JOHN MORIKIS: You'll be hearing from Jay Davisson, our president of the Americas Group, Cheri Pfeiffer, our president of our Diversified Brands Division, Joel Baxter, our president of our Global Supply Chain, David Sewell, the president of Global Finishes Groups and a few of his key lieutenants who I'll let David introduce. But first, you'll be hearing from a man who needs no introduction, Mr. Sean Hennessy, our CFO. Thank you.

SEAN HENNESSY: Thank you, John. Thank you, John. I was sitting there wondering what he was going to say. We're near some great people, but before we deal here, Sean Hennessy. Good morning. Every year we try to show you some longer term metrics of financial metrics. I'm going to do the same thing today. But on top of that I'm going to try to also give you some comments about Valspar. John did a great job talking about Valspar, why Valspar, but I'm going to just share with you some other comments, consolidated sales, 2005, $7.2 billion. Just over $11.3 billion, nice increase, 58% increase. Well over 4.5% compounded growth. A couple of things become very obvious, so 2008 and '09, you can see what happened in that financial crisis and secondly, that increase of over $4 billion was really driven by organic sales. But we've also had some really nice successful acquisitions.

So you can see that over 50% increase for sales, we'll talk about that over time. Our gross profit has grown over 80% over that same period of time. And again in all these slides, the yellow bars are the absolute dollars and the red is the percent of sale. John did a nice job at talking about consolidate gross profit. I'll go real quick. We like to show this over longer term for a couple of reasons. Number one, we think our gross margin is in a narrow band. Number two, as John showed, we think we have pricing power. So if the raw materials go up, we have the ability to capture that in the market. And number three, over time, that band will grow. Back in 2005, we used to talk about a 41% to 42% to 45% band. Now we're in a 48 to 51.5% band. But I also wanted to show what's going to happen once we do combine with Valspar.

So the purple line is our gross margin restated in '13, '14, and '15 with the combined companies. You can see the gross margin would increase by 3.7% but it's still well below where we are today and it's coming off a smaller base.

SG&A over this longer term, we've controlled that between 32.2% and 35.7%, 32 was when the market was very hot. Bob showed you the market bank in that time and it really drove that, new residential drove that SG&A down by 32.2%, below 32s, 2008, '09, and '10 it drove all the way up to 35.7%. Our dollars went backwards in 2009, but as a percent of sales because of that drop and again we continue to invest in stores and we think that today, you can see why we did that. In the last few years, we continue to invest in our business, invest in stores, distribution models and so forth and also IT. A couple of the reasons our SG&A have gone up the last few years and never remained in that 34 range is IT projects that are going to do two things for us, ensure that we have productivity in the future that will keep our SG&A in the low 30s, and help our working capital which will help the cash generation of the company.

Again, the purple bar I showed you, the combined company, Valspar and Sherwin-Williams, 29.2 of the 30.1, still an increase of nine-tenths, but still well below over 4% reduction compared to the two companies.

Operating income, all time high, more than double, $754 million in 2005 to over a billion six. So we doubled at the same time our sales increased at just over 50%. Operating margins, 14.5, our all-time high.

The way we run this company is we're always trying to achieve new highs. We don't think that we've hit the top. You know, many times people ask me, "When are you going to hit the peak? When are you going to stop?" And I keep telling them, "We hit peak margins and our stores grew. We have 2,000 stores. We did it again at 3,000 stores. We did it again at 4,000 stores."

And I got to believe, we have 5,000 stores, we're going to be at a higher peak and that's the way we run this company and I think this chart is sort of -- and if you look at 2016, our guidance, it tells your operating income has to grow as a percent of sales this year.

What I think is interesting is the purple line is on there. Hopefully you can see the purple line. The combined company, 11.3 goes to 11.4, 12.1, 12.1, 14.5, 14.3 and I just want to piggyback on something John said about what excites us about this. Our operating income is relatively flat with the combined company, then you put in the synergies and you think about the growth ability and all of a sudden you can see just with synergies, our 14.5% operating margins are going to grow with this acquisition, so much higher sales, much higher operating income as a percent of sales, so pretty exciting.

Reportable segments, Paint Service Group, $7.2 billion, 19.9% ROS. In Latin America, $631 million, 2.9%. Consumer Group, a billion, 578, 19.6% ROS. In Global Finishes, a billion nine, 10.5%. So Paint Service Group, Consumer and Global, all hit high, all-time highs operating margins. And again, if you look at the results on the first quarter, you look at our guidance for the year; all three of those will hit new peaks this year. Latin America, driven down, all the way down to 2.9, [INDISCERNIBLE 00:06:54] in Latin America. But this year is no better. I think that we're going to be under pressure again this year. So really when you look at the systems we're spending on and so forth and I'm sure we'll talk about Latin America later, but we still believe in the long term we can get this business at 12%.

These are the days that you really question yourself and push yourself and ask yourself, "Why do you still believe that?" But I still believe when you take a look at this, the business metrics have to get better. Some of these economies have to get stronger, but eventually we'll get to 12%.

Profit before and after tax, 2015, all time high in absolute dollars and as a percent of sales, 13.7 versus 9.3, so it's nice. PBT as a percent of sales, we finally beat 2007 and that's why we like to show this long term. Even we were doing well in '12, '13, '14. A year ago, I was sitting here going 11.3. We're not at our peak yet and again that's what drives us. We think that again there's more room for these peaks.

Turning to working capital which we defined as accounts receivable plus inventory, minus payables, divided by sales. Long term, we felt that we could get this to 11%. Those of you, if you expand this chart, we used to be in the high teens in the late '90s, early 2000s and we did pretty well. We drove it down to 11. Now we believe that we can be at 10.

A couple of things I just want to show you. If you look at 2005, ‘07, ‘10, they went backwards because of acquisitions. What we have found is the acquisitions we bought do not have the same working capital ratio of performance that we’ve had. But what’s nice is given the operating group of these assets, over time they're able to drive that working capital down as a percent of sales. So that gives us great confidence in the future that not only can we do it in our core business, but with acquisitions, we’ve done it before.

Last year we drove it all the way down to 8.6 and now because of some timing and payables, that’s not going to happen again this year and I think the working capital by the end of the year will be in that 10% range. Looking at the different pieces, I just want -- you can see what's driven this performance, receivable days, 53 in ‘09 and we’re in 54, so relatively flat during this period of time. Inventory, 96 to 83. This has really been the driver of our working capital performance and I think that, again, we have the right people on it, on the operation side, Joe Baxter and his group, every division is really looking at this inventory. So many people drove their working capital down as a percent drive-in payable dates, holding payables. You can see our payable days during this time have remained flat.

If you got back even five to ten years earlier, you would see the same thing. All of our improvement has been in the inventory which is the right way to go.

First quarter accounts receivable 52 days but our working capital went up 5%, $64 million, a little stronger than we thought. Sales were strong so our receivables were a little stronger than we thought. So, but for the full year again we think we’ll be in that 10% range and so turning that upward in cash, a $1.447 billion. And then you look at the net upward in cash less Capex and dividends, $963 million. Again that eight six drove that big jump. It will be a little lower than that this year because of the 10% but still we believe we’re generating a lot of cash and we think we’ll continue to do that.

Point out 2008, ‘09, and ’10, even with the crash and the financial crisis we’re still able to generate significant cash. I want to point out the uses of cash. Many times hopefully you see those subtly there, manage debt was always at the bottom of this list. Today, manage debt is at the top of this list. With the Valspar acquisition, you’re going to see us over the next few years really be very aggressive reducing our debt. We’re still going to invest in Capex. We’re still going to pay dividends and we’ll look at acquisitions but buyback of stock is going to be very deemphasized.

First quarter cash flow, negative $160 million in 2015, 2009 negative almost, 2010, that 50 million difference is really driven by the working capital. And so, in the second and third quarter you’ll start to see some improvements. You’ll see the same thing in the end of the year because of that 8.6 going up closer to 10% of sales.

We show this slide just to show you how and why -- a lot of times we’ll get the question, “Why is your credit rating so important to you?” Here it is. We’ll always be in negative cash flow in the first quarter. We’re building inventory for the season. We will never have enough capacity to manufacture enough paint in June, July, August that we’re going to sell in those months. You have to go into the season with the inventory; that is using of cash. And so -- but you can see what happens in the second, third, and fourth quarter they're all positive and the total year is positive.

So, a negative 209, the negative 160, we'll try to show it to you. We are a big user of commercial paper. Our short-term ratings are very important to us and we've used commercial paper as a liquidity source for many, many years.

Debt to EBITDA. We've been talking about that we're going to keep this at one-to-one in a consolidated industry until there is a right acquisition. Well, we found the right acquisition. But our long-term target is that one-to-one and our EBITDA in yellow and our total debt in blue. So last year EBITDA finished the year at a $1.809 billion, our debt was a $1.963 billion just over one-to-one.

One other thing you have to remember is we lease the majority of our stores. And so if you look at the net present value of the leases, we always talk about seven-tenths of a turn of EBITDA, so more at one we're going to be at -- we're really at 1.7.

The maturity schedule, next year we're having $700 million approximately mature. We have 1.9 billion of debt that we have. We also have a ladder that we feel pretty good about. We think that we have really nice situations when we go into the Valspar. We're going to have the ability to issue debt in many tranches and we feel pretty good about that. To pay for this is we're going to issue $6.5 billion worth of debt. We're going to have a billion dollars worth of cash. If you think about the purchase price plus some closing cost, we're prepared to have $11.5 billion. And so $6.5 billion we're going to issue in debt, $2 billion we're going to assume of Valspar debt. That takes it at $8.5. We're going to have a term loan of two billion and the reason we're doing that is so that we can pay that down as quickly as possible and we'll have a billion dollars worth of cash. There's our $11.5 billion.

So what's going to happen to our interest expense and coverage? When you really look at the slide, I mean, our interest expense has been relatively flat, I mean 40 to 60, $70 million.

So, when you think about the size of our coverage and you look at the earnings coverage all the way up to 26 times. On that $10.5 billion worth of debt we think that we're going to be in that 4%, so you think about our interest is going to go up probably right around $420 million plus the increase that we had in there because of the bonds we issued last year. What's going to happen to the coverage is going to drop to the mid single digits, but by 2020 we should be in the high single digit. So Valspar is going to change the slide dramatically. Our interest coverage is going to go -- earnings coverage is going to go down but we think by 2020 we should be in a high single digits.

All three rating agencies have opined since the Valspar announcement, S&P and Fitch kept our rating the same. Moody has dropped us. They downgraded us to -- our long-term to A3 and our short-term to P2, which is I just said the commercial paper, we're out there in a commercial paper so going from P1 to P2, there's a little bit of a hurdle but we're again through it, mostly because we're holding cash. As many of you see we didn't have -- buy any stock in the first quarter, for the first quarter since I have been the CFO, we didn't buy any stock.

Again, all three have said that they're going -- we're on the credit watch negative, which means that they're going to probably downgrade us again once the acquisition is completed. We continue having discussions with them and I think that as we get more into the integration, more into the feeling of where we are with the cash generation, we can go up and explain to them, but we'll keep them informed like we always do.

Treasury Stock. We don't hold cash. We've basically been saying all these years we don't hold cash. Holding cash, we're looking at how do we get a return on our assets and holding cash never made sense to us. Treasury stock from 2005 to 2015 we bought 72 million shares at $97.51. We spent over $7 billion. Average shares went from a 141 to 94. Well, we're going to take that cash and we're going to do something else with it. We're going to do the Valspar acquisition. I just thought I would -- this would be a good time to announce, we don't see any stock -- acquiring any stock in 2016 and '17. So that share count -- average share count is going to remain sort of flat but you're not going to see us buy stock in 2016 or 2017.

We're also very committed to dividends. 2016 will be our 38th year of increasing the dividend. So 78 was zero, 79 was a penny, it was more than a penny but we've had splits which caused it to go down to a penny. So the 3.36, we like to pay 30% of prior earnings. So when you think about last year earning at $11.16, 30% rounding the 3.36 and that's been our policy. We still believe it's so important to pay your shareholders cash each and every year in a form of a dividend. But we're going to walk away from the 30% prior years. We thought we'd show this to you, management is going to propose to the board and we have spoken preliminary to the board but we're looking at increasing our dividends in the next two years but not at the leaps of what we think our EPS is going to be but at $0.04 cents.

So again, no buybacks of stock. We're trying to tell you what's going to happen in dividends per share. I think you can get the idea that we're going to make sure that we're going to pay down debt. Uses of cash and this is going to change. First alley to point out the last five years we've generated $5.2 billion, 10.3% of sales. We've been talking about that 10% going to 11. Some of the things we've been doing in IT as well as in the operations. Cash dividends, 9.84, Capex $912 million, just about 1.8% of sales, a little higher than the prior five years where we used to be in that one-and-a-half, and again a lot of IT infrastructure there.

I believe that once we acquire, you're going to see this number in the 2.3% over the next few years of the combined company and then you'll see it start to go down to one and eventually I think it will be back below one. Treasury stock purchases, $4.2 billion. I just showed you that we're really not going to buy any in the next 2016 and '17 and you can imagine the next five years managing debt which hasn't been on this chart in 15 years, paying debt down will be the lion share of the cash.

Summary of Valspar class for financing and legal advisor, again over to the right-hand side a total of $185 million to $205 million. Using a 39% tax rate, that will give you an EPS hit of a $1.20 to a $1.33. We show you the total in net income and EPS hit by quarter. The first quarter was $0.24 cents and again six million of that 36.9 was in interest, 31 million of it was in SG&A. Fifteen cents in the second quarter, $0.16 cents in the third quarter, depending on when this acquisition closes the difference between those three quarters and the total will be between the fourth quarter and the first quarter, and if it closes in the fourth quarter this year, a 100% of this would be realized this year, if not, a bit chunk of this remainder will hit in the first quarter.

Our long-term debt to EBITDA, I just wanted to show you with what we think is going to be long-term. I just mentioned we should have $12.5 billion debt the day we close. If you use the $1.8 EBITDA and raise it for the year, I'm just going to round it to two billion so it's easy. That would tell you the day we close, we're going to be six-and-a-quarter. By year-end 2017, we think we'll be at four-and-a-quarter. By the end of 2018, we think we'll be three to one. The reason we jump all the way to 2020 is we think by 2020 we're going to be below two to one, a big goal for us.

We show you the long-term debt 9.2. I mentioned that we're going to issue six-and-a-half, we're going to assume two, we have a $1.9 billion but we have $700 million that we're going to mature this year. So that's why that number is at the 9.2. The reason why you look at the 12.5 down to 9.2, this is not total debt, we have short-term debt for the remainder but it just shows you where we think we can take this balance sheet by 2020.

Credit rating, reduce that as a priority. Stock buybacks remain minimal until debt to EBITDA approaches two to one. Dividend increases but not at the 30% year per year and investment grid is super important to us because of that first quarter. But for small selective bolt-ons that are very strategic for us, get our cash back. I think that if you look at the results John mentioned, the North America Comex, you could see why if we had another one of those we would jump on it. So it's not that we're totally out of -- but we are very focused on creating shareholder value and reducing our debt. So with that --

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