



# Sherwin-Williams Company (SHW)

Updated October 25<sup>th</sup>, 2018 by Nick McCullum

## Key Metrics

<b>Current Price:</b>	\$375	<b>5 Year CAGR Estimate:</b>	10.8%	<b>Volatility Percentile:</b>	33.7%
<b>Fair Value Price:</b>	\$392	<b>5 Year Growth Estimate:</b>	9.0%	<b>Momentum Percentile:</b>	50.7%
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.9%	<b>Growth Percentile:</b>	82.4%
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$603	<b>Valuation Percentile:</b>	58.3%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	59.6%

## Overview & Current Events

Sherwin-Williams is the world's second-largest manufacturer of paints and coatings. The company distributes its products through wholesalers as well as retail stores that bear the Sherwin-Williams name. Sherwin-Williams was founded in 1866 and has grown to a market capitalization of \$39 billion and annual sales of approximately \$15 billion. With 39 years of consecutive dividend increases, Sherwin-Williams is a member of the Dividend Aristocrats Index.

In late October, Sherwin-Williams reported (10/25/18) financial results for the third quarter of fiscal 2018. In the quarter, consolidated net sales increased by 5.0% to \$4.73 billion while same store sales for locations in the United States and Canada increased by 5.2%. On the bottom line, Sherwin-Williams generated diluted earnings-per-share of \$3.72, which represents an 11.7% increase over the same period a year ago. With that said, this \$3.72 figure includes a number of one-time financial charges, including those related to a California public nuisance litigation and Valspar-related acquisition costs. Excluding these nonrecurring accounting charges (as well as similar charges in the year-ago period), Sherwin-Williams generated adjusted earnings-per-share of \$5.68, a 19.6% increase year-on-year.

Sherwin-Williams also updated its 2018 financial guidance with the publication of its third quarter earnings release. The company now expects to generate adjusted earnings-per-share between \$19.05 and \$19.20. We have lowered our 2018 earnings estimate to reflect the midpoint (\$19.13) of this guidance band. Our prior estimate was for \$19.20 in full-year earnings-per-share.

While Sherwin-Williams' third quarter earnings release delivered solid top-line growth and robust bottom-line growth, the company missed expectations by \$80 million for revenue and \$0.07 for earnings-per-share. Shares fell modestly following the announcement.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$4.00	\$3.78	\$4.21	\$4.14	\$6.02	\$7.26	\$8.78	\$11.16	\$11.99	\$15.07	<b>\$19.13</b>	<b>\$29.43</b>
<b>DPS</b>	\$1.40	\$1.42	\$1.44	\$1.46	\$1.56	\$2.00	\$2.20	\$2.68	\$3.36	\$3.40	<b>\$3.70</b>	<b>\$7.50</b>
<b>Shares</b>	117.0	109.4	107.0	103.9	103.2	100.1	94.7	92.3	93.0	93.9	<b>92.5</b>	<b>92.5</b>

Sherwin-Williams has compounded its adjusted earnings-per-share at a remarkable 15.9% per year since 2008. As we have seen in the company's most recent earnings release, recent performance has been even stronger. While this historical growth rate is certainly remarkable, we believe that the company is unlikely to replicate this performance moving forward. Instead, we believe that Sherwin-Williams is capable of delivering 9% annualized earnings growth over full economic cycles. Applying a 9% growth rate to our new 2018 earnings-per-share estimate of \$19.13 allows us to compute a 2023 earnings-per-share estimate of \$29.43.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	13.7	14.8	17.0	19.8	21.3	24.3	24.1	24.3	23.2	22.8	<b>19.6</b>	<b>20.5</b>
<b>Avg. Yld.</b>	2.6%	2.5%	2.0%	1.8%	1.2%	1.1%	1.0%	1.0%	1.2%	1.0%	<b>0.9%</b>	<b>1.0%</b>

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Sherwin-Williams Company (SHW)

Updated October 25<sup>th</sup>, 2018 by Nick McCullum

Sherwin-Williams has traded at an average price-to-earnings ratio of 20.5 over the last decade. Using our new 2018 per-share earnings estimate, the company is trading at a price-to-earnings ratio of 19.6 today. Sherwin-Williams appears modestly undervalued at current prices. If the company's valuation can expand to a price-to-earnings ratio of 20.5 over the next 5 years, this will boost the company's total returns by 0.9% per year during this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>GP/A</b>	79.2%	75.5%	67.3%	71.6%	67.5%	72.3%	90.6%	96.2%	87.7%	34.0%	<b>65.0%</b>	<b>80.0%</b>
<b>Debt/A</b>	63.6%	65.5%	68.9%	71.0%	71.3%	72.2%	82.5%	85.0%	72.2%	81.5%	<b>82.0%</b>	<b>75.0%</b>
<b>Int. Cov.</b>	12.6	17.6	11.1	20.2	23.8	19.3	21.6	26.7	11.7	7.0	<b>6.0</b>	<b>10.0</b>
<b>Payout</b>	35.0%	37.6%	34.2%	35.3%	25.9%	27.5%	25.1%	24.0%	28.0%	22.6%	<b>19.4%</b>	<b>25.6%</b>
<b>Std. Dev.</b>	48.4%	35.2%	21.7%	24.4%	22.7%	21.6%	17.5%	22.8%	23.8%	16.6%	<b>19.0%</b>	<b>19.0%</b>

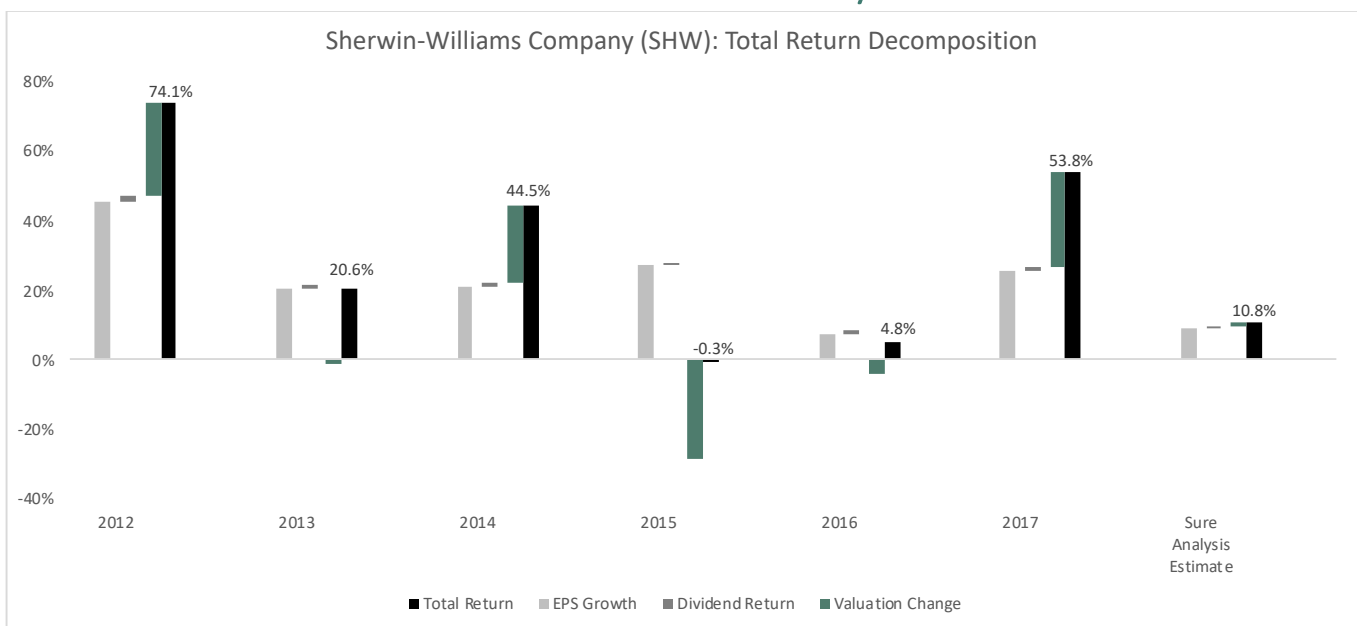
Investors should note that the Valspar acquisition may burden Sherwin-Williams' debt-related metrics in the near future. Through a combination of new debt and Valspar's debt assumed at the transaction's close, Sherwin-Williams has added approximately \$10 billion in liabilities to its balance sheet. Moody's downgraded Sherwin-Williams three notches to Baa3 from A3 and S&P downgraded the company to BBB from A. We expect disciplined deleveraging moving forward.

From a dividend perspective, Sherwin-Williams' 39 years of consecutive dividend increases combined with its low payout ratio allows it to earn an A rating for Dividend Safety. Its low yield prevents it from ranking higher than a C for Retirement Suitability.

## Final Thoughts & Recommendation

Sherwin-Williams is now priced to deliver low double-digit total returns, which is sufficient to earn a buy recommendation from Sure Dividend. We caution that the company is likely to drop in price significantly during any economic downturn. Investors should be ready and willing to commit more capital in the event that this risk materializes.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Sherwin-Williams Company (SHW)

Updated October 25<sup>th</sup>, 2018 by Nick McCullum

## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	7980	7094	7776	8766	9534	10186	11130	11339	11856	14984
<b>Gross Profit</b>	3499	3263	3481	3745	4206	4617	5164	5560	5923	6781
<b>Gross Margin</b>	43.8%	46.0%	44.8%	42.7%	44.1%	45.3%	46.4%	49.0%	50.0%	45.3%
<b>SG&amp;A Exp.</b>	2663	2535	2728	2961	3260	3468	3823	3886	4135	4785
<b>D&amp;A Exp.</b>	166	171	175	181	179	188	199	199	197	547
<b>Operating Profit</b>	836	695	752	787	951	1162	1331	1625	1736	1793
<b>Operating Margin</b>	10.5%	9.8%	9.7%	9.0%	10.0%	11.4%	12.0%	14.3%	14.6%	12.0%
<b>Net Profit</b>	477	436	462	442	631	753	866	1054	1133	1772
<b>Net Margin</b>	6.0%	6.1%	5.9%	5.0%	6.6%	7.4%	7.8%	9.3%	9.6%	11.8%
<b>Free Cash Flow</b>	759	768	581	582	731	917	881	1213	1070	1661
<b>Income Tax</b>	238	187	215	300	276	333	392	495	463	-286

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	4416	4324	5169	5229	6235	6383	5699	5779	6753	19958
<b>Cash &amp; Equivalents</b>	26	69	59	33	863	745	41	206	890	204
<b>Accounts Receivable</b>	770	696	917	990	1033	1098	1131	1114	1231	2105
<b>Inventories</b>	864	738	918	927	920	971	1034	1019	1068	1801
<b>Goodwill &amp; Int. Ass.</b>	1307	1294	1423	1414	1504	1492	1447	1399	1382	12817
<b>Total Liabilities</b>	2810	2833	3560	3712	4443	4608	4703	4911	4874	16266
<b>Accounts Payable</b>	738	675	910	965	923	998	1042	1158	1035	1792
<b>Long-Term Debt</b>	834	818	1045	993	1705	1722	1799	1950	1953	10521
<b>Shareholder's Equity</b>	1389	1274	1393	1357	1691	1734	996	868	1878	3692
<b>D/E Ratio</b>	0.52	0.55	0.65	0.65	0.95	0.97	1.81	2.25	1.04	2.85

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	10.3%	10.0%	9.7%	8.5%	11.0%	11.9%	14.3%	18.4%	18.1%	13.3%
<b>Return on Equity</b>	33.5%	32.7%	34.7%	32.1%	41.4%	43.9%	63.4%	113%	82.5%	63.6%
<b>ROIC</b>	18.4%	18.4%	18.6%	17.1%	21.0%	21.5%	27.5%	37.6%	34.1%	19.6%
<b>Shares Out.</b>	117.0	109.4	107.0	103.9	103.2	100.1	94.7	92.3	93.0	93.9
<b>Revenue/Share</b>	66.86	61.98	71.48	82.95	91.74	98.84	112.72	119.94	125.47	157.85
<b>FCF/Share</b>	6.36	6.71	5.34	5.51	7.03	8.90	8.92	12.83	11.32	17.50

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.