



# Sherwin-Williams Company (SHW)

Updated February 3<sup>rd</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$422	<b>5 Year CAGR Estimate:</b>	9.6%	<b>Volatility Percentile:</b>	37.2%
<b>Fair Value Price:</b>	\$418	<b>5 Year Growth Estimate:</b>	9.0%	<b>Momentum Percentile:</b>	61.1%
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.2%	<b>Growth Percentile:</b>	84.6%
<b>Dividend Yield:</b>	0.8%	<b>5 Year Price Target</b>	\$643	<b>Valuation Percentile:</b>	47.6%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	51.3%

## 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.

Sherwin-Williams reported its fourth quarter and full year earnings results on January 31. The company generated revenues of \$4.06 billion during the fourth quarter, which represents a revenue growth rate of 2.0% versus the prior year's quarter. Sherwin-Williams' gross margin contracted the fourth quarter, as the company reported a gross margin of 41.4% versus a gross margin of 43.7% during the previous year's quarter. On the other hand, Sherwin-Williams was able to improve its operating margin considerably, as operating expenses declined from 33.3% of sales to 30.5% of sales. This has resulted in a small operating profit increase on a year over year basis. Sherwin-Williams grew its same-store sales by 5.1% during fiscal 2018, which is highly attractive. Sherwin-Williams earned \$3.54 on a per-share basis during the fourth quarter, which represents a very solid growth rate of 12% versus the company's earnings-per-share during the previous year's fourth quarter.

Sherwin-Williams' guidance for 2019 includes an anticipated revenue growth rate of 2%-6% during the first quarter, as well as an earnings-per-share guidance range of \$20.40 to \$21.40.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$3.78	\$4.21	\$4.14	\$6.02	\$7.26	\$8.78	\$11.16	\$11.99	\$15.07	\$18.53	<b>\$20.90</b>	<b>\$32.16</b>
<b>DPS</b>	\$1.42	\$1.44	\$1.46	\$1.56	\$2.00	\$2.20	\$2.68	\$3.36	\$3.40	\$3.44	<b>\$3.48</b>	<b>\$3.68</b>
<b>Shares</b>	109.4	107.0	103.9	103.2	100.1	94.7	92.3	93.0	93.9	92.9	<b>91.5</b>	<b>87.0</b>

Sherwin-Williams has been a strong growth investment during the last decade. Sherwin-Williams has compounded its adjusted earnings-per-share at a remarkable 15.9% per year since 2008. During the financial crisis its earnings-per-share declined marginally, by roughly 5%, which shows that the company's business is relatively resilient versus recessions. This is somewhat surprising for a company that is active in the paints and coatings industry.

As we have seen in the company's earnings release for fiscal 2018, last year the company has delivered even stronger growth than what Sherwin-Williams has achieved during the last decade. The 20%+ earnings-per-share growth rate from fiscal 2018 is not sustainable in the long run, though, as this was impacted by one-time items such as a decline in the company's tax rate. While Sherwin-Williams' historical growth rate is outstanding, 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 a full economic cycles. This growth will come from several factors, including revenue growth, which will partially rest on higher sales at the company's existing stores. Margin expansion and the company's share repurchases will play a role for Sherwin-Williams' future earnings-per-share growth as well. The company has reduced its share count by roughly 20% throughout the last decade, and we believe that the number of shares will continue to decline at a meaningful pace throughout the next several years.

*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.*



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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.8	17.0	19.8	21.3	24.3	24.1	24.3	23.2	22.8	21.2	<b>20.2</b>	<b>20.0</b>
Avg. Yld.	2.5%	2.0%	1.8%	1.2%	1.1%	1.0%	1.0%	1.2%	1.0%	0.9%	<b>0.8%</b>	<b>0.6%</b>

Sherwin-Williams has been a high-quality growth name during the last decade. The market has rewarded this with an above-average valuation, as shares traded for more than 20 times profits since 2012. We believe that shares should be valued at a price to earnings multiple of roughly 20 in the long run. It seems likely that Sherwin-Williams will not trade above 20 times profits in the next five years, as we believe its earnings growth will slow down to some extent.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	37.6%	34.2%	35.3%	25.9%	27.5%	25.1%	24.0%	28.0%	22.6%	18.6%	<b>16.7%</b>	<b>11.4%</b>

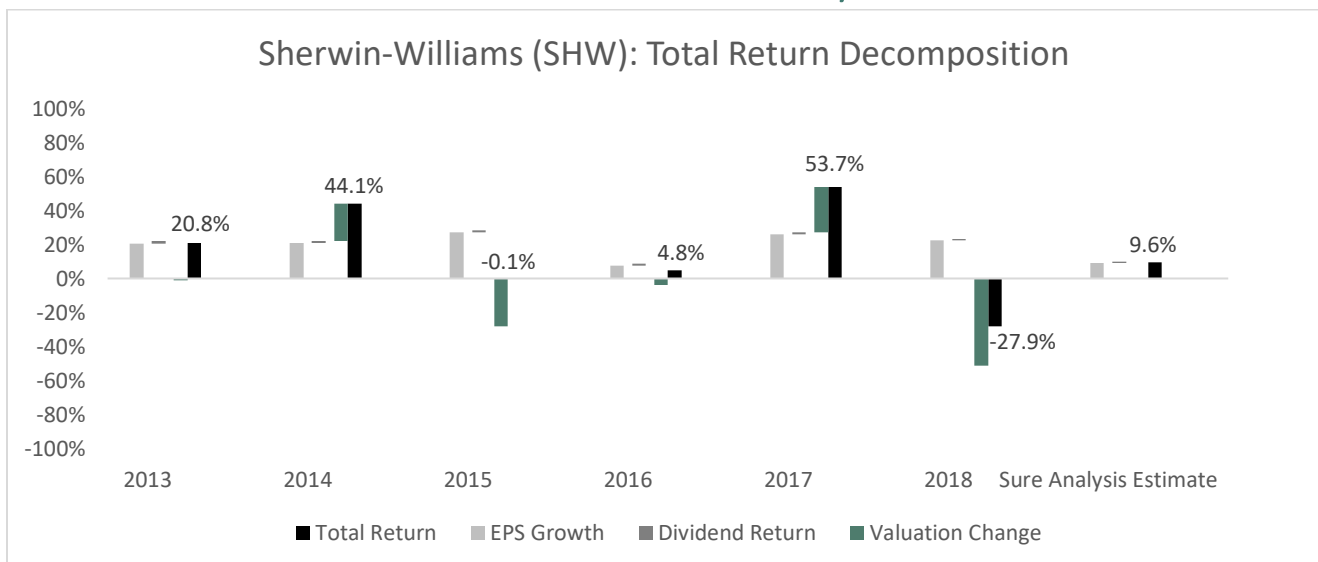
Sherwin-Williams has raised its dividend consistently for decades. With that said, its dividend payout ratio has never risen to a high level, not even during the financial crisis. Over the last decade Sherwin-Williams' payout ratio declined substantially, which is explained by the fact that the company grew its dividend a lot less than its earnings. Its recent dividend increases were marginal, as the company is focused on using its cash flows for other purposes right now. We believe that the dividend is extremely safe, but due to the low yield the stock is not suitable for income investors.

Sherwin-Williams is not active in a high-growth industry, but the company nevertheless has managed to grow its business consistently. Acquisitions are a way for Sherwin-Williams to enhance its presence further. The company will most likely pay down Valspar-related debt before making another large acquisition, though.

## Final Thoughts & Recommendation

Sherwin-Williams has been a great investment during the majority of the last decade. Going forward the company should be able to grow its earnings-per-share at a rate that is still solid, but not as high as its historic growth rate. We believe that shares are trading marginally above fair value right here, which is why we rate Sherwin-Williams a hold, even though the company looks strong fundamentally.

## Total Return Breakdown by Year



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## 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.

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