



Sherwin-Williams Company (SHW)

Updated January 29th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$689	5 Year CAGR Estimate:	4.7%	Market Cap:	\$63 B
Fair Value Price:	\$590	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	02/28/21
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Dividend Payment Date¹:	03/13/21
Dividend Yield:	0.8%	5 Year Price Target	\$827	Years Of Dividend Growth:	42
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	18.6%

Overview & Current Events

Sherwin-Williams, founded in 1866 and headquartered in Cleveland, OH, is North America's largest manufacturer of paints and coatings. The company distributes its products through wholesalers as well as retail stores (including a chain of more than 4,900 company-operated stores and facilities) to 120 countries under the Sherwin-Williams name. The company also manufactures *Dutch Boy*, *Pratt & Lambert*, *Minwax*, *Thompson's Waterseal*, *Krylon*, *Valspar* (acquired in 2017), and other brands. Sherwin-Williams generated annual sales of \$18 billion last year and has a market capitalization of \$63 billion. With 42 years of consecutive dividend increases, Sherwin-Williams is a member of the Dividend Aristocrats Index.

On January 28th, 2021 Sherwin-Williams released Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter Sherwin-Williams generated revenue of \$4.49 billion, a 9.1% increase compared to Q4 2019. This result was driven by a 9.0% increase in the Americas Group, a 7.3% increase in the Performance Coatings Group and a 13.6% increase in the Consumer Brands Group, as this segment continues to do well amidst the COVID-19 pandemic. Adjusted earnings-per-share totaled \$5.09 compared to \$4.27 in the year ago quarter.

For the year Sherwin-Williams generated \$18.36 billion in sales, representing a 2.6% increase compared to 2019. This result was driven by a 2.1% increase in the Americas Group and a 14.1% increase in the Consumer Brands Group, partially offset by a -2.5% decline in the Performance Coatings Group. Adjusted earnings-per-share equaled \$24.58, ahead of prior guidance, and a 16.4% increase compared to 2019's mark of \$21.12.

Sherwin-Williams also provided 2021 guidance, anticipating \$26.40 to \$27.20 in adjusted earnings-per-share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.14	\$6.02	\$7.26	\$8.78	\$11.16	\$11.99	\$15.07	\$18.53	\$21.12	\$24.58	\$26.80	\$37.59
DPS	\$1.46	\$1.56	\$2.00	\$2.20	\$2.68	\$3.36	\$3.40	\$3.44	\$4.52	\$5.36	\$5.36	\$9.45
Shares²	103.9	103.2	100.1	94.7	92.3	93.0	93.9	93.1	92.1	91.9	92	90

Sherwin-Williams has put together an exceptionally strong growth record in the past, with earnings-per-share growing at a 13.6% average compound rate in the 2007 through 2020 period. This was driven by solid top line growth, significant margin improvement and a lower share count. More impressive is the idea that the last few years have shown even faster growth, despite coming off a larger base. However, it is important to point out that some of this has been driven 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. We have updated our 2021 earnings estimate to the middle of management's outlook, implying 9% growth compared to 2020. We believe that Sherwin-Williams is capable of delivering 7% annualized earnings growth over full economic cycles. When demand picks up again, growth can come from several factors, including revenue expansion – resting on higher sales at the company's existing stores – margin improvement, share

¹ Estimate.

² In millions.

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repurchases and general economic growth. 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, albeit irregularly, over time.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	19.8	21.3	24.3	24.1	24.3	23.2	22.8	22.2	23.2	22.0	25.7	22.0
Avg. Yld.	1.8%	1.2%	1.1%	1.0%	1.0%	1.2%	1.0%	0.8%	0.9%	1.0%	0.8%	1.1%

Sherwin-Williams has been a high-quality growth name during the last decade and indeed over the company's history. As a result, shares have generally commanded a premium valuation – trading hands around 23 times earnings on average during the last 10 years. Given a slower (but still impressive) anticipated growth rate, we are using 22 times earnings as a starting point for fair value. With a multiple near 26 times our expectation of this year's earnings, shares could face a valuation headwind if shares were to revert back toward 22 times earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	35%	26%	28%	25%	24%	28%	23%	19%	21%	22%	20%	25%

Sherwin-Williams has raised its dividend consistently for decades, but its dividend payout ratio has never risen to a high level. Indeed, the payout ratio has actually declined in the last decade, as dividend increases have trailed earnings-per-share improvement over the years. While the dividend appears exceptionally well covered, the combination of a low payout ratio and above average valuation make for a lackluster dividend yield.

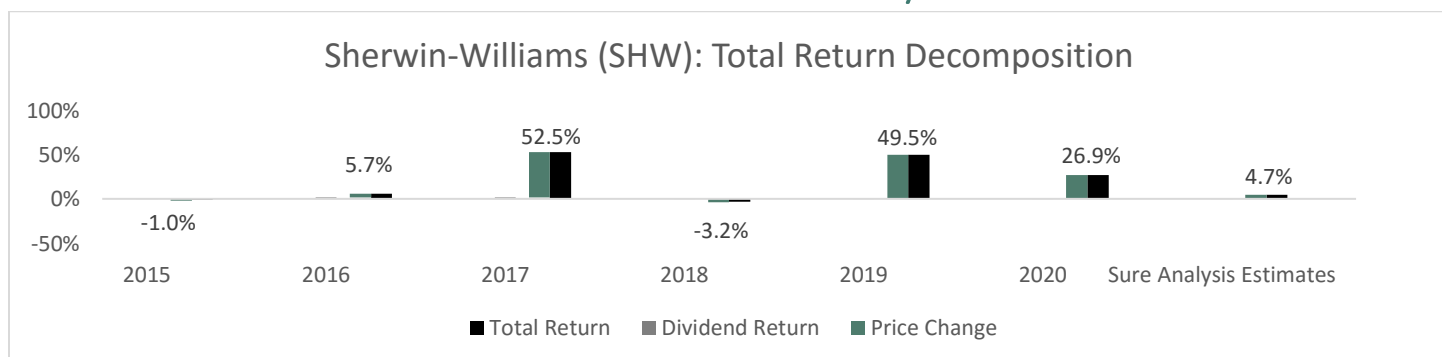
Sherwin-Williams is not necessarily in a high-growth industry, but its entrenched position offers the company its fair share of competitive advantages, allowing the business to grow consistently. Further, acquisitions are a way for Sherwin-Williams to enhance its presence, with the Valspar transaction being a good example.

During the last recession Sherwin-Williams posted earnings-per-share of \$4.70, \$4.00, \$3.78 and \$4.21 over the 2007 through 2010 stretch (with a growing dividend). This is somewhat surprising for a company in the paints and coatings industry – generally thought to be a cyclical business – but illustrates the underlying strength of the company.

Final Thoughts & Recommendation

After being up 19% and 6% in our last two reports, shares are up 2% in the last three months. Sherwin-Williams has been a great investment during the majority of the last decade. However, moving forward we are forecasting 4.7% total return potential, stemming from 7% growth and a 0.8% starting dividend yield offset by the potential for a valuation headwind. While we are not enthused by the current valuation, we are encouraged by the underlying strength of the business and continue to rate shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8766	9534	10186	11130	11339	11856	14984	17534	17901	18360
Gross Profit	3745	4206	4617	5164	5560	5921	6719	7419	8,036	8683
Gross Margin	42.7%	44.1%	45.3%	46.4%	49.0%	49.9%	44.8%	42.3%	44.9%	47.3%
SG&A Exp.	2961	3260	3468	3823	3886	4140	4798	5034	5,275	5478
D&A Exp.	181	179	188	199	199	197	492	596	---	---
Operating Profit	775	940	1152	1305	1615	1713	1699	1890	2448	2891
Operating Margin	8.8%	9.9%	11.3%	11.7%	14.2%	14.4%	11.3%	10.8%	13.7%	15.7%
Net Profit	442	631	753	866	1054	1133	1728	1109	1541	2030
Net Margin	5.0%	6.6%	7.4%	7.8%	9.3%	9.6%	11.5%	6.3%	8.6%	11.1%
Free Cash Flow	582	731	917	881	1213	1070	1661	1693	---	---
Income Tax	300	276	333	392	495	463	-300	251	441	489

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5229	6235	6383	5699	5779	6753	19900	19134	20514	20400
Cash & Equivalents	33	863	745	41	206	890	204	156	162	227
Accounts Receivable	990	1033	1098	1131	1114	1231	2105	2019	2089	2078
Inventories	927	920	971	1034	1019	1068	1742	1815	1890	1804
Goodwill & Int. Ass.	1414	1504	1492	1447	1399	1382	12817	12158	11739	11520
Total Liabilities	3712	4443	4608	4703	4911	4874	16252	15404	16391	16790
Accounts Payable	965	923	998	1042	1158	1035	1792	1799	1894	2118
Long-Term Debt	993	1705	1722	1799	1950	1953	10521	9344	8685	8292
Shareholder's Equity	1357	1691	1734	996	868	1878	3648	3731	4123	3611
D/E Ratio	0.65	0.95	0.97	1.81	2.25	1.04	2.88	2.50	2.11	2.30

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.5%	11.0%	11.9%	14.3%	18.4%	18.1%	13.0%	5.7%	7.8%	9.9%
Return on Equity	32.1%	41.4%	43.9%	63.4%	113%	82.5%	62.5%	30.1%	39.2%	52.5%
ROIC	17.1%	21.0%	21.5%	27.5%	37.6%	34.1%	19.2%	8.1%	11.9%	16.4%
Shares Out.	103.9	103.2	100.1	94.7	92.3	93.0	93.9	93.1	93.4	91.9
Revenue/Share	82.95	91.74	98.84	112.72	119.94	125.47	157.85	184.60	191.56	199.71
FCF/Share	5.51	7.03	8.90	8.92	12.83	11.32	17.50	17.82	7.8	---

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

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