they choose to interact with us in stores versus e-commerce versus delivery, we've got to be nimble, flexible and there's not a one size fits all approach for every contractor. It could be, on a Monday, they prefer a certain delivery. So there's a mix that we've got to be able to have at the ready at any time. And so over time, we'll have a better perspective, and I'll ask Justin to comment on kind of what our initial snap of that is today, but it's going to change over time, as we try to respect. There's a lot of labor challenges. We've been committed to keeping our customers on the job site as we talked about a little bit yesterday, keeping our customers in paint. And so we

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would expect that over time, we'll continue to see more and more deliveries just as a function of convenience. But I'll let Justin kind of share his thoughts on and breaking that out.

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

A

If I may. I think before throwing it to Justin, I think what we're talking about, Chris, is the – bringing the entire ecosystem. So I'm not sure we're going to answer the question exactly as you asked, because we don't look at it that way. We're not running an e-commerce business. And then this business and that – I mean, what's unique about our model is, is that we bring all of this together in a very unique and differentiated way. The rep that that customer is dealing with, that customer feels that that rep is part of his or her business. That rep's responsibility is to be there when they need them. That doesn't come at the cost of a digital or e-commerce order coming in, it's all inclusive. So we're leveraging all of these things in a very unique way. We refer to it internally as kind of an ecosystem. And I think maybe, Justin, you could talk about that is how you and your team will really leverage that.

Justin T. Binns
President-The Americas Group Segment, The Sherwin-Williams Co.

A

Yeah. I mean, I think the thing I would add on, I think you – both you and Heidi said it really, really well is, ideally the demographics are certainly changing when you look at the ownership of painting contractors and we talk about that table tilt all the time. We're positioned really well on that table tilt as well, right? So, there is a lot of times and I'm sure Heidi can [ph] attest (03:04:52) to this as well. And John could – you go out on a call and it's a family run business and there is almost two sales calls that are taking place.

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

A

That's right.

Justin T. Binns
President-The Americas Group Segment, The Sherwin-Williams Co.

A

Right, where the father or mother, who's owned that business for 35, 40 years, is talking to you about that relationship that our sales rep has established with them, what our stores do for them every single day. And then you have the next generation who recognizes the value that everything that their father or mother saw in our company plus wants to know what we're going to do for them from a digital front. And that digital front might include delivery, right, and might include some of those resources that I talked about today in the slide when I talked about what we owned in that robust digital platform of helping them do bits, right, helping them with color selections, things that we can make them to be more productive through digital platform. So, really I think and I hope that somewhat answers your question.

Again, to John's point, to Heidi's point, we don't look at it and say, hey, we're going to get to 2x by this, this, this, this. We're going to get to 2x by the toolbox that we offer and continually adding tools are going to add value to that customer. That's really what we're going to do it. And I do really feel good about where we're positioned on the digital front plus with just the way that we've gone to market in a really long time and it puts us in a good position.

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

A

I'd say the center of the universe in that toolbox is the store though.

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Justin T. Binns
President-The Americas Group Segment, The Sherwin-Williams Co.

A

It is. Absolutely.

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

A

It's very unique and how we leverage that. I think, if there's one thing that's probably underappreciated is just that, how much we leverage that store in that local market to be the hub of what it is that – and how we build a relationship with a customer.

Justin T. Binns
President-The Americas Group Segment, The Sherwin-Williams Co.

A

100%.

Q

[indiscernible] (03:06:41)

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

A

Yeah. You know what, [ph] Chris (03:06:40), just pass it on the other way if you will. You got a mic?

Q

[indiscernible] (03:07:00). John, just curious, the raw material availability [ph] has been an (03:06:57) issue. We don't see a lot of new capacity in the commodity chemical industry coming out next 3 to 5 years, a lot of unplanned outages. So, if the raw material availability doesn't improve over time, how are you allocating [ph] when you have to segments and (03:07:17) businesses? And then, if you – would you consider going upstream in certain cases to ensure that we have enough raw materials to fund the growth?

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

A

Yeah. Let me take a run at the first part of that and then I'll have Heidi talk a little bit about how we make those decisions. But I'd say moving upstream is likely something you're not going to see us do much of the SPI acquisition that we made, Heidi, mentioned in her presentation that it helped us to diversify out of the Gulf of Mexico, gave us a little more control on resins both on the east and west coast inland. So we're not dealing with the potential of hurricanes. A terrific company, wonderful people, they were total producers for us.

And with not a whole lot of capital, we were able to really accelerate output of these facilities. So utilization improved dramatically. I would say as it relates to raw material supply, I'd say, there's a lot of things that we're doing. And I'll turn it over to Heidi to talk about the simplification efforts that we're moving on and towards that she talked about and the utilization of not only existing but new suppliers. There's a lot of good work that Heidi is leading that [ph] maybe you can talk to (03:08:35).

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

A

And I want to acknowledge Joe Sladek and Colin Davie here for doing a lot of the heavy lifting. I think there's certainly a lot of kind of what's different in this environment. And I would say it starts with making sure we're designing the right conversations with the right suppliers around the long-term strategic nature of what we want out supply base, especially, where the really critical materials are just that. They're really critical materials.

But in the interim, there's a lot of work here. And we talked a bit across the groups. We use the word platform kind of largely. But, but really what that means for us, if you look across the commercial teams all the way through kind of our technical teams in the labs is making sure that there's alignment around where we can cut the long tail and how quickly we can do so. And that's going to be, that'll move in phases as anything would need to, so that we're still able to put our commercial teams in a competitive position to go compete in a whether it's in stores, by division, by region or certainly from an industrial standpoint.

So there – I would share with you that this kind of simplification, taking complexity out of our business is another really important lever. But, ultimately, at the end of the day, it is going to be about making sure that we're sharing kind of future demand, what that looks like, working with the right supplier so that together we do have the right capacity so that we're not living long-term having constant discussions on allocations. I think, it's a great question. I think there's pieces and parts that have to move in sequence though.

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

A

But I think the work that you and, and Joe and Colin are doing on, you know point about the long tail, we might have a plant that has whatever 12 different thickeners in it and there's no reason other than some – chemist at some point designed it that way. And so, the work that Heidi and Colin are working on along with Joe is to really develop those products in concert. There is a greater sense I think of collaboration with our partners...

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

A

Absolutely.

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

A

...with our suppliers that help us become a better customer of theirs, maybe less SKUs that we're ordering more of that allow us to be a better partner with them. And the fact is, is that we're going to be growing. And I think a lot of those partners understand that this is a good trailer to hit your – or a tractor to hit your trailer too and we're going to help them reach their goals and we're going to do it in a collaborative fashion.

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

A

One other point I would add, just looking at the team here, there is a lot of work happening in terms of pushing our suppliers to understand where they have innovation or thoughtful substitution. And so, again taking that back internally, we've got pretty incredible high throughput machine that allows us to do a lot of kind of accelerated formulation. And so, when we get some – to a position where there is a constraint on a material, Colin and his team have done an outstanding job really looking for innovations or alternate material that we can then bring back into our labs and compress what would take 10 months into weeks and be able to have alternate supply and not sacrifice performance or quality. So, there that's a lot of work that's happening in parallel.

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

A

We have time for a couple of more questions. So, if you want to raise your hands here, why don't we start? Well, I'll tell you what. We just came up here. Why don't we go to [ph] Greg (03:12:08) here and then we will – we will finish up here and then we'll slide back. Let's try to – we'll try to be quick with you here.

Q

Thanks. [indiscernible] (03:12:17) question is really on the pricing and getting the gross margins back. So, I think at the end of the last quarter we said that, by the end of 2Q [indiscernible] (03:12:24) top of raw materials, is that still the case given [indiscernible] (03:12:35) bigger second part of the question is, how long do you think it takes to get back to that 48% margin? I know back in 2011, 2012 [indiscernible] (03:12:47) couple of years, do you think that's still the right time horizon [indiscernible] (03:12:53)? Thank you.

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

A

Yeah. You know, [ph] Jeff, a Greg. Sorry, Greg (03:13:02) we'll see – we expect to see sequential improvement on our second quarter. We start getting on top of the raw materials with price and then start seeing expansion in our second half. The uptick in in raws that we talk about we're active and it was in particularly on industrial, we're active out in continuing with price. It's not as uniformed as TAG, so it's staggered.

So there's price been going in basically throughout the first part of this year. And I think we've been very aggressive on the industrial side to get ahead of it as much as possible. And then, we learned a lot from 2017 when we closed and we were chasing it on a much longer basis. I think we're in a much better position today. As raw materials moderate and we hold on to that price, I expect to see, certainly if that plays out for 2023, will be on that path second half of this year. And then building on that into next year, whether we get to 48, 45 to 48 range, that's dependent on a lot of factors, specifically volume and where the mix is. But we'll be on that path going out of this year and certainly into next year.

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

A

We're going to take one more question here, and I promise we're not going to leave until we answer all the questions, but we're going to answer the rest of them after this next question downstairs. So we have a question right here and...

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

A

Right behind.

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

A

Right there. Go ahead.

Cory Murphy
Analyst, Vertical Research Partners LLC

Q

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Yeah. Cory Murphy from Vertical Research Partners. Thanks for taking my question. To build on the raw material question, you affirmed your guidance for the year and for the sales growth in the second quarter, now, there are two months of change into the quarter. Are there any surprises to you in terms of raw material cost inflation that you're seeing by segment or is there any imbalances that you're seeing that were different than you would have expected when you first gave the guidance back at the first quarter call? Thank you.

Justin T. Binns
President-The Americas Group Segment, The Sherwin-Williams Co.

A

I think it's trending much as we talked about in the previous call, Cory, where we're seeing the greatest inflation has been in our performance coatings group and it's been more on the petrochemical side of the basket. So certainly solvents, resins, latex, we're starting to see some inflation as well on the TiO2 side, but it's been more impactful to this point on performance coatings. So our expectation was the year starts out with the biggest inflation and as the year goes on, we expect to see that year-over-year gap gets smaller and smaller. It'll still be elevated year-over-year in the fourth quarter. But I'd also add it's a volatile market out there and things are moving pretty regularly. We discussed these costs every month, not just raw materials, but our entire basket. And if we need to be proactive with additional pricing, because of movements in raw materials, you can expect us to do that.

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

A

All right. And in the name of Sherwin-Williams, we're going to try to over deliver. We're going to take one more question and then we're going to go down, right, right there.

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

A

[indiscernible] (03:16:15)

Q

[indiscernible] (03:16:19) Credit Suisse. This is for Heidi. [indiscernible] (03:16:21) developing closer relationship [indiscernible] (03:16:24) and that entails [indiscernible] (03:16:27). The question is, what is the price [indiscernible] (03:16:35)? What is the price of [indiscernible] (03:16:36)? And also, how does that fit into your desire to diversify [ph] your supply base, I guess (03:16:48)?

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

A

So I think it's a great question, and I don't know that it cost us anything. I would tell you, as we, as I mentioned earlier, part of what we're really trying to do here is take a review of and we share this in terms of supplier diversification. There's a fine balance here of going, you know, building a strategic supplier partnership and also diversifying. So picking our partners here is going to be really critical. When we talk about what's different and how we're building that strategic supplier partnership, it is elevating that discussion.

It is sharing more long view demand that we see and making sure that they understand what that can look like. And oftentimes it could be there's a million configurations, whether it's a partnership, a contract, anything in the middle. And so, making sure that there's complete alignment in terms of where we see demand and their

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willingness to invest and kind of our future demand. So I think it continues to be making sure that we've got that alignment, that open communication.

We're going to invest in partners willing to invest in us, whether it's customers or suppliers. And I don't think that that's going to change how we operate going forward. I don't know if there's anything you want to add.

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

A

It's a great answer. We're going to ask management to finish up here. And leave Jim Jay up to wrap up and we hope to see you all downstairs. But Jim's got some important information. So let me ask management to leave Jim on stage here. Thank you all. We'll see you soon.

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

Thank you, John. And just on behalf of our entire team, we hope you found today's presentations and Q&A session to be informative The presentations should be available on our website right now if you want to download them and just wanted to say that, we continue to believe that Sherwin is really well-positioned here going forward. From John, you heard about the long-term drivers. Heidi shared the solutions based approach that we have. Justin described our unique model in the Americas Group. And Todd talked about the consumer brands partnerships that we have and Karl talked about obviously the industrial piece and how bullish we are on that. And then Al, obviously with the financial drivers that we continue to pursue relentlessly.

So thank you again for your interest in Sherwin-Williams. That concludes our remarks today and please join us if you're here live for a reception downstairs right out the back. And thank you again for your interest in Sherwin.

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