

SHERWIN WILLIAMS CO
Form 10-Q
October 29, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Period Ended September 30, 2014

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____
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 (I.R.S. Employer
incorporation or organization) Identification No.)

101 West Prospect Avenue, 44115-1075
Cleveland, Ohio (Zip Code)
(Address of principal executive offices)
(216) 566-2000
(Registrant's telephone number including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

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Common Stock, \$1.00 Par Value – 95,997,693 shares as of September 30, 2014.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

Thousands of dollars, except per share data

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
Net sales	\$3,150,570	\$2,847,417	\$8,560,121	\$7,728,474	
Cost of goods sold	1,679,615	1,551,459	4,613,612	4,236,086	
Gross profit	1,470,955	1,295,958	3,946,509	3,492,388	
Percent to net sales	46.7	% 45.5	% 46.1	% 45.2	%
Selling, general and administrative expenses	984,366	889,690	2,837,637	2,505,493	
Percent to net sales	31.2	% 31.2	% 33.1	% 32.4	%
Other general expense - net	11,873	834	12,071	5,266	
Interest expense	16,025	15,394	48,793	45,774	
Interest and net investment income	(764	) (916	) (2,110	) (2,363)
Other (income) expense - net	(14,593	) 3,494	(19,237	) 1,488	
Income before income taxes	474,048	387,462	1,069,355	936,730	
Income taxes	147,808	124,496	336,211	300,292	
Net income	\$326,240	\$262,966	\$733,144	\$636,438	
Net income per common share:					
Basic	\$3.42	\$2.60	\$7.53	\$6.24	
Diluted	\$3.35	\$2.55	\$7.39	\$6.11	
Average shares outstanding - basic	94,800,191	100,460,185	96,744,423	101,362,328	
Average shares and equivalents outstanding - diluted	96,714,043	102,622,514	98,670,999	103,551,542	
Comprehensive income	\$269,970	\$286,887	\$682,402	\$617,758	

See notes to condensed consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Thousands of dollars

	September 30, 2014	December 31, 2013	September 30, 2013
Assets			
Current assets:			
Cash and cash equivalents	\$261,346	\$744,889	\$1,035,713
Accounts receivable, less allowance	1,408,967	1,097,751	1,348,607
Inventories:			
Finished goods	866,908	779,057	818,557
Work in process and raw materials	179,734	191,758	199,061
	1,046,642	970,815	1,017,618
Deferred income taxes	101,815	104,496	128,306
Other current assets	260,965	240,766	240,471
Total current assets	3,079,735	3,158,717	3,770,715
Goodwill	1,167,047	1,178,687	1,175,621
Intangible assets	295,251	313,299	307,043
Deferred pension assets	304,207	302,446	252,229
Other assets	457,480	407,975	405,052
Property, plant and equipment:			
Land	129,309	125,131	101,731
Buildings	703,351	715,096	698,675
Machinery and equipment	1,916,091	1,838,590	1,872,562
Construction in progress	48,360	62,563	44,301
	2,797,111	2,741,380	2,717,269
Less allowances for depreciation	1,783,826	1,719,997	1,706,341
	1,013,285	1,021,383	1,010,928
Total Assets	\$6,317,005	\$6,382,507	\$6,921,588
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings	\$55,621	\$96,551	\$295,276
Accounts payable	1,266,167	998,484	1,121,001
Compensation and taxes withheld	344,815	337,637	305,525
Accrued taxes	192,464	79,504	187,662
Current portion of long-term debt	502,278	502,948	2,386
Other accruals	507,037	513,433	494,423
Total current liabilities	2,868,382	2,528,557	2,406,273
Long-term debt	1,122,699	1,122,373	1,631,988
Postretirement benefits other than pensions	273,706	268,874	320,219
Other long-term liabilities	700,282	688,168	693,457
Shareholders' equity:			
Common stock—\$1.00 par value:			
95,997,693, 100,129,380 and 101,333,029 shares outstanding at September 30, 2014, December 31, 2013 and September 30, 2013, respectively	114,211	112,902	112,604
Preferred stock—convertible, no par value: 40,406 and 54,946 shares outstanding at			

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December 31, 2013 and September 30, 2013, respectively		40,406	54,946
Unearned ESOP compensation		(40,406) (54,946)
Other capital	2,019,493	1,847,801	1,798,797
Retained earnings	2,345,016	1,774,050	1,708,553
Treasury stock, at cost	(2,754,998	) (1,639,174	) (1,361,234)
Cumulative other comprehensive loss	(371,786	) (321,044	) (389,069)
Total shareholders' equity	1,351,936	1,774,535	1,869,651
Total Liabilities and Shareholders' Equity	\$6,317,005	\$6,382,507	\$6,921,588

See notes to condensed consolidated financial statements.

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THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

Thousands of dollars

	Nine Months Ended	
	September 30, 2014	September 30, 2013
OPERATING ACTIVITIES		
Net income	\$733,144	\$636,438
Adjustments to reconcile net income to net operating cash:		
Depreciation	125,761	117,693
Amortization of intangible assets	22,611	21,473
Stock-based compensation expense	43,813	35,948
Provisions for qualified exit costs	10,229	848
Provisions for environmental-related matters	11,034	2,353
Defined benefit pension plans net cost	5,440	14,963
Net increase in postretirement liability	4,455	2,700
Other	1,214	4,302
Change in working capital accounts - net	(58,866	) (52,193
Costs incurred for environmental-related matters	(7,018	) (9,736
Costs incurred for qualified exit costs	(8,726	) (6,451
Other	(1,781	) 9,573
Net operating cash	881,310	777,911
INVESTING ACTIVITIES		
Capital expenditures	(135,903	) (108,500
Acquisitions of businesses, net of cash acquired		(92,780
Proceeds from sale of assets	1,037	3,298
Increase in other investments	(30,677	) (55,872
Net investing cash	(165,543	) (253,854
FINANCING ACTIVITIES		
Net (decrease) increase in short-term borrowings	(35,947	) 228,241
Payments of long-term debt	(290	) (1,140
Payments of cash dividends	(162,178	) (154,352
Proceeds from stock options exercised	73,192	48,973
Income tax effect of stock-based compensation exercises and vesting	56,197	41,219
Treasury stock purchased	(1,094,070	) (492,022
Other	(23,397	) (18,443
Net financing cash	(1,186,493	) (347,524
Effect of exchange rate changes on cash	(12,817	) (3,410
Net (decrease) increase in cash and cash equivalents	(483,543	) 173,123
Cash and cash equivalents at beginning of year	744,889	862,590
Cash and cash equivalents at end of period	\$261,346	\$1,035,713
Income taxes paid	\$173,430	\$161,416
Interest paid	44,055	39,639

See notes to condensed consolidated financial statements.

THE SHERWIN-WILLIAMS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Periods ended September 30, 2014 and 2013

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

There have been no significant changes in critical accounting policies since December 31, 2013. Accounting estimates were revised as necessary during the first nine months of 2014 based on new information and changes in facts and circumstances. Certain amounts in the 2013 condensed consolidated financial statements have been reclassified to conform to the 2014 presentation.

The Company primarily uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs are subject to the final year-end LIFO inventory valuation. In addition, interim inventory levels include management's estimates of annual inventory losses due to shrinkage and other factors. The final year-end valuation of inventory is based on an annual physical inventory count performed during the fourth quarter. For further information on inventory valuations and other matters, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended