

**JOEL BAXTER:** President and general manager of the Global Finishes Group.

**DAVID SEWELL:** Good morning! It's really a privilege for me to represent the men and women of the Global Finishes Group and talk a little bit about our strategy and focus.

You'll hear from three of our group leaders this morning: Tom Hablitzel, president of our Automotive Division, Dennis Karnstein, president of our Product Finishes Division, and Brad Rossetto, president of our Protective and Marine Division. In addition to Ron Shuck who is our Senior Vice President of R&D, who will be with you a little later today as part of the tour showing off our innovation at the Breen Technology Center. These are really terrific leaders for our business with superb expertise in the industries. So we're excited to have them up here to speak with you.

A little bit about our group. The Global Finishes Group is comprised of these three distinct operating divisions which we also referred to as our industrial businesses. As a group, we work hard to leverage our assets and resources, drive synergies and to deliver accelerated growth and maximize our segment profit.

We are currently comprised of over 6,000 employees. We operate over 300 industrial branch facilities and we sell into over 100 countries around the world, many of them represented by the flags here in this room today.

While I know most of you are very familiar with our architectural business, you may not be as familiar with our Global Finishes Group. So, we put a short video together that I think does a nice job of showing the diversity of our Global Finishes Group customers and segments. So, here's a look.

So from an industrial coating segment standpoint, we view the industry market size globally at over \$68 billion. And aside from packaging, coil and automotive OEM, we participate across the remaining industrial segments which provide tremendous opportunity in very attractive growth markets.

Our customer segmentation strategy really allows us to focus on each segment to drive that customer intimacy. And as John and Sean alluded to earlier this morning, Valspar really has a nice leadership position in both the packaging and coil segments, so it's really a nice fit into our portfolio and the segments that we are focused on.

And then if you look at it split by geography, North and South America is actually a smaller market size than Europe and Asia-Pacific. The opportunity for us to grow across the rest of the world is really significant. So with the infrastructure we now have in place, the continued development of our local talent and the technology and the innovation we continue to focus on and deliver in addition to the complementary nature that Valspar brings us globally, we could not be more excited about our future.

And if you look at some of the market dynamics as we see them today, it is a little bit of an uneven global economy. In Latin America, Brazil continues to be a challenge with currency and

the petrochemical market. But in Mexico, we're seeing a strong growth across our industrial businesses.

China is seeing a bit of a slow down in their GDP, but with government investments, we are very optimistic about the second half of 2016.

We are also encouraged with stabilization and growth across most of Europe.

And overall, we feel the growth opportunities are significant across the group in its entirety.

We are also seeing more environmental and regulatory pressure from governments around the world, but we view this as a tremendous opportunity because our customers are looking to us for solutions and the core part of our strategy is solving our customers' biggest problems in the marketplace.

As we view the trends, as we see them for our customers, part of our strategy is trying to respond in a proactive manner. With the desire to continuously lower their manufacturing cost, delivering innovative products that improve coverage, reduce overall cycle times, help our customers' profitability. With the changing environmental demands that we're seeing, providing waterborne solutions that allow our customers to remain cost competitive enables us to be a valuable partner with them.

And finally, globalization; technologies that can be available around the world that can be serviced locally drives new growth opportunities and efficiencies for our customers.

As you look at some of the financial results, 2015 was a challenging year with the uneven global economy with significant headwinds with the strong dollar where the group endured about \$200 million in negative currency, the first quarter saw a sales decrease 3.3% but currency neutral, sales were up 1.4% and volume encouragingly was also up in the first quarter.

We really have terrific momentum on our profitability increasing 24.9% with our return on sales improving 240 basis points.

We initiated the group back in 2009 to enhance focus and execute to our global industrial strategy. And you can see in our seven-year history, our sales has just about doubled. I should add that a significant part of our sales reported through the Americas Group which really allows us to leverage and maximize our products and services through the wonderful 4,000-store platform in Jay's organization which is truly a win-win scenario for us and our customers.

I think this slide really illustrates the momentum of the group as we drive with a sharp eye on continuing to improve our profitability.

Back in 2009, our return on sales was only 1.3%. Last year resulted in another record profit year with ROS achieving a double digit return. This is really an important balance for us while we continue to expand and grow geographically, it's vitally important that our growth and margins positively impact our business.

One of the ways we're doing that is through segmentation. An important part of our strategy is to continue to bring value in core segments. As such, we've created two separate selling segments in 2016 in our Product Finishes Division. One team will be completely focused on wood finishes and we'll have another sales team focused on our general industrial segments. Along with this, we've moved our automotive manufacturing segment into this newly created general industrial segment.

This new structure does three things: it allows us to be completely focused on our customers, becoming that complete solutions provider, it allows us to accelerate our growth opportunities within these segments and be faster to market with unique value propositions, and third, more efficiencies, profitability and a better competitive advantage.

The globalization of our business really continues to be a major factor in our growth. Our customers need their suppliers to support them around the world with speed and service. So I thought I'd give an example to illustrate this.

In our protective & marine business, British Petroleum was expanding its refinery in Indiana to process crude oil from the Canadian tar sands.

BP is headquartered in London, they contracted with an engineering firm in Houston, the steel and the modules were fabricated throughout Asia and Europe, and the whole thing had to come together back in Indiana.

Our teams had to be in front of each stakeholder in real-time around the world and this was just a terrific global win for the team and is just one example of many across the group proving that this is truly a globally interconnected business.

With our ability to service customers across multiple segments, we have recently partnered with Virgin Galactic. Our aerospace team has been working with Virgin in the Mojave Desert to coat the spacecraft as well as the launch plane with our exterior and interior products and Tom Hablitzel is going to talk a little bit more about this and the products.

But along with this, the team brought in our protective & marine business as well as our architectural business to paint their entire new Virgin Spaceport. This is something we're really focused on as a group; identifying areas where we can leverage the entire company. It's a great success and certainly many more cross-selling opportunities to come with both our geographic mix and our diverse product and segment mix as well.

Innovation and speed are so crucial to anyone's strategy but especially ours. So another recent change we made is within our technical team. Before, we used to have three individual division technical teams and in 2016, we have consolidated into one group R&D team bringing greater synergies into this new organization.

This accomplishes several things for us. It brings speed, efficiencies and innovations to our customers in segments. It leverages our product and platform technologies and allows us to share

them across the group much faster, continue to improve our speed and scale up of new products, and importantly, develop a world-class, global technical color platform that can be leveraged in our 300 industrial branches around the world while at the same time consolidating poor lab functions and global raw materials becoming much more efficient. And along with this is our ability to really deliver complete solutions for our customers.

For our customers, delivering products and new products is vital to their success. It's a process that is all-encompassing as it relates to the involvement of multiple functions as well as personnel. And perhaps even more challenging is the speed in which it takes to commercialize a new product. So, our approach is to bring the complete development solution to this critical need from design to manufacturing so we are there at the beginning with our customers' design teams with resources and services showing future trends in the marketplace. We have a dedicated color studio where customers come to visit and also do innovative color development right on the spot in our facility that allows customers not to have to disrupt their production line to see what these new colors and trends look like on their parts. It also allows designers to see new trends being developed from all over the world.

From there, we have a team of engineers 100% dedicated to design engineering to help our customers set up their production line in the most efficient, productive and cost-efficient manner whether it be using computer aided design. Whether principles of 5S or lean manufacturing, our team is dedicated to providing a complete turnkey solution for not only their paint application but assembly and fabrication or whatever may be a part of their manufacturing process.

We have also invested significantly to provide a complete array of testing to help ensure the quality and effectiveness of our customers' products. These include ASTM certified equipment and methods, unique equipment to predict and measure our customers' application performance and the final appearance of their part. Complete accelerated weather testing including humidity and UV exposure. And we even go so far as a certified nuclear testing. These tools provide our customers complete confidence in the long-term quality of their product.

And recently, we have significantly added to our capabilities in our global application centers. These centers provide huge benefit for our customers. It allows them to replicate the exact environment of their manufacturing line. By working together in our application centers, we can dial in product performance and application process offline so they don't lose time and money qualifying these new products with limited interruption in their manufacturing process. So, we're expanding these resources around the world so all of our customers have access.

Here's a very brief video that demonstrates just some of our capabilities.

Now, I know that's not as sexy as some of Jay's or Sheri's commercials with color chips, hang gliding or surfing, but it's the kind of things that gets us really excited in the Global Finishes Group. So when we arrive at the point of trials for final qualification, it really should be a drop in solution for our customers to allow them to get production, which is so vital to them, up and running as quickly as possible. And as always, with the assistance of our extensive field-based technical service team to provide any needed support.

So, these value-added services allow our customers to bring new products to market faster, complete confidence in the performance of their products in real life environments, and it minimizes the downtime on their manufacturing lines to test and trial new products, helping our customers with speed and productivity.

In summary, our strategy remain very focused: operate our group across expansive markets, maintain our customer segmentation, deliver innovative products and technologies and services that allow our customers to differentiate their products, and be more profitable every year.

Our customers are demanding world-class products and services. We want to differentiate with the best people in and around the world with an infrastructure that delivers local service and technical support or complete development support beyond even coatings. We want to be the supplier that our customers want to partner with long-term.

So with that, thank you. And it is my pleasure --

**END**