

## Sherwin-Williams Company

## 2024 implies lower growth; Remain U/P

Reiterate Rating: UNDERPERFORM | PO: 286.00 USD | Price: 303.91 USD

## Q4 results driven by Paint Stores; other segments mixed

SHW posted 4Q23 EPS of \$1.81 near consensus' \$1.80 and our \$1.77. Sales in the quarter were roughly flat, as 2% sales growth in Paint Stores, driven by volume gains, was offset by a 7% sales decline in Consumer, due to weak DIY demand. Sales in Performance Coatings were flat, as strength in refinish, coil, and industrial wood end markets were offset by general industrial and packaging. Our FY24 EPS rises to \$11.35 from \$11.25, reflecting more pricing in Paint Stores (5% effective Feb 1), and an improving architectural backdrop in 2H, and some recovery in wood and packaging businesses. While our 2024 EPS estimate is at the top end of Sherwin's forecast range, it only represents 10% y/y growth, below most of our specialty chemical coverage.

## Multiple drivers in Paint Stores for volume and price

We are cautious about US architectural coatings demand in 2024, as resilience in property management could be more than offset by lower new residential and commercial construction, along with lower resi repaint. This latter view is driven by a drop to 13-year lows in home turnover and lower remodeling activity. We estimate 2% volume growth in Sherwin's Paint Stores in 2024, assuming share gains, driven by customer loyalty drivers. We model 3% price gains for Paint Stores in 2024, or 60% of the Feb increase, and our view that Sherwin's loyalty programs could drive a favorable price mix. We surveyed 40 pro paint contractors last fall ([takeaways here](#)), with 14 that purchased more than half their paint from SHW. We plotted the average price per gallon paid by these contractors in resi repaint and property mgmt, which highlights an enormous range in pricing, representing potential price mix shift benefits (see Exh 1).

## Modest earnings growth could weigh on valuation

We compared our 10% earnings growth estimate for Sherwin and its current trading multiple to the rest of our specialty chemical coverage. As illustrated in Exhibit 2, SHW is an outlier trading at one of the highest P / 2024E EPS multiples, despite having one of the lowest 2024 growth rates, supporting our unchanged U/P rating. Our PO remains at \$286, based on the average of a DCF-derived present value (unchanged 8.3% WACC and 3.5% terminal growth) and an unchanged 27.0x P/E applied to 2024E EPS.

| Estimates (Dec) (US\$)    | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS                       | 8.74  | 10.34 | 11.35 | 12.32 | 13.21 |
| GAAP EPS                  | 7.73  | 9.24  | 10.25 | 11.22 | 12.11 |
| EPS Change (YoY)          | 7.2%  | 18.3% | 9.8%  | 8.5%  | 7.2%  |
| Consensus EPS (Bloomberg) |       |       | 11.39 | 12.71 | 13.61 |
| DPS                       | 2.40  | 2.42  | 2.86  | 2.86  | 2.86  |
| Valuation (Dec)           |       |       |       |       |       |
| P/E                       | 34.8x | 29.4x | 26.8x | 24.7x | 23.0x |
| GAAP P/E                  | 39.3x | 32.9x | 29.6x | 27.1x | 25.1x |
| Dividend Yield            | 0.8%  | 0.8%  | 0.9%  | 0.9%  | 0.9%  |
| EV / EBITDA*              | 27.1x | 23.2x | 22.1x | 20.9x | 19.9x |
| Free Cash Flow Yield*     | 1.6%  | 3.2%  | 3.2%  | 3.8%  | 4.1%  |

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 26 January 2024 05:55AM EST

26 January 2024

## Equity

## Key Changes

| (US\$)        | Previous | Current  |
|---------------|----------|----------|
| 2024E Rev (m) | 23,963.6 | 23,829.6 |
| 2025E Rev (m) | 24,685.2 | 24,548.9 |
| 2026E Rev (m) | 25,430.5 | 25,292.0 |
| 2024E EPS     | 11.25    | 11.35    |
| 2025E EPS     | 12.23    | 12.32    |
| 2026E EPS     | 13.14    | 13.21    |
| 2024E DPS     | 2.44     | 2.86     |

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## Stock Data

|                                |                         |
|--------------------------------|-------------------------|
| Price                          | 303.91 USD              |
| Price Objective                | 286.00 USD              |
| Date Established               | 16-Jan-2024             |
| Investment Opinion             | B-3-7                   |
| 52-Week Range                  | 205.43 USD - 314.14 USD |
| Mkt Val (mn) / Shares Out (mn) | 82,238 USD / 270.6      |
| Free Float                     | 91.8%                   |
| Average Daily Value (mn)       | 451.23 USD              |
| BofA Ticker / Exchange         | SHW / NYS               |
| Bloomberg / Reuters            | SHW US / SHW.N          |
| ROE (2024E)                    | 74.0%                   |
| Net Dbt to Eqty (Dec-2023A)    | 257.7%                  |
| ESGMeter <sup>TM</sup>         | High                    |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

## Jargon Buster

DIY = Do-It-Yourself

# iQprofile<sup>SM</sup> Sherwin-Williams Company

## iQmethod<sup>SM</sup> – Bus Performance\*

| (US\$ Millions)            | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 14.0% | 15.6% | 16.3% | 16.8% | 17.2% |
| Return on Equity           | 82.6% | 78.4% | 74.0% | 71.1% | 66.1% |
| Operating Margin           | 13.5% | 16.8% | 15.8% | 15.9% | 16.3% |
| Free Cash Flow             | 1,275 | 2,611 | 2,652 | 3,148 | 3,390 |

## iQmethod<sup>SM</sup> – Quality of Earnings\*

| (US\$ Millions)          | 2022A  | 2023A  | 2024E  | 2025E  | 2026E  |
|--------------------------|--------|--------|--------|--------|--------|
| Cash Realization Ratio   | 0.8x   | 1.3x   | 1.1x   | 1.1x   | 1.2x   |
| Asset Replacement Ratio  | 1.1x   | 1.4x   | 1.0x   | 0.6x   | 0.6x   |
| Tax Rate                 | 21.5%  | 23.2%  | 22.0%  | 21.0%  | 21.0%  |
| Net Debt-to-Equity Ratio | 334.3% | 257.7% | 225.2% | 184.4% | 141.3% |
| Interest Cover           | 7.9x   | 8.6x   | 8.9x   | 11.0x  | 11.6x  |

## Income Statement Data (Dec)

| (US\$ Millions)              | 2022A        | 2023A        | 2024E        | 2025E        | 2026E        |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales                        | 22,149       | 23,052       | 23,830       | 24,549       | 25,292       |
| % Change                     | 11.1%        | 4.1%         | 3.4%         | 3.0%         | 3.0%         |
| Gross Profit                 | 9,370        | 10,942       | 11,337       | 11,278       | 11,720       |
| % Change                     | 9.7%         | 16.8%        | 3.6%         | -0.5%        | 3.9%         |
| EBITDA                       | 3,527        | 4,125        | 4,332        | 4,566        | 4,808        |
| % Change                     | 11.9%        | 16.9%        | 5.0%         | 5.4%         | 5.3%         |
| Net Interest & Other Income  | (420)        | (464)        | (425)        | (356)        | (356)        |
| <b>Net Income (Adjusted)</b> | <b>2,287</b> | <b>2,673</b> | <b>2,890</b> | <b>3,086</b> | <b>3,254</b> |
| <b>% Change</b>              | <b>4.9%</b>  | <b>16.9%</b> | <b>8.1%</b>  | <b>6.8%</b>  | <b>5.5%</b>  |

## Free Cash Flow Data (Dec)

| (US\$ Millions)                        | 2022A         | 2023A         | 2024E        | 2025E        | 2026E        |
|--|---------------|---------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 2,020         | 2,389         | 2,609        | 2,810        | 2,983        |
| Depreciation & Amortization            | 581           | 623           | 630          | 653          | 676          |
| Change in Working Capital              | (713)         | 154           | 201          | 248          | 295          |
| Deferred Taxation Charge               | (145)         | (145)         | (145)        | (145)        | (145)        |
| Other Adjustments, Net                 | 176           | 480           | (38)         | (38)         | (38)         |
| Capital Expenditure                    | (645)         | (888)         | (605)        | (380)        | (380)        |
| <b>Free Cash Flow</b>                  | <b>1,275</b>  | <b>2,611</b>  | <b>2,652</b> | <b>3,148</b> | <b>3,390</b> |
| <b>% Change</b>                        | <b>-31.9%</b> | <b>104.7%</b> | <b>1.6%</b>  | <b>18.7%</b> | <b>7.7%</b>  |
| Share / Issue Repurchase               | (816)         | (1,033)       | (1,333)      | (1,433)      | (1,433)      |
| Cost of Dividends Paid                 | (619)         | (624)         | (728)        | (716)        | (704)        |
| Change in Debt                         | 954           | (640)         | 0            | 0            | 0            |

## Balance Sheet Data (Dec)

| (US\$ Millions)                       | 2022A         | 2023A         | 2024E         | 2025E         | 2026E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents                    | 199           | 277           | 635           | 1,401         | 2,422         |
| Trade Receivables                     | 2,564         | 2,468         | 2,313         | 2,144         | 1,959         |
| Other Current Assets                  | 3,145         | 2,768         | 2,586         | 2,380         | 2,148         |
| Property, Plant & Equipment           | 2,207         | 2,837         | 2,812         | 2,539         | 2,243         |
| Other Non-Current Assets              | 14,479        | 14,605        | 14,766        | 14,928        | 15,090        |
| <b>Total Assets</b>                   | <b>22,594</b> | <b>22,954</b> | <b>23,113</b> | <b>23,391</b> | <b>23,862</b> |
| Short-Term Debt                       | 979           | 1,473         | 1,473         | 1,473         | 1,473         |
| Other Current Liabilities             | 4,982         | 5,154         | 4,930         | 4,714         | 4,504         |
| Long-Term Debt                        | 9,591         | 8,378         | 8,378         | 8,378         | 8,378         |
| Other Non-Current Liabilities         | 3,940         | 4,234         | 4,239         | 4,244         | 4,249         |
| <b>Total Liabilities</b>              | <b>19,492</b> | <b>19,239</b> | <b>19,020</b> | <b>18,808</b> | <b>18,604</b> |
| <b>Total Equity</b>                   | <b>3,102</b>  | <b>3,716</b>  | <b>4,093</b>  | <b>4,583</b>  | <b>5,258</b>  |
| <b>Total Equity &amp; Liabilities</b> | <b>22,594</b> | <b>22,954</b> | <b>23,113</b> | <b>23,391</b> | <b>23,862</b> |

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Chemicals-Major

## Company Description

Sherwin Williams is the second largest coatings company in the world with 2022 sales of \$22.1 billion, of which over 75% is in North America. SHW is the US market leader in architectural coatings with a controlled distribution network of nearly 5,000 stores mainly in North America. SHW also competes in protective, marine and auto refinish coatings. Leading brands include Sherwin-Williams, Valspar, Pratt & Lambert, Thompsons Water Seal and Minwax.

## Investment Rationale

We are cautious about US demand for architectural volumes, particularly in remodeling & repair where SHW has significant exposure. Additionally, we envision both a market rotation out of downstream chemicals and a material decrease in deflationary benefits in 2024. Finally, trading 5-8x turns above big box competitors gives SHW significant risk to the downside, in our view. We rate shares Underperform accordingly.

## Stock Data

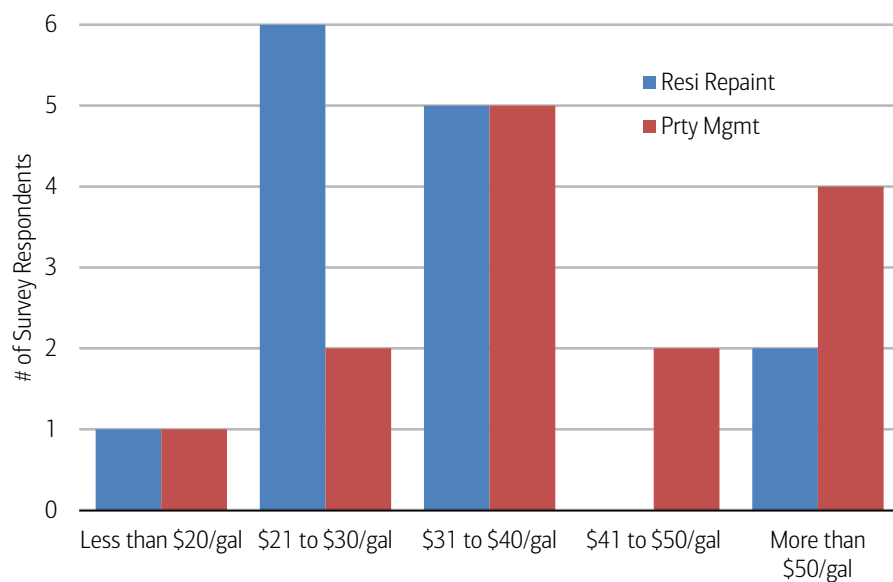
Average Daily Volume 1,567,089

## Quarterly Earnings Estimates

|    | 2023  | 2024  |
|----|-------|-------|
| Q1 | 2.04A | 2.09E |
| Q2 | 3.29A | 3.13E |
| Q3 | 3.20A | 3.65E |
| Q4 | 1.81A | 2.49E |

**Exhibit 1: What is the average price per gallon of the SHW paint you purchase in 2023?**

There is a wide range of pricing in architectural coatings

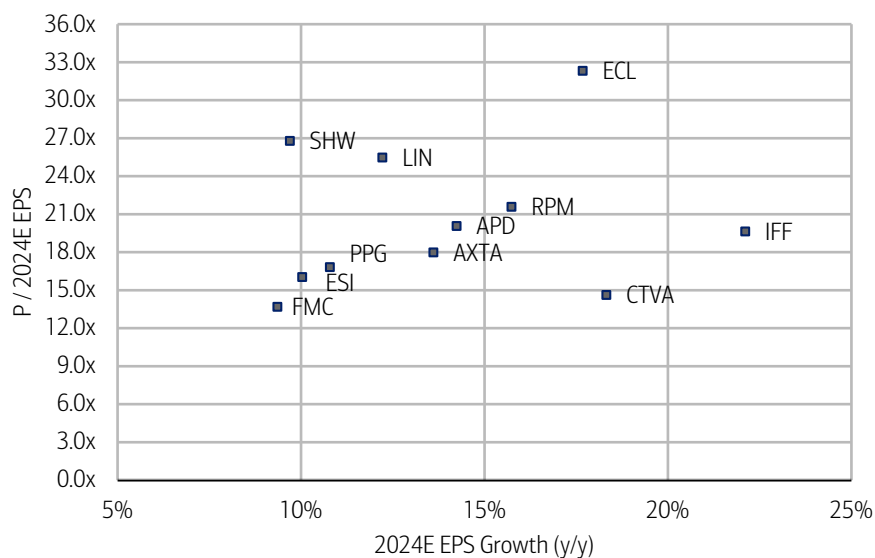


Source: Guidepoint, BofA Global Research, N = 14

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**Exhibit 2: Specialty Chems Current Multiple vs EPS Growth**

SHW trades at one of the highest multiples despite having one of the lowest growth rates



Source: BofA Global Research estimates

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**Exhibit 3: Sherwin Williams Income Statement Summary**

Our 2024 EPS rises to \$10.35 from \$10.25 prior

|                                       | 2023   |        |        |        |        | 2024E   |        |        |        |        |         |         |         |
|---------------------------------------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|---------|---------|---------|
|                                       | 2022   | 1Q23   | 2Q23   | 3Q23   | 4Q23   | 2023    | 1Q24E  | 2Q24E  | 3Q24E  | 4Q24E  | 2024E   | 2025E   | 2026E   |
| Net Sales                             |        |        |        |        |        |         |        |        |        |        |         |         |         |
| Paint Stores Group                    | 11,963 | 2,859  | 3,499  | 3,537  | 2,945  | 12,840  | 2,930  | 3,655  | 3,752  | 3,134  | 13,470  | 14,051  | 14,654  |
| Consumer Brands Group (incl. LatAm)   | 3,388  | 873    | 946    | 855    | 692    | 3,366   | 855    | 927    | 890    | 748    | 3,420   | 3,454   | 3,489   |
| Performance Coatings Group            | 6,794  | 1,710  | 1,795  | 1,724  | 1,614  | 6,843   | 1,685  | 1,817  | 1,764  | 1,670  | 6,936   | 7,040   | 7,146   |
| Administrative                        | 4      | 1      | 1      | 1      | 1      | 4       | 1      | 1      | 1      | 1      | 4       | 4       | 4       |
| Net External Sales                    | 22,149 | 5,442  | 6,241  | 6,117  | 5,252  | 23,052  | 5,471  | 6,399  | 6,406  | 5,553  | 23,830  | 24,549  | 25,292  |
| Change y-y                            | 11%    | 9%     | 6%     | 1%     | 0%     | 4%      | 1%     | 3%     | 5%     | 6%     | 3%      | 3%      | 3%      |
| EBITDA                                | 3,527  | 875    | 1,275  | 1,261  | 714    | 4,125   | 842    | 1,179  | 1,347  | 964    | 4,332   | 4,566   | 4,808   |
| EBIT                                  |        |        |        |        |        |         |        |        |        |        |         |         |         |
| Paint Stores Group                    | 2,348  | 527    | 849    | 918    | 567    | 2,861   | 556    | 857    | 976    | 686    | 3,075   | 3,252   | 3,436   |
| Consumer Brands Group (incl LatAm)    | 314    | 94     | 110    | 102    | 4      | 309     | 87     | 87     | 106    | 32     | 312     | 324     | 336     |
| Performance Coatings Group            | 735    | 219    | 273    | 280    | 220    | 992     | 210    | 246    | 275    | 256    | 987     | 1,024   | 1,061   |
| Administrative ex Interest            | (451)  | (119)  | (116)  | (193)  | (232)  | (660)   | (168)  | (168)  | (168)  | (168)  | (673)   | (686)   | (700)   |
| EBIT                                  | 2,946  | 721    | 1,117  | 1,106  | 559    | 3,502   | 684    | 1,022  | 1,189  | 806    | 3,701   | 3,913   | 4,132   |
| Operating Margin                      | 13.3%  | 13.2%  | 17.9%  | 18.1%  | 10.6%  | 15.2%   | 12.5%  | 16.0%  | 18.6%  | 14.5%  | 15.5%   | 15.9%   | 16.3%   |
| Interest Expense                      | 381    | 109    | 112    | 102    | 95     | 418     | 106    | 106    | 106    | 106    | 425     | 356     | 356     |
| Pretax Income                         | 2,573  | 615    | 1,012  | 1,009  | 474    | 3,110   | 595    | 933    | 1,100  | 717    | 3,345   | 3,557   | 3,776   |
| Pretax Margin                         | 11.6%  | 11.3%  | 16.2%  | 16.5%  | 9.0%   | 13.5%   | 10.9%  | 14.6%  | 17.2%  | 12.9%  | 14.0%   | 14.5%   | 14.9%   |
| Income Tax Expense                    | 553    | 137    | 218    | 248    | 118    | 721     | 131    | 205    | 242    | 158    | 736     | 747     | 793     |
| Tax Rate                              | 21%    | 22%    | 22%    | 25%    | 25%    | 23%     | 22%    | 22%    | 22%    | 22%    | 22%     | 21%     | 21%     |
| Net Income Before Special Items       | 2,020  | 477    | 794    | 762    | 356    | 2,389   | 464    | 728    | 858    | 559    | 2,609   | 2,810   | 2,983   |
| Special Items                         | 0      | 0      | 0      | 0      | 0      | 0       | 0      | 0      | 0      | 0      | 0       | 0       | 0       |
| Net Income from Continuing Operations | 2,020  | 477    | 794    | 762    | 356    | 2,389   | 464    | 728    | 858    | 559    | 2,609   | 2,810   | 2,983   |
| Diluted EPS Before Special Items      | \$7.73 | \$1.84 | \$3.07 | \$2.95 | \$1.39 | \$9.24  | \$1.81 | \$2.85 | \$3.38 | \$2.21 | \$10.25 | \$11.22 | \$12.11 |
| Change (Before Special Items)         | 11%    | 30%    | 39%    | 12%    | -7%    | 20%     | -1%    | -7%    | 15%    | 59%    | 11%     | 9%      | 8%      |
| Special Items                         | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00    | 0.00   | 0.00   | 0.00   | 0.00   | 0.00    | 0.00    | 0.00    |
| Adjusted Earnings Per Share           | \$8.74 | \$2.04 | \$3.29 | \$3.20 | \$1.81 | \$10.35 | \$2.09 | \$3.13 | \$3.65 | \$2.49 | \$11.35 | \$12.32 | \$13.21 |
| Diluted Shares Outstanding (Mil)      | 261.6  | 259.7  | 258.9  | 258.4  | 256.9  | 258.4   | 256.4  | 255.3  | 254.2  | 253.0  | 254.6   | 250.4   | 246.3   |
| Sales Growth                          |        |        |        |        |        |         |        |        |        |        |         |         |         |
| Paint Stores Group                    | 13%    | 15%    | 10%    | 4%     | 2%     | 7%      | 2%     | 4%     | 6%     | 6%     | 5%      | 4%      | 4%      |
| Consumer Brands Group (incl LatAm)    | 2%     | 2%     | 5%     | -4%    | -7%    | -1%     | -2%    | -2%    | 4%     | 8%     | 2%      | 1%      | 1%      |
| Performance Coatings Group            | 13%    | 3%     | 0%     | -1%    | 0%     | 1%      | -1%    | 1%     | 2%     | 3%     | 1%      | 1%      | 1%      |
| Net External Sales                    | 11%    | 9%     | 6%     | 1%     | 0%     | 4%      | 1%     | 3%     | 5%     | 6%     | 3%      | 3%      | 3%      |
| Gross Margin                          | 42.3%  | 44.5%  | 46.8%  | 49.0%  | 49.6%  | 47.5%   | 45.7%  | 47.1%  | 48.7%  | 48.6%  | 47.6%   | 45.9%   | 46.3%   |
| EBITDA Margin                         | 15.9%  | 16.1%  | 20.4%  | 20.6%  | 13.6%  | 17.9%   | 15.4%  | 18.4%  | 21.0%  | 17.4%  | 18.2%   | 18.6%   | 19.0%   |
| Operating Margin                      |        |        |        |        |        |         |        |        |        |        |         |         |         |
| Paint Stores Group                    | 19.6%  | 18.4%  | 24.3%  | 25.9%  | 19.3%  | 22.3%   | 19.0%  | 23.5%  | 26.0%  | 21.9%  | 22.8%   | 23.1%   | 23.4%   |
| Consumer Brands Group (incl LatAm)    | 9.3%   | 10.7%  | 11.7%  | 11.9%  | 0.5%   | 9.2%    | 10.1%  | 9.3%   | 11.9%  | 4.3%   | 9.1%    | 9.4%    | 9.6%    |
| Performance Coatings Group            | 10.8%  | 12.8%  | 15.2%  | 16.2%  | 13.6%  | 14.5%   | 12.5%  | 13.5%  | 15.6%  | 15.3%  | 14.2%   | 14.5%   | 14.8%   |

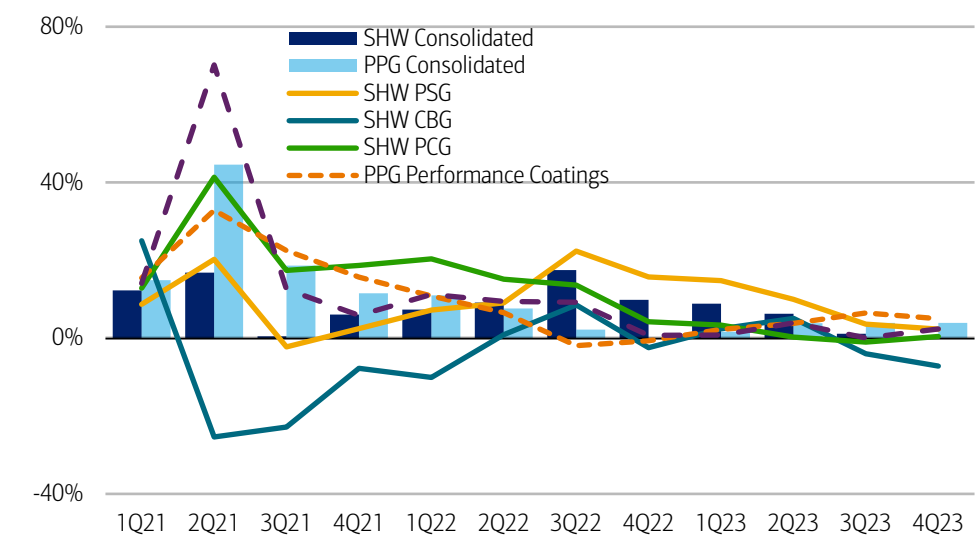
Source: Company financials, BofA Global Research estimates

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Exhibit 4: Quarterly Revenue Y/Y Growth Comparison

SHW saw lower revenue growth than PPG in 4Q



Source: Company financials, BofA Global Research estimates

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Exhibit 5: 2Q23 Subsegment Sales Growth Comparison

In 2 of the 4 comparable subsegment businesses, Sherwin's Sales Growth was higher than PPG's Organic Sales Growth

| 4Q23 Subsegment Comparison | SHW Sales Growth | PPG Organic Sales Growth |
|----------------------------|------------------|--------------------------|
| Protective & Marine        | +HSD             | +MSD                     |
| Refinish                   | +MSD             | +LSD                     |
| Industrial                 | -MSD             | -MSD                     |
| Packaging                  | -DD              | -LSD                     |

Source: Company presentations, BofA Global Research estimates

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## Price objective basis & risk

### Sherwin-Williams Company (SHW)

Our \$286 PO is based on the average of a 3 stage DCF analysis and a 27.0x P/E as applied to our CY2024 EPS estimate. The 3-stage DCF is predicated on a 8.3% WACC and a 3.5% terminal growth rate. The multiple reflects a premium to the current multiple, given the two-year cycle of earnings beats.

Downside risks to our price objective are a slower housing recovery, input cost inflation, and lost market share of paint contractors due to the Home Depot/PPG initiative.

Upside risks to our price objective are a faster housing recovery, input cost deflation, and demand shifts away from the do-it-yourself (DIY) channel where SHW is less exposed.

## Analyst Certification

I, Steve Byrne, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Chemicals Coverage Cluster

| Investment rating   | Company                            | BofA Ticker | Bloomberg symbol | Analyst             |
|---------------------|------------------------------------|-------------|------------------|---------------------|
| <b>BUY</b>          |                                    |             |                  |                     |
|                     | Axalta Coating Systems             | AXTA        | AXTA US          | Steve Byrne, CFA    |
|                     | Bunge Limited                      | BG          | BG US            | Salvator Tiano, CFA |
|                     | CF Industries                      | CF          | CF US            | Steve Byrne, CFA    |
|                     | Dow Inc                            | DOW         | DOW US           | Steve Byrne, CFA    |
|                     | Eastman Chemical Co                | EMN         | EMN US           | Salvator Tiano, CFA |
|                     | Element Solutions Inc.             | ESI         | ESI US           | Steve Byrne, CFA    |
|                     | Green Plains                       | GPPE        | GPPE US          | Salvator Tiano, CFA |
|                     | Huntsman Corp                      | HUN         | HUN US           | Salvator Tiano, CFA |
|                     | Linde                              | LIN         | LIN US           | Steve Byrne, CFA    |
|                     | Linde                              | LINGY       | LIN GY           | Steve Byrne, CFA    |
|                     | Nutrien                            | NTR         | NTR US           | Steve Byrne, CFA    |
|                     | Olin Corp                          | OLN         | OLN US           | Steve Byrne, CFA    |
|                     | PPG Industries Inc.                | PPG         | PPG US           | Steve Byrne, CFA    |
|                     | Sigma Lithium                      | SGML        | SGML US          | Steve Byrne, CFA    |
|                     | The Mosaic Company                 | MOS         | MOS US           | Steve Byrne, CFA    |
| <b>NEUTRAL</b>      |                                    |             |                  |                     |
|                     | Air Products                       | APD         | APD US           | Steve Byrne, CFA    |
|                     | Albemarle                          | ALB         | ALB US           | Steve Byrne, CFA    |
|                     | Archer-Daniels-Midland Company     | ADM         | ADM US           | Salvator Tiano, CFA |
|                     | Corteva                            | CTVA        | CTVA US          | Steve Byrne, CFA    |
|                     | Ecolab Inc                         | ECL         | ECL US           | Steve Byrne, CFA    |
|                     | International Flavors & Fragrances | IFF         | IFF US           | Salvator Tiano, CFA |
|                     | LyondellBasell Industries          | LYB         | LYB US           | Steve Byrne, CFA    |
|                     | Origin Materials                   | ORGN        | ORGN US          | Steve Byrne, CFA    |
| <b>UNDERPERFORM</b> |                                    |             |                  |                     |
|                     | Celanese Corporation               | CE          | CE US            | Salvator Tiano, CFA |
|                     | DuPont                             | DD          | DD US            | Steve Byrne, CFA    |
|                     | FMC Corporation                    | FMC         | FMC US           | Steve Byrne, CFA    |
|                     | RPM International Inc              | RPM         | RPM US           | Steve Byrne, CFA    |
|                     | Sherwin-Williams Company           | SHW         | SHW US           | Steve Byrne, CFA    |
|                     | Westlake Chemical Partners, LP     | WLKP        | WLKP US          | Steve Byrne, CFA    |
|                     | Westlake Corp                      | WLK         | WLK US           | Steve Byrne, CFA    |

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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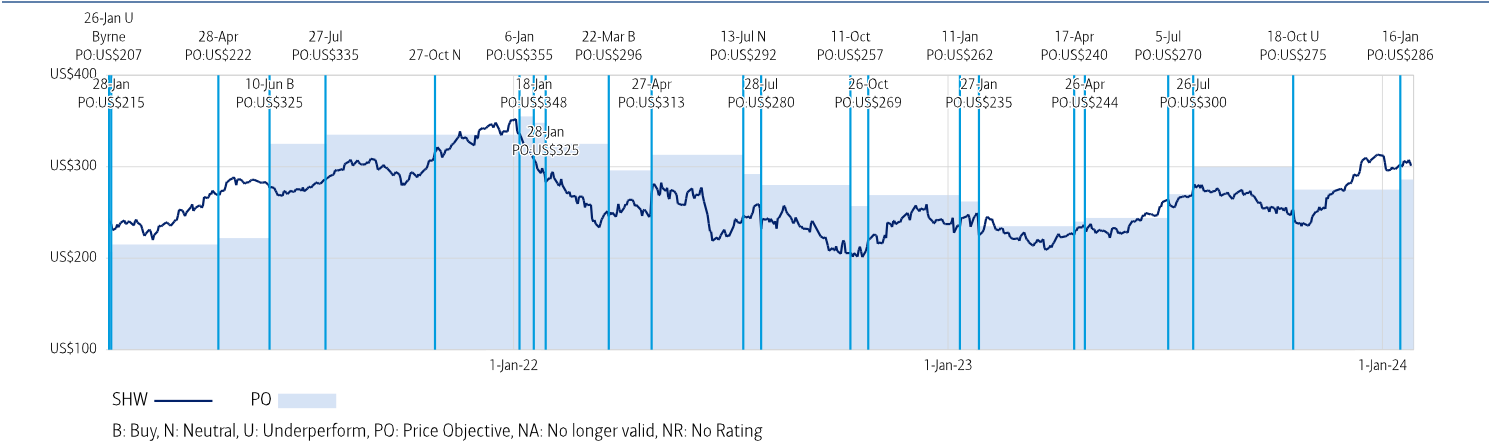
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Sherwin-Williams (SHW) Price Chart



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Equity Investment Rating Distribution: Chemicals Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 66    | 47.83%  | Buy                                      | 33    | 50.00%  |
| Hold              | 33    | 23.91%  | Hold                                     | 16    | 48.48%  |
| Sell              | 39    | 28.26%  | Sell                                     | 20    | 51.28%  |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1895  | 53.62%  | Buy                                      | 1083  | 57.15%  |
| Hold              | 832   | 23.54%  | Hold                                     | 454   | 54.57%  |
| Sell              | 807   | 22.84%  | Sell                                     | 383   | 47.46%  |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

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