

Sherwin-Williams (SHW)

\$592.93 (As of 01/22/20)

Price Target (6-12 Months): **\$623.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: D

Summary

Earnings estimates for Sherwin-Williams for the fourth quarter of 2019 have been stable over the past month. The company should gain from significant synergies of the Valspar acquisition. 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 yield margin benefits. It has also outperformed the industry it belongs to in the past year. However, the company faces earnings headwinds from hefty Valspar acquisition charges in 2019. The company is also exposed to raw material cost inflation. Higher input costs are expected to hurt margins in 2019. Moreover, the company's businesses continue to be affected by demand weakness across certain economies. It also faces currency headwinds.

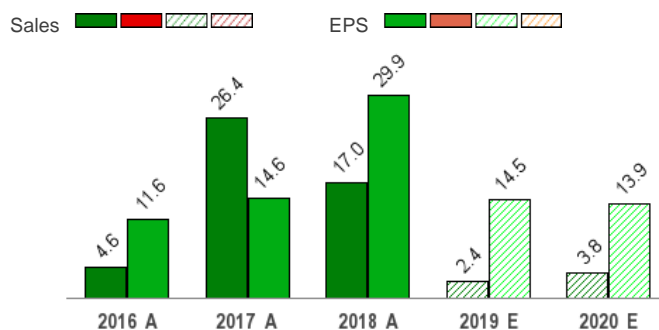
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$598.25 - \$388.44
20 Day Average Volume (sh)	429,227
Market Cap	\$54.7 B
YTD Price Change	1.6%
Beta	1.25
Dividend / Div Yld	\$4.52 / 0.8%
Industry	Paints and Related Products
Zacks Industry Rank	Top 45% (116 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	29.1
P/E F1	24.5
PEG F1	2.1
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,136 E	5,049 E	5,013 E	4,343 E	18,640 E
2019	4,041 A	4,878 A	4,868 A	4,186 E	17,955 E
2018	3,965 A	4,774 A	4,731 A	4,064 A	17,534 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.98 E	\$7.33 E	\$7.23 E	\$5.44 E	\$24.18 E
2019	\$3.60 A	\$6.57 A	\$6.65 A	\$4.40 E	\$21.22 E
2018	\$3.57 A	\$5.73 A	\$5.68 A	\$3.54 A	\$18.53 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 01/22/2020. The reports text is as of 01/23/2020.

Overview

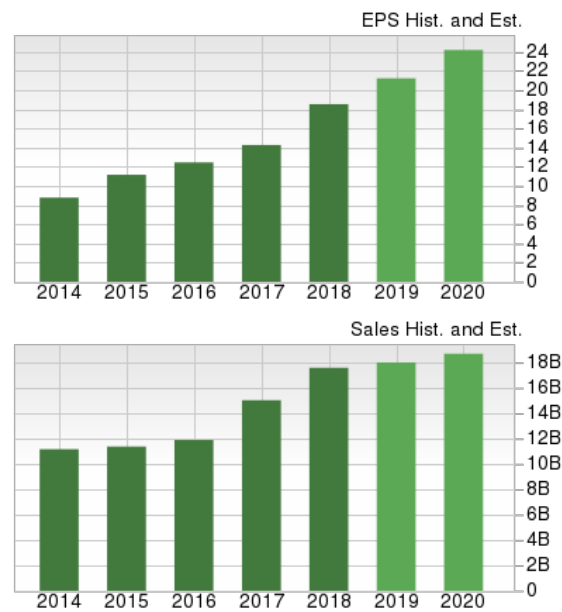
Founded in 1866 and headquartered in Cleveland, OH, The Sherwin-Williams Company is into manufacturing and sales of paints, coatings and related products, primarily in the North and South America. It also has operations in the Caribbean region, Europe and Asia. Sherwin-Williams is one of the biggest 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 55% of Sherwin-Williams' 2018 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 16% of Sherwin-Williams' 2018 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 29% of Sherwin-Williams' 2018 sales.



Reasons To Buy:

- ▲ Sherwin-Williams has outperformed the industry it belongs to over the past year. The company's shares have gained 51.9% in this period compared with the industry's rise of 49.4%. 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 allowed 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. Sherwin-Williams expects incremental synergies of roughly \$70-\$80 million in 2019, with total annual run rate of around \$415 million at the end of the year.
- ▲ 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 all end markets in North American stores and selling price. The unit is expected to see growth in the mid-single digit clip. 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 76 net new stores in 2018 in its Americas Group unit. It also added 31 stores in the first nine months of 2019 and currently has 4,727 stores in operation. Plans are in place to add around 80-100 net new stores in 2019.
- ▲ 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 around \$2 billion in 2018. Sherwin-Williams is also using its cash strategically. The company purchased 1,525,000 shares of its common stock during 2018. It had remaining authorization to purchase 8.8 million shares through open market purchases as of Sep 30, 2019. During first-quarter 2019, the company also hiked quarterly dividend by 31% to 11.3 cents per share. Sherwin-Williams has already returned more than \$892 million to shareholders through cash dividends and share repurchases this year.

Sherwin-Williams should gain from significant synergies of the Valspar acquisition. It also remains focused on growth through expansion of operations. The company is also benefiting from its actions to cut operating costs.

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 recently reported quarter, especially Asia and Europe, where sales were down by high and low-single digit percentages, respectively. The company expects sales in Performance Coatings Group to decline by low-single digits in the fourth quarter due to softness in non-domestic markets.
- ▼ Sherwin-Williams still remains exposed to volatility in raw material costs. The company faced headwinds from higher raw materials costs in 2018 (mostly in TiO₂). In 2018, Sherwin-Williams witnessed inflation across several raw material categories in 2018 including propylene, TiO₂ and crude oil. The company witnessed higher raw material costs through first-half 2019 and also in the most recent quarter. Sherwin-Williams expects inflation to be in the low-single digits year over year for full-year 2019.
- ▼ Sherwin-Williams is exposed to currency translation headwinds. In third-quarter 2019, unfavorable currency translation dented consolidated sales by 0.9%. Moreover, currency translation reduced third-quarter sales of the Performance Coatings Group by 1.6%. As such, currency headwinds may continue to hurt the performance in the fourth quarter.
- ▼ Sherwin-Williams faces earnings headwinds from sizable charges related to Valspar acquisition. The company, during fourth-quarter 2018 earnings call, said that it expects charges related to the Valspar acquisition to be \$3.20 per share for 2019. Notably, the company recorded charges for acquisition-related costs of \$4.15 per share in 2018. Acquisition-related costs totaled \$2.23 per share for the first nine months of 2019.

Sherwin-Williams faces earnings headwinds from Valspar acquisition charges. It also remains exposed to raw material cost inflation and currency translation headwinds.

Last Earnings Report

Sherwin-Williams' Q3 Earnings, Sales Top Estimates

Sherwin-Williams logged earnings (as reported) of \$6.16 per share in the third quarter of 2019, up around 66% from \$3.72 a year ago.

Barring one-time items, adjusted earnings for the quarter came in at \$6.65 per share, which surpassed the Zacks Consensus Estimate of \$6.46.

Sherwin-Williams posted revenues of \$4,867.7 million, up around 3% year over year. The figure also beat the Zacks Consensus Estimate of \$4,819.8 million. The company gained from sustained strength in architectural paint markets in North America.

Sales were driven by increased paint sales volume in North American stores and higher selling prices that more than offset weak demand across certain end-markets outside the United States. Unfavorable currency translation reduced sales by 0.9%.

Segment Review

The Americas Group segment registered net sales of \$2.9 billion in the quarter, up around 9% year over year. Revenues were mainly driven by higher paint sales across all end markets in North American stores along with higher selling prices.

Net sales in the Consumer Brands Group segment fell around 12% to \$678.5 million. The decline is partly due to the divestiture of the Guardsman furniture protection business and weaker sales in specific markets outside of North America. The company, however, saw higher selling prices and increased sales volume related to most of the Group's retail customers.

Net sales in the Performance Coatings Group ticked down 0.3% to roughly \$1.3 billion in the quarter. The decline was mainly caused by softness in sales outside North America and unfavorable currency translation effect, partly offset by higher selling prices.

Financials and Shareholder Returns

Sherwin-Williams had cash of \$189.6 million at the end of the quarter, up around 5% year over year. Long-term debt declined around 8% year over year to roughly \$8 billion.

The company purchased 1,325,000 shares of its common stock during the first nine months. It had remaining authorization to purchase 8.8 million shares through open market purchases.

Outlook

Sherwin-Williams projects low single digit percentage increase in net sales year over year for fourth-quarter 2019. For the full year, Sherwin-Williams expects low single digit percentage increase in net sales from 2018. The company now expects earnings in the range of \$17.07-\$17.47 per share for 2019 (compared with \$11.67 in 2018).

The company also raised its adjusted earnings per share guidance for 2019 to the range of \$20.90-\$21.30.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	0.99%
EPS Surprise	2.94%
Quarterly EPS	6.65
Annual EPS (TTM)	20.36

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 51.9% over the trailing 12-month period. Over the past year, the Zacks Paints and Related Products industry and the Zacks Construction sector are up 49.4% and up 35%, respectively.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 24.36X forward 12-month earnings, which compares to 23.48X for the Zacks sub-industry, 16.24X for the Zacks sector and 19.13X 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 \$623 price target reflects 26.69X 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	24.36	23.48	16.24	19.13
	5-Year High	27.61	23.6	18.83	19.34
	5-Year Low	16.48	17.51	10.63	15.17
	5-Year Median	21.5	20.81	16.24	17.44
EV/EBITDA TTM	Current	19.48	21.42	19.57	12.38
	5-Year High	27.36	25.43	22.86	12.86
	5-Year Low	11.98	13.27	14.6	8.48
	5-Year Median	18.38	18.69	19.38	10.69
P/B TTM	Current	13.61	13.45	3.94	4.54
	5-Year High	58.08	19.12	7.22	4.55
	5-Year Low	8.7	8.37	2.19	2.85
	5-Year Median	13.84	11.97	3.41	3.61

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 45% (116 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	C	B
Market Cap	54.73 B	9.60 B	24.65 B	20.34 B	29.83 B	9.60 B
# of Analysts	10	6	13	3	9	7
Dividend Yield	0.76%	0.38%	1.77%	0.67%	1.62%	1.95%
Value Score	D	-	-	D	C	C
Cash/Price	0.00	0.02	0.04	0.12	0.04	0.02
EV/EBITDA	27.39	20.50	13.98	19.75	14.34	20.50
PEG Ratio	2.13	1.63	2.05	1.19	2.29	1.20
Price/Book (P/B)	13.60	6.84	3.38	2.61	5.57	6.84
Price/Cash Flow (P/CF)	23.44	19.15	13.60	15.64	14.98	19.15
P/E (F1)	24.52	23.27	19.07	21.93	19.07	22.01
Price/Sales (P/S)	3.07	3.07	2.69	1.93	1.97	1.71
Earnings Yield	4.08%	4.31%	5.24%	4.56%	5.24%	4.54%
Debt/Equity	2.34	1.90	0.72	0.29	0.85	1.90
Cash Flow (\$/share)	25.30	5.86	6.94	2.08	8.42	3.86
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	18.61%	9.73%	10.60%	NA	2.24%	3.15%
Proj. EPS Growth (F1/F0)	13.95%	22.74%	7.53%	29.82%	6.34%	24.04%
Curr. Cash Flow Growth	20.23%	-3.31%	13.90%	-26.65%	2.31%	-3.31%
Hist. Cash Flow Growth (3-5 yrs)	19.32%	8.21%	9.00%	-3.27%	1.88%	5.82%
Current Ratio	1.01	2.40	1.22	1.64	1.41	2.40
Debt/Capital	70.02%	65.51%	42.99%	22.50%	50.54%	65.51%
Net Margin	7.81%	7.81%	11.21%	70.34%	8.21%	5.89%
Return on Equity	50.96%	28.74%	17.16%	6.18%	28.55%	28.74%
Sales/Assets	0.87	0.89	0.55	0.58	1.02	1.03
Proj. Sales Growth (F1/F0)	3.75%	3.16%	4.08%	0.49%	2.18%	2.58%
Momentum Score	D	-	-	C	F	D
Daily Price Chg	-0.02%	0.00%	-0.04%	0.43%	0.21%	0.12%
1 Week Price Chg	4.83%	0.00%	2.29%	-1.96%	0.31%	1.92%
4 Week Price Chg	2.03%	0.00%	2.05%	-4.64%	-5.53%	-1.88%
12 Week Price Chg	1.14%	0.00%	6.92%	4.74%	0.14%	1.13%
52 Week Price Chg	50.72%	7.13%	21.50%	9.96%	23.63%	33.43%
20 Day Average Volume	429,227	14,044	1,518,423	34,346	1,440,353	623,149
(F1) EPS Est 1 week change	0.00%	0.06%	0.00%	0.00%	-2.12%	0.13%
(F1) EPS Est 4 week change	0.00%	-0.08%	0.00%	-2.20%	-2.12%	-0.17%
(F1) EPS Est 12 week change	0.21%	0.02%	-0.23%	-1.11%	-2.44%	-0.17%
(Q1) EPS Est Mthly Chg	0.00%	-7.63%	0.00%	NA	-6.96%	-15.27%

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	A
Momentum Score	D
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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