



Sherwin-Williams Company (SHW)

Updated August 26th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$359	5 Year CAGR Estimate:	1.5%	Market Cap:	\$91 B
Fair Value Price:	\$262	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	8/16/24
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	9/6/24
Dividend Yield:	0.8%	5 Year Price Target	\$368	Years Of Dividend Growth:	46
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Founded in 1866 and headquartered in Cleveland, OH, Sherwin-Williams is North America's largest manufacturer of paints and coatings. It 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 \$91 billion. With 46 years of consecutive dividend increases, Sherwin-Williams is a member of the Dividend Aristocrats Index.

On July 23rd, 2024, Sherwin-Williams released financial results for the second quarter of fiscal 2024. Sales edged up only 0.5% over the prior year's quarter, primarily due to poor demand in Consumer Brands Group. However, gross margin expanded from 46.0% to 48.8% thanks to price hikes and adjusted earnings-per-share grew 12.5%, from \$3.29 to \$3.70. Sherwin-Williams raised its guidance for 2024. It expects sales to be up a low-single digit % and raised its guidance for earnings-per-share from \$10.85-\$11.35 to \$11.10-\$11.40. As it has beaten the analysts' estimates in 7 of the last 8 quarters and tends to issue somewhat cautious guidance, we have raised our forecast from \$11.35 to \$11.40 (high end).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.93	\$3.72	\$4.00	\$5.02	\$6.18	\$7.04	\$8.19	\$8.15	\$8.73	\$10.35	\$11.40	\$15.99
DPS	\$0.73	\$0.89	\$1.12	\$1.13	\$1.15	\$1.51	\$1.79	\$2.20	\$2.40	\$2.42	\$2.86	\$4.60
Shares¹	284	277	279	282	279	276	276	267	262	257	253	240

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.

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	31.5	23.0
Avg. Yld.	1.0%	1.0%	1.2%	1.0%	0.8%	0.9%	0.9%	0.8%	0.9%	1.0%	0.8%	1.2%

¹ In millions.

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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 markedly high P/E ratio of 31.5. If it trades at our assumed fair valuation level in five years, it will incur a -6.1% 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.

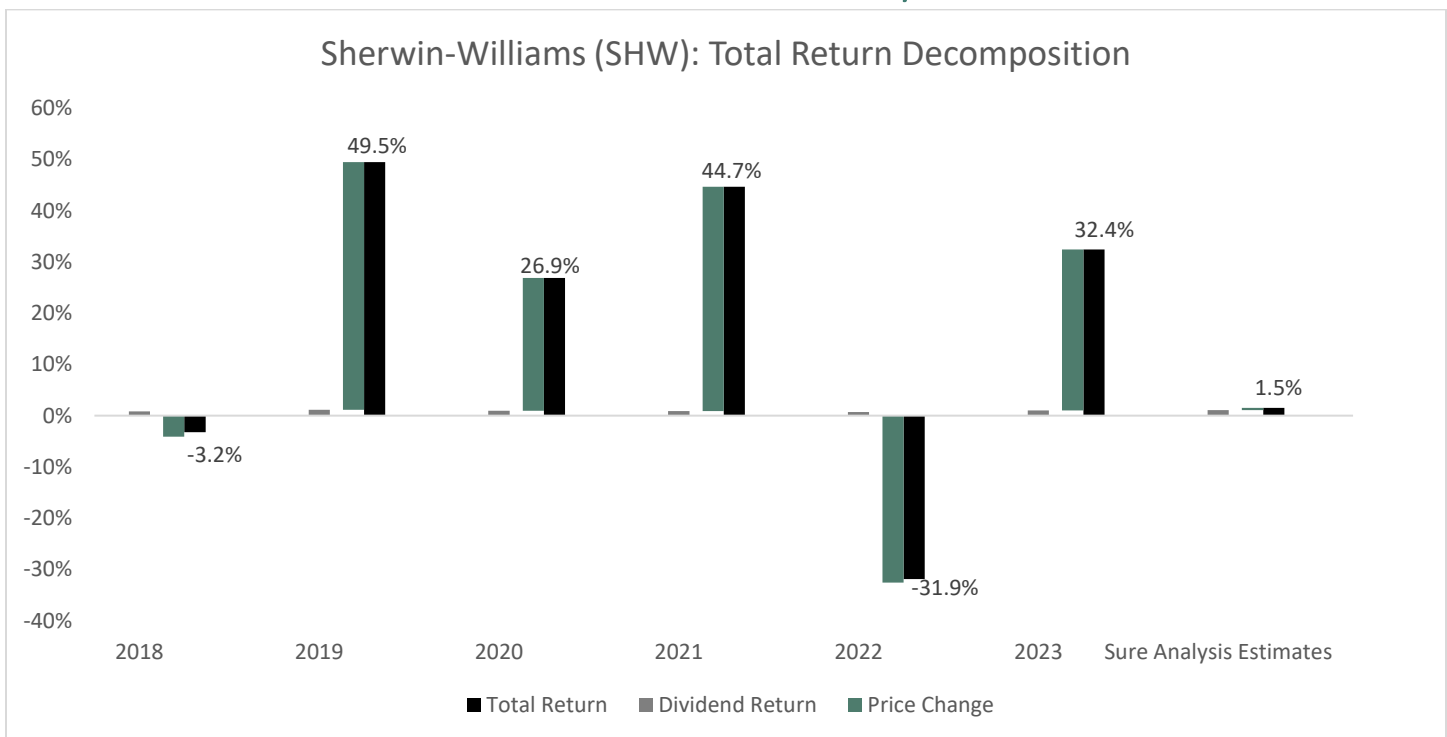
Sherwin-Williams is not necessarily in a high-growth industry, but its entrenched position offers the company its fair share of competitive advantages, allowing the business to grow consistently. Moreover, acquisitions are a way for Sherwin-Williams to enhance its presence, with the Valspar transaction 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 32% in the last 12 months thanks to strong business momentum and positive outlook and hence it has become markedly richly valued. We are forecasting 1.5% total return potential, stemming from 7% growth and a 0.8% dividend, partly offset by a -6.1% valuation drag. The stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5699	5779	6753	19900	19134	20514	20400	20670	22590	22954
Cash & Equivalents	41	206	890	204	156	162	227	166	199	277
Accounts Receivable	1131	1114	1231	2105	2019	2089	2078	2352	2564	2468
Inventories	1034	1019	1068	1742	1815	1890	1804	1927	2626	2330
Goodwill & Int. Ass.	1447	1399	1382	12817	12158	11739	11520	11140	11590	11507
Total Liabilities	4703	4911	4874	16252	15404	16391	16790	18230	19490	19239
Accounts Payable	1042	1158	1035	1792	1799	1894	2118	2403	2436	2315
Long-Term Debt	1799	1950	1953	10521	9344	8685	8292	9615	10570	9851
Shareholder's Equity	996	868	1878	3648	3731	4123	3611	2437	3102	3716
LTD/E Ratio	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
Return on Assets	14.3%	18.4%	18.1%	13.0%	5.7%	7.8%	9.9%	9.1%	9.3%	10.5%
Return on Equity	63.4%	113%	82.5%	62.5%	30.1%	39.2%	52.5%	61.7%	72.9%	70.1%
ROIC	27.5%	37.6%	34.1%	19.2%	8.1%	11.9%	16.4%	15.6%	15.7%	17.5%
Shares Out.	94.7	92.3	93.0	93.9	93.1	93.4	91.9	267	261	258
Revenue/Share	112.72	119.94	125.47	157.85	184.60	191.56	199.71	74.67	84.6	89.24
FCF/Share	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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