



Sherwin-Williams Company (SHW)

Updated October 25th, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$221	5 Year CAGR Estimate:	6.9%	Market Cap:	\$58 B
Fair Value Price:	\$199	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/17/22
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	12/02/22
Dividend Yield:	1.1%	5 Year Price Target	\$292	Years Of Dividend Growth:	44
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

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 \$58 billion. With 44 years of consecutive dividend increases, Sherwin-Williams is a member of the Dividend Aristocrats Index.

On February 16th, 2022, Sherwin-Williams declared a \$0.60 quarterly dividend, marking a 9.1% increase.

On October 25th, 2022, Sherwin-Williams released Q3 2022 results for the period ending September 30th, 2022. For the quarter, Sherwin-Williams generated revenue of \$6.05 billion, a 17.5% increase compared to Q3 2021. This was driven by a 21.4% increase in the Americas Group, a 13.7% increase in the Performance Coatings Group and an 8.5% increase in the Consumer Brands Group. Adjusted earnings-per-share equaled \$2.83 versus \$2.09 in Q3 2021.

Sherwin-Williams also updated its 2022 guidance, anticipating low-double digit sales growth and \$8.50 to \$8.80 in adjusted earnings-per-share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.01	\$2.42	\$2.93	\$3.72	\$4.00	\$5.02	\$6.18	\$7.04	\$8.19	\$8.15	\$8.65	\$12.71
DPS	\$0.52	\$0.67	\$0.73	\$0.89	\$1.12	\$1.13	\$1.15	\$1.51	\$1.79	\$2.20	\$2.40	\$3.95
Shares¹	310	300	284	277	279	282	279	276	276	267	262	250

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 6% growth for this year. We believe that Sherwin-Williams can deliver 8% annualized earnings growth over a full economic cycle. 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.

¹ 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	34.6	25.6	23.0
Avg. Yld.	1.2%	1.1%	1.0%	1.0%	1.2%	1.0%	0.8%	0.9%	0.9%	0.8%	1.1%	1.4%

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 26 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%	28%	31%

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 declined in the last decade, as dividend increases 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.

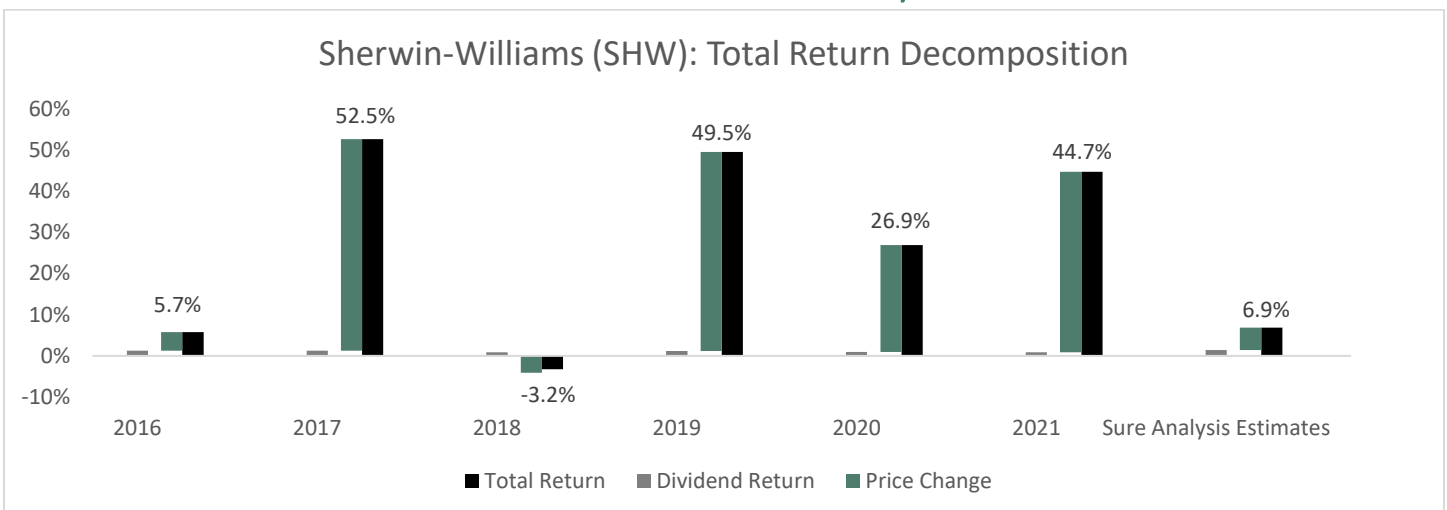
Sherwin-Williams is not necessarily in a high-growth industry, but its entrenched position offers the company its fair share of competitive advantages, allowing the business to grow consistently. Further, acquisitions are a way for Sherwin-Williams to enhance its presence, with the Valspar transaction 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 down -30% in the last year. We are forecasting 6.9% total return potential, stemming from 8% growth and a 1.1% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	9534	10186	11130	11339	11856	14984	17534	17901	18360	19940
Gross Profit	4206	4617	5164	5560	5921	6719	7419	8,036	8683	8543
Gross Margin	44.1%	45.3%	46.4%	49.0%	49.9%	44.8%	42.3%	44.9%	47.3%	42.8%
SG&A Exp.	3260	3468	3823	3886	4140	4798	5034	5,275	5478	5572
D&A Exp.	179	188	199	199	197	492	596	---	---	573
Operating Profit	940	1152	1305	1615	1713	1699	1890	2448	2891	2665
Operating Margin	9.9%	11.3%	11.7%	14.2%	14.4%	11.3%	10.8%	13.7%	15.7%	13.4%
Net Profit	631	753	866	1054	1133	1728	1109	1541	2030	1864
Net Margin	6.6%	7.4%	7.8%	9.3%	9.6%	11.5%	6.3%	8.6%	11.1%	9.3%
Free Cash Flow	731	917	881	1213	1070	1661	1693	---	---	1873
Income Tax	276	333	392	495	463	-300	251	441	489	384

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6235	6383	5699	5779	6753	19900	19134	20514	20400	20670
Cash & Equivalents	863	745	41	206	890	204	156	162	227	166
Accounts Receivable	1033	1098	1131	1114	1231	2105	2019	2089	2078	2352
Inventories	920	971	1034	1019	1068	1742	1815	1890	1804	1927
Goodwill & Int. Ass.	1504	1492	1447	1399	1382	12817	12158	11739	11520	11140
Total Liabilities	4443	4608	4703	4911	4874	16252	15404	16391	16790	18230
Accounts Payable	923	998	1042	1158	1035	1792	1799	1894	2118	2403
Long-Term Debt	1705	1722	1799	1950	1953	10521	9344	8685	8292	9615
Shareholder's Equity	1691	1734	996	868	1878	3648	3731	4123	3611	2437
LTD/E Ratio	0.95	0.97	1.81	2.25	1.04	2.88	2.50	2.11	2.30	3.95

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.0%	11.9%	14.3%	18.4%	18.1%	13.0%	5.7%	7.8%	9.9%	9.1%
Return on Equity	41.4%	43.9%	63.4%	113%	82.5%	62.5%	30.1%	39.2%	52.5%	61.7%
ROIC	21.0%	21.5%	27.5%	37.6%	34.1%	19.2%	8.1%	11.9%	16.4%	15.6%
Shares Out.	103.2	100.1	94.7	92.3	93.0	93.9	93.1	93.4	91.9	267
Revenue/Share	91.74	98.84	112.72	119.94	125.47	157.85	184.60	191.56	199.71	74.67
FCF/Share	7.03	8.90	8.92	12.83	11.32	17.50	17.82	7.8	---	7.01

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

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