

SHERWIN WILLIAMS CO
Form 10-K
February 22, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
Commission file number 1-04851

THE SHERWIN-WILLIAMS COMPANY

(Exact name of registrant as specified in its charter)

OHIO	34-0526850
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 West Prospect Avenue, Cleveland, Ohio	44115-1075
(Address of principal executive offices)	(Zip Code)
(216) 566-2000	

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$1.00	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one:)

Large accelerated filer Accelerated filer Non-accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At January 31, 2019, 92,718,270 shares of common stock were outstanding, net of treasury shares. The aggregate market value of common stock held by non-affiliates of the Registrant at June 30, 2018 was \$37,995,087,928 (computed by reference to the price at which the common stock was last sold on such date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Annual Report to Shareholders for the fiscal year ended December 31, 2018 (“2018 Annual Report”) are incorporated by reference into Parts I, II and IV of this report.

Portions of our Proxy Statement for the 2019 Annual Meeting of Shareholders (“Proxy Statement”) to be filed with the Securities and Exchange Commission within 120 days of our fiscal year ended December 31, 2018 are incorporated by reference into Part III of this report.

THE SHERWIN-WILLIAMS COMPANY

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PART I

ITEM 1. BUSINESS

Introduction

The Sherwin-Williams Company, founded in 1866 and incorporated in Ohio in 1884, is engaged in the development, manufacture, distribution and sale of paint, coatings and related products to professional, industrial, commercial and retail customers primarily in North and South America with additional operations in the Caribbean region, Europe, Asia and Australia. Our principal executive offices are located at 101 West Prospect Avenue, Cleveland, Ohio 44115-1075, telephone (216) 566-2000. As used in this report, the terms “Sherwin-Williams,” “Company,” “we” and “our” mean The Sherwin-Williams Company and its consolidated subsidiaries unless the context indicates otherwise.

Available Information

We make available free of charge on or through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. You may access these documents on the “Investor Relations” page of our website at www.sherwin.com.

We also make available free of charge on our website our Corporate Governance Guidelines, our Director Independence Standards, our Code of Conduct and the charters of our Audit Committee, our Compensation and Management Development Committee and our Nominating and Corporate Governance Committee. You may access these documents in the “Corporate Governance” section on the “Investor Relations” page of our website at www.sherwin.com.

Basis of Reportable Segments

The Company reports its segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources in accordance with the Segment Reporting Topic of the Accounting Standards Codification (ASC). The Company has three reportable operating segments: The Americas Group, Consumer Brands Group and Performance Coatings Group (individually, a “Reportable Segment” and collectively, the “Reportable Segments”). Factors considered in determining the three Reportable Segments of the Company include the nature of business activities, the management structure directly accountable to the Company’s chief operating decision maker (CODM) for operating and administrative activities, availability of discrete financial information and information presented to the Board of Directors. The Company reports all other business activities and immaterial operating segments that are not reportable in the Administrative segment. For more information about the Reportable Segments, see pages 8 through 15 of our 2018 Annual Report, which is incorporated herein by reference.

The Company’s CODM has been identified as the Chief Executive Officer because he has final authority over performance assessment and resource allocation decisions. Because of the diverse operations of the Company, the CODM regularly receives discrete financial information about each Reportable Segment as well as a significant amount of additional financial information about certain divisions, business units or subsidiaries of the Company. The CODM uses all such financial information for performance assessment and resource allocation decisions. The CODM evaluates the performance of and allocates resources to the Reportable Segments based on profit or loss before income taxes and cash generated from operations. The accounting policies of the Reportable Segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements on pages 45 through 49 of our 2018 Annual Report, which is incorporated herein by reference.

The Americas Group

The Americas Group consisted of 4,696 company-operated specialty paint stores in the United States, Canada, Latin America and the Caribbean region at December 31, 2018. Each store in this segment is engaged in servicing the needs of architectural and industrial paint contractors and do-it-yourself homeowners. The Americas Group company-owned stores market and sell Sherwin-Williams® and other controlled brand architectural paint and coatings, protective and marine products, OEM product finishes and related products. The majority of these products are produced by manufacturing facilities in the Consumer Brands Group. In addition, each store sells select purchased associated products. In addition to our stores in the Latin America region, The Americas Group meets regional customer demands through developing, licensing, manufacturing, distributing and selling a variety of architectural paints, coatings and related products in North and South America. The loss of any single customer would not have a material

adverse effect on the business of this segment. At December 31, 2018, The Americas Group consisted of operations from subsidiaries in 10 foreign countries. During 2018, this segment opened 76 net new stores, consisting of 91 new stores opened (74 in the United States, 16 in Canada, and 1 in South America) and 15 stores closed (1 in the United States, 2 in Canada, 11 in South America and 1 in Mexico). In 2017 and 2016, this segment opened 101 and 142 net new stores, respectively. A map on the cover flap of our 2018 Annual Report, which is incorporated herein by reference, shows the number of paint stores and their geographic location. The CODM uses discrete financial information about

The Americas Group, supplemented with information by geographic region, product type and customer type, to assess performance of and allocate resources to The Americas Group as a whole. In accordance with ASC 280-10-50-9, The Americas Group as a whole is considered the operating segment, and because it meets the criteria in ASC 280-10-50-10, it is also considered a Reportable Segment.

Consumer Brands Group

The Consumer Brands Group supplies a broad portfolio of branded and private-label architectural paint, stains, varnishes, industrial products, wood finishes products, wood preservatives, applicators, corrosion inhibitors, aerosols, caulks and adhesives to retailers and distributors throughout North America, as well as in Australia, New Zealand, China and Europe. The Consumer Brands Group also supports the Company's other businesses around the world with new product research and development, manufacturing, distribution and logistics. Approximately 55.82% of the total sales of the Consumer Brands Group in 2018 were intersegment transfers of products primarily sold through The Americas Group. At December 31, 2018, the Consumer Brands Group consisted of operations in the United States and subsidiaries in 6 foreign countries, including company-operated outlets in Australia and New Zealand. A map on the cover flap of our 2018 Annual Report, which is incorporated herein by reference, shows the number of company-operated outlets and their location. Sales and marketing of certain controlled brand and private-label products is performed by a direct sales staff. The products distributed through third-party customers are intended for resale to the ultimate end-user of the product. The Consumer Brands Group had sales to certain customers that, individually, may be a significant portion of the sales of the segment. However, the loss of any single customer would not have a material adverse effect on the overall profitability of the segment. This segment incurred most of the Company's capital expenditures related to ongoing environmental compliance measures at sites currently in operation. The CODM uses discrete financial information about the Consumer Brands Group, supplemented with information by product type and customer type, to assess performance of and allocate resources to the Consumer Brands Group as a whole. In accordance with ASC 280-10-50-9, the Consumer Brands Group as a whole is considered the operating segment, and because it meets the criteria in ASC 280-10-50-10, it is also considered a Reportable Segment.

Performance Coatings Group

The Performance Coatings Group develops and sells industrial coatings for wood finishing and general industrial (metal and plastic) applications, automotive refinish, protective and marine coatings, coil coatings, packaging coatings and performance-based resins and colorants worldwide. This segment licenses certain technology and trade names worldwide. Sherwin-Williams® and other controlled brand products are distributed through The Americas Group and this segment's 282 company-operated branches and by a direct sales staff and outside sales representatives to retailers, dealers, jobbers, licensees and other third-party distributors. The Performance Coatings Group had sales to certain customers that, individually, may be a significant portion of the sales of the segment. However, the loss of any single customer would not have a material adverse effect on the overall profitability of the segment. During 2018, this segment opened 3 new branches and closed 11 branches for a net decrease of 8 branches. At December 31, 2018, the Performance Coatings Group consisted of operations in the United States and subsidiaries in 45 foreign countries. The CODM uses discrete financial information about the Performance Coatings Group, supplemented with information about geographic divisions, business units and subsidiaries, to assess performance of and allocate resources to the Performance Coatings Group as a whole. In accordance with ASC 280-10-50-9, the Performance Coatings Group as a whole is considered the operating segment, and because it meets the criteria in ASC 280-10-50-10, it is also considered a Reportable Segment. A map on the cover flap of our 2018 Annual Report, which is incorporated herein by reference, shows the number of branches and their geographic locations.

Administrative Segment

The Administrative segment includes the administrative expenses of the Company's corporate headquarters site. Also included in the Administrative segment is interest expense, interest and investment income, certain expenses related to closed facilities and environmental-related matters, and other expenses which are not directly associated with the Reportable Segments. The Administrative segment does not include any significant foreign operations. Also included in the Administrative segment is a real estate management unit that is responsible for the ownership, management, and leasing of non-retail properties held primarily for use by the Company, including the Company's headquarters site, and disposal of idle facilities. Sales of this segment represent external leasing revenue of excess headquarters space or leasing of facilities no longer used by the Company in its primary businesses. Material gains and losses from the sale

of property are infrequent and not a significant operating factor in determining the performance of the Administrative segment.

Business Developments

For additional information regarding our business and business developments, see pages 8 through 15 of our 2018 Annual Report and the “Letter to Shareholders” on pages 2 through 7 of our 2018 Annual Report, which is incorporated herein by reference.

Raw Materials and Products Purchased for Resale

We believe we generally have adequate sources of raw materials and fuel supplies used in our business. There are sufficient suppliers of each product purchased for resale that none of the Reportable Segments anticipate any significant sourcing problems during 2019. See Item 1A Risk Factors for more information regarding cost and sourcing of raw materials.

Seasonality

The majority of the sales for the Reportable Segments traditionally occur during the second and third quarters. There is no significant seasonality in sales for the Administrative segment.

Working Capital

In order to meet increased demand during the second and third quarters, the Company usually builds its inventories during the first quarter. Working capital items (inventories and accounts receivable) are generally financed through short-term borrowings, which include the use of lines of credit and the issuance of commercial paper. For a description of the Company's liquidity and capital resources, see pages 25 through 30 of our 2018 Annual Report under the caption "Financial Condition, Liquidity and Cash Flow" of "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is incorporated herein by reference.

Trademarks and Trade Names

Customer recognition of our trademarks and trade names collectively contribute significantly to our sales. The major trademarks and trade names used by each of the Reportable Segments are set forth below.

The Americas Group: Sherwin-Williams®, A-100®, Cashmere®, Colorgin®, Condor®, Duracraft®, Duration Home®, Duration®, Emerald®, Harmony®, HGTV Home® by Sherwin-Williams, Kem Pro®, Kem Tone®, Krylon®, Loxon®, Marson®, Metalatex®, Minwax®, Novacor®, Paint Shield®, PrepRite®, ProClassic®, ProCraft®, ProConstructor®, ProIndustrial™, ProMar®, ProPark®, Solo®, Sumaré®, SuperDeck®, SuperPaint®, Ultra Proteccion®, Woodscapes®

Consumer Brands Group: Accurate Dispersions™, Altax™, Bestt Liebco®, Cabot®, Conco®, Duckback®, Dupli-Color®, DuraSeal®, Dutch Boy®, Geocel®, Granosite®, H&C®, HGTV HOME® by Sherwin-Williams, Huarun™, Kool Seal®, Krylon®, Minwax®, Pratt & Lambert®, Purdy®, Ronseal™, Rubberset®, Solver®, Sprayon®, SuperDeck®, Thompson's® WaterSeal®, Tri-Flow®, Uniflex®, Valspar®, VHT®, WattyI®, White Lightning®

Performance Coatings Group: Sherwin-Williams®, Acrolon®, AcromaPro®, Arti™, ATX™, AWX Performance Plus™, Baco®, Conely®, DeBeer®, DFL™, Dimension®, Duraspar™, Envirolastic®, Euronavy®, Excelo®, Fastline®, Finish 1™, Firetex®, Fluropon®, Genesis®, Heat-Flex®, House of Kolor®, Huarun™, Inchem®, Inver®, Kem Aqua®, Lanet™, Lazzuril®, Macropoxy®, Magnalux™, Martin Senour®, Matrix®, ML Campbell®, Oece™, PermaClad®, Planet Color®, Polane®, Powdura®, Prospray®, Sayerlack®, Sher-Wood®, Ultra-Cure®, Ultra™, USC®, ValPure® V70, Valspar®, WattyI®

Patents

Although patents and licenses are not of material importance to our business as a whole or any segment, The Americas Group and the Performance Coatings Group derive a portion of their income from the licensing of technology, trademarks and trade names to foreign companies.

Backlog and Productive Capacity

Backlog orders are not significant in the business of any Reportable Segment since there is normally a short period of time between the placing of an order and shipment. We believe that sufficient productive capacity currently exists to fulfill our needs for paint, coatings and related products through 2019.

Competition

We experience competition from many local, regional, national and international competitors of various sizes in the manufacture, distribution and sale of our paint, coatings and related products. We are a leading manufacturer and retailer of paint, coatings and related products to professional, industrial, commercial and retail customers, however, our competitive position varies for our different products and markets.

In The Americas Group, competitors include other paint and wallpaper stores, mass merchandisers, home centers, independent hardware stores, hardware chains and manufacturer-operated direct outlets. Product quality, product innovation, breadth of product line, technical expertise, service and price determine the competitive advantage for this segment.

In the Consumer Brands Group, domestic and foreign competitors include manufacturers and distributors of branded and private-label paint and coatings products. Technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price are the key competitive factors for this segment.

The Performance Coatings Group has numerous competitors in its domestic and foreign markets with broad product offerings and several others with niche products. Key competitive factors for this segment include technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price.

The Administrative segment has many competitors consisting of other real estate owners, developers and managers in areas in which this segment owns property. The main competitive factors are the availability of property and price.

Employees

We employed 53,368 persons at December 31, 2018.

Environmental Compliance

For additional information regarding environmental-related matters, see page 28 of our 2018 Annual Report under the caption "Environmental-Related Liabilities" of "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 1, 9 and 14 of the Notes to Consolidated Financial Statements on pages 47, 62 through 63 and 70, respectively, of our 2018 Annual Report, which is incorporated herein by reference.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Letter to Shareholders" and elsewhere in this report constitute "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements are based upon management's current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and the costs and potential liability for environmental-related matters and the lead pigment and lead-based paint litigation. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as "believe," "expect," "may," "will," "should," "project," "could," "plan," "goal," "potential," "seek," "intend" or "anticipate" or the negative thereof or comparable terminology.

Readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside our control, that could cause actual results to differ materially from such statements and from our historical results and experience. These risks, uncertainties and other factors include such things as:

- general business conditions, strengths of retail and manufacturing economies and growth in the coatings industry;
- changes in general domestic economic conditions such as inflation rates, interest rates, tax rates, unemployment rates, higher labor and healthcare costs, recessions, and changing government policies, laws and regulations;
- changes in raw material and energy supplies and pricing;
- changes in our relationships with customers and suppliers;
- our ability to successfully integrate past and future acquisitions into our existing operations, including Valspar, as well as the performance of the businesses acquired;
- risks inherent in the achievement of additional anticipated cost synergies resulting from the acquisition of Valspar and the timing thereof;
- competitive factors, including pricing pressures and product innovation and quality;
- our ability to attain cost savings from productivity initiatives;
- risks and uncertainties associated with our expansion into and our operations in Asia, Europe, South America and other foreign markets, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest and other external economic and political factors;
- the achievement of growth in foreign markets, such as Asia, Europe and South America;
- increasingly stringent domestic and foreign governmental regulations, including those affecting health, safety and the environment;
- inherent uncertainties involved in assessing our potential liability for environmental-related activities;

other changes in governmental policies, laws and regulations, including changes in tariff policies, as well as changes in accounting policies and standards and taxation requirements (such as new tax laws and new or revised tax law interpretations);

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the nature, cost, quantity and outcome of pending and future litigation and other claims, including the lead pigment and lead-based paint litigation, and the effect of any legislation and administrative regulations relating thereto; and adverse weather conditions and natural disasters.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise except as otherwise required by law.

ITEM 1A. RISK FACTORS

The risks described below and in other documents we file from time to time with the Securities and Exchange Commission could materially and adversely affect our business, results of operations, cash flow, liquidity or financial condition.

Adverse changes in general business and economic conditions in the United States and worldwide may adversely affect our results of operations, cash flow, liquidity or financial condition.

Our business is sensitive to global and regional business and economic conditions. Adverse changes in such conditions in the United States and worldwide may reduce the demand for some of our products and impair the ability of those with whom we do business to satisfy their obligations to us, each of which could adversely affect our results of operations, cash flow, liquidity or financial condition. Higher inflation rates, interest rates, tax rates and unemployment rates, higher labor and healthcare costs, recessions, changing governmental policies, laws and regulations, and other economic factors could also adversely affect demand for some of our products and our results of operations, cash flow, liquidity or financial condition and that of our customers, vendors and suppliers.

A weakening or reversal of the general economic recovery in the United States and other countries and regions in which we do business, or the continuation or worsening of economic downturns in other countries and regions, may adversely affect our results of operations, cash flow, liquidity or financial condition.

Global economic uncertainty continues to exist. A weakening or reversal of the general economic recovery in the United States and other countries and regions in which we do business, or the continuation or worsening of economic downturns in other countries and regions, may adversely impact our net sales, the collection of accounts receivable, funding for working capital needs, expected cash flow generation from current and acquired businesses, and our investments, which may adversely impact our results of operations, cash flow, liquidity or financial condition.

We finance a portion of our sales through trade credit. Credit markets remain tight, and some customers who require financing for their businesses have not been able to obtain necessary financing. A continuation or worsening of these conditions could limit our ability to collect our accounts receivable, which could adversely affect our results of operations, cash flow, liquidity or financial condition.

We generally fund a portion of our seasonal working capital needs and obtain funding for other general corporate purposes through short-term borrowings backed by our revolving credit facility and other financing facilities. If any of the banks in these credit and financing facilities are unable to perform on their commitments, such inability could adversely impact our cash flow, liquidity or financial condition, including our ability to obtain funding for working capital needs and other general corporate purposes.

Although we currently have available credit facilities to fund our current operating needs, we cannot be certain we will be able to replace our existing credit facilities or refinance our existing or future debt when necessary. Our cost of borrowing and ability to access the capital markets are affected not only by market conditions, but also by our debt and credit ratings assigned by the major credit rating agencies. Downgrades in these ratings will increase our cost of borrowing and could have an adverse effect on our access to the capital markets, including our access to the commercial paper market. An inability to access the capital markets could have a material adverse effect on our results of operations, cash flow, liquidity or financial condition.

We have goodwill and intangible assets recorded on our balance sheet. We periodically evaluate the recoverability of the carrying value of our goodwill and intangible assets whenever events or changes in circumstances indicate such value may not be recoverable. An impairment assessment involves judgment as to assumptions regarding future sales and cash flow and the impact of market conditions on those assumptions. Future events and changing market

conditions may impact our assumptions and change our estimates of future sales and cash flow, resulting in us incurring substantial impairment charges, which would adversely affect our results of operations or financial condition.

We hold investments in equity and debt securities in some of our defined benefit pension plans. A decrease in the value of plan assets resulting from a general financial downturn may cause a negative pension plan investment performance, which may adversely affect our results of operations, cash flow, liquidity or financial condition.

Protracted duration of economic downturns in cyclical segments of the economy may depress the demand for some of our products and adversely affect our sales, earnings, cash flow or financial condition.

Portions of our business involve the sale of paint, coatings and related products to segments of the economy that are cyclical in nature, particularly segments relating to construction, housing, manufacturing and oil production, refining, storage and transportation. Our sales to these segments are affected by the levels of discretionary consumer and business spending in these segments. During economic downturns in these segments, the levels of consumer and business discretionary spending may decrease, and the recovery of these segments may lag behind the recovery of the overall economy. This decrease in spending will likely reduce the demand for some of our products and may adversely affect our sales, earnings, cash flow or financial condition.

Throughout 2018, interest rates, including mortgage rates, rose and may continue to rise in 2019. Although interest rates remain low by historical standards, this increase may adversely affect the demand for new residential homes, existing home turnover and new non-residential construction. Challenging market conditions are expected to continue for the foreseeable future and may worsen. A worsening in these segments will reduce the demand for some of our products and may adversely impact sales, earnings and cash flow.

In the U.S. construction and housing segments, the recent demand for new construction has caused contractors to experience a shortage of skilled workers, resulting in project backlogs and an adverse effect on the growth rate of demand for our products. While we expect to see higher demand for our products as project backlogs are reduced in the future, this labor shortage may adversely impact our sales, earnings, cash flow or financial condition.

Increases in the cost of raw materials and energy may adversely affect our earnings or cash flow.

We purchase raw materials (including titanium dioxide and petrochemical feedstock sources, such as propylene and ethylene) and energy for use in the manufacturing, distribution and sale of our products. Factors such as political instability, higher tariffs and adverse weather conditions, including hurricanes, and other natural disasters can disrupt raw material and fuel supplies and increase our costs. Although raw materials and energy supplies (including oil and natural gas) are generally available from various sources in sufficient quantities, unexpected shortages and increases in the cost of raw materials and energy, or any deterioration in our relationships with or the financial viability of our suppliers, may have an adverse effect on our earnings or cash flow in the event we are unable to offset higher costs in a timely manner by sufficiently decreasing our operating costs or raising the prices of our products. In recent years, some raw material and energy prices have increased, particularly titanium dioxide and petrochemical feedstock sources, such as propylene and ethylene, as well as metal and plastic packaging. The cost of raw materials and energy has in the past experienced, and likely will in the future continue to experience, periods of volatility.

Although we have an extensive customer base, the loss of any of our largest customers could adversely affect our sales, earnings or cash flow.

We have a large and varied customer base due to our extensive distribution network. During 2018, no individual customer accounted for sales totaling more than ten percent of our sales. However, we have some customers that, individually, purchase a large amount of products from us. Although our broad distribution channels help to minimize the impact of the loss of any one customer, the loss of any of these large customers could have an adverse effect on our sales, earnings or cash flow.

Increased competition may reduce our sales, earnings or cash flow performance.

We face substantial competition from many international, national, regional and local competitors of various sizes in the manufacture, distribution and sale of our paint, coatings and related products. Some of our competitors are larger than us and have greater financial resources to compete. Other competitors are smaller and may be able to offer more specialized products. Technology, product quality, product innovation, breadth of product line, technical expertise, distribution, service and price are the key competitive factors for our business. Competition in any of these areas may reduce our sales and adversely affect our earnings or cash flow by resulting in decreased sales volumes, reduced prices and increased costs of manufacturing, distributing and selling our products.

We may not realize the growth opportunities and cost synergies that are anticipated from the acquisition of Valspar. The benefits that are expected to result from the acquisition of Valspar will depend, in part, on our ability to realize the anticipated growth opportunities and additional cost synergies as a result of the acquisition. Our success in realizing these growth opportunities and additional cost synergies, and the timing of this realization, depends on the successful integration of Valspar. There is a significant degree of difficulty and management distraction inherent in

the process of integrating an acquisition as sizable as Valspar. The process of integrating operations could cause an interruption of, or loss of momentum in, our activities. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time available to manage our company, service existing customers, attract new customers, and

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develop new products or strategies. If senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer. There can be no assurance we will successfully or cost-effectively integrate Valspar. The failure to do so could have a material adverse effect on our business, financial condition, and results of operations.

Even if we are able to integrate Valspar successfully, this integration may not result in the realization of the full benefits of the growth opportunities and additional cost synergies we currently expect from this integration. We also cannot guarantee these benefits will be achieved within anticipated time frames or at all. For example, we may not be able to eliminate all duplicative costs, and we may incur substantial, unanticipated expenses in connection with the Valspar integration. While we expect certain expenses will be incurred to achieve cost synergies, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the acquisition may be offset by costs incurred to, or delays in, integrating the businesses.

We require a significant amount of cash to service the substantial amount of debt we have outstanding. Our ability to generate cash depends on many factors beyond our control. We also depend on the business of our subsidiaries to satisfy our cash needs. If we cannot generate the required cash, we may not be able to make the necessary payments required under our indebtedness.

At December 31, 2018, we had total debt of approximately \$9.3 billion, which is a decrease of \$1.2 billion since December 31, 2017 and includes indebtedness incurred to complete the Valspar acquisition. We have the ability under our existing credit facilities to incur substantial additional indebtedness in the future. Our ability to make payments on our debt, fund our other liquidity needs, and make planned capital expenditures will depend on our ability to generate cash in the future. Our historical financial results have been, and we anticipate our future financial results will be, subject to fluctuations. Our ability to generate cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors beyond our control. We cannot guarantee our business will generate sufficient cash flow from our operations or future borrowings will be available to us in an amount sufficient to enable us to make payments of our debt, fund other liquidity needs and make planned capital expenditures. The degree to which we are currently leveraged could have important consequences for shareholders. For example, it could:

require us to dedicate a substantial portion of our cash flow from operations to the payment of debt service, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

increase our vulnerability to adverse economic or industry conditions;

limit our ability to obtain additional financing in the future to enable us to react to changes in our business; or

place us at a competitive disadvantage compared to businesses in our industry that have less debt.

Additionally, any failure to comply with covenants in the instruments governing our debt could result in an event of default which, if not cured or waived, would have a material adverse effect on us.

A significant portion of our operations are conducted through our subsidiaries. As a result, our ability to generate sufficient cash flow for our needs is dependent to some extent on the earnings of our subsidiaries and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on our debt or to provide us with funds to meet our cash flow needs, whether in the form of dividends, distributions, loans or other payments. In addition, any payment of dividends, loans or advances by our subsidiaries could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we are a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us. Finally, changes in the laws of foreign jurisdictions in which we operate may adversely affect the ability of some of our foreign subsidiaries to repatriate funds to us.

Our results of operations, cash flow or financial condition may be negatively impacted if we do not successfully integrate future acquisitions into our existing operations and if the performance of the businesses we acquire do not meet our expectations.

We have historically made strategic acquisitions of businesses in the paint and coatings industry and will likely acquire additional businesses in the future as part of our long-term growth strategy. The success of future acquisitions depends in large part on our ability to integrate the operations and personnel of the acquired companies and manage challenges that may arise as

a result of the acquisitions, particularly when the acquired businesses operate in new or foreign markets. In the event we do not successfully integrate such future acquisitions into our existing operations so as to realize the expected return on our investment, our results of operations, cash flow or financial condition could be adversely affected. Risks and uncertainties associated with our expansion into and our operations in Asia, Europe, South America and other foreign markets could adversely affect our results of operations, cash flow, liquidity or financial condition. Net external sales of our consolidated foreign subsidiaries totaled approximately 23.0%, 19.8% and 14.5% of our total consolidated net sales in 2018, 2017 and 2016, respectively. Sales outside of the United States make up a significant part of our current business and future strategic plans. Our results of operations, cash flow, liquidity or financial condition could be adversely affected by a variety of domestic and international factors, including general economic conditions, political instability, inflation rates, recessions, tariffs, foreign currency exchange rates, foreign currency exchange controls, interest rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest, difficulties in staffing and managing foreign operations and other external economic and political factors. Our inability to successfully manage the risks and uncertainties relating to these factors could adversely affect our results of operations, cash flow, liquidity or financial condition.

In many foreign countries, it is acceptable to engage in certain business practices we are prohibited from engaging in because of regulations applicable to us, such as the Foreign Corrupt Practices Act and the UK Bribery Act. Recent years have seen a substantial increase in anti-bribery law enforcement activity, with more frequent and aggressive investigations and enforcement proceedings by both U.S. and non-U.S. regulators, and an increase in criminal and civil proceedings brought against companies and individuals. Although