



SHERWIN-WILLIAMS®

Founded in 1866, The Sherwin-Williams Company (SHW) is a global leader in the manufacture, development, distribution, and sale of coatings and related products to professional, industrial, commercial, and retail customers. The company manufactures products under well-known brands such as Sherwin-Williams, Dutch Boy, Krylon, Minwax, Thompson's Water Seal, and many more.

<u>Name</u>	<u>Ticker</u>	<u>Growth</u>	<u>Dividend</u>	<u>D + G</u>
Sherwin-Williams Company	SHW	11.00%	2.34%	13.34%

Highlights:

Sherwin-Williams Paints (SHW) maintains a shareholder-friendly corporate policy supported by robust cash flows from operations. The company's Free Cash Flow ("FCF") leaves enough cash for share repurchases after dividend and capital expenditures. In the past two years, the company generated more than \$4 billion FCF. SHW continues to deleverage its debt amassed from its Valspar acquisition in 2017. Earlier this year, Moody's updated the company's outlook from stable to positive, mirroring the increased probability of rating upgrade. The Valspar acquisition expands the company's portfolio beyond the US architecture market into industrial, high-performance coatings.

The company carried through the pandemic better than its competitors, providing delivery and curbside pickups, demonstrating flexibility, customer focus, and brand recognition. These factors, combined with lower leverage, warrant premium over industry price multiples. Our bullish rating mirrors management talent, rising dividends, and expansion opportunities in the industrial and international markets.

Bull Case:

- **70% Sales Base Housing Biased** - In following, Sherwin-Williams has clearly benefited from the improvement in U.S. housing fundamentals over the last five years, with non-residential trends starting to improve steadily - noting that Sherwin should continue to outpace market growth by 1.5-2x based on their outsized exposure to professional painting contractors.
- **Top-Three Global Coatings Player and Dominant N.A. Franchise** - In our opinion, Sherwin-Williams remains a strong No. 3 in the attractive global coatings niche, with outsized exposure toward the N.A. architectural coatings market (~45% share). Products include coatings used in construction (paints and sealants) and product manufacturing (autos/wood furniture), with N.A. architectural coatings encompassing ~60% of the sales portfolio—differentiating SHW from its more global peers (70% sales from N.A.).
- **Near-Term Outlook Attractive** - As such, we believe that SHW fundamentals are attractive near term, with improving end-market dynamics boosted by upward pricing momentum to offset raw material inflation, noting that the price/cost catch up for SHW should accelerate through 2022

Bear Case:

- **Outsized Exposure to U.S. Architectural Coatings** - Any potential slowdown across the U.S. housing market and U.S. architectural coatings market (~70% of Sherwin's sales) is a major risk.
- **Volatile Raw Material Costs** - Though the raw material environment has been relatively benign in recent years, spikes in propylene and TiO2 costs (both major cost inputs) could hurt Sherwin's profitability.
- **Significant Operating Leases** - At current, Sherwin-Williams has ~\$700 million in operating leases(NPV), as 93% of its stores are leased, which we believe could become a risk if leasing terms become unfavorable in the future.

Overall Thesis:

We expect SHW, the market leader in US architectural coatings, to be a key benefactor post-COVID as remodeling activity picks up and home construction accelerates given low housing supply and strong demand. We also expect SHW to gain market share and see innovation in Performance coatings to drive strong growth over the near to long term.



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