



# Sherwin-Williams Company (SHW)

Updated January 27<sup>th</sup>, 2022, by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$281	<b>5 Year CAGR Estimate:</b>	2.6%	<b>Market Cap:</b>	\$75 B
<b>Fair Value Price:</b>	\$217	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	02/26/22 <sup>1</sup>
<b>% Fair Value:</b>	129%	<b>5 Year Valuation Multiple Estimate:</b>	-5.0%	<b>Dividend Payment Date:</b>	03/12/22 <sup>1</sup>
<b>Dividend Yield:</b>	0.8%	<b>5 Year Price Target</b>	\$305	<b>Years Of Dividend Growth:</b>	43
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	23.1%

## 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 5,000 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 nearly \$20 billion last year and has a market capitalization of \$75 billion. With 43 years of consecutive dividend increases, Sherwin-Williams is a member of the Dividend Aristocrats Index.

On January 27<sup>th</sup>, 2022, Sherwin-Williams released Q4 and full year 2021 results for the period ending December 31<sup>st</sup>, 2021. For the quarter Sherwin-Williams generated revenue of \$4.762 billion, a 6.1% increase compared to Q4 2020. An 18.7% increase in the Performance Coatings Group and a 3.0% increase in the Americas Group were partially offset by a -7.8% decline in the Consumer Brands Group. Adjusted earnings-per-share equaled \$1.34 versus \$1.70 in Q4 2020.

For the year Sherwin-Williams generated sales of \$19.9 billion, an 8.6% increase compared to 2020. Adjusted earnings-per-share equaled \$8.15, below prior guidance, compared to \$8.19 in 2020.

Sherwin-Williams also provided 2022 guidance. For this year the company anticipates high-single digit to low-double digit sales growth and \$9.25 to \$9.65 in adjusted earnings-per-share. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.01	\$2.42	\$2.93	\$3.72	\$4.00	\$5.02	\$6.18	\$7.04	\$8.19	\$8.15	<b>\$9.45</b>	<b>\$13.25</b>
<b>DPS</b>	\$0.52	\$0.67	\$0.73	\$0.89	\$1.12	\$1.13	\$1.15	\$1.51	\$1.79	\$2.20	<b>\$2.20</b>	<b>\$3.88</b>
<b>Shares<sup>2</sup></b>	310	300	284	277	279	282	279	276	276	267	<b>265</b>	<b>250</b>

Sherwin-Williams has put together an exceptionally strong growth record in the past, with earnings-per-share growing at a 12.5% average compound rate in the 2007 through 2021 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. For 2022 we are using the midpoint of management's guidance, implying 16% growth for this year. We believe that Sherwin-Williams can deliver 7% annualized earnings growth over full economic cycles.

Growth can come from several factors, including revenue expansion – resting on higher sales at the company's existing stores – margin improvement, share 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.

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.3	24.3	24.1	24.3	23.2	22.8	22.2	23.2	24.9	34.7	29.8	23.0
Avg. Yld.	1.2%	1.1%	1.0%	1.0%	1.2%	1.0%	0.8%	0.9%	0.9%	0.8%	0.8%	1.3%

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 25 times earnings on average during the last 10 years. Given a slower anticipated growth rate, we are using 23 times earnings as a starting point for fair value. With a multiple near 30 times our expectation of this year's earnings, shares could face a valuation headwind.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	26%	28%	25%	24%	28%	23%	19%	21%	22%	27%	23%	29%

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.

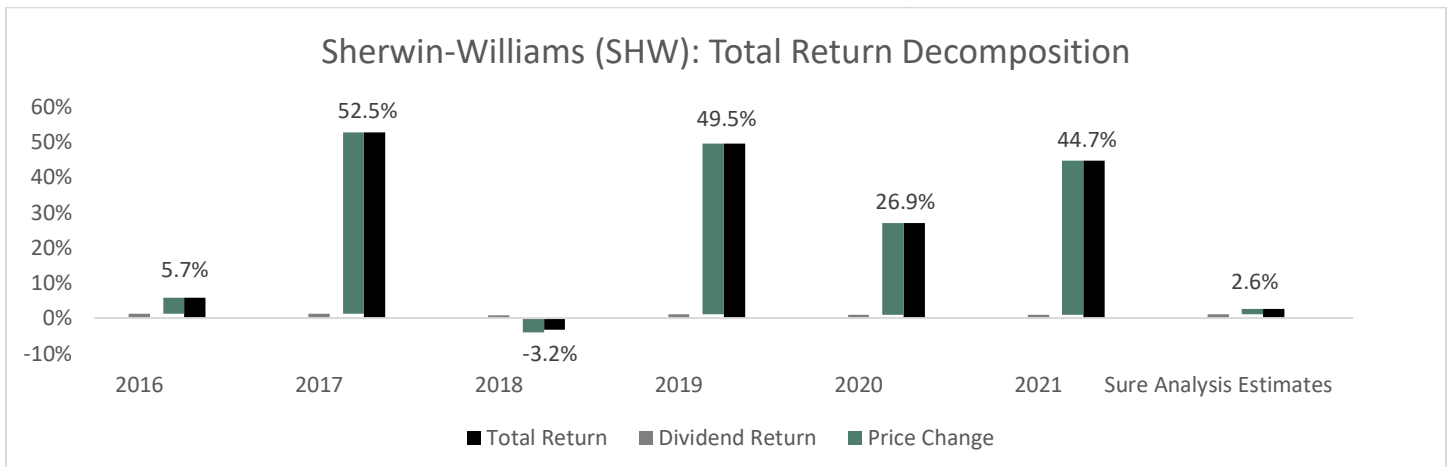
Sherwin-Williams is not necessarily in a high-growth industry, but its entrenched position offers the company its fair share of competitive advantages, allowing the business to grow consistently. Further, acquisitions are a way for Sherwin-Williams to enhance its presence, with the Valspar transaction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

Shares are up 23% in the last year. Sherwin-Williams has been a great investment during the majority of the last decade. However, moving forward we are forecasting 2.6% 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. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	5229	6235	6383	5699	5779	6753	19900	19134	20514	20400
<b>Cash &amp; Equivalents</b>	33	863	745	41	206	890	204	156	162	227
<b>Accounts Receivable</b>	990	1033	1098	1131	1114	1231	2105	2019	2089	2078
<b>Inventories</b>	927	920	971	1034	1019	1068	1742	1815	1890	1804
<b>Goodwill &amp; Int. Ass.</b>	1414	1504	1492	1447	1399	1382	12817	12158	11739	11520
<b>Total Liabilities</b>	3712	4443	4608	4703	4911	4874	16252	15404	16391	16790
<b>Accounts Payable</b>	965	923	998	1042	1158	1035	1792	1799	1894	2118
<b>Long-Term Debt</b>	993	1705	1722	1799	1950	1953	10521	9344	8685	8292
<b>Shareholder's Equity</b>	1357	1691	1734	996	868	1878	3648	3731	4123	3611
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	8.5%	11.0%	11.9%	14.3%	18.4%	18.1%	13.0%	5.7%	7.8%	9.9%
<b>Return on Equity</b>	32.1%	41.4%	43.9%	63.4%	113%	82.5%	62.5%	30.1%	39.2%	52.5%
<b>ROIC</b>	17.1%	21.0%	21.5%	27.5%	37.6%	34.1%	19.2%	8.1%	11.9%	16.4%
<b>Shares Out.</b>	103.9	103.2	100.1	94.7	92.3	93.0	93.9	93.1	93.4	91.9
<b>Revenue/Share</b>	82.95	91.74	98.84	112.72	119.94	125.47	157.85	184.60	191.56	199.71
<b>FCF/Share</b>	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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