

**Sherwin-Williams**

**Summary Financials**

(USD in mm except for per share data; All figures Pro Forma Valspar Acquisition)

			2013A	2014A	2015A	2016A	All Figures PF Valspar Acquisition		
		FYE: December 31					2017E	2018E	2019E
Share Price (4/21/2017)	\$324.60								
Shares Outstanding	93.0	Revenue	\$10,186	\$11,130	\$11,339	\$11,856	\$16,574	\$17,261	\$18,077
Market Capitalization	\$30,192	y / y growth	6.8%	9.3%	1.9%	4.6%	39.8%	4.1%	4.7%
Total Cash	\$1,065	EBITDA	\$1,337	\$1,513	\$1,849	\$1,961	\$2,554	\$2,900	\$3,145
Total Debt	11,031	Margin	13.1%	13.6%	16.3%	16.5%	15.4%	16.8%	17.4%
Enterprise Value	\$40,158	y / y growth	10.9%	13.2%	22.2%	6.0%	30.3%	13.5%	8.4%
52 Week Range	\$239.48-\$316.66	Net Income	\$753	\$839	\$1,058	\$1,133	\$1,414	\$1,677	\$1,882
% of 52-Week High	102.5%	y / y growth	0.0%	11.4%	26.2%	7.0%	24.9%	18.5%	12.2%
Avg Daily Value Traded (Last 3 months)	\$206.4	EPS - AC - Base Case	\$7.40	\$8.61	\$11.39	\$12.30	\$15.21	\$18.21	\$21.06
as a % of Market Cap	0.7%	y / y growth	22.9%	16.3%	32.3%	8.0%	23.6%	19.7%	15.7%
		Consensus EPS					\$15.10	\$17.77	\$18.38
Net Debt / 2017E PF EBITDA	3.9x	Variance to Consensus					0.7%	2.5%	14.6%
		FCF / Share	\$9.16	\$9.30	\$13.31	\$11.50	\$17.39	\$19.74	\$22.64
		y / y growth		1.6%	43.1%	(13.6%)	51.2%	13.5%	14.7%
		Net Debt / EBITDA	0.7x	1.2x	0.9x	0.2x	3.9x	2.2x	1.8x
		EV / EBITDA					15.7x	13.8x	12.8x
		P / E - AC - Base Case					21.3x	17.8x	15.4x
		P / E Consensus					21.5x	18.3x	17.7x
		FCF Yield					5.4%	6.1%	7.0%



**Investment Thesis**

**Buy SHW.** Investors are skeptical of the \$11.3Bn Valspar acquisition, which is viewed to be dilutive to SHW’s quality of business. Recently appointed CEO John Morikis is also causing further skepticism in light of previous rock star CEO, Chris Conner. Yet, conversations prove that Morikis’ cost-controlled focus is exactly what the business needs to grow revenues in a steady manner long-term. SHW’s quality business and revenue growth trajectory remains intact (6.3% topline revenue growth over the past 5 years and expected to continue to compound at 5%+ per annum). Contrary to the bearish theory that SHW has hit saturation, it boasts paint store TAM potential of 5,000+ stores. SHW has significant room for revenue expansion through Valspar, which brings a #1 market share to other markets (specifically China), a complementary coatings business, and strong success in the DIY market. VAL’s current share price of \$112.43 (vs. offer of \$113) provides confidence that the deal will close in a timely fashion. **Base case target price of \$450 by the end of 2019 (40% upside and 20% IRR) as SHW trades at 21x Fwd EPS of ~\$21.00.** Low risk with 20% upside in bear case if EPS is 23% below the street and multiple compresses to 18x.

**Business Description**

Founded in 1866 by Henry Sherwin and Edward Williams, Sherwin-Williams is a global leader in the manufacture, development, distribution and sale of paint, coatings and related products to professional, industrial, commercial and retail customers (primarily paint contractors).

SHW is known for its top-quality paint and coatings, integrated global platform and distribution network, and for having the most knowledgeable person behind the counter. SHW has been the recipient of many customer service driven awards, including the J.D. Power Paint Satisfaction Study, which has ranked Sherwin-Williams “Highest in Customer Satisfaction Among Paint Retailers” multiple years in a row. Further bolstering its customer service is its strong employee loyalty; SHW has had 9 CEO’s in total since its founding, with an average of 17 years in the role.



While the company operates under 4 segments, its Paint Stores group has been its largest segment to date:

Paint Stores Group	Consumer Group	Global Finishes Group	LatAm Coatings Group
2016: 66% Sales 75% EBIT	2016: 13% Sales 15% EBIT	2016: 16% Sales 10% EBIT	2016: 5% Sales 0% EBIT
<ul style="list-style-type: none"> <li>Stores for Sherwin-Williams branded paint, stains, supplies, and equipment</li> <li>4,180 stores located in U.S., Canada and the Caribbean</li> </ul>	<ul style="list-style-type: none"> <li>Sells branded and private-label paints sold in retailers like Lowe’s</li> <li>Includes R&amp;D and supply chain; launched in 1993</li> </ul>	<ul style="list-style-type: none"> <li>Manufactures and sells marine coatings, aviation coatings, and automotive finishes</li> <li>Sells to ~100 countries</li> </ul>	<ul style="list-style-type: none"> <li>Manufactures and sells paint and industrial coatings throughout LatAm</li> <li>291 stores; sells to 500+ dealer outlets</li> </ul>

Source: Company disclosure.

**Variant View**

**The Bear Case**

- Skeptics are uneasy with SHW’s acquisition of Valspar, which is said to dilute SHW’s paint stores segment (aka its golden child)
- VAL acquisition brings an uncharacteristic amount of leverage, contrary to SHW’s history of maintaining a strict balance sheet
- SHW paint store business has reached the point of saturation; company seeking inorganic growth with VAL due to stagnating organic revenues with paint store model
- Big box retailers’ focus on pro contractors will start stealing market share from SHW

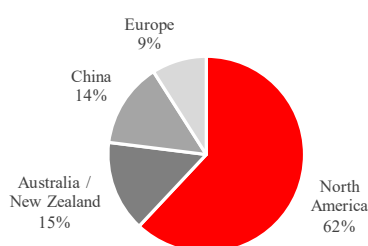
**Key Thesis Points**

**Valspar Acquisition = Transformative in the Best Way Possible**

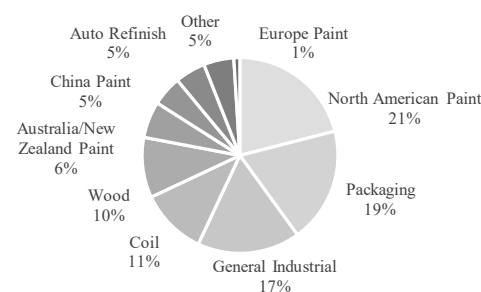
A Quality Business: Lucrative Coatings Business, Lowe’s Success & Overseas Presence

Valspar is one of the largest paint and coatings company in the world, with 2016 revenues of \$4.2Bn and operating margins of 12.6%. Revenue is 60% coatings and 40% paint. Coatings group includes packaging, industrial, and coil. The packaging business (33% of coatings revenue) is known for its superior margins, which are double architectural paint. Packaging customers are extremely sticky and include residential siding, roofing, trim, as well as appliance applications (wrappers and doors for refrigerators), and metal liquid coatings for farm and construction equipment. As confirmed through VAR, VAL has a #1 market share in packaging, with only two other competitors in the space.

2016A VAL Paint Revenue by Geography



2016A VAL Revenue By Segment



VAL’s paints are sold at home centers and independent hardware stores, which complement SHW’s store-owned distribution. With SHW’s HGTV brand at Lowe’s, the merger creates a symbiotic relationship as the two brands can cooperate side-by-side, requiring fewer salespeople on site. The combination would translate to SHW having the leading global market share in architectural paint (12% vs. PPG at 11%), becoming the largest coatings supplier. Thus, PF SHW can achieve cost synergies by optimizing purchasing of raw materials, cutting SG&A redundancies, R&D spend, and manufacturing (via plant closures).

Synergies... We’re Looking at the Tip of the Iceberg

Currently estimate \$350mm in pre-tax cost synergies in base case scenario with \$400mm as a long-term target, which compares to management’s target of \$280mm in cost synergies and a long-term target of \$320mm. Estimates were informed through VAR conversations and precedent transactions (see Exhibit 1), which had average cost synergies of ~6% of revenues and is in line with SHW management’s synergy target for VAL.

Key synergies with step-by-step rationale include:

Expected Synergies	Company Estimates	Personal Estimates	Rationale
<b>Raw Materials</b>			
VAL TiO2 (4% cut in PF TiO2 spend)		\$80	- ↑ Purchasing power; TiO2 savings ~50% of raw material savings (per VAR)
Pro forma Resin (2% cut in PF resin spend)		\$60	- Incorporation of VAL’s resin production (figure confirmed via VAR)
Packaging & Other (0.4% cut in PF spend)		\$5	- General Assumption
<b>Total</b>	<b>\$126</b>	<b>\$145</b>	- Raw material savings should represent 3-10% of COGS (per precedents)
<b>SG&amp;A</b>			
VAL Corporate		\$60	- \$30mm saved through executives; ~3,000 total ppl rumored to be cut (per VAR)
Sales & Marketing		\$50	- Overlapping infrastructure (ex. Both companies sell paint to Lowe’s) (VAR)
Other		\$10	- Assumed savings from auto re-finish segments SG&A overlap
<b>Total</b>	<b>\$118</b>	<b>\$120</b>	
<b>R&amp;D</b>			
VAL Lab Closures		\$35	- Closing of redundant VAL labs; ~2-3x management estimates (per VAR)
<b>Total</b>	<b>\$14</b>	<b>\$35</b>	
<b>Manufacturing</b>			
VAL Plant Closures		\$50	- Production synergies; ~2-3x management estimates (per VAR)
<b>Total</b>	<b>\$22</b>	<b>\$50</b>	
<b>Total Synergies</b>	<b>\$280</b>	<b>\$350</b>	

While there is sentiment on the street that SHW potentially overpaid for the acquisition, when comparing TEV/TTM EBITDA +

Synergies, SHW-VAL is in line at 16.1x vs. 14.9x for paint & coatings peers. When utilizing a synergy value of \$350mm, SHW-VAL's multiple decreases to 11.5x. Full synergies of \$350mm will add an incremental 11% to PF EBIT or \$2.85 to PF EPS by 2018. As per VAR, VAL's in-house resin capacity is being overlooked by consensus; in fact, it could be scaled to supply resins to SHW at cost, with the potential to provide \$60-\$100mm in cost-savings in an upside scenario. Further upside not baked into the PF model exists at the revenue level; VAR conversations prove that there is considerable value in cross-selling between both businesses.

### Pricing Power Continues to Strengthen; Remains Resilient to Input Cost Inflation

As Exhibit 2 demonstrates, SHW commands strong pricing power due to its focus on painting contractors, whose total cost per project relies <10% on paint (the remainder of which is labor). SHW has had historical success passing along price increases to customers when input costs inflate, and has continued to grow gross margins over time. In fact, SHW has been able to increase prices ~60% between 2005 and 2012 to offset increasing TiO2 costs, and were able to maintain elevated prices once input costs deflated.

In Q4 2016, SHW announced price increases of 3-5% due to raw material inflation in the mid-single digit range (increasing costs of crude oil, propylene, and low TiO2 supplies). As at Q1 2017, SHW's price increases had been accepted by customers, and gross margin was only down 0.4% YoY to 48.6%. Consensus currently estimates SHW stand-alone gross margin compression of 70 bps in 2017 (vs. an estimate of 20bps), which compares to historical gross margins over the last 4 years of 47.7%. Moreover, industry tailwinds resulting in customers preferring high quality one-coat paints (that are priced at a premium) will work in SHW's favor. While gross margins are expected to compress with the integration of VAL's lower-margin business, a cost-control focused CEO, additional cost synergies, and the realization of price increases will provide sustainable margin upside long-term. Looking forward, cost inflation poses limited risk on SHW due to the combination of input purchasing, as well as the lack of price sensitivity by customers. According to VAR, "SHW [takes advantage] to lock in lower prices for a period of years [when looking at the cycle]. Multi-year contracts are being locked in."

### Paint Store Demand to Remain Strong: Robust TAM Trajectory for SHW Paint Store Group

Despite the bear case that paint stores group is hitting its saturation point, VAR conversations demonstrate that the historically successful segment shows no signs of slowing. Specifically, Houston (most highly saturated region in the U.S. with 1 store per 37,000 people) continues to achieve mature store volumes and profitability faster than ever (per VAR). Assuming a conservative saturation level of 1 store per 45,000 urban population, SHW has the capacity to operate 6,000 paint stores in North America (figure confirmed with VAR). Assuming SHW continues to open ~100 stores per annum, and conservative SSS growth of 3.7% over the next 5 years (vs. 5-year historic average of 6.2%), SHW has tremendous runway potential over the next 10 years. See Exhibit 3 for details. It is important to also note SHW's SSS growth closely follows the residential construction cycle, which, according to Moody's, is set to grow by 10%+ over the next 18 months. This contrasts with new build, which is more volatile, particularly during down cycles.

### First Class CEO John Morikis Overlooked by Street

Consensus appears worried that John Morikis will be unable to fill prior CEO Chris Connor's shoes. The lackluster reaction for Morikis' appointment is similar to how the street reacted upon Connor's initial appointment as CEO in 1999. As emphasized by VAR, "John is a very different leader [from Chris Connor]. He knows the business inside out. His leadership will be a continuation of what Chris built, but John will be more aggressive in terms of cost-management, since he's more the operator type of guy." Morikis' focus on cost management will come in handy with the VAL acquisition: SHW will be able to quickly de-lever given its robust cash generating operations (3.4x net debt/EBITDA in 2017 to 1.8x by 2019), combined with a proven capital allocation track record. Similarly, SHW management has historically conducted share repurchases at depressed levels (see Exhibit 4), and Morikis has expressed that the company will diligently resume repurchases when appropriate.

Morikis, previously SHW's President and COO, has been with the company since 1984, initially starting out as a management trainee in the Paint Stores group and rising up the ranks. While later leading the Paint Stores group, he is credited with growing revenues from \$3Bn to \$5Bn and stores from 2,400 to 3,100. Additionally, VAR credits him with having a young and fresh energy. When comparing Morikis' career trajectory to SHW's culture, it is clear that there is alignment. SHW maintains a strong commitment to corporate culture (93% of 2015 roles were filled internally with a 91% employee retention rate), and a commitment to R&D through product innovation.

### Path to Profitability

- Seamless integration of Valspar acquisition, and realization of additional cost synergies
- Revenue and cross-selling synergies provide additional revenue upside

### Key Risks

- Anti-trust provisions that require further divestitures of Valspar, pushing back closing
- Cannibalization of architectural paint products across similar sales venue platforms

### Metrics to Monitor

- Monitoring ramp-up of earnings and sales growth with Valspar integration
- Monitor margin improvements (gross margin to monitor continued pricing power over long-term, EBITDA margins to monitor integration of VAL synergies within cost structure over next 3 years as synergies stabilize)
- U.S. Home Improvement retail sales

### Key Signposts to Opposing Thesis

- U.S. construction cycle could cause revenue growth to slow
- Increased competition in DIY segment at Lowe's and Home Depot could push margins down

### Valuation

PF SHW valuation is based using a sum-of-the-parts method on a 2019E EBIT multiple, with the expectation that VAL will close by Q3 2017. The valuation assumes that SHW's legacy EV/EBIT multiple (as at April 21, 2017) is maintained at 16x. This compares to SHW's highest EBIT multiple of 19x during December 2015, and represents a 1x premium to its 5-year historic EBIT multiple of 15x. It also assumes that VAL maintains its 5-year rolling NTM EBIT multiple of 14.5x moving forward, and that transaction synergies will trade at a 0.5x discount to SHW multiple. Combined, this valuation results in 40% upside (20% IRR) in the base case scenario, with an implied 2019E EPS multiple of 21.4x. In the bull case scenario, SHW has the potential to achieve 65% upside (33% IRR). Limited downside exists in the bear-case scenario, with 20% upside and an 11% IRR.

When evaluating the growth potential of SHW's clear franchise business model (with deeply embedded economic moat, customer stickiness, reputable global brand, and localized distribution system), I assumed paint store group revenues to grow at 5.6% per annum due to the opening of 100 stores per annum and conservative SSS revenue growth of 3%. LatAm and Global group are assumed to steadily climb back to mid-single digit revenue growth as they continue to battle with weaker demand, currency headwinds, and dollar-denominated raw material inputs. These factors combined result in top-line revenue growth of 4.7% by 2019, which is slightly above PF-VAL consensus estimates. In addition, the base case scenario is bullish vs. consensus on SHW cost controls given their ability to successfully implement price increases given raw material inflation. PF SHW-VAL gross margins will compress slightly while gradually improving to 46.5% by 2019. Assumptions take into account VAL's lower EBIT margin business (12.5% for VAL vs. 14.6% for SHW 2016A). Finally, as per Key Thesis Point #1, \$350mm in synergies are expected to be realized 30% in 2017, 75% in 2018, and 100% in 2018 (informed through VAR), which compares to \$280mm by management and consensus estimates.

I also took into account an Earnings Power Valuation, utilizing 2019 revenues as it is a better representation of steady-state revenues with the incorporation of the Valspar deal. Assuming an EBIT margin of 16% and a discount rate of 7%, the value of SHW shares demonstrates upside of 10%. I believe that given the robust franchise growth of both SHW and Valspar far into the future, that this figure under-represents the true potential of the company's worth; however, it is worth noting and evaluating nevertheless as a check-point.

### Business Tailwinds

- Innovative product rollouts in higher margin coatings products
- Continued SSS growth at paint stores group
- International expansion via #1 market share in China (through Valspar)

### Business Headwinds

- Weakening of U.S. construction market
- Slowing of residential and commercial spend in new home or improvements
- Drastic price fluctuations in raw material input costs such as TiO2
- Currency fluctuations given increased global footprint

### Value Added Research

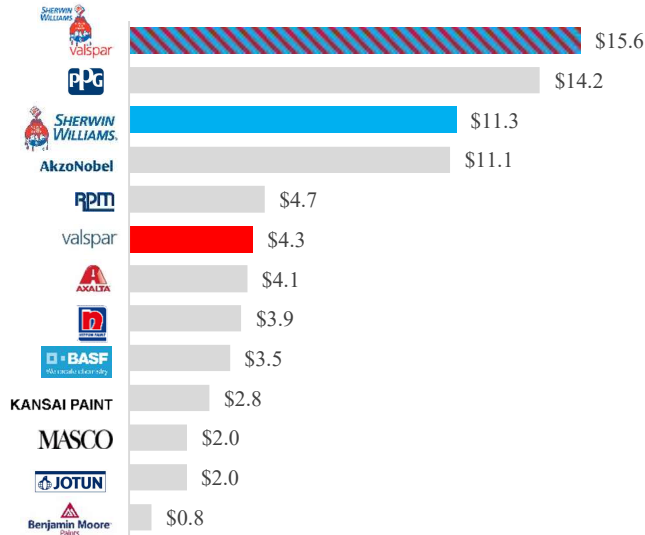
<b>Dr. Amanda Morris</b> <i>Assistant Professor, Virginia Tech University</i>	<b>David Darling</b> <i>Analyst, American Coatings Association</i>
<b>Dr. Thomas Kevin Swift</b> <i>Chief Economist, American Chemistry Council</i>	<b>Christian Gomez</b> <i>Previously Director M&amp;A, Sherwin-Williams</i>
<b>George Duko</b> <i>Corp. Dev., CFO Global Division, DuPont</i>	<b>Kristin Johansson</b> <i>Editor, Paint &amp; Coatings Industry Magazine</i>
<b>Samantha Rubin</b> <i>Store Manager, Lady Lake Florida, Sherwin-Williams</i>	<b>Tom Maziarz</b> <i>Vice President, Company Stores, PPG Industries</i>
<b>Schachan</b> <i>Paint Department Manager, Home Depot</i>	<b>Hal Morris</b> <i>Previously Sales &amp; Technical Service Manager, Rohm &amp; Haas</i>
<b>Victoria Gattozzi</b> <i>Store Manager, Cleveland, Sherwin-Williams</i>	<b>Tim Minnema</b> <i>Previous Plant Manager, Valspar</i>
<b>Michael Brown</b> <i>Paint Industry Consultant, StrategyMark</i>	<b>Bob Wells</b> <i>Senior VP, Corporate Communications, Sherwin-Williams</i>
<b>Hugh McKee</b> <i>Franchise Partner, WOW 1 DAY Painting</i>	

**Appendix 1: Visuals Pertaining to Key Thesis Points**

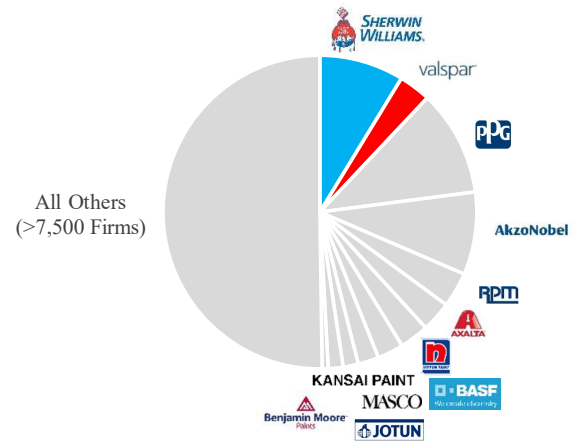
**Exhibit 1: Valspar Acquisition = Transformative in the Best Way Possible**

**SHW-VAL Combined Market Share Would Dominate**

Global Paint & Coatings Industry Landscape (2015 Sales, US\$Bn)



Pro Forma Industry Remains Fragmented



Source: Company disclosure.

**SHW-VAL Transaction Highlights**

**Transaction Assumptions**

	Offer Value	
	%	\$
% Equity	0%	\$0
% Cash	11%	\$1,000
% Acquisition Debt	89%	\$8,282
Total	100%	\$9,282

Synergy Phase-In	Synergies		
	%	\$ Cost	\$ Revenue
2017	30%	\$105	\$0
2018	75%	\$263	\$0
2019	100%	\$350	\$0
2020	Full Ramp	\$400	\$0

Source: Company disclosure, personal estimates.

**Purchase Price Calculation**

VAL 2016A EBITDA	\$702
x Multiple	16.1x
Transaction Value	\$11,300
Less: VAL Net Debt	\$1,604
Offer Value	\$9,696

VAL Shares Outstanding	85.8
Offer Price per Share	\$113.00

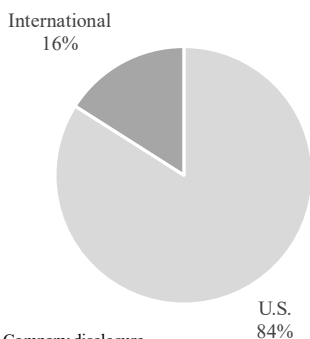
**Pro Forma Leverage**

Current SHW Debt	\$1,953
Current VAL Debt	\$1,778
Acquisition Debt	\$7,300
PF Debt	\$11,031
Less: Existing SHW Cash	\$890
Less: Existing VAL Cash	\$175
PF Net Debt	\$9,966

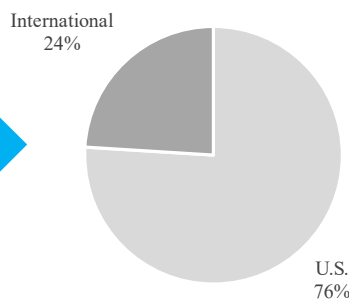
PF Debt / 2017E EBITDA	4.3x
PF Net Debt / 2017E EBITDA	3.9x

**Pro Forma SHW-VAL Expands Geographic Footprint, Better Aligned with Global Demand**

SHW By Geography (2015A)

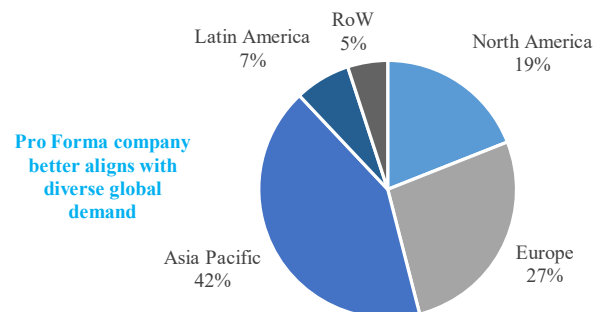


Pro Forma SHW-VAL by Geography



Source: Company disclosure.

The Global Paints & Coatings Industry by Geography



**Precedent Transactions: VAL Synergies within Range**

Target	Acquirer	Date	Tx Value	Premium to Close	Announced Synergies	Actual Synergies Achieved	Cost Synergies as % of Sales	Multiples			Source of Synergies
								EV / TTM Revenue	EV / TTM EBITDA	EV / TTM EBITDA + Synergies	
<b>Paint &amp; Coatings</b>											
Akzo	PPG	24-Apr-17	\$26,400	40%	\$750.0	na	5.6%	2.0x	11.6x	8.7x	- Raw material purchasing - Supply-chain management - Optimizing distribution networks
Akzo N.A. Paint Group & Comex Mexico	PPG	14-Dec-12	\$3,400	na	\$200.0	\$240.0	9.6%	1.4x	6.0x	4.4x	- Expands PPG architectural coatings - Expands customer touch points through paint stores
DuPont Performance Coatings	Carlyle	30-Aug-12	\$4,900	na	\$125.0	na	2.9%	1.1x	18.3x	12.5x	- Sale to realize full potential of stand-alone business through private equity revitalization
Akzo	ICI	13-Aug-07	\$18,448	22%	\$375.6	\$450.76	3.9%	1.9x	18.5x	13.4x	- Diversifies geographic presence - Cost-cutting via complementary brands
<b>Average</b>					<b>\$362.7</b>	<b>\$356.9</b>	<b>5.5%</b>	<b>1.6x</b>	<b>13.6x</b>	<b>9.8x</b>	
<b>Median</b>					<b>\$287.8</b>	<b>\$307.8</b>	<b>4.7%</b>	<b>1.6x</b>	<b>14.9x</b>	<b>10.6x</b>	
Valspar	Sherwin-Williams	20-Mar-16	\$11,300	34%	\$280.0	na	7.0%	2.7x	16.1x	11.5x	- Raw material purchasing - SG&A, R&D - Manufacturing
<b>Specialty Chemicals</b>											
Air Products Materials Division	Evonik Industries	6-May-16	\$3,800	na	\$80.0	na	7.7%	3.7x	15.8x	11.8x	- Expanded geographical coverage - Diversification
DuPont	Dow Chemical	11-Dec-15	\$65,000	MOE	\$3,000.0	na	6.4%	2.3x	10.8x	7.2x	- Raw material purchasing - Production synergies / supply chain - Brand strength
Rockwood Holdings	Albemarle	15-Jul-14	\$6,200	13%	\$100.0	\$60.0	4.2%	4.4x	19.5x	14.8x	- Expanded distribution and market share
Lyondell	Basell	17-Jul-07	\$12,140	20%	na	na	na	0.8x	7.7x	na	- Brand strength - Supply chain / logistics
<b>Average</b>					<b>\$1,060.0</b>	<b>\$356.9</b>	<b>6.1%</b>	<b>2.8x</b>	<b>13.4x</b>	<b>11.3x</b>	
<b>Median</b>					<b>\$100.0</b>	<b>\$307.8</b>	<b>6.4%</b>	<b>3.0x</b>	<b>13.3x</b>	<b>11.8x</b>	

Source: Company disclosure, CapIQ.

**Exhibit 2: Sherwin-Williams Pricing Power to Continue to Strengthen**

**80% of SHW Paint Store Sales Go to Contractor, and Contractors Aren't Price Sensitive**

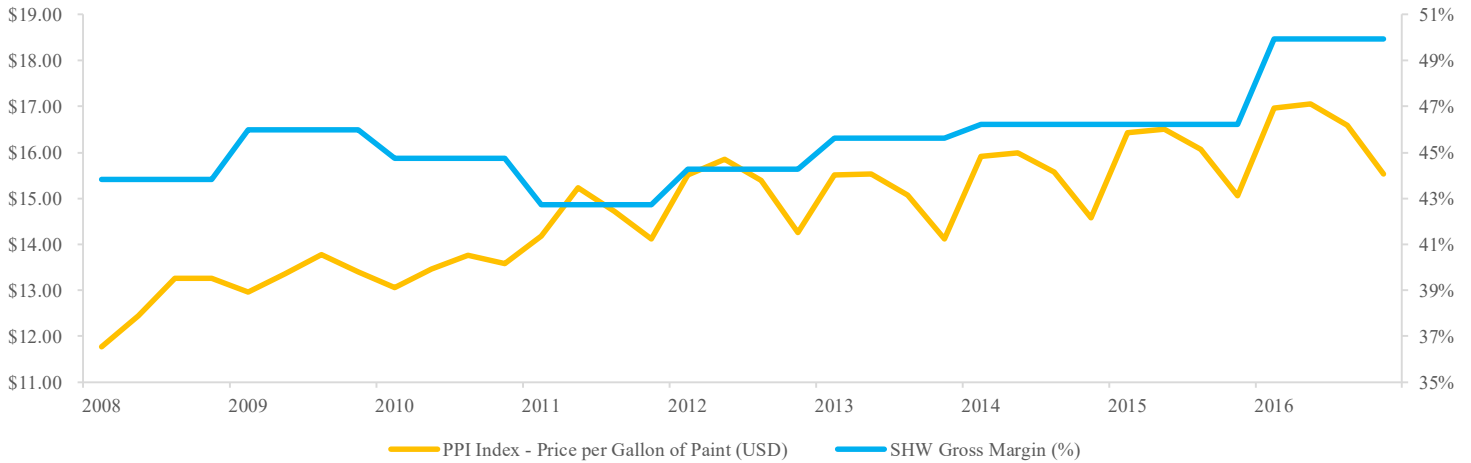
Contractor Customer Survey Attributes Most Important to Contractor Purchase Decision	
Brands Offered	28%
Customer Service & Follow-up	21%
Staff's Product Knowledge	18%
Overall Price Competitiveness	16%
Location of Store Outlet	15%
Supplier's Payment Terms	1%
Delivery / Other	2%

Source: BrushedInteriors.com; Painting Wallcovering Contractor Reader Survey, 2001.

Contractor Painting 700-Square Foot Room	% of Sales	
Total Revenue	\$1,200	100%
Paint Cost	\$84	7%
Other Materials	\$24	2%
Labor	\$984	82%
Profit	\$120	10%

- Contractor would rather buy high quality paint which requires fewer coats, is less prone to error, completes the job faster, and secures their reputation for future referrals

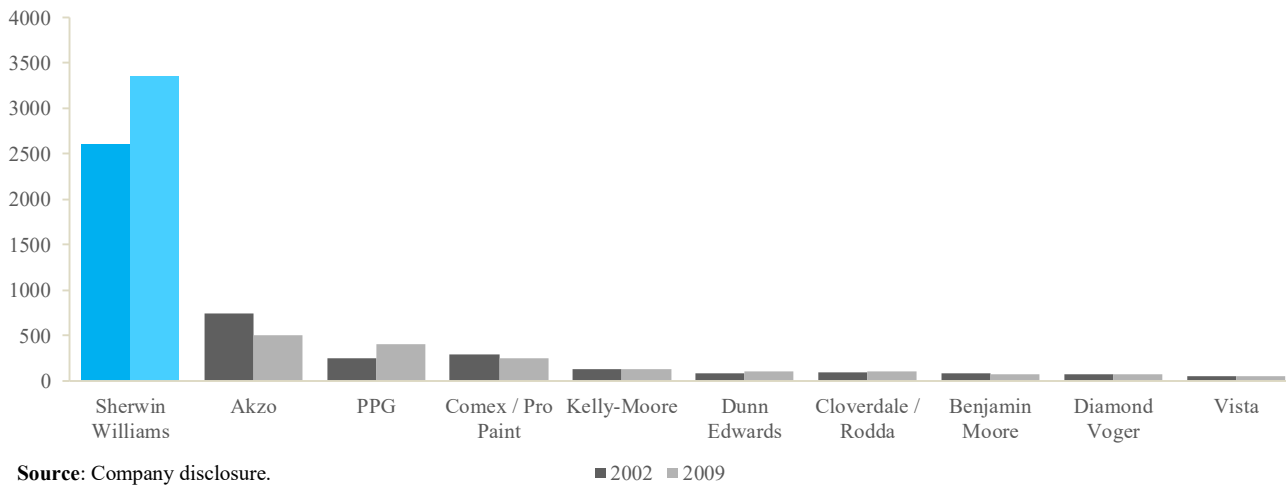
**PPI Index vs. SHW Gross Margin: SHW Continues to Pass Price Increases to Customers Amid Rising Input Costs**



Source: Company disclosure, U.S. Department of Commerce.

**Exhibit 3: Paint Store Demand to Remain Strong**

**Paint Stores by Producer: SHW Dominates with Scale**



Source: Company disclosure.

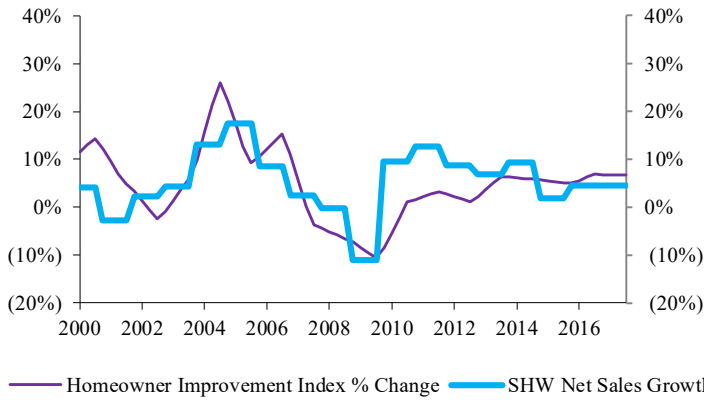
**Total Addressable Market and Paint Store Presence Potential Remains Robust; Long-term Potential for 6,000+ Stores**

U.S. Division	Population	% Urban	Urban Population	Current # of Stores	Store Density per Non-Rural	# of Stores: 1 in 45,000 Density	Implied Stores to be Built				
								(\$ in mm)	Bear	Base	Bull
Eastern	108,599,208	56%	89,599,188	1,051	85,251	1,991	940	# of Stores (mature)	5,000	5,500	6,500
Southeastern	66,644,160	75%	50,054,819	984	50,869	1,112	128	Mature sales per store (2017A)	\$1.86	\$1.86	\$1.86
Midwestern	78,812,635	76%	59,709,838	1,047	57,029	1,327	280	Implied Total Sales	\$9,318	\$10,250	\$12,114
Southwestern	103,568,617	87%	89,752,251	1,020	87,992	1,994	974	Mature EBIT Margin	18.0%	20.0%	22.0%
<b>SHW Mature Paint Stores EBIT</b>									<b>\$1,677</b>	<b>\$2,050</b>	<b>\$2,665</b>
<b>Total</b>				<b>4,102</b>			<b>6,425</b>				<b>2,323</b>

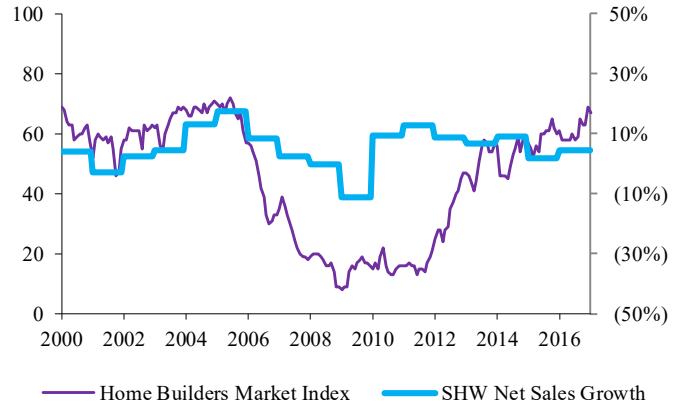
Source: Company disclosure, personal estimates.

**SHW SSS Most Closely Follows Home Improvement Retail Sales; Less Volatile & More Resilient Than New Construction**

**Leading Indicator of Remodeling Activity (Residential Remodel) vs. SHW Net Sales Growth**



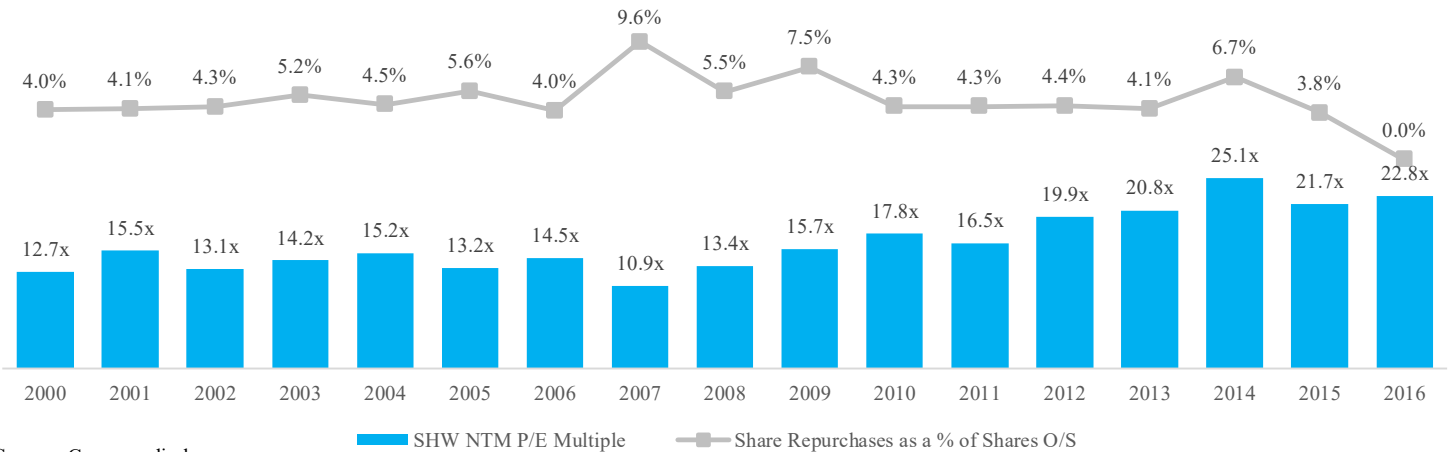
**National Association of Home Builders Market Index (New Construction) vs. SHW Net Sales Growth**



Source: Bureau of labor statistics, national association of home builders, Bloomberg.

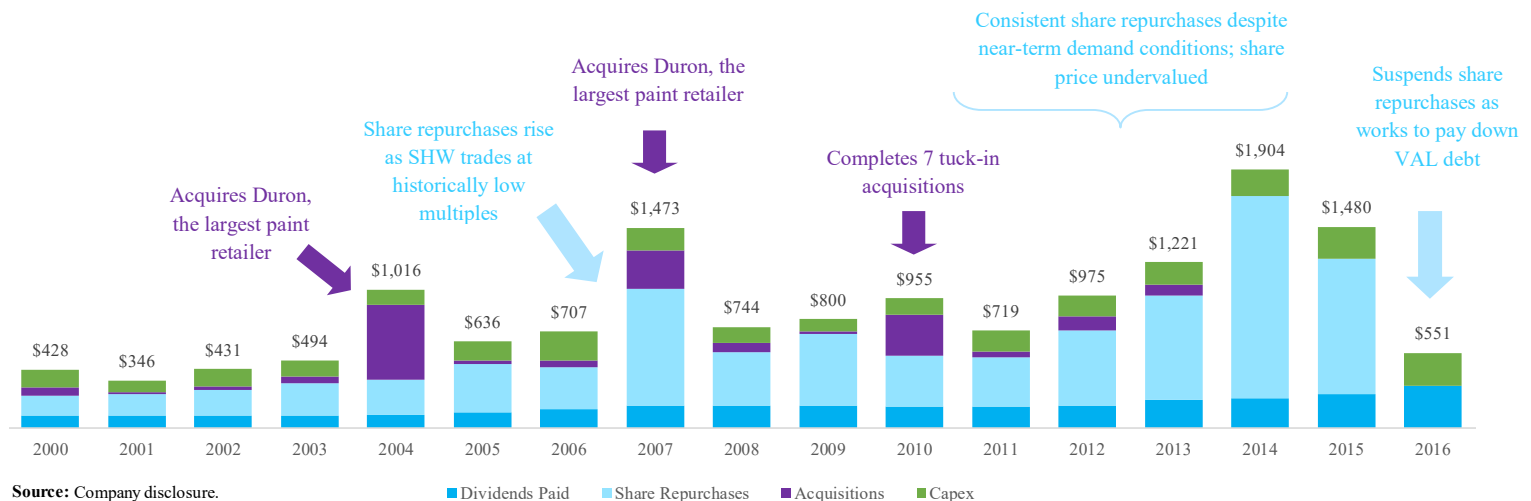
**Exhibit 4: First Class CEO Overlooked**

**SHW Conducts Share Repurchases when Multiples are at Historical Lows; Will Pick up when Ready**



Source: Company disclosure.

**SHW Has Maintained a Diligent Capital Allocation Strategy, Investing Counter-Cyclically**



Source: Company disclosure.



**Appendix 2: Key Drivers, Financials and Valuation**

**Exhibit 1: Multiple-based Valuation**

Sum-of-the-Parts Valuation				Earnings Power Valuation		Assumptions
	Bear	Base	Bull			
2019E EBIT - AC				<b>Revenue</b>	18,077	<ul style="list-style-type: none"> <li>2019 Revenue and EBIT margins, which take into account the settling of the acquisition</li> <li>Tax rate of 30% based on historical figures</li> <li>Discount rate of 7% in line with industry avg, taking into account low-risk jurisdictions SHW exists and constant demand for paint and coatings products globally</li> </ul>
Sherwin-Williams	\$1,895	\$1,986	\$2,137	Normalized EBIT Margin	16%	
Valspar	\$523	\$561	\$615	<b>EBIT Adjusted</b>	<b>2,897</b>	
Cost Synergies	\$320	\$350	\$400	Tax Rate	30%	
Normalized Forward Multiple				(+) D&A	287	
Sherwin-Williams	15.0x	16.0x	17.0x	<b>Adjusted After-Tax Income</b>	<b>2,315</b>	
Valspar	13.5x	14.5x	15.5x	Discount Rate	7%	
Cost Synergies	14.5x	15.5x	16.5x	<b>Earnings Power Value</b>	<b>33,065</b>	
Enterprise Value				Weighted Average Shares Outstanding	93	
Sherwin-Williams	\$28,419	\$31,773	\$36,327	Implied Share Price	<b>\$355.49</b>	
Valspar	\$7,063	\$8,133	\$9,535	<b>Upside to Current Price</b>	<b>9.5%</b>	
Cost Synergies	\$4,640	\$5,425	\$6,600			
Total Enterprise Value	\$40,122	\$45,331	\$52,462			
Less: PF Debt	\$8,651	\$8,651	\$8,651			
Add: Cash & Cash Equivalents	\$2,550	\$2,849	\$3,153			
Implied Market Capitalization	\$34,020	\$39,529	\$46,964			
Implied Share Price	\$389	\$452	\$537			
<b>Upside to Current Price</b>	<b>19.8%</b>	<b>39.2%</b>	<b>65.3%</b>			
<b>IRR</b>	<b>6.8%</b>	<b>12.8%</b>	<b>20.1%</b>			
Implied 2019E EPS Forward Multiple	18.5x	21.4x	25.5x			

**Exhibit 2: Key Driver Cases**

	2017E	2018E	2019E	Commentary
<b>Driver #1: Revenue Growth</b>				
<b>Paint Stores Group</b>				
Bull	7.6%	7.9%	8.1%	- Bull assumes 5.0% SSS growth to 5.5% by 2019 with 105 store openings/yr
Base	5.6%	5.7%	5.9%	- Base assumes 3.0% SSS growth to 3.5% by 2019 with 100 store openings/yr
Bear	4.6%	4.9%	5.4%	- Bear assumes 2.5% SSS growth to 3.5% by 2019 with 80-85 store openings/yr
<b>Consumer Group</b>				
Bull	2.0%	2.5%	3.0%	- Bull assumes 2.0% growth to 3.0% by 2019
Base	1.5%	2.0%	3.0%	- Base assumes 1.5% growth to 3.0% by 2019
Bear	1.0%	1.5%	2.0%	- Bear assumes 1.0% growth to 2.0% by 2019
<b>Global Group</b>				
Bull	2.5%	5.0%	5.5%	- Bull assumes fx headwinds subside with global demand growing
Base	2.0%	5.0%	5.5%	- Base assumes 2.0% growth to 5.5% by 2019 as fx headwinds alleviate
Bear	0.5%	0.8%	1.2%	- Bear assumes steady yet flat uptick in global demand with continued fx headwinds
<b>LatAM Group</b>				
Bull	1.0%	7.0%	12.0%	- Bull assumes fx headwinds subside with paint store rapid expansion
Base	(1.0%)	5.0%	10.0%	- Base assumes ramp to 10.0% by 2019 with successful expansion of paint stores in LatAm
Bear	(4.0%)	(2.0%)	0.0%	- Bear assumes continued fx headwinds and stagnant paint store growth
<b>Valspar</b>				
Bull	2.0%	3.0%	3.5%	- Bull assumes healthy demand for VAL products
Base	1.0%	1.5%	2.0%	- Base assumes conservative, steady growth
Bear	0.5%	1.0%	1.5%	- Bear assumes flattened but steady growth
<b>Driver #2: Gross Margin</b>				
Bull	46.2%	46.8%	47.5%	- Bull assumes stable margin in 2017 as price increases benefit early on
Base	45.7%	46.2%	46.5%	- Base assumes tightening in 2017 with raw input price increases and margin expansion by 2019
Bear	44.8%	45.2%	45.4%	- Bear assumes noticeable margin decline by 2017 with gradual recovery
<b>Driver #3: Valspar Pre-Tax Cost Synergies</b>				
Bull	\$125	\$300	\$400	- Bull assumes significant realization of synergies with additional \$50mm upside
Base	\$105	\$263	\$350	- Base assumes \$350mm realized by 2019
Bear	\$75	\$230	\$320	- Bear assumes only \$320mm to be realized at 2019 (management expectations)
<b>EPS</b>				
Bull	\$15.79	\$19.45	\$23.08	
Base	\$15.21	\$18.21	\$21.06	
Bear	\$14.12	\$17.14	\$19.89	