The Sherwin-Williams Company (SHW) CEO John Morikis on Q3 2019 Results - Earnings Call Transcript

Oct. 22, 2019 7:00 PM ET | 1 Like
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Q3: 10-22-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $6.65 beats by $0.15 | Revenue of $4.87B (2.88% Y/Y) beats by $35.89M

Earning Call Audio

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The Sherwin-Williams Company (NYSE:SHW) Q3 2019 Earnings Conference Call
October 22, 2019 11:00 AM ET

Company Participants

John Morikis - Chairman & Chief Executive Officer

Al Mistysyn - Chief Financial Officer

Jane Cronin - Senior Vice President, Corporate Controller

Jim Jaye - Senior Vice President, Investor Relations & Communications.

Conference Call Participants

Christopher Parkinson - Credit Suisse

Jeff Zekauskas - JPMorgan

Mike Harrison - Seaport Global Securities

John McNulty - BMO Capital Markets

Vincent Andrews - Morgan Stanley

Steve Byrne - Bank of America Merrill Lynch

Kevin McCarthy - Vertical Research Partners

Arun Viswanathan - RBC Capital Markets

Duffy Fischer - Barclays

Don Carson - Susquehanna Financial

P.J. Juvekar - Citi

Greg Melich - Evercore ISI

David Begleiter - Deutsche Bank

John Roberts - UBS

Garik Shmois - Longbow Research

Justin Speer - Zelman & Associates

Truman Patterson - Wells Fargo

Bob Koort - Goldman Sachs

Dmitry Silversteyn - Buckingham Research Group

Rosemarie Morbelli - G. Research

Christopher Perrella - Bloomberg Intelligence

Ghansham Panjabi - Robert W. Baird

Kevin Hocevar - Northcoast Research

Operator

Good morning. Thank you for joining the Sherwin-Williams Company's Review of the Third Quarter of 2019 and the Outlook for the Fourth Quarter and Full Fiscal Year of 2019. With us on today's call are John Morikis, Chairman and CEO; Al Mistysyn, CFO; Jane Cronin, Senior Vice President, Corporate Controller; and Jim Jaye, Senior Vice President, Investor Relations and Communications.

This conference call is being webcast simultaneously in listen-only mode by Issuer Direct via the Internet at www.sherwin.com. An archived replay of this webcast will be available at Sherwin.com beginning approximately two hours after this conference call concludes and will be available until Friday, November 8, 2019 at 5:00 p.m. Eastern Time.

This conference call will include certain forward-looking statements as defined under U.S. Federal Securities Laws with respect to sales, earnings and other matters. Any forward-looking statement speaks only as of the date on which such statement is made and the company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. A full declaration regarding forward-looking statements is provided in the company's earnings release transmitted earlier this morning. After the company's prepared remarks, we will open the session to questions.

I will now turn the call over to Jim Jaye.

Jim Jaye

Thanks, Jessie, and good morning, everyone. Thank you for joining us on the call today. All comparisons in my remarks are to the third quarter of fiscal 2018, unless otherwise stated. Consolidated sales in the third quarter of 2019 increased $136.2 million, or 2.9% to $4.87 billion. Currency translation rate changes decreased sales by 0.9%.

Consolidated gross profit dollars in the quarter increased $215 million, or 10.7%, to $2.23 billion. Consolidated gross margin in the third quarter increased to 45.7% from 42.5% in the same period last year. Excluding impacts from acquisition-related amortization, adjusted consolidated gross margin in the quarter increased to 45.9% from 42.8%.

Selling, general and administrative expense increased $72.1 million, or 5.7%, to $1.35 billion in the third quarter and increased slightly as a percent of sales to 27.6% from 26.9% in the same quarter last year. Interest expense for the quarter declined $7 million to $85.3 million.

Other expense for the quarter increased $29.3 million to $31 million, primarily a result of debt retirement expense and expense associated with Argentina hyperinflation. Consolidated profit before tax in the third quarter increased $293.9 million to $709.8 million.

Our effective tax rate in the quarter was 18.8%. Excluding acquisition-related costs and the reduction of the California litigation expense, our effective tax rate on adjusted income for the quarter was 19%. Diluted net income per common share for the third quarter 2019 increased to $6.16 per share from $3.72 per share in the prior year third quarter.

Earnings per share in the third quarter of 2019 includes a charge for acquisition-related costs of $0.77 per share and a reduction of the California litigation expense provision of $0.28 per share, a $3.72 per share reported in the third quarter 2018 included charges for acquisition-related costs and the California litigation expense of $0.87 and $1.09 per share respectively.

Excluding these items, adjusted diluted earnings per share increased by 17.1% to $6.65 in the third quarter 2019 from $5.68 last year. We have summarized the third quarter earnings per share comparison in a Regulation G reconciliation table in our press release.

Let me now take a few moments to break down our performance by segment. Sales for The Americas Group in the third quarter increased $232.5 million, or 8.7%, to $2.90 billion. Comparable store sales in the U.S. and Canada increased 8.1% in the quarter.

Regionally in the third quarter, our Eastern Division led all divisions, followed by Southwest, Southeast, Midwest and Canada. Sales were positive in every division in the quarter. Third quarter segment profit increased $85.9 million, or 14.9%, to $663.7 million. Third quarter segment profit margin increased 120 basis points to 22.9% from 21.7% last year.

Turning now to the Consumer Brands Group. Third quarter sales decreased $92.1 million, or 11.9%, to $678.5 million. Sales from continuing operations, excluding the Lowe's load-in and the divested Guardsman business, decreased approximately 6% in the quarter.

Third quarter segment profit increased $31 million to $114.9 million. Acquisition-related amortization decreased segment profit by $22.6 million compared to $26 million in the third quarter 2018. Third quarter segment profit margin increased to 16.9% from 10.9% last year. Excluding the acquisition-related amortization in both quarters, adjusted segment profit margin increased to 20.3% from 14.3% in the third quarter 2018.

For our Performance Coatings Group, third quarter sales decreased $4.3 million or 0.3% to $1.29 billion. Currency translation rate changes reduced third quarter sales by 1.6%. Third quarter segment profit increased $32.6 million to $137.4 million. Acquisition-related amortization decreased segment profit by $54.3 million compared to $55.4 million in the third quarter 2018.

Third quarter Performance Coatings Group segment profit margin increased to 10.7% from 8.1% last year. Excluding the acquisition-related amortization in both quarters, segment profit margin increased to 14.9% compared to 12.4% in the third quarter 2018.

I'll conclude my remarks with a comment on our balance sheet. In the third quarter, we refinanced and extended the maturity of our debt to improve our liquidity position and to lock in favorable interest rates ahead of expected rate increases.

Specifically, we tendered approximately $1 billion of our 2020 senior notes and $500 million of our 2022 senior notes. We financed this transaction with $800 million of 10-year notes at 2.95%, $550 million of 30-year notes at 3.8% and $150 million of commercial paper.

That concludes our review of our operating results for the third quarter. So let me turn the call over to John Morikis, who will make some general comments on the third quarter and provide our outlook for the fourth quarter and full fiscal year 2019. John?

John Morikis

Thank you Jim and good morning everyone. Thanks for joining us. I'd like to make just a few additional comments on our third quarter, before moving on to our outlook. Our team continues to execute at a high level. We delivered another strong quarter as adjusted EPS increased more than 17% to $6.65.

Our results were driven by outstanding performance in our North American paint stores where we grew same-store sales by a high single-digit percentage and generated growth in every customer end market.

On a consolidated basis, adjusted gross margin increased over 300 basis points year-over-year to 45.9%. While, we still have work to do this improvement shows that we are making progress towards offsetting the significant raw material inflation, we experienced over 2017 and 2018.

We remain committed to achieving our long-term full year gross margin target at 45% to 48%. The increase in gross margin in the quarter was driven by strong North American volume growth, operating efficiencies and moderating raw material costs. Adjusted EBITDA margin expanded 150 basis points over the prior year to 18.9%. And for the second consecutive quarter, all three operating segments increased segment profit and margin compared to the prior year.

I'm also pleased with our ongoing integration efforts and we remain on-track to exit the year at a synergy run rate of $415 million. Looking at our topline, consolidated sales increased 2.9% in the quarter in line with our revenue guidance of our low single-digit increase.

Our sales vary by region with North America and Latin America each increasing by mid single digit percentages in the quarter. We continued to see softness in Asia and Australia and to a lesser degree, Europe. Within The Americas Group, sales increased 8.7% against the prior year comparison of 5%.

Sales were positive in all North American customer end markets in the quarter led by residential repaint which was up low double digits. Sales in commercial and DIY were up high-single digits, while protective and marine, new residential and property management were all up mid-single digits.

Looking at total segment profitability, segment profit dollars increased by more than $85 million and segment margin expanded by 120 basis points to 22.9%. We leveraged the strong volume growth to deliver incremental margin of approximately 37%. We ended the quarter with our customers continuing to be very optimistic reporting solid backlogs for the remainder of the year and a strong sense of confidence heading into 2020.

Year-to-date, we've opened 31 net new stores finishing the quarter with 4,727 stores in operation compared with 4,653 last year. Our plan calls for this team to add approximately 80 to 100 new stores for the year. Similar to prior years, we will have a significant ramp up in the fourth quarter.

In the Consumer Brands segment, third quarter sales were down mainly related to the comparison to last year's load-in of the Lowe's program and the impact of the Guardsman divestiture.

Sales decreased slightly more than we expected due to weakness in international markets, most significantly in Asia and Australia. In North America, we remain very encouraged with our relationships, with our largest customers where we are also committed to helping them accelerate sales to the pros who are shopping in the home center channel.

Segment margin, excluding acquisition-related amortization increased year-over-year to 20.3% driven by synergies and moderating raw material costs, along with improving year-over-year supply chain costs.

We continue to feel good about our strategy in this business and our portfolio of Hero brands that serve the North American retail market. Performance Coatings Group sales were down 0.3% in the quarter, as choppy industrial demand led to variability by region and business.

Geographically total segment sales were up in North America and Latin America, but were offset by softness in Asia and Europe where sales decreased by high and low single-digit percentages respectively.

From a business perspective, our packaging and coil businesses remained our strongest performers delivering growth in every region as our customers continue to value our technology and service solutions. Our automotive refinish business delivered modest growth in the quarter led by solid performance in the Americas.

Sales in the general industrial and industrial wood businesses decreased year-over-year, primarily due to softness in Asia and Europe. Despite the sales decline, adjusted segment margin increased 250 basis points to 14.9%, due primarily to moderating raw material costs and good cost control.

Adjusted EBITDA in the quarter was $919 million or 18.9% of sales. Excluding integration cost and the lower California Litigation expense. Adjusted EBITDA year-to-date was $2.4 billion or 17.5% of sales.

Year-to-date, we returned over $892 million to shareholders through cash dividends and share repurchases, an increase of 46% year-over-year. At the end of the quarter, we had approximately $8.9 billion of debt on the balance sheet. We reduced debt by approximately $435 million year-to-date. We intend to retire a total of approximately $600 million this year which will result in a net debt-to-EBITDA ratio below 3:1 by the end of 2019.

During the quarter Moody's raised our rating outlook to positive from stable, noting our strong business profile and meaningful deleveraging since the acquisition of Valspar. We paid $105 million in cash dividends and purchased 250000 shares of common stock for $127 million in the third quarter. At quarter end, our share repurchase authorization stood at 8.8 million shares.

Capital expenditures were $97 million in the quarter, depreciation was $65 million and average amortization was $78 million.

Moving on to our outlook for the fourth quarter 2019, we expect consolidated net sales to increase by a low single-digit percentage compared to the fourth quarter of 2018. Given that our North American professional painting contractor customers continue to report solid backlogs and a positive demand outlook, we expect growth in The Americas Group to be in the mid to high single-digit range.

We expect Consumer Brands Group sales will be flat to up slightly in the fourth quarter. We expect Performance Coatings Group sales to be down low-single digits as industrial demand remains highly variable by region and end market.

Against this backdrop and given our strong performance in the third quarter, we are increasing our adjusted 2019 full year diluted net income per common share guidance to be in the range of $20.90 to $21.30 per share, which excludes Valspar acquisition related costs and non-operating items. This is an increase of approximately 14% at the midpoint, compared to the $18.53 reported last year on a comparable basis.

We've included a Regulation G reconciliation table with this morning's press release to reconcile adjusted and GAAP earnings per share. A few additional data points for the full year may be helpful for modeling purposes.

As planned, we expect raw material costs in the fourth quarter to further moderate from the levels we saw in the third quarter, assuming stable petrochemical feedstocks and no supply disruptions. We expect our 2019 adjusted effective tax rate to be approximately 19%. We expect full year capital expenditures to be approximately $320 million, depreciation to be about $257 million and amortization to be $315 million.

With that, I'd like to thank you for joining us this morning and we'll be happy to take your questions.

Question-and-Answer Session

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Christopher Parkinson with Credit Suisse. Please proceed with your question.

Christopher Parkinson

Great, thank you. Now that you're done with the Valspar integration, so it appears you have long-term opportunities to expand margins across all three segments, but specifically Consumer Brands and Performance Coatings. Can you just give us a quick update on any non-raw material levers you have left to pull to try if margin's higher? Thank you.

John Morikis

Yeah, Chris. First let me just take a bit of exception to your comment about now that we're done with the Valspar acquisition integration. There's still quite a bit of work to be done there and we're working hard to fully integrate, not only the domestic piece here but we've got quite a bit of work to do in the non-domestic and a whole lot of work to do on the sales side. So a lot of opportunity there to leverage going forward.

Al Mistysyn

And Chris this is Al Mistysyn. Just as a reminder, we talked about the synergy progress that we're making and coming out of this year at a $415 million run rate through the P&L $315 million. And that $100 million is going to be by and large facilities and manufacturing and other consolidations as well as formulation adjustment. So there are other levers to pull along with our continued focus on market share opportunities and delivering new technologies innovative solutions and services to our customers to drive growth organically and that's where we think we're going to see the benefits.

Christopher Parkinson

Got it. Then you did hit on this a little on your prepared remarks, but can you just kind of walk us through the rest of the PC sub-segments of packaging, general industrial coil, wood and refinish. Can you just hit on the key highlights that you're looking into over the next 12 months or so and then also give us a quick comment on whether or not you're fully content with your competitive positioning in each of those substrates? Thank you.

John Morikis

Well, we're certainly not satisfied with our competitive position. We want to continue to grow in our competitiveness and we believe that our teams are doing a terrific job in aligning our services and our technology to help our customers meet the solution and deliver the solutions that they need to be successful.

To your first part of your question as we talked about overall, North America and Latin America for the quarter were positive. We expect that momentum to continue. I'd say as I highlighted earlier that the European and Asian markets, we saw some softness there and I would expect that's going to be bumpy going forward here for a little while.

But if I look at it from a business perspective, we're really excited about the momentum in our coil business. As I mentioned that is our strongest growing business right now. It's been a race if you will between our packaging and our coil business. This quarter the coil business was the strongest performer and it was double digits in every region. And we've got some really good momentum there going forward and feel really good about that business.

Our packaging, we talked a lot about our unique technology there. We expect that business continue to grow. That was up single digits and it also was up in every region. So again two terrific teams really hitting on all cylinders and we're really excited about that and expect continued momentum.

We don't talk a lot about our Protective & Marine business. That business was up single digits and mid-single digits and a lot of good momentum there. Another good leadership team and we really gained some ground in some very key focus areas. In the past we talked about our heavier weight in the petrochem and our focus on some of those other adjacent markets. We're getting good penetration there. So we're excited about that.

Our automotive business was up in three of their four divisions. Overall they were up low single digits and we feel as though they grew some share here in North America, so we're pleased with that.

Our GI business was up in the Americas, North America and South America. Again terrific leadership here. We are experiencing some soft softness in Asia and Europe. And when you look at our industrial wood business that's the area of softness that we've had really around the world. The industrial wood business has been soft and we expect that to be bumpy for some time.

Christopher Parkinson

Very helpful. Thank you.

John Morikis

Yeah.

Christopher Parkinson

Thank you.

Operator

Thank you. Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeff Zekauskas

Thanks very much. You spoke about your raw material comparisons improving in the fourth quarter. Is that a year-over-year phenomenon that is -- are raw materials moving sequentially lower from the third to the fourth quarter? Or is that – that has to do with the year-over-year comparison?

Al Mistysyn

Yeah, Jeff. We do expect raws to get sequentially better, not to the magnitude that we saw in our third quarter. As you remember the second and third quarter last year, we really saw a ramp-up in our raw material cost and then it moderated a little bit in the fourth quarter. So we do see a little bit of sequential improvement and we believe the fourth quarter will be lower year-over-year.

John Morikis

I would add to that. As Al said, the broad basket was down slightly year-over-year in the third quarter, but I think you have to look at a little bit by architectural and industrial. So the decrease was really driven more Jeff on the petrochemical side of the basket where certain parts of the basket were down, not all, but certain parts were down year-over-year. And what I'd remind you is certainly we don't buy or sell propylene or ethylene and each of those different feedstocks have their own market dynamics associated with them. But as Al said, we're still expecting the basket to be down modestly year-over-year in the fourth quarter, but the highest level of inflation was in our third quarter of 2018 last year.

Jeff Zekauskas

All right. And then for my follow-up, are there any plans to increase prices in the stores business in the North American paint market in 2019? Or is that not on your agenda?

John Morikis

Well we have work to do Jeff. We're still facing the significant raw material cost inflation we experienced in 2017 and 2018. And with our consolidated gross margin improvement, we are making progress towards our goal of the 45% to 48% as I mentioned earlier. But as to the specifics of your question, we're still reviewing our options and our pricing strategy at this time. And I'd say that we do that on a regular basis with great frequency. We're sitting down talking about where we are and where we need to be. And I'd say that has been our past practice, we'll first communicate that to our customers and then to the financial community.

Al Mistysyn

And Jeff, I would just add. Since we have not announced any price increases at this point, when John talked about TAG being up mid- to high single-digits that implies it's a vast majority of the volume.

Jeff Zekauskas

Great. Thank you so much.

Al Mistysyn

Yeah.

Operator

Thank you. Our next question comes from the line of Mike Harrison with Seaport Global Securities. Please proceed with your question.

Mike Harrison

Hi, good morning.

John Morikis

Good morning, Mike.

Mike Harrison

The same-store sales number in Q3, can you just talk about whether part of what we saw there was some pent-up demand after dealing with some poor weather during Q2? And I think even maybe into July? Can you just talk about whether that was unusually strong in your opinion that 8% number?

John Morikis

Well Mike I would say there are a few issues here. Certainly, I'd say coming out of the quarter, we did speak to the fact that we felt our customers were going to be in a sprint to catch up on some of the work that was out there and that they were really working hard to capture. But I'd also say that our customers continue to be very bullish about their pipeline both in the fourth quarter and into 2020. We're growing share. We feel good about the execution of this team on their efforts.

We've got a lot of plans that they're implementing and growing share of wallet and new account activity that we've been talking about for some time. And I want to thank this team, because they're executing at a very high level. You have to go back I think it was the third quarter of 2014 to find this level of performance. But I'd say that when we look at this team's drive and execution combined with the outlook that our customers are giving us we're feeling pretty good and we're pretty feeling really good about the share that we're gaining right now.

Mike Harrison

All right. And then I wanted to ask about the independent dealer channel as well. It sounds like your competitors are working to kind of integrate their store network with some of the dealer network. Is that something that Sherwin does as well? And can you maybe just talk about what you saw this quarter in your sales through independent dealers?

John Morikis

I'd say overall the independent dealer market has not been a very strong portion of the market. We do not integrate our independent dealers with our stores. We operate those as separate businesses. And our goal as we work with our independent dealer customers is clearly to help them in their approach to growing their business. And through our stores obviously we have a direct relationship with those end users as well. Typically, those might be customers with some different expectations. Some of those customers that are going into a dealer might have different expectations than those that are coming into our stores, but our store people are out building those relationships driving them into our stores with regularity.

Mike Harrison

Thanks very much.

Al Mistysyn

Thank you, Mike.

John Morikis

Thank you.

Operator

Thank you. The next question is from the line of John McNulty with BMO Capital Markets. Please proceed with your question.

John McNulty

Yeah. Thanks for taking my question.

John Morikis

Good morning, John.

John McNulty

Good morning. With regard to the contracts that you have, can you give us some color as to how much visibility they have into their backlog as they look out? I know it's going to vary a little bit from residential to non-resi, but can you give us a little bit color on that? And how much you see in terms of that mid single-digit type growth that you're seeing in the fourth quarter, how we should be thinking about that rolling into 2020?

John Morikis

Well you hit on a number of really good points. First is that the residential repaint contractor's vision versus the nonresidential or commercial will be on the opposite ends of the spectrum. So commercial contractor might be bidding the projects that's not even out of the ground yet where a residential contractor might be bidding something that could be painted in the next couple of weeks. We're blessed. So we have a number of stores and a number of territory -- reps that are out there working with those customers and we try to capture and understand as much as we can about what's happening in the market through those contacts. So a better line of sight and quicker on the residential a little more distant on the commercial side.

John McNulty

Great. Thanks for the color. And then maybe just one follow-up. On the SG&A as a percent of sales ticked up I guess marginally. I guess what was driving that? Was that the -- just the rapid pace of what you saw in the same-store sales side and trying to keep up with it? Or was there something else we should be thinking about?

Al Mistysyn

No, John, I think you hit it right on the head. It's keeping up with the increased sales, but also we have 75 additional stores year-over-year commensurate number of reps. So we continue to invest in our growth opportunities specifically in North America stores. Regardless of -- we saw a little softness in consumer because of the year-over-year dynamics there and we saw a little bit of softness in industrial. You can be rest assured we'll continue to invest in these growth opportunities specifically on North America stores.

John McNulty

Great. Thanks very much for the color.

Al Mistysyn

Thank you.

Operator

Thank you. The next question is from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

Vincent Andrews

Thanks very much and good morning everyone. This is the second quarter in a row where you really had what appears to be just outside same-store sales performance versus the data that's out there and the other comments that are out there. And I know we talked about this a bit last quarter, but I want to ask a question, a little bit differently this time around and just understand, was there anything you're doing as you're prospecting new business, whether it's a greater part of the wallet – existing wallet or a part of the wallet that you don't have?

Is there anything you're doing with data or other technology that's sort of allowing you to find more leads? And we've also in the past talked about how when you open new stores, sometimes other stores close. Has there been an acceleration in that trend? I'm really just trying to understand sort of what's driving this big sort of what appears to be a step change in share gain and how sustainable you think it is looking into next year?

John Morikis

Yes. So Vincent, the answer is yes. We're trying to use as many tools and improve the tools and as many new tools as valuable and improve the tools that we have currently or consistently used in the past. And I would say that a big part of that also comes down to the execution. We're always trying to – we're hiring 1400 college students a year. We're bringing them in. We're spending more time training them in the different aspects of the business that will help them and I think we're getting better at that.

And I think when you're wondering what's happening and I think it's using the tools. It's really good programs. It's really good products and it's a lot of determination. We don't unlock our doors and wait for something to happen. I mean we're out there aggressively trying to grow this business and build relationships.

And to your point, we talked about it last quarter. We hope we talk about it again next quarter because our focus is on making that happen. If you look at our residential repaint business this is – we've had five years of compounded growth, double-digit growth in this business and we expect that there's a lot of momentum there to continue as well as in these other segments in the commercial and property management as well. But we're not waiting for it to happen. We're very deliberate in what we're trying to execute.

Vincent Andrews

Thanks. And as a follow-up, Al if I could ask you about the fourth quarter guidance. I mean by our estimate you aid about $0.31 of what I'd call non-recurring cost, hopefully the FX hit and the debt extinguishment and if you take those out, you really had phenomenal leverage, all the way through the income statement. So it just seemed to me that maybe the fourth quarter looks a little conservative. Is that a fair statement or not?

Al Mistysyn

Vince we try to be as realistic as we can when we put our guidance together. I look at FX as just part of our ongoing business. It's hard to say, hey we're going to back out if I take a hit in one country or another. We choose to be there. We choose to operate our businesses there because we think there's opportunity.

We also did have the benefit in the quarter on supply chain improvements in our Consumer Brands Group that helped the operating margin growth. As you recall last year we talked about the load-in to the new customer program that caused us some challenges in that quarter. So that benefit won't be there and going forward.

But if you look at our fourth quarter, at the midpoint, our full year guidance is to be up almost 14% like John talked about. That tells you we got to be up almost 21% in the fourth quarter on top of a 12% increase a year ago. So I think those are pretty strong results for our fourth quarter and we feel very good about that.

Vincent Andrews

I appreciate the color. Thanks.

Al Mistysyn

Thank you.

Operator

Thank you. The next question is from Steve Byrne with Bank of America Merrill Lynch. Please proceed with your question.

Steve Byrne

Yes. I'd like to just continue with Vincent's question about your aggressiveness going after new projects that seemed to be driving your market share gains. Just one question for you with respect to your dedicated sales force. What fraction of their compensation is variable? And has that changed?

John Morikis

It's not changed and I want to say it's about 60-40, 60 fixed, 40 variable, Steve. It might vary just slightly but it's just about 60-40.

Steve Byrne

And John you mentioned this $85 million year-over-year profit gain in The Americas Group. If we take this split in same-store sales between volume and price and you mentioned 37% incremental operating margin on that volume you had lower raws. There was something that was a drag. Was it Lat Am? And can you quantify that?

John Morikis

Well our Lat Am business was up low single-digits in sales. We did have a profit improvement in the quarter. I'm trying to frame it in a way that you've asked the question there Steve.

Al Mistysyn

Yes. Steve I'd say you look at the flow-through and as Jim was alluding to we're not seeing as much of a benefit on the raw material moderation in our architectural side of the business. So the stores, when you get up into the mid-30s on flow-through, we feel very good about that.

So we continue to add the stores that I talked about and we had 75 additional year-over-year and we continue to have commensurate number of reps. So I think we feel good about that flow-through incremental operating margin. And if the stores could do that all the time we'd be happy with that.

Steve Byrne

Very good. Thank you.

Al Mistysyn

Thanks, Steve.

Operator

Thank you. Our next question comes from Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin McCarthy

Yes. Good morning. With regard to your same-store sales growth of 8.1%, how would you characterize the relative contributions from volume versus price in the quarter?

Jane Cronin

Yes. I would say that the price was an impact of about 2.5% and then the reminder would be volume.

Kevin McCarthy

Excellent. And then I wanted to ask about your non-raw material costs. What we sometimes hear from other companies is that yes, raw material costs are ebbing but companies are experiencing inflation in other categories like labor, freight, warehousing et cetera. Is that the case at Sherwin? And if so, how does that enter into your thinking about potential optionality for seeking additional price in the future?

Al Mistysyn

Yes. Kevin, clearly we're seeing wage inflation. And if you look at it year-over-year it has ticked up a little bit as unemployment has continued to decline. And we have seen freight increases and distribution increases. When we look at – as well as health care. And when we look at our cost, we look at it as a total cost basket and try to determine where that's headed, what the impacts are. We obviously try to push back on that and get efficiencies to offset it. But absent getting those offset, we have to go to the market with price.

Kevin McCarthy

Thank you.

Al Mistysyn

Thank you, Kevin.

Operator

Thank you. Our next question comes from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your question.

Arun Viswanathan

Great. Thanks. Good morning.

Al Mistysyn

Good morning Arun.

Arun Viswanathan

Just beating a dead horse here just going back to the same-store sales number. Presumably you did that with new construction also relatively weak. So, just trying to understand the step change from say Q2 which is maybe 2% or so volume going up to 6% now. Would you attribute all of that to share gains? Or was it certain regions that were weak in the prior quarter doing a little bit better?

And then what are your thoughts on the new side going from here? It seems like there's been some improvement in affordability. Does that give you a little bit more optimism for that market actually returning into your business in 2020? Thanks.

John Morikis

Yes. Arun so we -- let me just start with the last piece that you just spoke about as far as the new residential. We do enjoy a wonderful position with the largest percentage of the larger homebuilders in the country. And we work really hard every day trying to help those important customers deliver on time and homes that their homeowners really enjoy and that includes the services and products that help them to deliver.

And so as that business picks up, you're right, we will be working hard to grow those relationships. I believe it's either 17 or 18 of the top 20 national homebuilders we have an exclusive relationship with and we're working really hard on the regional and the smaller homebuilders to leverage those existing services and products that are within our company already.

As it relates back to the growth that we've had in the core stores and the momentum that we have there, a good portion of it is share gain. You're right. Our teams are as I mentioned, again, I don't want to sound like a broken record here, but this is a team that's executing very well on the programs that they have and the services that they provide. And we don't know what's going to happen going forward with weather or labor, but we can tell you that we're working really hard to position our company favorably with these customers.

We had that leadership team in about two weeks ago walking through segment-by-segment and across the country. There's a lot of optimism about not only where we are, but where we're going. So, we're feeling really good about this but there's no complacency here. There's a lot of work to be done, a lot of customers out there that we're working on and focused on to continue to grow. And that's what we're going to be doing this afternoon and moving forward.

Arun Viswanathan

And I just wanted to get your thoughts on the priorities for your cash flow going forward. You've talked about buybacks in the past. I guess if we're to go back 10 years, bolt-on M&A wasn't a huge part of your strategy, maybe it was in the stores business, but not so much in Coatings. So, maybe you can just reiterate what you're looking at as far as opportunities to deploy that cash flow and maybe rank order your preferences between buybacks debt reduction and M&A. Thanks.

John Morikis

Yes. Let me start with M&A and then I'll toss it to Al to talk about the remaining capital deployment opportunities. But I would say this Arun, we're really pleased with the progress that we're making. We're actively involved in a number of projects. We do feel we're blessed that we're not desperate for growth. We don't feel as though we have to have acquisitions for growth.

Although we have a number of opportunities that we're pursuing we have a number of organic growth opportunities as well. And so we look across all of the businesses and we're identifying those areas if it's geographic or from a technology standpoint that will allow us to further create shareholder value.

And those are the discussions that we're pursuing and still quite frankly have quite a pipeline to get to. So, we're working it. We feel good about the progress we're making on a couple of really good projects, but there's more for cash deployment and I'll let Al just touch on that.

Al Mistysyn

Yes Arun. We are generating a lot of cash through the nine months of over $1.7 billion almost with 12.1% of sales and we manage our CapEx below 2% as you know and we've gotten back to our historical capital allocation policy. We've raised the dividend over 31%. And with the dividends and share buybacks, we've returned over $893 million to our shareholders, a 46% increase and we're going to be very consistent on that going forward. So, as you know we're not going to hold cash. And absent a more robust M&A pipeline, we're going to buy back our stock.

Arun Viswanathan

Thanks.

Al Mistysyn

Thank you, Arun.

Operator

Thank you. The next question comes from Duffy Fischer with Barclays. Please proceed with your question.

Duffy Fischer

Yes, good morning.

John Morikis

Good morning Duffy.

Duffy Fischer

A question just around kind of the new strategy in the home center for you. This is your first full year going through the paint season, going through that fewer -- or more people salespeople in the stores. When you look back this year, how would you grade yourself with the new project? And again should we expect a bigger step forward next year again?

John Morikis

Yes. I'd say Duffy that we're pleased, but not anywhere near satisfied. Next year we'll be better than we were this year. There's a lot of elements to this program that rolled out this year for the first time in our largest customer and we're determined to get better there and there's a lot of opportunity on both the do-it-yourself side.

And as I mentioned earlier there's a professional side here that enjoys the home center experience that's purchasing a number of products that are available for the home center channel that we want to help our customers in that home center space to be better in pursuing. And so this first year as the program rolled out we were learning and improving, but we're not happy with where we are. We want to continue to grow.

Now, we've spoken that overall for the entire business on a global basis, we expect this to be low single-digit growth business, so there's going to be some work ahead. We also know that there will be some bumps and some choppiness if you will and it's not as smooth as some of our other businesses. But I don't want at all to give the impression that we're satisfied or complacent here. I mean there's a lot of learning that we've done and we're going to try to learn and apply and be better at this going forward.

Duffy Fischer

Okay. And then one for Al. Al on the California settlement, what's the size of the cash outflow and what's the timing of that relative to the book numbers you gave us in the release?

Al Mistysyn

Yes. Duffy the Santa Clara California case was resolved for $305 million with each co-dependent paying $101.7 million over six years. We made the initial payment of about $25 million on September 23rd of this year. We'll make annual payments of approximately $12 million on or about September 23rd next year and all the way through 2024. And then we'll make a final payment of approximately $16.7 million in September of 2025.

Duffy Fischer

Great. Thanks guys.

Al Mistysyn

Thank you, Duffy.

Operator

Thank you. The next question is from Don Carson with Susquehanna Financial. Please proceed with your question.

Don Carson

Well, thank you. Question on consumer, your revenues were down 12% year-over-year. You said half of that was due to Lowe's load-in and Guardsman in the year ago number. What was driving the other half was that all international softness? And can you comment on, how you see that unfolding as you get into fourth quarter? You talked about being down slightly in that business in the fourth quarter is that all going to be international or is there still a tough comp against Lowe's and Guardsman?

John Morikis

Yeah, Don. I'd say the sales miss you're right by a point or two from our forecast. And the miss is as you mentioned largely attributed to our international business. There is some work here to be done. We are certainly focused on this largest piece of our business here in North America. We do think longer term there are some opportunities as we reposition our brand in China to be a better competitor there. We do have a very small business small – in a smaller market in Australia that we didn't perform very well, and there's no hiding about that. But overall, if you look at the international business it was a drag and we have a goal of driving those better and we think we can.

Jim Jaye

And Don I would just add to that your last statement. Guardsman is behind us. It was divested in September of last year and we are not going to be going up against any significant load-in the fourth quarter.

Don Carson

Okay. And then Al a follow-up on plant consolidation, I know you had kept a couple of U.S. plants going for longer than originally planned in order to service the new Lowe's business, what's the status of those plants? Have they been closed yet or what is the current plan?

Al Mistysyn

Yeah. We're continuing to put in capacity – expand capacity in other sites to make sure we're going to service first our stores' strong, strong volume growth that we see had in the third quarter and the outlook plus the Lowe's volume growth that we've seen. So, we haven't made those calls yet, but as you know our normal practice we will tell our employees first and then we'll talk about it going forward.

Don Carson

Thank you.

John Morikis

Thank you Don.

Operator

Thank you. Our next question is from P.J. Juvekar with Citi. Please proceed with your question.

P.J. Juvekar

Yeah. Hi, good morning.

John Morikis

Good morning PJ.

P.J. Juvekar

John can you talk about the DIY paint growth versus contractor applied paint growth? The reason I'm asking is we are getting different signals from you and your competitor. I think your competitors saw decline in same-store sales growth in their own stores. So, what is the split between the two? Is it 60-40 contractor DIY? And how faster this market is growing?

John Morikis

Our business through our stores is about 85% professional painting contractor or property management and that's the piece that is obviously growing the fastest. We did have some growth in our DIY business. The DIY business relatively small piece and it's really focused on the specialty high-end consumer that's looking for a specialty store experience. So, we clearly are really focused on the professional side.

P.J. Juvekar

What is the overall industry in terms of DIY and contractor? Not just your own stores but overall industry.

John Morikis

The DIY piece would be the largest piece overall.

Jim Jaye

Yeah. If you look at the overall industry DIY is about 38% of the gallons. So it's a bigger slice in the industry obviously than it is in our stores.

P.J. Juvekar

All right.

John Morikis

But well – yeah 38 overall the segment larger than any one particular professional segment.

P.J. Juvekar

Right.

Al Mistysyn

P.J. what I would add to that though is we still can see – continue to see the trend from Do It Yourself to Do It For Me as the population ages. That leads into the resi paint that we talked about being high-single digits in the quarter. We grew high-single digits compounded for the previous five years. So, as the demographic trends continue, and we are probably skewed more heavily to new construction as John mentioned earlier than the overall market. We will continue to grow faster in the market with those trends.

P.J. Juvekar

Okay. A quick question for Al. Al, your goal was to get the leverage below three times by end of this year? Now once you get there, would you be willing to look at a bigger acquisition? And is Europe still an attractive market for you given that the recent slowdown in the European overall economies?

Al Mistysyn

Yeah, I think P.J. you're right. We are going to be below three to one by the end of this year. Our target is two times to two and half. And as John talked about with – earlier about M&A, we're going to be very disciplined about our approach to M&A that – we look at it for the long term not. I understand Europe is a little bit slower. Asia is probably slower than what we had expected, specifically on the industrial side. But we look at the long-term. So, if the right opportunity were to present itself at the right price. We absolutely would go after it.

P.J. Juvekar

Thank you.

John Morikis

Thank you, P.J.

Operator

Thank you. Our next question comes from the line of Greg Melich with Evercore ISI. Please proceed with your question.

Greg Melich

Hi. Thanks. I'd love to follow-up on the Performance Coatings group. I think John you mentioned a few times still chasing some of the cost increases from a few years ago. Could you put that in context of where we are now? I guess, if you back out FX Performance Coatings was up 1.3%. Was that all price and what do we think we can still get there and now that raw materials appear to be moderating?

John Morikis

Yeah. Greg, a good portion of that was price volume was down. We talked about softness in certain markets and in certain regions of the globe. I would say, we're not done we are – our year-to-date operating margin is 14% just over 14%. We've talked about targeting a high-teens to low 20s, and you look at the significant ramp-up in raw materials that we saw in 2017 and 2018. We talked about Valspar specifically on industrial not being -- not getting a price early in 2017.

So we're still chasing that. So as -- I'm happy with the progress we're making. The team has done a great job at cost control and the synergies that I talked about that are to come but we got more work to do.

Jim Jaye

Yeah. I'd add to that Greg that as we've been going through this process, we've made a conscious decision of trying to work with our customers. While the raws increased rapidly, we try to work with our customers, and allowing them to work through the pricing to their customers ultimately.

And we accepted some compression there as the new owners of the business that hadn't had a price increases in the market that it really needed and had quite frankly demonstrated over the last few decades because of the cost -- the overall cost -- the relative cost of raw materials and overall cost of goods. You need to get the pricing through when it rises.

Here we made a decision that we work with our customers that's to Al's point, we're working with them in a way to pass those through because we need to recover that as well.

Greg Melich

Got it. And just to make sure in this quarter the 1.3% sales growth ex-FX that was volume not price? Or it was price not volume?

Al Mistysyn

It would be more price than volume.

Greg Melich

It would be more price. And there's one thing and John I just wanted to -- you had an announcement through the quarter about looking at a new R&D facility and headquarters. I know, it'll take a few years. Could you just take us through the thought process of why now and what you're really looking at when you think about that?

John Morikis

Sure. Well as you mentioned, we're going through a pretty robust process and its -- to find a solution to meet our needs. And Greg, I know you've been here and many on the call have been to our building here to know that we operate in a building that's nearly 100 years old.

And as we look at our ability to recruit and retain the highest caliber people in an productive and efficient environment -- the technology and innovation that we need to drive to continue to drive results that we know we can continue to drive on top of factoring in the maintenance costs and just overall issues that we faced in this building.

We feel it's necessary to move towards the solution. We're in the midst of that process. We hope to make an announcement on the location by year end or early 2020.

But realistically, Greg I would say that, this is not something that we prefer to do quite frankly. It's not something that we think is any type of -- we deserve a reward or this is our of necessity to be able to hire and retain the best people in this industry. And we owe it to our employees quite frankly to put them in a better environment that they're working in right now. And we look at the retention of these terrific people we need to make this move.

Greg Melich

Got it. And is having -- is bringing facilities together given you still have in Minneapolis and in Cleveland different areas, is important to get those people together or did actually make sense to have sort of two towers of power?

John Morikis

I'd say that, we're really looking at this to your point of where does it make sense? I don't -- I'm not a believer. I mean you can talk about the people in Minneapolis and then you could say, well, what about the people in Shanghai or in the U.K or – so where we believe that there are opportunities in synergies, we'll bring those together.

But we're not at all -- we don't believe that every technical team needs to be here in Cleveland. That said, we like the idea of possible of getting our marketing people and our R&D people closer together and more consistency where there are synergies and efficiencies amongst the R&D teams. And that's what we're working towards.

Greg Melich

That’s great. Good luck guys.

John Morikis

Thank you.

Operator

Thank you. The next question is from David Begleiter with Deutsche Bank. Please proceed with your question.

David Begleiter

Thank you. John you mentioned strength this quarter in coil and refinish maybe gaining some share. What's driving that share gain? And is there more going forward in both those frontlines?

John Morikis

Yes. I think what's nice about -- the growth is coming is in every region -- double digits in every region. So there's a lot of growth in a number of different segments and quite frankly, there's still some drag -- some pressure that we're feeling in the ag business, where it's been more influenced by some of the dynamics -- impacted by tariffs, the sales of the farming -- the products that are on farms or the equipment that they're storing all -- some of those delays are impacting coil. So we see upside there.

But overall I'd say that, this is a team that's really executing very well in bringing the products and technologies to customers in a very efficient way. And we've long talked about the efficiencies to be gained by the combined Sherwin and Valspar teams coming together and the assets and technologies and we're just starting to see some of that.

So we think there's a lot of really good opportunities ahead for this business, despite where it's performing right now.

David Begleiter

Very good. And Al just on the debt refi what's the benefit to the interest expense going forward?

Al Mistysyn

Yes. Obviously with the low interest rates that we refinanced the 2.25 and 2.75, 2022 we did the – you recall in the second quarter we did the $400 million U.S. euro currency swap. So net-net, it's going to be pretty neutral going forward, maybe down a little bit depending on what we do next year.

David Begleiter

Thank you.

John Morikis

Thank you, David.

Operator

Thank you. The next question is from John Roberts with UBS. Please proceed with your question.

John Roberts

Thank you. Good afternoon.

John Morikis

Good afternoon John.

John Roberts

Back on that -- the project. Will that be cost neutral to your operating cost the new headquarters and the new R&D facility?

John Morikis

Yes, John. We're still crunching those numbers and it's hard to fully get a feel for that until you determine location, design and things like that. But we're in multiple buildings around Cleveland, Ohio all pretty old. My expectation is we're going to see some benefits of ongoing operating cost.

John Roberts

Okay. And then on the next earnings call you're going to give 2020 guidance. Will that still continue to be on an adjusted EPS basis excluding amortization?

Al Mistysyn

Yeah. We're going to certainly call out amortization. We'll see how -- what we do with integration, but we're working through the plan John, and how best to communicate. But the goal here is to make sure our shareholders had a clean line of sight for our ongoing operating results.

John Roberts

Thank you.

John Morikis

Thank you, John.

Operator

Thank you. The next question is from the line of Garik Shmois with Longbow Research. Please proceed with your question.

Garik Shmois

Thanks. I was wondering if you can comment on inventories in Performance Coatings? If you saw some of the volume decline related to additional drawdowns?

John Morikis

In Performance Coatings, I'd say there's probably not too much of that. I'd say what we might see is maybe a few more orders of lesser size, so greater frequency of smaller orders. But I don't know if we point to a significant reduction in inventory as having much impact on our number.

Garik Shmois

And my follow-up is just switching to The Americas Group. I was wondering if you can break out interior versus exterior same-store sales.

John Morikis

Exterior was up double digits and that would include paint stains and primers. Interior sales were up high-single digits.

Garik Shmois

Great. Thanks a lot

Operator

Thank you. Our next question comes from Justin Speer with Zelman & Associates. Please proceed with your question.

Justin Speer

Good morning. Thank you or good afternoon. Just in regards to the Performance Coatings business, the ambitions that you're driving towards, I guess just the primary reason for being behind trends was the pricing cost. But now that looks to be on a little bit better footing. But then you have that counterbalance against underlying emerging market or international markets a little slower or weaker than maybe you're expecting maybe a year or plus ago. But I guess my question is what are the incremental steps you need to take to drive towards that optimized scale in this business? And when do you think you'd get there?

John Morikis

Yeah, Justin. The comment about slowing in some of the regions we're in and macroeconomic discussions that I've had. We still have great market share opportunities across each of these businesses and each of these regions and you see that in coil and packaging as example where the teams have done a great job tying together technology and services to provide those solutions to those specific customers in those regions and they're making progress there. There's no shortage of other opportunities across each of the other businesses.

And then specifically on the synergies, the $415 million run rate versus the $315 million we'll have to the P&L acquisition to date that will be by and large on Performance Coatings. And just -- and by design, the industrial integration was coming after the architectural integration and we're on path. We have a plan and rest assured as we implement those synergies we'll see those through the P&L.

That being said, coming out of this year we talked about this. We're not going to be talking about synergies any longer. This is just going to be part of our normal culture of continuous improvement.

Justin Speer

So that makes sense. One of the follow-up questions I actually had on that subject on the synergies. I just want to make sure I understand the mechanics of this $315 million in the P&L, are you saying that you've already done the work to drive that incremental $100 million of synergy such as that's going to be realized in 2020? Or is that something that carries into beyond 2020? $100 million?

Al Mistysyn

Yeah. If you recall at our Investor Day, we talked about that $100 million being spread out over the next few years. I would say the $100 million has projects in the pipeline to support it, but we got to get to execution and really dial in to what we think we're going to say. So there might be a little bit of variability in there. But we definitely have the projects identified. Now it's all about execution.

Justin Speer

Perfect. And the last question is more near-term focus, because we're thinking about the implied margins for fourth quarter given that right now it's tough for us to draw a really good bid on typical seasonality as it pertains to -- particularly Consumer Brands or Performance Coatings. But just maybe some indications of where the margin destination is going mapping towards your fourth quarter implied guidance.

Al Mistysyn

Yes. As you would expect with our stores, our North America paint stores in TAG in particular being up mid to high single-digits at higher gross margin that's going to help. But you definitely see a seasonal tick down. So, I would expect our sequential gross margin to be lower. But certainly -- and this is a little bar, but certainly, high by year-over-year.

Justin Speer

Yes, I guess in terms of that Consumer Brands in particular. Although last year you saw sequential degradation that was almost what 800 basis points? Is that the typical sequential degradation you should think about in Consumer Brands?

Al Mistysyn

You're going to see a little -- think about because we have the load-in in the third quarter and then didn't have any in the fourth quarter. It would be less -- it should be less than that this year.

Justin Speer

Perfect. Thank you very much guys.

Al Mistysyn

Thank you, Justin.

Operator

Thank you. Our next question comes from Truman Patterson with Wells Fargo. Please proceed with your question.

Truman Patterson

Hi, good afternoon guys. Nice quarter. Yes. Hoping we can touch on the raw material outlook a little bit more just break out between your resins and titanium dioxide. It looks like propylene is down pretty significantly here. You're starting to see that flow through to your resins. How should we think about that going forward over the next few quarters?

And then on the titanium dioxide part, it seems like there's some moving parts there you have. Your old U.S. business seems fairly robust, but some of your competitors don't seem quite as healthy while at the same time we have some slowing international markets Europe in particular.

Al Mistysyn

Sure Truman. Yes, I'll parse that out maybe in a couple of different pieces, maybe I'll start with the TiO2 piece. I mean what we're seeing the industry pricing for high-grade chloride TiO2 has been pretty stable over the past year and we're not seeing anything necessarily overly favorable or unfavorable that's going to change that in the fourth quarter.

I think it's one of the earlier questions that we will talk about our view on TiO2 for next year when we give our outlook in 2020. I think on the petrochemical side of the basket, that's where we're seeing some of the benefit right now in certain parts of the basket.

Again we don't sell propylene or ethylene directly. Those are key parts of what we make and there's other market dynamics there as well but I think that if things were to stay flat where they are right now heading into 2020, we did say that the first quarter of 2019 was the highest inflation that we had this year. So, the things will stay flat from here. It's probably reasonable to think that 2020 could -- we could see some tailwind there. But beyond that, pretty hard to tell what's going to happen.

Truman Patterson

Okay. Okay. Thanks for that. And I just want to dig in to your gross margin a little bit more. Nice performance up over 300 bps or so. Is there any way you all could just rank order the buckets -- the major buckets of what's really driving this pricing, raw material, volume, leverage, synergies, et cetera? And then piggybacking off of the prior question. Going forward is there anything near term why we wouldn't expect this to reoccur over the next quarter or two quarters?

Al Mistysyn

Yes, Truman. I will start with volume and especially when it's our North America Paint Stores volume. That's always going to be the best leverage we have. It is our highest margin business and it grows fast than company and such a -- it's our growth engine. It's such a big portion of our business that drives our margin.

We did have the year-over-year comparison with the run-up in raw materials that we saw in the second and third quarters of last year. So, probably a little easier comp than what you'll see going forward. We did have synergies in the quarter and we did have the benefit of the year-over-year supply chain improvement.

So, with moderating raw material cost as we talked about the teams have done a nice job with pricing discipline. But again there's more to go there. We have been chasing that significant increase in raw materials the past three years now. And year-to-date our operating -- our gross margin adjusted is 44.7% proper. So, we feel good about the progress we're making, but we got a ways to go to get to the long-term target or 45% to 48%.

Truman Patterson

Okay. Thanks guys.

Al Mistysyn

Thanks Truman.

Operator

Thank you. Our next question comes from Bob Koort with Goldman Sachs. Please proceed with your question.

Bob Koort

Thanks guys. Appreciate your patience. Two quick ones if I could about North American architectural. First I'm wondering if you've seen the interest rate reductions. We've seen some of your customers in the housing new residential housing market certainly seeing their stock prices catapult higher. Are you starting to see some visibility there from order trends that gives you some confidence there's going to be some improvement in that market?

John Morikis

Yes. What I would say, our third quarter, we felt good about the third quarter. It was up mid-single digits in our new res space. If you look at some of the reports that are out there, Bob, homebuilder confidence is at the highest level in about two years right now and mortgage rates are certainly helping drive that, the solid job growth. There's lower new home inventory out there.

If you look, kind of, at the second half of 2019, it's been pretty steady gains in the single-family construction. It's regularly that we always talk about, though that’s on the other side. The higher cost for land, labor, materials and the regulatory piece too. So those are some of the headwinds.

But I'd say, overall, what our customers are telling us, we feel pretty good about. The most recent data talks about is a little bit mixed, single-family permits and starts were positive sequentially and year-to-year. Multifamily was a little bit more mixed. So, overall, though I think we feel pretty good about what our new res is heading right now.

Bob Koort

And as you maybe staying in that vein and looking at some of these indicators. I noticed the Harvard LIRA numbers look awfully darn ominous for next year and certainly contradicted by your results in the stores group. Do you have any sense of what might be driving that or any news on the correlation of sort of their perspective forecast versus your business, to give us some comfort that maybe it's not as dire as they're suggesting?

Al Mistysyn

Yes. I would say, there's a number of things we look at there, Bob. So LIRA, the leading indicator of remodeling activity, certainly they are forecasting sort of a modest decline in the back half of next year. But what I'd remind you is they measure that in dollars. And so, a lot of it is driven by big ticket, big remodeling projects. Some of the smaller projects like a painting of your kitchen or a painting of a bathroom; those tend to hold up maybe a little bit better in an environment like that.

I'd say existing home sales are another driver. Those have been pretty choppy over the last year. Today, there was some new data out that said they were down sequentially, but that followed two months where they were up. Year-over-year, existing home sales are still up low single-digit, so that will be a driver.

And I think when you look at all of that, you look at the aging housing stock that's out there, home value appreciation is still continuing, the employment backdrop is good. And to John's earlier point about share of wallet and new account activation, I think, we still feel pretty good about the repaint opportunity for us.

Bob Koort

Great. Thanks for the help.

Al Mistysyn

You bet.

Operator

Thank you. The next question comes from the line of Dmitry Silversteyn with Buckingham Research Group. Please proceed with your question.

John Morikis

Good morning, Dmitry. Good afternoon.

Operator

Dmitry, your line is live. You maybe on mute.

Dmitry Silversteyn

Good morning or good afternoon. Thank you for being patient and taking my call. Really quick. On the DIY or hardware, I guess on the consumer side of your business, was the price realization in North America similar to sort of the 2.5% level that you saw in your company-owned stores? And what was the pricing like in Australia and China and Europe for you in that business?

Al Mistysyn

Yes. Dmitry, I'd say, it was a little bit less than what you would see in the stores. I would say, Dmitry, outside the U.S. in those smaller consumer segments it's not material.

Dmitry Silversteyn

Okay. So most of it – okay, so less than 2.5% for the division overall. But if the international was flattish, let's say, then domestic was less than 2.5%, is what you're telling me?

Al Mistysyn

Yes.

Dmitry Silversteyn

International was flat, right? Okay. Got you. And then secondly, just to follow-up on the strength that you guys are seeing in coil. I know, business has changed a lot, especially since you guys bought it from Valspar -- when you bought Valspar. But historically, it's been a business with the large North American exposure to the commercial construction market.

So is there anything that we can sort of extrapolate from your strength in that business to what it implies about the commercial construction market in North America? Or were the share gains really the main driver more so than the market performance?

John Morikis

I would say, it's a little bit of both, Dmitry. There clearly were some share gains and we also are the benefactor of some of the Commercial business. I'd also mention that we -- as I mentioned earlier, we did experience some pressure on the ag side that drew that back down a little bit. But you're right. We benefited from some of the commercial. We grew share and we continued to -- we're determined to continue to drive it.

Dmitry Silversteyn

Okay. Thank you. That’s all I have. Thank you very much for taking my call.

John Morikis

Thank you. Thank you, Dmitry.

Operator

Thank you. Our next question is from Rosemarie Morbelli with G. Research. Please proceed with your question.

Rosemarie Morbelli

Thank you. Good afternoon, everyone, and I will – my thanks as well for hanging in there. I was wondering if you could -- if you have a better idea as to the sales synergy you are anticipating? I think that you did not really give us any specific numbers when you bought Valspar and we're waiting to see how this was going to unfold. Do you have a better feel as to how much growth we could see from that?

John Morikis

We do, but we're not going to share it today. We feel good about it Rosemarie. There are a lot of efforts and a lot of projects that have been identified that we feel really comfortable about pursuing, but those are going to be things we think we're going to talk about as we are implementing them not before.

Rosemarie Morbelli

Okay. That's fair enough. Looking at packaging, there is -- I'm assuming that at this point most of the non-BPA coatings has been replaced so to speak or rather the BPA has been replaced. So what kind of growth rate are you looking at going forward? And it's a fact that some beverage companies are going from plastic or at least they are saying they will going from plastic containers to aluminum cans. Is that going to help?

John Morikis

It is going to help, but again, I might take just a bit of exception to your assumption that we have moved through the non-BPA to -- or the BPA to non-BPA. There's quite a bit of road ahead there. I'd say we're in the very early innings of that conversion. So we're excited about this opportunity going forward as there -- there's a lot of runway ahead in that conversion.

Rosemarie Morbelli

Okay. That's good to hear. And then lastly if I may on the automotive. Is that mostly refinish? And can you talk about the trends there?

John Morikis

It's all refinish and the trend for us particularly in North America, we're gaining some traction. Over the last couple quarters, we've spoken about the fact that the combined technologies the legacy Valspar and Sherwin technologies coming together provide an overall better system with greater speed for the VR shops to push vehicles through with greater efficiency. And we're out demonstrating that to customers right now with some very good traction, so we feel really good about the team's efforts there and we have some expectations for them as we go forward.

Rosemarie Morbelli

Are you seeing this new technology and share gain offsetting or more than offsetting the decline in the level of collisions?

John Morikis

Yeah. That's a good point, because if you do look at the overall market, it was a relatively flat market due to the decline in collisions. So it's a very good observation on your part. That's what leads us to believe that the low single-digit gain that we achieved here in North America gives us some modest share gain.

Rosemarie Morbelli

All right. Thank you very much.

John Morikis

Thank you.

Jim Jaye

Thank you.

Operator

Thank you. Our next question comes from the line of Christopher Perrella with Bloomberg Intelligence. Please proceed with your question.

Christopher Perrella

Good afternoon everybody. Two quick ones. You touched on it for the Americas, but for Performance Coatings and for the Consumer segment, what is your visibility into your order book? How far out can you see into your customers' order patterns?

John Morikis

Well, it varies by segment. We take great pride in that Chris. When you talk about as we do solution selling and consultative selling, it really takes a very good understanding of what your customers are trying to accomplish, so that you can be there one they need you if it's with product or service.

Again, varying degrees. So when you look at a VR shops, vision might be a little bit shorter. And if you look at Protective & Marine as an example, where their pricing and coating projects that could be out a year in advance, I mean, there's a wide spectrum of projects. When you look at various OEM customers, I mean, there's -- depending on the industry varying degrees of line of sight.

I think the point there -- the important point is though that we work closely with our customers to understand that. We want to be the ones that are helping them avoid excess inventory, avoid obsolescence, avoid having products that can be the wrong product and you do that by getting close to their needs and understanding what they're working on. So we've got a pretty good line of sight in most of the segments we're always working to make that better.

Christopher Perrella

All right. Thank you very much. Appreciate the time.

John Morikis

Thank you.

Jim Jaye

Thank you Chris

Operator

Thank you. The next question comes from Ghansham Panjabi with Baird. Please proceed with your question.

Ghansham Panjabi

Hey guys, sorry to interrupt your lunch break. But just sort of going back to share gain question for the Stores Group. John just from a high level standpoint. Is this what you would consider to be a normal evolution given where we are on price cuts for the industry you being market leader, having led the industry with price increases initially and perhaps willing to eat some share as consequence and now you're reverting on share? Or is it broader than that?

John Morikis

I'd say our approach Ghansham is pretty consistent. I know you've been following us for some time. Our view -- and I'll touch on this a bit earlier as it relates to the price cost. Our first effort is always to try to offset not just in our stores business, but in all our businesses try to drive efficiency into the equation to offset the raw material costs.

We don't feel as though that that's a share question, because it -- when we don't have to go out with the price increase, our customers reward us with their loyalty, but the simple fact that we're open and honest with them about what's happening. That said, as cost go up and I use cost not to just point to raw material cost, but if it's labor or freight or others that we are unable to offset then we're in front of our customers talking about that. The key part of the equation there is we're helping them to be successful. And so as we're having these discussions and helping them to be successful, we're then reducing whatever it is that we're facing. Hopefully, we're able to offset raw material cost with efficiencies, but if the costs are going up we have to be open with them and we have those discussions.

Ghansham Panjabi

Okay. That's helpful. And then just finally your 2020 financial targets were pushed up by roughly a year of increase in material cost, and I think FX as well. Just given the obvious momentum you're now seeing in Stores Group, which is a very profitable segment for you how does that timeline change at this point?

Al Mistysyn

Yes. Ghansham, it's still looking a couple of years out. We're in the middle of putting together our 2020 plans. Obviously, we'll share those with you at our year end call. I mean, you look at some of those metrics and we're making progress whether it's on EBITDA with an 80 basis point growth year-to-date with net operating cash over 12% of sales. So we're making progress on different fronts. The factor there with raw material cost and it's also top-line growth. And if you go back two years, I think, we were expecting a little bit better top-line growth than what we're seeing across the different segments.

Ghansham Panjabi

Okay. Thanks so much, Al.

Al Mistysyn

Yes.

Operator

Thank you. Our next question comes from Kevin Hocevar with Northcoast Research. Please proceed with your question.

Kevin Hocevar

Hello.

John Morikis

Good afternoon, Kevin.

Kevin Hocevar

You're guiding to mid to high single-digit same-store sales growth in the fourth quarter in your Paint Stores. It sounds like most of that will come from volume. How big of a factor can weather play here and where that ultimately shakes out? Because it sounds like the backlogs are there, but obviously weather starts to get a little funky here as we head into the winter. So if the winter turns out to be harsh do your customers have enough flexibility to do indoor jobs on bad weather days and outdoor jobs on sunny days? Or does a harsh winter make it difficult to hit that type of growth?

John Morikis

Well, Kevin there's a number of points to that. And the first I might say is it's a smaller quarter. So it can be influenced a bit easier than the larger third – the second and third quarter. And often times what it might impact is the progress on a project. So yes, if it's nicer weather they might be outdoor painting -- there might be outdoor painting taking place, there might be issues if it's really a harsh winter as we saw last year with all trades and their ability to get on the project and move a project through the cycle. So it's all dependent upon what kind of weather and to what extent we deal with it and we really don't know. I mean each one of these can be different and unique in their own and we're going to just respond the best way we know given whatever we face.

Kevin Hocevar

Okay. Great. And then in the Performance Coatings, you talked about your team being focused on controlling selling expenses given the softer end market. Could you elaborate on that? And what levers are you pulling there to dial back cost there. And if things get worse -- deteriorate from here are there more levers that can be pulled?

Al Mistysyn

Kevin, this is Al. Yes, there's always more levers to be pulled. I mean -- and we try to -- as I say we're controlling our cost. Industrial wood is an example where as John talked about it's been soft and we think it'll be soft going forward. But there's other areas that we're still investing in for growth opportunities. So I think the teams have responded to the slower sales and we'll continue to manage that.

Kevin Hocevar

Okay. Great. Thank you very much.

Al Mistysyn

Thank you, Kevin.

Operator

Thank you. It appears we have no further questions at this time. So I'd like to pass the floor back over to Mr. Jaye for any additional concluding comments.

Jim Jaye

Thank you, Jessie and thanks everybody for joining us on the call today. I appreciate your interest in everything we're doing and your support. I will be around and Eric Swanson will be around for your questions over the remainder of the week and we look forward to talking with you. Thanks so much. Have a great afternoon and rest of your week.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. Again, we thank you for your participation and you may disconnect your lines at this time.