

Sherwin-Williams (SHW)

\$581.70 (As of 06/18/20)

Price Target (6-12 Months): **\$611.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Earnings estimates for Sherwin-Williams for the second quarter of 2020 have been stable over the past month. The company is expected to gain from synergies of the Valspar acquisition and its operational improvement actions. Sherwin-Williams is also focused on growth through expansion of operations. The company's cost-control actions, working capital reductions, supply chain optimization and productivity improvement are expected to support margins. However, the company faces earnings headwinds stemming from hefty Valspar buyout charges in 2020. Sherwin-Williams is also exposed to currency translation headwinds. Also, the company's businesses are affected by demand weakness in non-domestic regions, exacerbated by the coronavirus pandemic. Sherwin-Williams' high debt level is another matter of concern.

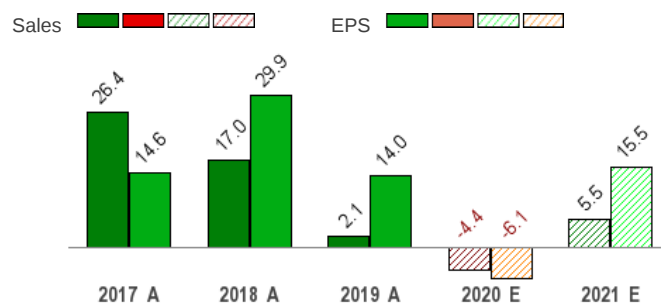
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$603.36 - \$325.43
20 Day Average Volume (sh)	518,179
Market Cap	\$52.8 B
YTD Price Change	-0.3%
Beta	1.23
Dividend / Div Yld	\$5.36 / 0.9%
Industry	Paints and Related Products
Zacks Industry Rank	Top 6% (15 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.8%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	07/28/2020
Earnings ESP	1.1%
P/E TTM	27.0
P/E F1	29.3
PEG F1	2.6
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,230 E	4,962 E	4,955 E	4,356 E	18,057 E
2020	4,147 A	4,329 E	4,549 E	4,041 E	17,119 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	\$4.54 E	\$7.33 E	\$7.51 E	\$5.25 E	\$22.91 E
2020	\$4.08 A	\$5.26 E	\$6.22 E	\$4.21 E	\$19.83 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 06/18/2020. The reports text is as of 06/19/2020.

Overview

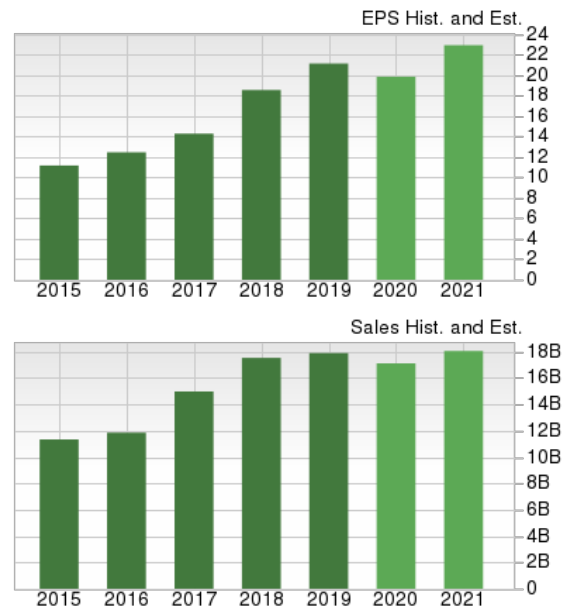
Founded in 1866 and headquartered in Cleveland, OH, The Sherwin-Williams Company is into manufacturing and sales of paints, coatings and related products, primarily in the North and South America. It also has operations in the Caribbean region, Europe and Asia. Sherwin-Williams is one of the biggest 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' 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 architectural paint sales volumes across all 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. Plans are in place to add around 50 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 also purchased 1.7 million shares of its common stock in the first quarter of 2020 and had remaining authorization to purchase 6.75 million shares through open market purchases at the end of the quarter. Sherwin-Williams also hiked its quarterly dividend by 18.6% to \$1.34 per share during the first quarter. It remains committed to maintain this dividend payout through the balance of 2020.

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, exacerbated by the coronavirus pandemic. The company witnessed relatively softer demand in non-domestic regions during the last reported quarter, especially in Asia Pacific and Europe due to the impacts of coronavirus. The company expects the impacts of the coronavirus to continue in the second quarter. Continued softness in non-domestic regions may continue to hurt its sales and margins moving ahead.
- ▼ 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 first-quarter 2020 sales by 1.4%. The company also witnessed currency translation to unfavorably impact sales in the Americas Group and Performance Coatings group units in the last reported quarter. As such, currency headwinds may continue to hurt company's 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 2019 was \$3.21 per share. Moreover, the company expects acquisition-related expenses of around \$2.54 per share in 2020. This may weigh on the company's earnings.
- ▼ The company's high debt level is also a concern. Its long-term debt increased to \$8,289.2 million at the end of first-quarter 2020 from \$8,050.7 million at the end of fourth-quarter 2019. Moreover, its cash and cash equivalents were \$238.5 million as of Mar 31, 2020, lower than its short-term debt of \$1,051.5 million. This may affect the company's ability to meet its short-term debt obligations.

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 Top Estimates in Q1

Sherwin-Williams has logged earnings (as reported) of \$3.46 per share in first-quarter 2020, up 32% from \$2.62 in the year-ago quarter.

Barring one-time items, adjusted earnings in the quarter were \$4.08 per share, which surpassed the Zacks Consensus Estimate of \$4.01.

Sherwin-Williams posted revenues of \$4,146.7 million, up 2.6% year over year. Moreover, the figure beat the Zacks Consensus Estimate of \$4,088.8 million.

The company's results gained from higher architectural paint sales volume, and increased sales in the packaging and coil divisions throughout all regions, which was partly offset by weaker demand in some end markets outside the United States, unfavorable currency translation, and the impacts of the coronavirus outbreak.

Segmental Review

The Americas Group segment registered net sales of \$2.31 billion in the first quarter, up 7% year over year. The upside can be attributed to higher architectural paint sales across all end markets in North American stores which were partly offset by unfavorable currency translation.

Net sales in the Consumer Brands Group segment decreased 4.9% to \$622.3 million. The decline was mainly caused by weaker sales in the Asia Pacific and the planned exit of the ACE business, which were partly offset by higher sales volume across most of its customers in North America and Europe.

Net sales in the Performance Coatings Group fell 1.1% year over year to \$1.22 billion in the reported quarter. The decline was mainly caused by softness in end-market demand in some businesses in the Asia Pacific and Europe, and unfavorable currency translation effect, which were partly offset by higher sales in the packaging and coil divisions across all regions.

Financials and Shareholder Returns

At the end of the quarter, Sherwin-Williams had cash and cash equivalents of \$238.5 million, up 152.6% year over year. Long-term debt declined 4.8% year over year to \$8,289.2 million.

Outlook

The company expects the impacts of the coronavirus outbreak to continue through the second quarter. Moreover, it anticipates consolidated net sales for the second quarter to decrease year over year by a low-to-mid-teen percentage.

The company now expects net income per share of \$16.46-\$18.46 as compared with the previously mentioned \$19.91-\$20.71 for 2020.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	1.42%
EPS Surprise	1.75%
Quarterly EPS	4.08
Annual EPS (TTM)	21.57

Recent News

Sherwin-Williams Declares Quarterly Dividend - Apr 22, 2020

Sherwin-Williams' board announced a quarterly dividend of \$1.34 per share. The dividend is payable on Jun 5, 2020 to shareholders of record as of May 22, 2020.

Valuation

Sherwin-Williams' shares are down 0.3% in the year-to-date period and up 23.3% over the trailing 12-month period. Stocks in the Zacks Paints and Related Products industry and the Zacks Construction sector are down 1% and 9.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 23.1% and down 8.5%, respectively.

The S&P 500 index is down 3.3% in the year-to-date period and up 5.4% in the past year.

The stock is currently trading at 27.33X forward 12-month earnings, which compares to 26.39X for the Zacks sub-industry, 16.03X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.24X and as low as 16.48X, with a 5-year median of 21.3X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$611 price target reflects 28.7X 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 F 12M	Current	27.33	26.39	16.03	22.4
	5-Year High	28.24	27.01	21.05	22.4
	5-Year Low	16.48	17.51	9.86	15.23
	5-Year Median	21.3	20.73	13.53	17.49
EV/EBITDA TTM	Current	18.07	19.88	9.1	11.53
	5-Year High	27.36	25.43	18.54	12.85
	5-Year Low	11.89	13.14	6.52	8.25
	5-Year Median	17.65	18.8	10.51	10.82
P/B TTM	Current	16.06	15.04	2.75	4.26
	5-Year High	56.64	18.78	3.39	4.56
	5-Year Low	8.7	8.37	1.23	2.83
	5-Year Median	13.45	11.7	2.2	3.66

As of 06/18/2020

Industry Analysis Zacks Industry Rank: Top 6% (15 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
RPM International Inc. (RPM)	Outperform	1
Akzo Nobel NV (AKZOY)	Neutral	4
Axalta Coating Systems Ltd. (AXTA)	Neutral	3
BASF SE (BASFY)	Neutral	3
Ferro Corporation (FOE)	Neutral	2
Nippon Paint Holdings Co., Ltd. (NPCPF)	Neutral	3
PolyOne Corporation (POL)	Neutral	3
PPG Industries, Inc. (PPG)	Underperform	3

Industry Comparison Industry: Paints And Related Products				Industry Peers		
	SHW	X Industry	S&P 500	AKZOY	PPG	RPM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Outperform
Zacks Rank (Short Term)	3	-	-	4	3	1
VGM Score	D	-	-	B	D	B
Market Cap	52.82 B	9.79 B	21.93 B	17.74 B	24.64 B	9.79 B
# of Analysts	10	6.5	14	3	8	7
Dividend Yield	0.92%	0.40%	1.93%	2.95%	1.95%	1.91%
Value Score	D	-	-	B	C	C
Cash/Price	0.00	0.02	0.06	0.09	0.08	0.02
EV/EBITDA	20.49	20.49	12.69	13.49	12.19	20.93
PEG Ratio	2.58	2.40	2.97	1.08	2.56	1.38
Price/Book (P/B)	16.06	7.23	3.02	2.41	5.09	7.23
Price/Cash Flow (P/CF)	20.03	19.52	11.62	15.50	12.40	19.52
P/E (F1)	29.60	29.33	21.45	25.11	24.31	22.32
Price/Sales (P/S)	2.93	2.93	2.33	1.74	1.65	1.73
Earnings Yield	3.41%	3.41%	4.37%	3.99%	4.12%	4.48%
Debt/Equity	2.94	2.02	0.77	0.31	1.11	2.02
Cash Flow (\$/share)	29.03	5.86	7.01	1.91	8.42	3.86
Growth Score	C	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	18.00%	7.54%	10.87%	NA	1.52%	3.28%
Proj. EPS Growth (F1/F0)	-6.10%	-6.52%	-10.65%	1.44%	-30.93%	13.10%
Curr. Cash Flow Growth	13.15%	-3.31%	5.46%	-19.52%	2.31%	-3.31%
Hist. Cash Flow Growth (3-5 yrs)	20.20%	8.21%	8.55%	-6.50%	1.88%	5.82%
Current Ratio	0.94	2.41	1.29	1.58	1.36	2.41
Debt/Capital	74.61%	66.91%	45.14%	23.72%	52.65%	66.91%
Net Margin	8.98%	8.98%	10.53%	6.44%	7.88%	5.81%
Return on Equity	53.04%	30.07%	16.06%	9.84%	27.56%	30.07%
Sales/Assets	0.87	0.87	0.55	0.66	0.83	1.02
Proj. Sales Growth (F1/F0)	-4.37%	-2.18%	-2.61%	-14.62%	-14.79%	0.72%
Momentum Score	F	-	-	A	D	A
Daily Price Chg	-0.05%	0.00%	-0.07%	2.32%	-0.43%	-0.91%
1 Week Price Chg	-6.44%	-6.44%	-7.25%	-5.45%	-10.81%	-6.63%
4 Week Price Chg	2.05%	7.08%	6.92%	12.53%	9.81%	8.28%
12 Week Price Chg	24.79%	22.69%	16.91%	34.93%	16.33%	22.69%
52 Week Price Chg	23.33%	22.69%	-5.63%	-4.30%	-9.35%	22.69%
20 Day Average Volume	518,179	21,643	2,574,456	59,077	1,635,392	554,752
(F1) EPS Est 1 week change	-0.18%	0.00%	0.00%	-1.94%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.20%	0.00%	0.00%	0.57%	0.13%	0.21%
(F1) EPS Est 12 week change	-13.86%	-15.83%	-14.21%	-16.94%	-33.15%	-15.83%
(Q1) EPS Est Mthly Chg	-1.21%	1.16%	0.00%	37.50%	-0.39%	3.53%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	F
VGM Score	D

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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