

# The Sherwin-Williams Company (NYSE: SHW)

Sector: Materials



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$456.61	\$398.86	\$435.15	\$305.70	21.36	\$37.3B	0.89%	1.45

## Business Description

The Sherwin-Williams Company is an American company focused on the development, manufacturing, distribution and sale of paints, coatings and related products to professional, industrial, commercial and retail customers across the world. The company has restructured its four main segments into three after the acquisition of Valspar. The Americas Group, which combines the company's former Paint Stores Group and Latin America Coatings Group operates the Sherwin-Williams retail outlets in U.S., Canada, the Caribbean and Latin America. The Consumer Brands Group combines the portfolio of branded and private-label products that Valspar and Sherwin-Williams sell through other retailers. The Performance Coatings Group manufactures and sells OEM product finishes, coatings, and automotive finishes. Sherwin-Williams operates over 4,800 retail outlets worldwide.

## Investment Thesis

Sherwin-Williams is undervalued and well positioned for future success for the following reasons:

- Sherwin-Williams is just now realizing the financial benefits of its major acquisition of Valspar, which will grow their revenues tremendously and cut costs.
- Positive economic conditions, particularly in the remodeling industry increase the demand for Sherwin-Williams product offering.
- The Valspar acquisition diversifies the portfolio of products that Sherwin-Williams provides, as well as the regions that it has a presence in.

## Industry Trends

Sherwin-Williams's business is primarily driven by trends in the North American paint market. Due in large part to low levels of unemployment, remodeling and painting is shifting away from DIY project towards professional contracting work. Professional painters favor SHW products due to their low price and the geographic presence of their stores across the country. This market moves in lockstep with the US housing market, which has undergone significant growth and is approaching normalized levels following the crisis. Housing supply in the US currently lags demand, offering a promising sign for continued growth. The overall paint & coatings industry is still very fragmented and undergoing consolidation, M&A is expected to continue to be important as the larger players buy up their local competition. Due to increased global industrial production in 2017, industrial coatings were the leading end market in growth throughout the overall specialty chemical sector.

## Competitive Analysis

Sherwin Williams's primary competitive advantages are its store presence in the United States and its tightly controlled distribution system. They have a US paint store count in excess

of 4,200 stores, dwarfing its closest competitor, making it the most accessible paint store brand in the country and a favorite among professional contractors. The company's tight control of the supply chain and distribution allow it to effectively manage costs and responsively adjust prices to protect against raw material price fluctuation. Their main competitors are PPG Industries, AkzoNobel and Nippon Paint.

## Valuation Assumptions

WACC: 9.0% | Perpetuity Growth: 2.5% | Terminal Year: 2022

## 5-Year Stock Performance



## Growth Analysis

We expect the company's future growth to be attributable to the following drivers:

- Increased diversification and global presence through Valspar acquisition and future M&A activity
- Expansion of controlled distribution model in LATAM
- Continued strength of the US housing market.

## Risks

Sherwin-Williams is sensitive to macroeconomic trends and the housing market in particular in North and South America, Europe, and Asia. A sharp rise in interest rates could affect the affordability of housing and drag the demand of paint from housing starts. Propylene and titanium dioxide are key components of paints and coatings and the rise in raw material prices has cut into Sherwin-Williams' margins. To finance the acquisition of Valspar, Sherwin-Williams took out a sizeable amount of debt and a failure to realize the benefits of the deal could negatively affect the firm's ability to service the debt and acquire other companies.

## Corporate Social Responsibility

- Increasing number of green product offerings
- Voluntary Carbon Disclosure Project participant.
- CLEARcorps sponsor.
- Above average CSR score (58)

## Report Prepared By:

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Sources: Bloomberg, Yahoo! Finance