

## Sherwin-Williams (SHW)

**\$647.63** (As of 07/30/20)

Price Target (6-12 Months): **\$745.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 07/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: D

Momentum: B

### Summary

Sherwin-Williams' adjusted earnings and sales for the second quarter of 2020 beat the respective Zacks Consensus Estimate. The company is expected to gain from synergies of the Valspar acquisition and its operational improvement actions. The Valspar acquisition has strengthened its position as a leading paints and coatings provider globally, leveraging highly complementary offerings, strong brands and technologies. Sherwin-Williams is also focused on growth through expansion of operations. It remains committed to capture a larger share of its end-markets. The company is also witnessing favorable demand in domestic markets. The company's cost-control actions, working capital reductions, supply chain optimization and productivity improvement are also expected to support margins. It has also outperformed the industry over a year.

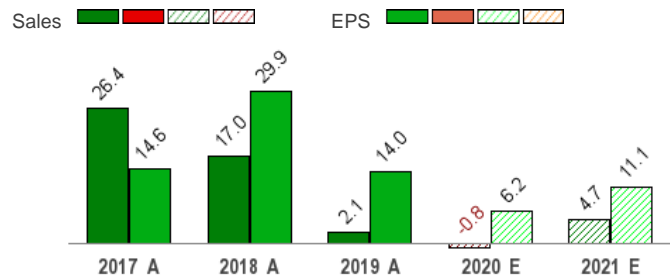
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$659.87 - \$325.43
20 Day Average Volume (sh)	462,408
Market Cap	\$59.0 B
YTD Price Change	11.0%
Beta	1.22
Dividend / Div Yld	\$5.36 / 0.8%
Industry	<a href="#">Paints and Related Products</a>
Zacks Industry Rank	Top 19% (48 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.8%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	10.6%
Expected Report Date	10/27/2020
Earnings ESP	3.1%
P/E TTM	29.3
P/E F1	28.9
PEG F1	2.5
P/S TTM	3.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,217 E	4,995 E	5,014 E	4,343 E	18,599 E
2020	4,147 A	4,604 A	4,816 E	4,177 E	17,763 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	\$4.53 E	\$7.46 E	\$7.66 E	\$5.29 E	\$24.92 E
2020	\$4.08 A	\$7.10 A	\$7.03 E	\$4.59 E	\$22.44 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 07/30/2020. The reports text is as of 07/31/2020.

## Overview

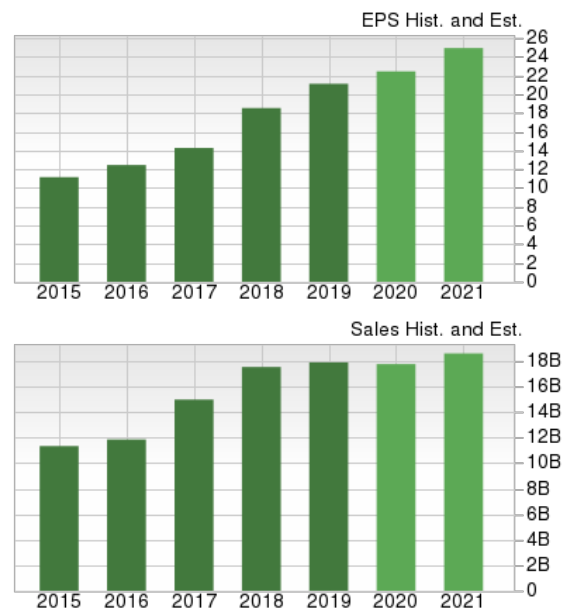
Founded in 1866 and headquartered in Cleveland, OH, The Sherwin-Williams Company is into manufacturing and sales of paints, coatings and related products, primarily in the North and South America. It also has operations in the Caribbean region, Europe and Asia. Sherwin-Williams is one of the biggest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



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## Reasons To Buy:

- ▲ Sherwin-Williams' shares are up 26.3% over a year, outperforming its industry's 25.2% rise. 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 domestic markets and remains committed to expand its retail operations. It is seeing higher architectural paint sales volumes. The company witnessed strong demand for architectural DIY (Do It Yourself) paint in North America in the last reported quarter. 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 half of 2020 and had remaining authorization to purchase 6.75 million shares through open market purchases at the end of the period. Sherwin-Williams also hiked its quarterly dividend by 18.6% to \$1.34 per share during the first quarter of 2020. 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.

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## Risks

- Sherwin-Williams' businesses 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 due to the impacts of coronavirus. It saw double digit declines in demand across Europe and Latin America and a single digit decline in Asia in the Performance Coatings Group. Demand remains weak in general industrial markets such as heavy equipment, agriculture and transportation. Continued softness in non-domestic regions may continue to hurt the company's sales in the third quarter of 2020. The company expects sales in Performance Coatings Group to be down low to mid-single digit percentage in the quarter.
  - 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 second-quarter 2020 sales by 1.5%. The company also witnessed currency translation to unfavorably impact sales by 3% in the Performance Coatings group unit in the last reported quarter. As such, currency headwinds may continue to hurt company's performance.
  - The company's high debt level is also a concern. Its total debt was \$8,850 million at the end of second-quarter 2020. Moreover, its cash and cash equivalents were \$188.1 million as of Jun 30, 2020, lower than its short-term debt of \$560 million. This may affect the company's ability to meet its short-term debt obligations.
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## Last Earnings Report

### Sherwin-Williams' Earnings & Sales Top Estimates in Q2

Sherwin-Williams logged earnings (as reported) of \$6.48 per share in second-quarter 2020, up roughly 29% from \$5.03 in the year-ago quarter.

Barring one-time items, adjusted earnings in the reported quarter were \$7.10 per share, which topped the Zacks Consensus Estimate of \$5.69.

Sherwin-Williams posted revenues of \$4,604 million, down roughly 6% year over year. However, the figure beat the Zacks Consensus Estimate of \$4,556.2 million.

The decline in sales is due to the impacts of coronavirus pandemic, which led to weak demand in certain end markets in the Americas Group and the Performance Coatings Group segments. Unfavorable currency translation also hurt sales. These were, in part, offset by increased sales to most of the Consumer Brands Group unit's retail customers.

### Segmental Review

The Americas Group segment registered net sales of \$2.52 billion in the second quarter, down around 8% year over year, as coronavirus impacted demand in most end market segments.

Net sales in the Consumer Brands Group segment climbed roughly 22% year over year to \$980.2 million. Increased volume sales to most of the segment's North American and European retail customers were partly offset by weaker sales in Asia Pacific.

Net sales in the Performance Coatings Group fell nearly 17% year over year to \$1.1 billion in the reported quarter. The decline was mainly due to weaker end market demand in most businesses partly resulting from the impacts of the pandemic. Sales were also affected by unfavorable currency swings. These were partly offset by higher sales in the packaging division in all regions.

### Financials and Shareholder Returns

At the end of the quarter, Sherwin-Williams had cash and cash equivalents of \$188.1 million, up 29% year over year. Long-term debt increased around 15% year over year to \$8,289.4 million.

The company purchased 1,700,000 shares of its common stock in the first half of 2020. It had remaining authorization to purchase 6.75 million shares through open market purchases.

### Outlook

Moving ahead, Sherwin-Williams envisions demand to improve sequentially in the third quarter with softness continuing in certain end markets in the United States and global environments for the balance of 2020. The company expects third-quarter consolidated net sales to be up or down low single digits on a year-over-year basis.

The company also raised its net income per share guidance for full-year 2020 to \$19.21-\$20.71 from its prior view of \$16.46-\$18.46.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	1.05%
EPS Surprise	24.78%
Quarterly EPS	7.10
Annual EPS (TTM)	22.10

## Recent News

### Sherwin-Williams Declares Quarterly Dividend

On **Jun 22, 2020**, Sherwin-Williams' board announced a quarterly dividend of \$1.34 per share. The dividend is payable on Sep 11, 2020 to shareholders of record as of Aug 21, 2020.

## Valuation

Sherwin-Williams' shares are up 11% in the year-to-date period and up 26.3% over the trailing 12-month period. Stocks in the Zacks Paints and Related Products industry and the Zacks Construction sector are up 9.6% and 3.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 25.2% and 17.7%, respectively.

The S&P 500 index is up 1.3% in the year-to-date period and up 10.7% in the past year.

The stock is currently trading at 29.25X forward 12-month earnings, which compares to 28.03X for the Zacks sub-industry, 19.77X for the Zacks sector and 22.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.27X and as low as 16.48X, with a 5-year median of 21.3X.

Our Outperform recommendation indicates that the stock will perform above the market. Our \$745 price target reflects 33.65X 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	29.25	28.03	19.77	22.69
	5-Year High	29.27	28.03	19.77	22.69
	5-Year Low	16.48	17.51	10.74	15.25
	5-Year Median	21.3	20.66	15.86	17.55
EV/EBITDA TTM	Current	19.79	21.68	18.91	12.11
	5-Year High	27.36	25.43	21.24	12.85
	5-Year Low	11.89	13.14	12.43	8.25
	5-Year Median	17.77	18.95	17.85	10.89
P/B TTM	Current	17.88	16.67	4.28	4.46
	5-Year High	35.09	16.67	6.74	4.56
	5-Year Low	8.7	8.37	1.71	2.83
	5-Year Median	13.45	11.7	3.29	3.72

As of 07/30/2020

## Industry Analysis Zacks Industry Rank: Top 19% (48 out of 253)



## Top Peers

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

Industry Comparison Industry: Paints And Related Products				Industry Peers		
	SHW	X Industry	S&P 500	AKZOY	PPG	RPM
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	D	-	-	B	A	A
Market Cap	58.97 B	10.59 B	22.57 B	19.16 B	25.53 B	10.59 B
# of Analysts	10	7	14	3	8	7
Dividend Yield	0.83%	0.37%	1.83%	2.73%	1.89%	1.77%
Value Score	F	-	-	B	B	B
Cash/Price	0.00	0.02	0.07	0.08	0.09	0.02
EV/EBITDA	22.52	22.24	12.96	14.53	12.38	22.24
PEG Ratio	2.51	2.30	3.04	1.03	3.80	1.46
Price/Book (P/B)	15.24	8.37	3.13	2.60	5.17	8.37
Price/Cash Flow (P/CF)	22.31	19.03	12.61	16.75	12.85	19.03
P/E (F1)	28.86	28.86	22.06	24.68	22.84	22.15
Price/Sales (P/S)	3.33	3.33	2.42	1.99	1.84	1.92
Earnings Yield	3.46%	3.46%	4.31%	4.04%	4.38%	4.51%
Debt/Equity	2.50	2.14	0.75	0.31	1.07	2.14
Cash Flow (\$/share)	29.03	5.86	6.94	1.91	8.42	4.29
Growth Score	D	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	18.00%	5.51%	10.85%	NA	0.14%	3.28%
Proj. EPS Growth (F1/F0)	6.25%	6.80%	-7.75%	11.49%	-23.83%	19.96%
Curr. Cash Flow Growth	13.15%	9.79%	5.39%	-19.52%	2.31%	9.79%
Hist. Cash Flow Growth (3-5 yrs)	20.20%	8.21%	8.55%	-6.50%	1.88%	5.82%
Current Ratio	1.10	2.22	1.31	1.58	1.35	2.22
Debt/Capital	71.44%	68.13%	44.32%	23.72%	51.68%	68.13%
Net Margin	9.83%	9.83%	10.44%	5.60%	7.23%	5.53%
Return on Equity	53.67%	29.73%	14.73%	9.28%	23.88%	29.73%
Sales/Assets	0.86	0.86	0.52	0.64	0.77	0.98
Proj. Sales Growth (F1/F0)	-0.77%	-0.39%	-1.95%	-9.33%	-12.00%	2.14%
Momentum Score	B	-	-	A	A	A
Daily Price Chg	0.00%	0.00%	-0.92%	-1.34%	-2.00%	-1.13%
1 Week Price Chg	1.63%	0.00%	0.37%	-1.89%	-1.18%	2.17%
4 Week Price Chg	11.09%	6.86%	4.14%	5.06%	-0.80%	8.93%
12 Week Price Chg	22.53%	21.14%	12.21%	26.86%	19.74%	20.84%
52 Week Price Chg	26.26%	23.37%	-1.73%	2.66%	-6.46%	23.37%
20 Day Average Volume	462,408	21,442	1,887,986	23,611	1,599,742	611,903
(F1) EPS Est 1 week change	10.58%	10.58%	0.00%	0.00%	0.00%	11.72%
(F1) EPS Est 4 week change	10.58%	8.41%	0.38%	9.91%	9.50%	8.41%
(F1) EPS Est 12 week change	13.59%	9.19%	-0.07%	10.54%	9.41%	9.19%
(Q1) EPS Est Mthly Chg	11.59%	24.36%	0.16%	10.53%	8.10%	37.12%

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## 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.

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### 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	F
Growth Score	D
Momentum Score	B
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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