



# Sherwin-Williams Company (SHW)

Updated February 27<sup>th</sup>, 2024, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$323	<b>5 Year CAGR Estimate:</b>	3.6%	<b>Market Cap:</b>	\$81 B
<b>Fair Value Price:</b>	\$261	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	2/23/24
<b>% Fair Value:</b>	124%	<b>5 Year Valuation Multiple Estimate:</b>	-4.2%	<b>Dividend Payment Date:</b>	3/8/24
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$366	<b>Years Of Dividend Growth:</b>	46
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$23 billion last year and has a market capitalization of \$81 billion. With 46 years of consecutive dividend increases, Sherwin-Williams is a member of the Dividend Aristocrats Index.

On February 14<sup>th</sup>, 2024, Sherwin-Williams declared a \$0.715 quarterly dividend, marking an 18% increase.

On January 25<sup>th</sup>, 2024, Sherwin-Williams released financial results for the full fiscal 2023. In the year, the company grew its sales 4% over the prior year's quarter, primarily thanks to price hikes, but also thanks to acquisitions. Gross margin expanded from 42.1% to 46.7% and adjusted earnings-per-share grew 19%, from \$8.73 to \$10.35.

Sherwin-Williams also provided strong guidance for 2024. It expects sales to be up low to mid-single digits and expects adjusted earnings-per-share of \$10.85 to \$11.35. As the company has beaten the analysts' estimates for 6 consecutive quarters and tends to issue somewhat cautious guidance, we expect earnings-per-share near the top of its guidance.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.93	\$3.72	\$4.00	\$5.02	\$6.18	\$7.04	\$8.19	\$8.15	\$8.73	\$10.35	<b>\$11.35</b>	<b>\$15.92</b>
<b>DPS</b>	\$0.73	\$0.89	\$1.12	\$1.13	\$1.15	\$1.51	\$1.79	\$2.20	\$2.40	\$2.42	<b>\$2.86</b>	<b>\$4.60</b>
<b>Shares<sup>1</sup></b>	284	277	279	282	279	276	276	267	262	257	<b>253</b>	<b>240</b>

Sherwin-Williams has put together an exceptionally strong growth record in the past, with earnings-per-share growing at a 15.1% average compound rate over the last decade. This has been driven by solid top line growth, significant margin improvement and a lower share count. The company posted especially impressive results in the 2018 – 2020 period, despite coming off a large 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 believe that Sherwin-Williams can deliver 7% 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 ~10% over the last decade, and we believe that the number of shares will continue to decline, albeit irregularly, over time.

<sup>1</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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.1	24.3	23.2	22.8	22.2	23.2	24.9	34.6	28.5	24.2	28.5	23.0
Avg. Yld.	1.0%	1.0%	1.2%	1.0%	0.8%	0.9%	0.9%	0.8%	0.9%	1.0%	0.9%	1.3%

Sherwin-Williams has been a high-quality growth name during the last decade and throughout its history. As a result, it has 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 assume a fair P/E ratio of 23.0. The stock is now trading at a P/E ratio of 28.5. If it trades at our assumed fair valuation level in five years, it will incur a -4.2% annualized valuation drag.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	24%	28%	23%	19%	21%	22%	27%	27%	23%	25%	29%

Sherwin-Williams has raised its dividend consistently for decades, but its dividend payout ratio has never risen to a high level. While the dividend appears exceptionally well covered, the combination of a low payout ratio and above average valuation result in a lackluster dividend yield.

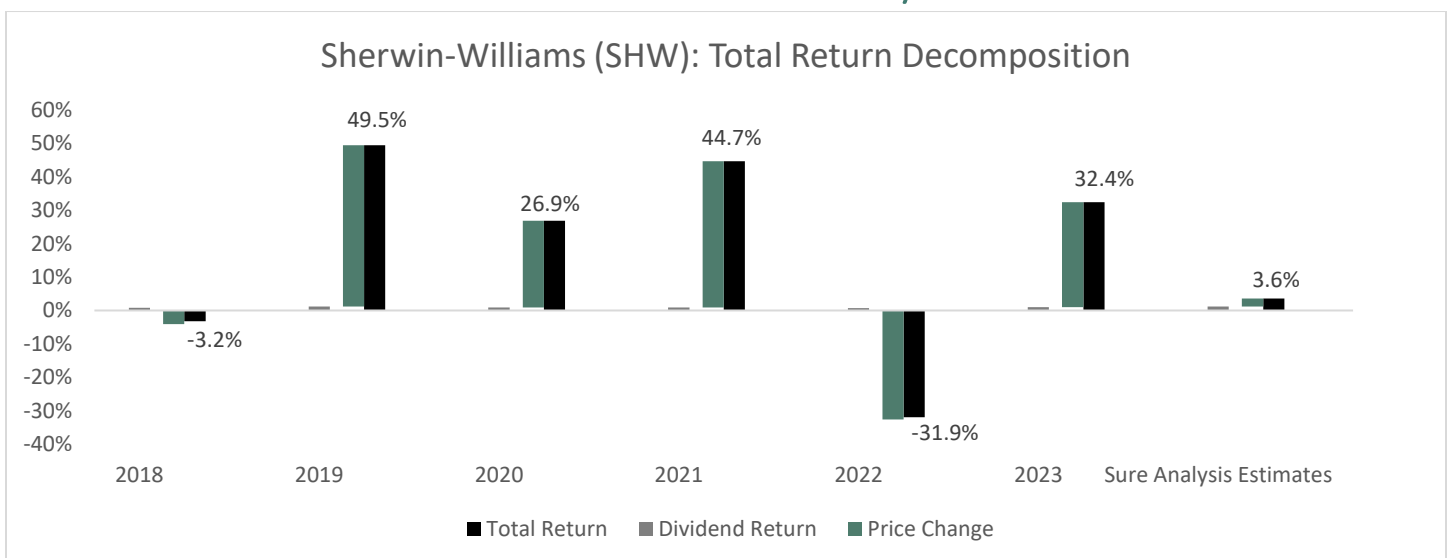
Sherwin-Williams is not necessarily in a high-growth industry, but its entrenched position offers the company its fair share of competitive advantages, allowing the business to grow consistently. Moreover, acquisitions are a way for Sherwin-Williams to enhance its presence, with the Valspar transaction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

During the Great 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. The company proved resilient to the pandemic as well.

## Final Thoughts & Recommendation

Sherwin-Williams is up 45% in the last 12 months thanks to strong business momentum and positive outlook and hence the stock has become less attractive. We are forecasting 3.6% total return potential, stemming from 7% growth and a 0.9% dividend, partly offset by a -4.2% valuation drag. The stock receives a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	11130	11339	11856	14984	17534	17901	18360	19940	22150	23052
<b>Gross Profit</b>	5164	5560	5921	6719	7419	8,036	8683	8543	9325	10758
<b>Gross Margin</b>	46.4%	49.0%	49.9%	44.8%	42.3%	44.9%	47.3%	42.8%	42.1%	46.7%
<b>SG&amp;A Exp.</b>	3823	3886	4140	4798	5034	5,275	5478	5572	6014	7050
<b>D&amp;A Exp.</b>	199	199	197	492	596	---	---	573	581	623
<b>Operating Profit</b>	1305	1615	1713	1699	1890	2448	2891	2665	3001	3628
<b>Operating Margin</b>	11.7%	14.2%	14.4%	11.3%	10.8%	13.7%	15.7%	13.4%	13.5%	15.7%
<b>Net Profit</b>	866	1054	1133	1728	1109	1541	2030	1864	2020	2389
<b>Net Margin</b>	7.8%	9.3%	9.6%	11.5%	6.3%	8.6%	11.1%	9.3%	9.1%	10.4%
<b>Free Cash Flow</b>	881	1213	1070	1661	1693	---	---	1873	1275	2634
<b>Income Tax</b>	392	495	463	-300	251	441	489	384	553	721

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	5699	5779	6753	19900	19134	20514	20400	20670	22590	22954
<b>Cash &amp; Equivalents</b>	41	206	890	204	156	162	227	166	199	277
<b>Accounts Receivable</b>	1131	1114	1231	2105	2019	2089	2078	2352	2564	2468
<b>Inventories</b>	1034	1019	1068	1742	1815	1890	1804	1927	2626	2330
<b>Goodwill &amp; Int. Ass.</b>	1447	1399	1382	12817	12158	11739	11520	11140	11590	11507
<b>Total Liabilities</b>	4703	4911	4874	16252	15404	16391	16790	18230	19490	19239
<b>Accounts Payable</b>	1042	1158	1035	1792	1799	1894	2118	2403	2436	2315
<b>Long-Term Debt</b>	1799	1950	1953	10521	9344	8685	8292	9615	10570	9851
<b>Shareholder's Equity</b>	996	868	1878	3648	3731	4123	3611	2437	3102	3716
<b>LTD/E Ratio</b>	1.81	2.25	1.04	2.88	2.50	2.11	2.30	3.95	3.41	2.65

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	14.3%	18.4%	18.1%	13.0%	5.7%	7.8%	9.9%	9.1%	9.3%	10.5%
<b>Return on Equity</b>	63.4%	113%	82.5%	62.5%	30.1%	39.2%	52.5%	61.7%	72.9%	70.1%
<b>ROIC</b>	27.5%	37.6%	34.1%	19.2%	8.1%	11.9%	16.4%	15.6%	15.7%	17.5%
<b>Shares Out.</b>	94.7	92.3	93.0	93.9	93.1	93.4	91.9	267	261	258
<b>Revenue/Share</b>	112.72	119.94	125.47	157.85	184.60	191.56	199.71	74.67	84.6	89.24
<b>FCF/Share</b>	8.92	12.83	11.32	17.50	17.82	7.8	---	7.01	4.87	10.20

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

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