

Sherwin-Williams (SHW)

\$586.97 (As of 02/04/20)

Price Target (6-12 Months): **\$622.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

Summary

Sherwin-Williams' profits rose year over year in the fourth quarter. However, adjusted earnings and sales missed the respective Zacks Consensus Estimates. The company is expected to gain from synergies of the Valspar acquisition and its operational improvement actions. It is also focused on growth through expansion of operations. Its cost-control actions, working capital reductions, supply chain optimization and productivity improvement are expected to support margins. It has also outperformed the industry over a year. However, the company witnessed earnings headwinds stemming from hefty Valspar buyout charges in 2019, which is likely to persist in 2020. It also faces currency translation headwinds. Also, the company's businesses are affected by demand weakness across certain economies. High debt level is another concern.

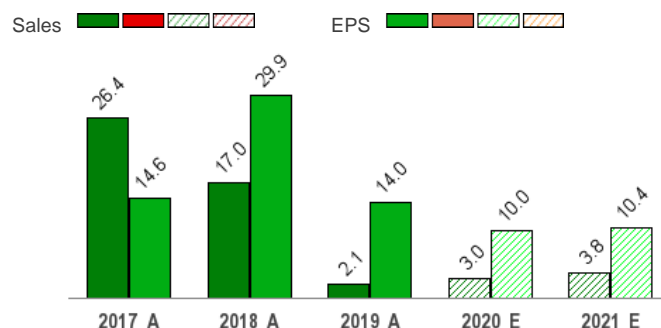
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$599.95 - \$410.35
20 Day Average Volume (sh)	557,215
Market Cap	\$54.2 B
YTD Price Change	0.6%
Beta	1.29
Dividend / Div Yld	\$4.52 / 0.8%
Industry	Paints and Related Products
Zacks Industry Rank	Bottom 10% (229 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.0%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-3.9%
Expected Report Date	04/28/2020
Earnings ESP	0.0%
P/E TTM	27.8
P/E F1	25.3
PEG F1	2.2
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,269 E	5,261 E	5,216 E	4,472 E	19,143 E
2020	4,103 E	5,028 E	5,015 E	4,269 E	18,443 E
2019	4,041 A	4,878 A	4,868 A	4,114 A	17,901 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.55 E	\$8.14 E	\$8.22 E	\$5.53 E	\$25.64 E
2020	\$4.06 E	\$7.15 E	\$7.25 E	\$4.74 E	\$23.23 E
2019	\$3.60 A	\$6.57 A	\$6.65 A	\$4.27 A	\$21.12 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

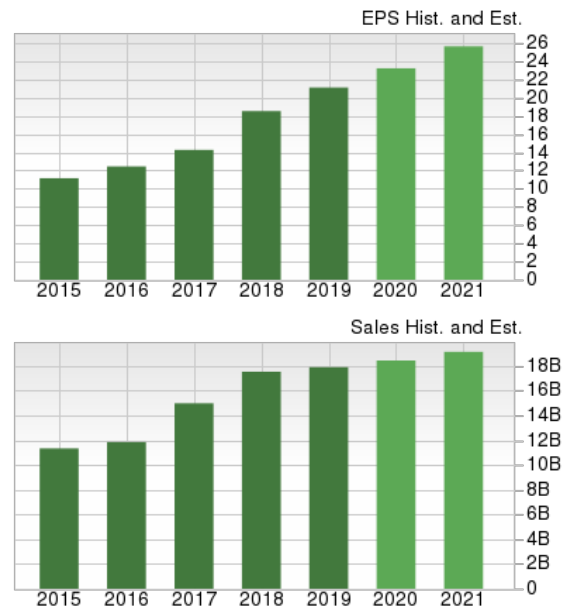
Founded in 1866 and headquartered in Cleveland, OH, The Sherwin-Williams Company is into manufacturing and sales of paints, coatings and related products, primarily in the North and South America. It also has operations in the Caribbean region, Europe and Asia. Sherwin-Williams is one of the biggest paint companies in the United States and in the world. Its well-known brands include Dutch Boy, Minwax and Krylon. The company, on Jun 1, 2017, completed the purchase of rival paints maker Valspar in an all-cash transaction, creating a premier global paints and coatings company.

Sherwin-Williams made changes to its reporting structure as a result of its acquisition of Valspar that led to the formation of three new reportable operating segments – The Americas Group, The Consumer Brands Group and The Performance Coatings Group. Earlier, the company had four operating segments – The Paint Stores Group, The Consumer Group, The Global Finishes Group and The Latin America Coatings Group.

The Americas Group: This segment includes the company's earlier Paint Stores Group and Latin America Coatings Group. The group produces and sells a wide array of industrial coatings, architectural paint and related products across Latin America through dedicated dealers and company-operated stores. The segment accounted for around 57% of Sherwin-Williams' 2019 sales.

The Consumer Brands Group: The division includes the company's Consumer Group and Valspar's Consumer Paints segment, barring Valspar's Automotive Refinishes products business. The segment operates highly efficient supply chain for paints and coatings related products across the globe. The segment accounted for around 13% of Sherwin-Williams' 2019 sales.

The Performance Coatings Group: The unit includes the company's Global Finishes Group and Valspar's Coatings Group coupled with Valspar's Automotive Refinishes products business. It sells a wide array of industrial coatings and finishes for industrial wood, general industrial, protective and marine, packaging and automotive, coil and extrusion customers. The segment accounted for around 30% of Sherwin-Williams' 2019 sales.



Reasons To Buy:

- ▲ Sherwin-Williams has outperformed the industry it belongs to over the past year. The company's shares have gained 39.2% in this period compared with the industry's rise of 35.2%. Sherwin-Williams' philosophy is to diversify its customer base and expand its operations into various geographies. The company follows a method of growing through acquisitions and also through internal initiatives such as efficient working capital management and innovation. This enables the company to somewhat reduce its dependency upon prevailing market conditions.
- ▲ The acquisition of Valspar has enabled Sherwin-Williams to strengthen its position as a leading paints and coatings provider globally, leveraging highly complementary offerings, strong brands and technologies. The buyout extends Sherwin-Williams' brand portfolio and customer relationships in North America, and bolster its global finishes business. In addition to expanding Sherwin-Williams' global platform in Asia-Pacific and Europe, the Middle East and Africa regions, the buyout adds new capabilities in the packaging and coil segments. The company realized benefits worth around \$315 million from synergies in 2019. It has identified another opportunity of nearly \$100 million, mainly related to the supply-chain optimization efforts in Europe and Asia. The company expects to realize a small portion of this benefit in 2020, while the majority is likely to be realized in 2021 and 2022 as projects are completed.
- ▲ Sherwin-Williams is seeing favorable demand in most domestic markets and remains committed to expand its retail operations. In the last reported quarter, it witnessed increase in sales and profits in the Americas Group segment, primarily owing to higher paint sales volume across most end markets. Within the Americas Group, Residential Repaint was the strongest customer segment that witnessed double-digit percentage growth on a year-over-year basis in 2019. The trend is likely to continue in 2020. The company is focused on capturing a larger share of its end-markets, as is evident in the increasing number of retail stores. The company added 62 net new stores in 2019 in its Americas Group unit. It also added 31 net new stores in the last reported quarter and currently has 4,758 stores in operation. Plans are in place to add 80-100 net new stores in 2020.
- ▲ Sherwin-Williams' aggressive cost control initiatives, working capital reductions, supply chain optimization and productivity improvement should continue to yield margin benefits. Robust working capital management and efforts to cut operating costs helped the company to generate strong cash flows from operations of more than \$2.32 billion in 2019. Sherwin-Williams is also using its cash strategically. The company purchased 1,675,000 shares of its common stock in 2019. It had remaining authorization to purchase 8.45 million shares through open market purchases at the end of 2019. The company also hiked quarterly dividend by 31% to 11.3 cents per share in first-quarter 2019.

Sherwin-Williams should gain from growth through expansion of operations and synergies from the Valspar acquisition. The company is also benefiting from cost control actions.

Reasons To Sell:

- ▼ Sherwin-Williams' businesses still remain impacted by weakness across certain economies. Although domestic demand of architectural paint has improved, it remains weak outside North America due to sluggish market conditions. The company witnessed relatively softer demand in non-domestic regions during the last reported quarter, especially Asia and Europe, where sales were lower than expected. On a year-over-year basis, the company witnessed a 5% decline in sales in the fourth quarter and full-year 2019 sales by 2.3% due to softness in non-domestic markets. As such, softness in these regions may continue to impact sales and margins.
- ▼ Sherwin-Williams is exposed to currency translation headwinds. In 2019, unfavorable currency translation dented consolidated sales by 1.4% and lowered profits by \$22 million. Moreover, currency translation reduced fourth-quarter 2019 sales by 0.9%. The company also witnessed currency translation to lower profitability and sales in the Performance Coatings group in the last reported quarter. As such, currency headwinds may continue to hurt its performance.
- ▼ Sherwin-Williams faces earnings headwinds from sizable charges related to Valspar acquisition. Notably, the company recorded charges for acquisition-related costs of \$4.15 per share in 2018. Acquisition-related costs for the fourth quarter and 2019 were 97 cents and \$3.21 per share, respectively. Moreover, the company expects acquisition-related expenses of around \$2.79 per share in 2020.
- ▼ The company's high debt level is a concern. The company's long-term debt-to-equity ratio is 228.5%, higher than the industry's average of 216%. Moreover, its cash and cash equivalents were roughly \$162 million at the end of 2019 while long-term debt was at a high level of \$8.1 billion.

Sherwin-Williams faces demand weakness in non-domestic markets and earnings headwinds from Valspar acquisition charges. It also remains exposed to currency translation headwinds.

Last Earnings Report

Sherwin-Williams' Earnings & Sales Lag Estimates in Q4

Sherwin-Williams logged earnings (as reported) of \$2.66 per share in fourth-quarter 2019, up 148.6% from \$1.07 in the year-ago quarter.

Barring one-time items, adjusted earnings in the quarter came in at \$4.27 per share, which missed the Zacks Consensus Estimate of \$4.40.

Sherwin-Williams posted revenues of \$4,114.4 million, up 1.2% year over year. However, the figure missed the Zacks Consensus Estimate of \$4,185.5 million. The company's results gained from higher paint sales volume in The Americas Group, which was partly offset by weaker sales outside of North America as well as in specific industrial end markets.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-1.70%
EPS Surprise	-2.95%
Quarterly EPS	4.27
Annual EPS (TTM)	21.09

2019 Highlights

The company recorded net sales of \$17.9 billion for 2019, up 2.1% year over year. Earnings rose 41.3% year over year to \$16.49 per share.

Segment Review

The Americas Group segment registered net sales of \$2.36 billion in the fourth quarter, up 4.8% year over year. The upside can be attributed to higher paint sales across most end markets.

Net sales in the Consumer Brands Group segment inched up 0.9% to \$539.4 million. Results gained from higher selling prices and increased sales volume related to some of the group's retail customers.

Net sales in the Performance Coatings Group fell 5% year over year to \$1.21 billion in the reported quarter. The decline was mainly caused by softness in sales outside North America and unfavorable currency translation effect, which were partly offset by higher selling prices.

Financials and Shareholder Returns

At the end of 2019, Sherwin-Williams had cash and cash equivalents of \$161.8 million, up 4.1% year over year. Long-term debt declined 7.5% year over year to roughly \$8,050.7 million.

The company purchased 1,675,000 shares of its common stock in the 12-month period ended Dec 31, 2019. It had remaining authorization to purchase 8.45 million shares through open market purchases.

Outlook

Heading into 2020, the company stated that North American architectural demand is strong and industrial demand remains variable in terms of geography and end market.

For first-quarter 2020, Sherwin-Williams projects net sales to increase 2-5% year over year.

For 2020, The company expects net sales to increase 2-4% from 2019 levels. Based on this projection, the company expects earnings per share in the range of \$19.91-\$20.71 for 2020, which indicates a rise from \$16.49 in 2019.

Recent News

Sherwin-Williams Announces Quarterly Dividend - Oct 16, 2019

Sherwin-Williams' board announced a quarterly dividend of \$1.13 per share. The dividend was paid on Dec 6, 2019 to shareholders of record as of Nov 15, 2019.

Valuation

Sherwin-Williams' shares are up 39.2% over the trailing 12-month period. Over the past year, the Zacks Paints and Related Products industry and the Zacks Construction sector are up 35.2% and up 26.1%, respectively.

The S&P 500 index is up 17.8% in the past year.

The stock is currently trading at 24.72X forward 12-month earnings, which compares to 23.37X for the Zacks sub-industry, 15.8X for the Zacks sector and 18.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.61X and as low as 16.48X, with a 5-year median of 21.5X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$622 price target reflects 26.2X forward 12-month earnings per share.

The table below shows summary valuation data for SHW:

Valuation Multiples - SHW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.72	23.37	15.8	18.61
	5-Year High	27.61	23.6	18.83	19.34
	5-Year Low	16.48	17.51	10.63	15.18
	5-Year Median	21.5	20.77	15.93	17.46
EV/EBITDA TTM	Current	17.66	19.52	18.97	11.95
	5-Year High	27.36	25.41	22.54	12.85
	5-Year Low	11.98	13.27	14.41	8.49
	5-Year Median	18.26	18.63	19.37	10.66
P/B TTM	Current	13.14	12.68	3.85	4.44
	5-Year High	58.08	19.12	7.22	4.54
	5-Year Low	8.7	8.37	2.19	2.85
	5-Year Median	11.97	11.97	3.41	3.62

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 255)



Top Peers

Akzo Nobel NV (AKZOY)	Neutral
Axalta Coating Systems Ltd. (AXTA)	Neutral
BASF SE (BASFY)	Neutral
Nippon Paint Holdings Co., Ltd. (NPCPF)	Neutral
PolyOne Corporation (POL)	Neutral
PPG Industries, Inc. (PPG)	Neutral
RPM International Inc. (RPM)	Neutral
Ferro Corporation (FOE)	Underperform

Industry Comparison Industry: Paints And Related Products				Industry Peers		
	SHW Neutral	X Industry	S&P 500	AKZOY Neutral	PPG Neutral	RPM Neutral
VGM Score	B	-	-	D	B	B
Market Cap	54.18 B	9.73 B	24.31 B	19.92 B	28.97 B	9.73 B
# of Analysts	10	6	13	3	9	7
Dividend Yield	0.77%	0.39%	1.78%	0.68%	1.66%	1.92%
Value Score	D	-	-	D	C	C
Cash/Price	0.00	0.02	0.04	0.12	0.04	0.02
EV/EBITDA	27.17	20.72	13.98	19.34	13.97	20.72
PEG Ratio	2.16	1.83	2.01	1.16	2.22	1.22
Price/Book (P/B)	13.14	6.93	3.29	2.55	5.41	6.93
Price/Cash Flow (P/CF)	23.69	19.41	13.58	15.31	14.55	19.41
P/E (F1)	24.78	23.79	18.82	21.47	18.52	22.31
Price/Sales (P/S)	3.03	3.03	2.66	1.89	1.91	1.73
Earnings Yield	3.96%	4.22%	5.30%	4.66%	5.39%	4.48%
Debt/Equity	2.28	1.90	0.71	0.29	0.85	1.90
Cash Flow (\$/share)	24.77	5.86	6.92	2.08	8.42	3.86
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	18.42%	9.73%	10.80%	NA	2.24%	3.15%
Proj. EPS Growth (F1/F0)	10.00%	20.52%	7.40%	29.82%	6.34%	24.04%
Curr. Cash Flow Growth	-3.46%	-3.46%	10.22%	-26.65%	2.31%	-3.31%
Hist. Cash Flow Growth (3-5 yrs)	16.45%	8.21%	8.55%	-3.27%	1.88%	5.82%
Current Ratio	1.02	2.40	1.21	1.64	1.41	2.40
Debt/Capital	69.56%	65.51%	42.91%	22.50%	50.54%	65.51%
Net Margin	8.61%	8.61%	11.79%	70.34%	8.21%	5.89%
Return on Equity	51.35%	28.74%	17.24%	6.18%	28.55%	28.74%
Sales/Assets	0.86	0.89	0.55	0.58	1.02	1.03
Proj. Sales Growth (F1/F0)	3.03%	2.80%	4.10%	0.49%	2.18%	2.58%
Momentum Score	B	-	-	F	C	D
Daily Price Chg	2.10%	0.00%	1.49%	0.57%	0.98%	2.95%
1 Week Price Chg	-6.36%	-2.27%	-2.60%	-2.67%	-4.75%	-2.27%
4 Week Price Chg	4.75%	0.00%	0.51%	-5.02%	-4.33%	0.03%
12 Week Price Chg	-0.05%	-0.05%	4.44%	-1.09%	-5.93%	0.71%
52 Week Price Chg	39.15%	6.16%	14.65%	8.85%	14.50%	29.61%
20 Day Average Volume	557,215	15,198	1,935,862	55,952	1,745,205	584,933
(F1) EPS Est 1 week change	-3.94%	-1.97%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.94%	-2.05%	0.00%	-2.20%	-2.12%	-0.17%
(F1) EPS Est 12 week change	-3.86%	-2.01%	-0.10%	-1.11%	-2.51%	-0.17%
(Q1) EPS Est Mthly Chg	2.19%	-6.54%	0.00%	NA	-6.96%	-15.27%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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