BOB WELLS: Good morning everybody! Could I get you all to find a seat as soon as possible? I know some people are still getting breakfast, so grab breakfast and find a place to sit so we can get started and stay on time. My name is Bob Wells and I'm the Head of Investor Relations for Sherwin-Williams. Let me be the first to welcome you to Cleveland for our annual financial community presentation. Whether you've come from across the country, around the world or just across town, we really appreciate you making the trek and we're confident that this day is going to be worthwhile. For those of you who have attended this event in Cleveland in the past, you know that this is a change of venue.

Normally, we hold this meeting upstairs on the ninth floor in an auditorium. Unfortunately, that auditorium only holds about a hundred people and we have many more than that here this morning, so we really appreciate you all turning out. This venue is somewhat experimental. It's called, "The Van Sweringen Arcade". We love this room because of the -- obviously the beautiful woodwork. We also decided to hold it here because it is a adjacent to our Center of Excellence, which is the room behind the glass there. The Center of Excellence is a living archive of Sherwin-Williams' history. I think you all know or you may know that this year is our 150th year in business, and most of those 150 years are pretty well documented behind that glass wall right there. The Center is open all morning, so please feel free during breaks or during lunch to go in there, and wander around. Maranda in the blue dress right there, standing in the back is ready, willing and able to help you to answer questions and all of that. So, please take advantage of the Center of Excellence.

Speaking of history, the building we are in is called, "The Landmark Office Tower", and it's been our headquarters for the past 86 years. It is a jewel of the Cleveland Skyline. You can see right there circled in red. Well, that's not the most flattering picture, perhaps maybe a more dramatic angle. Well, it looks better at night for certain and even better in an artist rendering. But probably the best view of The Landmark Office Tower is the view from the corner of Ontario and Huron, it looks something like that.

You may have noticed coming into town that this building is adjacent to Quicken Loans Arena where the Cavaliers play. Quicken Loans Arena is going to be a very high profile building over the next few months. Assuming the Cavaliers can pull out one more win and capture the Eastern Conference title, the "Q" will host the NBA Championships during the month of June. Then in the month of July, the Republican National Convention moves in for as long as it takes. So it's safe to say the Arena will see its share of trash talking, bumping, pushing, shoving, elbow-throwing and flagrant fouls, and the basketball games are likely to get pretty physical too.

We have a very full agenda today. It's in your book. This is how it stacks up. There's a lineup of presentations going up to about 9:15. We'll take a break around 9:15 for 15 or 20 minutes, and then we'll wrap up to prepare remarks around 11 o'clock and save about 45 minutes or so for group questions and answers. We'll serve lunch right here in this room and please, as always, feel free to move around the room. Change tables during lunch so that you can talk to as many of the Sherwin executives that are going to present this morning as possible. Following lunch, we will go down these stairs and around the corner and board buses for a three-minute ride to our Breen Technology Center right down the hill for what we are calling a "product innovation tour".

On this tour, we're going to showcase, not only some really cool new products and technologies, but also an approach that we use in the development of new products and technologies. It's an approach that we call "opportunity territories". This approach is depicted by these icons. Each of which represents a broad opportunity territory for new products and services. You'll see these icons used throughout these morning's presentations and typically multiple icons relating to each new product that our presenters are going to talk about.

The six opportunity territories, specifically represented by these icons are maintenance and durability. The painting process as in making it easier, quicker, and more productive, custom solutions, customer connectivity, visual appearance, and visualization, and finally, sustainability. Again, you'll hear a lot more about this opportunity territory approach to product and service ideation and development this afternoon during our product innovation tour. I just wanted to introduce you to these icons so that you understood what they represented when you see them in these morning's presentations.

Finally, I'd like to express my heart-felt appreciation to all the people who worked so hard in addition to their regular jobs to make this day happen. Beginning with my team, Mike Conway, Kristy Johnson who does it all, and Shelley Gesler who couldn't be with us this morning due to a beautiful baby boy with a bad sense of timing, due on the 30th, came on the 5th. Our fabulous technical assistant from HR, Lizzie Lorek back there and back of the table, and help with anything and everything that needed doing from Dave Perry, Jennifer Otter and Miranda in our Center of Excellence. Last but certainly not least, our talented technical team, you will meet down at the Breen Technology Center this afternoon. Many of whom are here in the room this morning. I thank you all wherever you're sitting. Now, without further ado, let me introduce the next speaker.

BOB WELLS: -- which would be me. Those of you who have followed the paint and coatings industry for a while know that empirical data in this industry is very hard to come by. There is simply not very good measurement done by our industry, which is why each year we aggregate whatever market intelligence or market information we have and we take a stab at describing the market in both qualitative and quantitative terms. This approach admittedly is far from perfect and there isn't a whole lot of precision in the numbers that I'm about to present. But I do think it helps us to understand the general direction that the market is heading, where we are seeing strength and opportunity and where demand is lagging.

We always begin with a view globally. This is our view of the global market today, broken down by three broad categories: architectural paint, OEM coatings and special purpose coatings. The segment splits are based on revenue, U.S. dollars to be specific rather than gallons. Overall, we think in 2015, the global market grew a little more than 4% in revenues. By the way, if you're looking back to last year's chart, you'll notice that there's been a slight mix change towards special purpose coatings. That mix change has a lot more to do with an adjustment to last year's numbers than it does that particular category outperforming the market or the other categories in the market. It really didn't, but we made some adjustments to the categories over the last year.

By way of definition, architectural paint also called "decorative paint" is really the cleanest category. It's more homogeneous in the nature of the products that fall into that category, what most people would think of as house paint or paint used on architectural structures. OEM coatings include all factory applied finishes, so it would include categories like auto OEM, industrial wood, general finishing, packaging coatings, coil coatings. Most of which we compete in, a few of the categories we don't. Then finally, the special purpose category is also a catch-all category that includes even a broader range of subcategories like protective and marine, automotive refinish products, aerosol concentrates, traffic marking coatings, et cetera, and even some smaller categories that aren't called out very often. That's how we see the volumes across those three coatings categories.

Then, if you spread that geographically, both in terms of total coatings in the red box and then in our three subcategories, architectural in yellow, OEM in blue and special purpose in green, the Asia-Pacific Region accounts for just over 40% of global demand for all coatings products. You can see a little underweight in architectural relative to the rest of the world, but overweight certainly in OEM product finishes, not surprisingly that being a big manufacturing center. Europe, Middle East and Africa and the Americas pretty much split the balance of the global market.

Later on this morning, you're going to see similar graphs or similar geographic breakdowns of both OEM product finishes and protective and marine coatings, volumes by regions, just like I've done here. But the numbers that you're going to see later won't quite square up with the numbers you see on this graph. The reason for that is mostly attributed to product definition or category definition. The charts you'll see later in the morning represent the specific businesses we currently participate in. It wouldn't include categories like OEM auto, packaging and coil where we have little or no business in any of those categories. So, I'm just calling out what may appear later on as a bit of a disconnect or a contradiction, but in fact it's not.

On this pie chart, you'll see the 10 largest global producers of paint and coatings. Together, they represent a little over 50% of the market. Importantly, the balance of the market is highly fragmented with an estimated 5,000 to 7,500 competitors, most of them, small niche players who possess often times unique technology and serve narrow segments to the market. Moving a little closer to home, this breakdown is of the U.S. paint and coatings market by the same categories I showed you a moment ago for the global market. There are few important points to know here.

First is, that the U.S. market is heavily skewed towards architectural paint compared to the rest of the world. Although it's not the largest architectural paint market in the world, the U.S. is by far the leader in architectural paint consumption per capita. The second thing you'll notice is and not surprisingly, the average price per gallon sold or paid for paint and coatings in the United States is about 30% higher than the global average. This is in part a function of the relatively high cost of labor in the United States, which drives demand for premium products that reduce labor hours on a typical architectural or industrial job.

Drilling down another layer, according to the American Coatings Association, the U.S. architectural paint industry volume grew 5.1% in 2015 to 757 million gallons. A couple notes here as well. The first is, we think this estimate may be a little ambitious given the weather and labor constraints that plague the second and third quarter volumes last year, but it's the best information we have. So we use the 5.1% number to depict the U.S. market. Secondly, because normalized industry volume depicted by the red bar across the top grows at roughly the rate of GDP, and it's been growing faster than the rate of GDP over the last few years. We believe, high 700 millions to low 800 millions represent a pretty sustainable level of gallon sales or volume sales for the market. That has moved up from mid-700 millions range a decade ago.

So, the market is getting bigger, largely because the square footage in place today that needs maintenance -- and keep in mind, maintenance consume more than 80% of gallon volume in the industry in a typical year. The gallon volume required to maintain the existing square footage in America is growing all the time. We also expect professional painting contractors to represent a consistently larger share of the U.S. architectural paint volume over time. This has been true for the last probably three or four decades with a notable step back in contractor share, the contractors, the blue segment, the blue portion of these bars. The notable step back during the great recession where the bottom fell out on new construction and people were more inclined given their concerns about their economic futures, more inclined to do it themselves than to hire a contractor.

But this chart goes back to 1980, and you can see this long-term secular trend towards the contractor. This is due primarily to demographics, the aging of the population being the principle driver. If you watch U.S. Census Bureau data, you know that the population in the United States is going to continue to age for the next 25 years. Today, about 13% of the U.S. population is over the age of 65. In 25 years, that percentage will almost double to over 20% of the U.S. population over the age of 65. That definitely drives demand for "do it for me" versus "do it yourself". If you breakdown the American Coatings Association 5.1% growth rate for 2015 by end customer, we believe volume demand in the painting contractor market grew about 200 basis points faster than DIY in 2015. Now, keep in mind by way of definition here that we include certain tradesman that we would call a remodeler or a handyman in the DIY category rather than in the painting contractor category.

To be classified in the blue portion of that bar, you need to generate more than 75% of your revenues applying paint. So those are painting specialists that represent a growing piece of the overall architectural coatings market. Now, if we drill down even further by end-market segment, by customer segment, the DIY portion of the market is the big blue wedge. As we said earlier, it's about 41%. It grew about 12 million gallons last year or 4% as I indicated earlier. All the contractor segments combined grew about 25 million gallons in 2015. The strongest sub-segment of which was the residential repaint contractor. We commented on that throughout the year, how residential repaint was outperforming all of the other architectural categories.

Residential repaint contractor, the green segment of that pie chart grew about 14 million gallons last year or about 7.5%. Followed by new residential, which was the second strongest performing professional segment, which grew about five million gallons. It's a much smaller segment. It grew about 6.5% or five million gallons. The non-residential segments of the market, both new construction and repaint grew by approximately six million gallons combined or just under 4%. So the non-residential segment has actually slightly underperformed DIY in the market as a whole.

This is what we expect a recovery to 810 million gallons to look like. DIY growth should slow to add only about six million more gallons as we get back to normalized level. Translation, DIY is actually operating very close to normalized levels today. New built, both residential and non-residential will be the biggest beneficiaries as homebuilders and commercial builders continue to respond to growing demand for units and new square footage. If you've been watching the market for new housing, and I realize that data tends to be volatile, but new housing demand is very strong right now in part because there's a lack of inventory in the existing home market. So the builders are stepping in somewhat slowly and reticently to fill the void of lack of existing home demand. Residential repaint, that green wedge will also continue to show strength as rising home values drive higher remodeling and redecorating activity. In total, the professional painter segments that you see here, we'll see almost 50 million incremental gallons as we make our way back to normalized levels in the market.

Last year, we introduced these arrows. The green arrow up indicating positive momentum in this market or region, the yellow arrow sideways, being neutral and the red arrow down being negative. We introduced these arrows as a method, as a mechanism for characterizing the momentum across various businesses and geographies. While the arrows are indicators of momentum -- by the way, in every respect, the arrows are subjective depictions of a compilation of often conflicting objective data. While the arrows are indicators of momentum in each of the categories of geographies we're going to show you, you shouldn't read them as the direction that we expect our business to trend necessarily. In case you wish to draw your own conclusions from this objective data, we've included a much of this subjective data in an appendix that follows these slides in your binder. We've included most of the data that we have drawn these conclusions from.

Let’s begin with the general backdrop in U.S. architectural paint. At the highest level, architectural paint growth in the U.S. is correlated to GDP. In that respect, we expect GDP to be less of a positive force in architectural paint market growth over the next year. It certainly was less of a positive force in the first quarter. Consumer confidence is important because it affects decisions to form households, buy and remodel homes and start businesses. And it softened a bit over the course of 2015, finishing the year with consumers less confident than they were at the start of 2015. That malice has carried over into the first quarter of 2016.

Household formation is a very important driver and perhaps the most volatile metric here and opinions vary widely on the validity of the Census Bureau’s data because it’s based on such a small sample. According to that data, there were more occupied housing units in the first quarter of ’16 than there were in the first quarter of ’15. However, there were fewer occupied housing units in the first quarter of ’16 than the end of ’15, so household formation took a slight step back at the end of the year last year. Finally, homeownership rates are historic lows, which we’ve shown here as a negative. But this negative could certainly turn positive if those homeownership rates revert back to more historical norms. It would create tremendous demand for new housing. The new housing market appears strong. Based on this week’s release, it might even be getting stronger.

Sales permits and start volumes are all in very solid, positive territories. Inventory drops below a five-month supply at April sales pace, which we regard here as a positive because it puts pressure on builders to put more inventory in place at a faster pace. Now, I contrast this to the existing home sales market where you see there, existing home inventories also well below five-month supply is a negative, because it is a constraint on sales. But existing home sales have remained strong throughout 2015 and into 2016. As I mentioned earlier, home value appreciation, that home equity line down at the bottom and rising home values drives remodeling and redecorating activity, people are simply more willing to invest in an appreciating asset.

On the non-residential front, high occupancy rates drive both demand for new square footage and maintenance activity in existing square footage, and with the exception of the multi-family sector, they can see rates are falling and projected to continue to fall. While contracts for new square footage are off their heights from 2014, starts rebounded in March and completions of projects started over the past two years are driving incremental demand for paint in the non-residential segments. Not surprisingly, our outlook for most of the Latin-American market is cautious at best. While we have reason to be cautiously optimistic in Mexico and even Brazil, it’s likely to be awhile before our optimism translates into positive volume demand in most of the market south of the border.

OEM product finishes, another important category for us, which includes all categories I mentioned earlier: OEM auto, industrial wood, general finishing, coil and packaging. Some of those we don’t compete in. The demand environment varies by region and by product category. Conditions continue to weaken in Latin-America. But in other markets, the outlook is neutral overall with some very positive opportunities for growth in specific customer segments across many geographic regions.

In automotive finishes, collision repair and vehicle refinish activity and volumes are driven in part by vehicle miles driven, which have risen significantly in the United States with falling gasoline prices. This is generally positive for the U.S. market for this aftermarket collision repair and vehicle refinish sales, but less so in Latin-America and Asia markets due to declining repair rates.

Then finally, the last category I'll address, protective and marine coatings appear to be getting less worse with the analyzation of declining oil and gas capex spending and energy prices beginning to firm up. While conditions in Latin-America shows very few signs of improvement, the rest of the world appears to be more encouraging. Again, you can find the data supporting these conclusions in the appendix, although it may not lead to the same conclusions that we drew. With that, it is my --

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