

TOM HABLITZEL: My pleasure that I introduce to you the President and General Manager of the Protective & Marine Business, Mr. Brad Rossetto. Thank you.

BRAD ROSSETTO: Thanks so much, Tom and good morning everybody. It's my pleasure this morning to provide you with just a brief update on the protective and marine industry as a whole and some of the challenges that we've seen over the last 12 months since we were all back together. Then I want to look ahead some of the opportunities that we see for continued, sustainable, profitable growth in the segment and some of the things that we're doing within our division to meet the challenges ahead.

2015 indeed was a challenging year for the Protective and Marine industry across the globe. Demand for protective and marine coatings declined just about 11% overall, sidelining roughly about 1\$ billion in coatings demand around the world. And with this contraction, we're seeing just a slight reordering of the mix between the protective and marine coatings with marine demand continuing to soften around the world particularly in Asia, and protective coatings that we see used in resource extraction industries like oil and gas and mining continuing to slacken quite considerably. Now notably, these declines in the changes and the demand profile have reduced the size of the market overall. And after a number of years, we saw expansion. The market actually contracted somewhat in 2015, taking us back roughly to 2011 levels.

Now, having said that, there are a number of very important things that we're doing to move and step with this changing landscape. One thing for our business hasn't changed and that's really our principle mission, and that is to provide protective and marine coatings for asset protection around the world.

Now, we continue to see our space in terms of end use market verticals. We manage these verticals very much like a portfolio. Investing in areas where we see the greatest opportunity for profitable growth and reallocating resources or other verticals that are showing weakness in the near term. Now, to reinforce this point just a little bit, I've spoken in the past about our participation in oil and gas and you know about the work that we do there or with the U.S. Navy being the U.S. and British Navies principal supplier of protective coatings. Or maybe there are some lesser known projects, like the protective coatings supplied in the renovation of the capital dome that we've been seeing over these last few years, to fire protective coatings for major new infrastructure projects around the world. This one happens to be the new street station in Birmingham, England, of course to the New Atlanta Falcon Stadium. We're even working to protect some of the world's coolest roller coasters. This may be an application that you might not know us for. I could tell you a lot about it, but I thought I just show you this quick video clip instead.

Now, the park did want me to mention that they are open this weekend in case you wanted to get a closer look at the fresh coat of paint on that roller coaster. They'll be happy to take your money. But as I did mentioned earlier about slackening demand in protective and marine coatings, roller coasters alone are not going to be enough to make up for the contractions that we saw, and the slump we continue to see in investment in oil and gas, which is a major consumer of protective and coatings as you can appreciate, or the slackening demand that we're seeing in infrastructure projects particularly in China.

But we only really need to look to infrastructure to understand where the demand is going to come from over the next number of years. The reason for that in the immortal words of Neil Young, “Rust really never sleeps.” The state of the world’s infrastructure is very poor. Here in the U.S. alone, it’s estimated that if we do nothing to address the need to renew critical infrastructure, we could face economic declines that could cost us as much as four trillion in lost output. Let’s just consider a few of the numbers. Last year, capital investment in infrastructure, most of which will feature protective, fire protective and floor coatings was 3.4% of GDP or roughly \$611 billion. Now this, according to the president’s counsel of economic advisers is the lowest level that we’ve seen in over 60 years or since about the end of the Second World War. In short, this current state of affairs is really not sustainable if we want to at the very least maintain our current rate of economic expansion. Now, in each of these critical areas, Sherwin-Williams is well-prepared to meet the challenge of protecting these assets. We’ll do that with advanced coating solutions that are longer-lasting, more environmentally friendly, including a very wide range of water born, low or no VOC coatings.

Let’s just take a closer look at one very important infrastructure area, the country’s bridges. We used this everyday. According to the American Society of Civil Engineers, more than 61,000 bridges were deemed structurally deficient. Or to think about that in another way, if we laid out all of those bridges continuously, they would stretch in an uninterrupted section from New York to Miami. It’s a lot of bridge work and as you can appreciate, it’s a heck of a lot of protective coatings. Now, the barriers to entry in this space are pretty high. Not everybody can work in the bridge business. To give you a flavor of what bridge painting is all about, we brought along this short clip for you.

Now, the barriers to entry here extend well beyond, actually being able to apply this coating safely. They extended the coatings themselves. You see these systems are highly engineered or specified as we say in our industry. In many ways, our success is a function of a lot of things. Its service, its distribution, its quality of products, but it all starts with an approval based on a specification. As you can see from this chart, Sherwin -- this is another area of that Sherwin is absolutely leading. We have greater spec share in this space than any of our competitors. And you’ve got to remember, “No specification, no sale.”

Of course, bringing innovative technologies to market is a focus. We all talk about it. But we’re winning awards based on the innovative technologies we’re bringing to market that improve productivity, enhance protection or are easier on the environment. This one happens to be from the prestigious Steel Tank Institute where we won for a technology that does the work of three coats in fewer coats. Speaking of prestigious, we’re proud to announce another of our innovative coatings, our Dura-Plate 301 technology that allows for use on wet or poorly prepared surfaces. So really a coating system that’s perfect for maintenance has won a Queen’s Award for Enterprise Innovation. This is the highest honor bestowed by the U.K. for enterprise innovation. We’re very proud of this one. So at the end of the day, we really are walking the talk and bringing innovative technologies to market.

Finally, speaking of markets, from the perspective of the protective and marine industry, we wanted to give you a view of the year ahead. Now, in the U.S. and Canada, notwithstanding

what we're seeing in oil and gas, we are seeing some upsides particularly, as I mentioned earlier, in infrastructure spending. It really is starting to propel our market in North America. Now, in Latin America, more of a mixed bag. We are seeing improvements in demand in the south cone area of Latin America: Chile and Argentina in particular. But these are offset somewhat by continuing weakness that we see in Brazil. When we move to Europe and the Middle East, the results and our outlook is a little mixed. Brexit continues to waste on projects in the U.K. After the vote in June, we'll get a better sense of how that develops. In the Middle East, we're continuing to see some volatility.

In Asia, where China has been a sunny sky for us these last few years, we're starting to see a slackening of demand, particularly in marine, in the new building segment. And on the protective side with an easing of demand in the big infrastructure projects that we've seen over the last few years as Chinese debt is starting to cool the number of big infrastructure projects that are being undertaken.

So to sum up this morning, we remain very bullish in our ability to continue to be a source of sustainable, profitable growth for the company. We have a very strong diverse portfolio of end use market segments in which to draw from, and really are addressing the market at large. And we have a leading position and specifications and approval, so critical, and a robust innovation pipeline in which to draw from. A number of these cool innovations you will see later this afternoon when you visit our technology center. With that, I'd like to thank you for your interest in our business.