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# VALUE LINE SELECT™

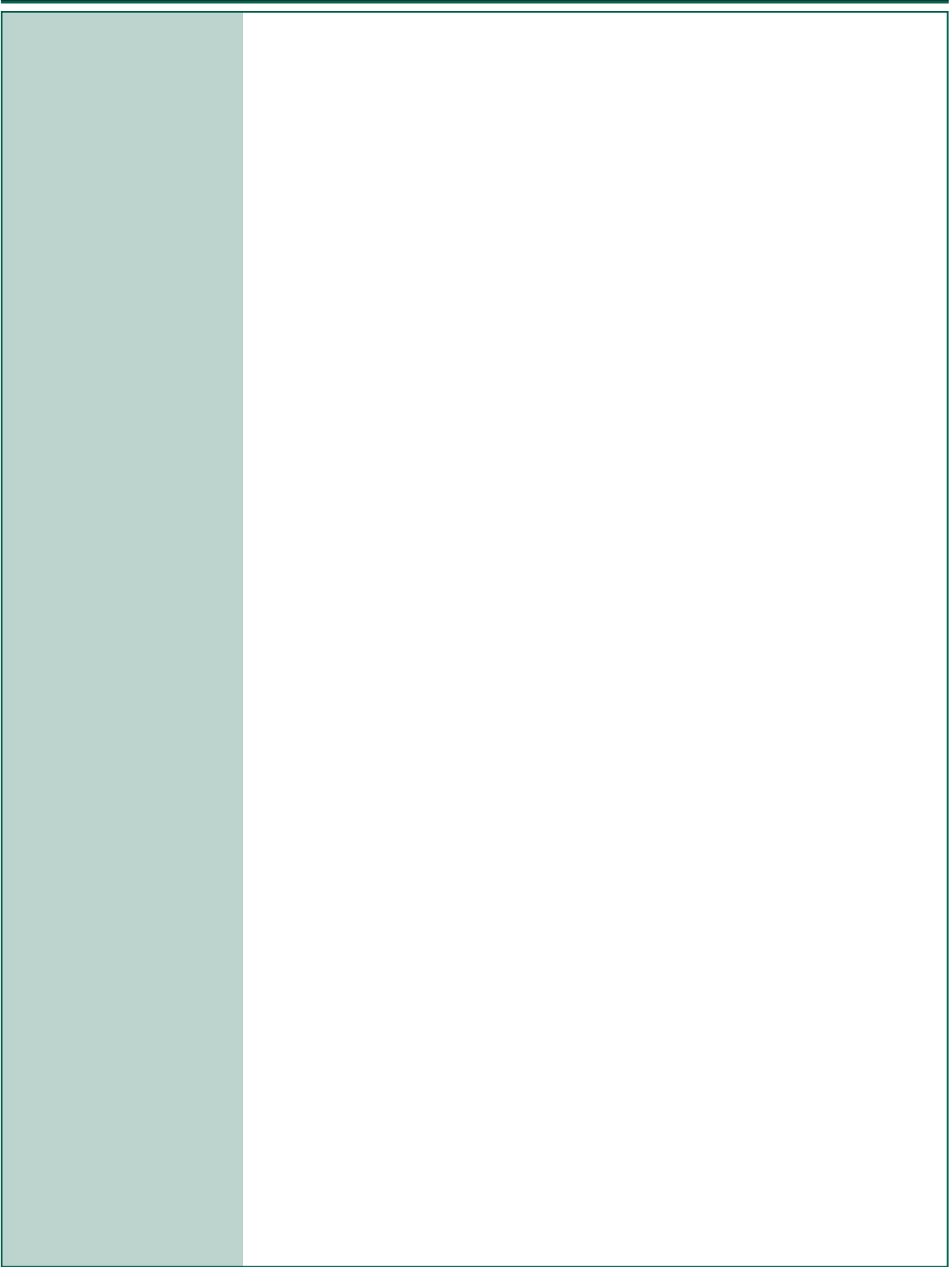
SHERWIN-WILLIAMS  
COMPANY



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TELEPHONE: 212-907-1500

[www.valueline.com](http://www.valueline.com)

NOVEMBER 2009



TIMELINESS<sup>(A)</sup>: 4

TECHNICAL<sup>(B)</sup>: 3

SAFETY<sup>(C)</sup>: 2

RECENT PRICE: \$59.94

2012-2014 Price Forecast:  
\$70-\$95

Footnotes are on Page 19

VALUE LINE SELECT™

## SHERWIN-WILLIAMS COMPANY

**INDUSTRY:** Chemical (Specialty)

**DIVIDEND YIELD:** 2.4%

**EXCHANGE:** NYSE

**SHARES OUTSTANDING:** 113.3 million

**TICKER SYMBOL:** SHW

**INSIDER HOLDINGS:** 17.9%

**OPTIONS:** Yes

**MARKET CAP:** \$6.8 billion (Large-Cap)

**FINANCIAL STRENGTH:** A

**ADDRESS:** 101 Prospect Avenue,

**ACTUAL E.P.S. FY '08:** \$4.00

Cleveland, Ohio 44115

**ESTIMATED E.P.S. FY '09:** \$3.62

**TELEPHONE:** (216) 566-2000

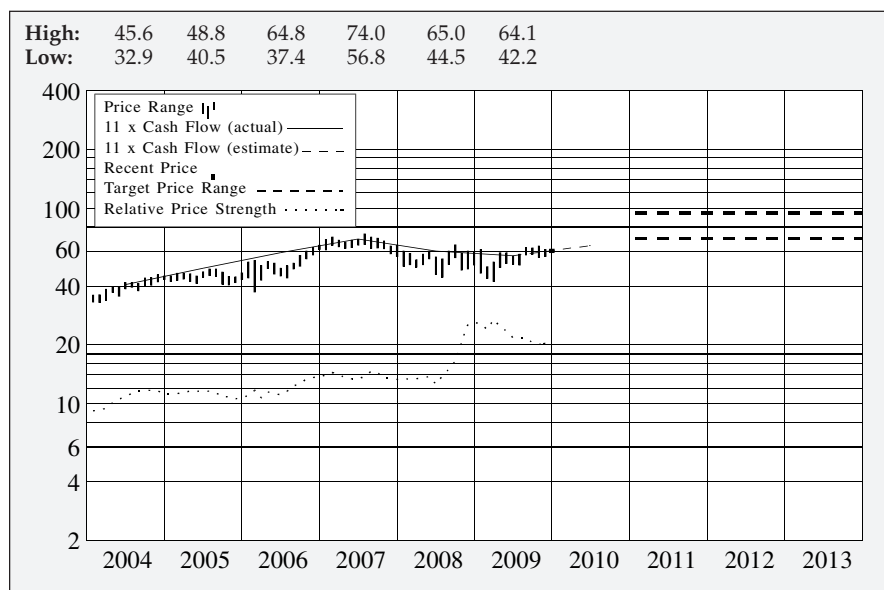
**ESTIMATED E.P.S. FY '10:** \$4.20

**WEB SITE:** www.sherwin.com

**CURRENT P/E RATIO:** 15.8

**REPORT AS OF:** November 20, 2009

**RELATIVE P/E:** 0.92



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# SHERWIN-WILLIAMS COMPANY

The Sherwin-Williams Company, one of the world's leading paint, coatings and related products companies, is our Select stock of the month. The company manufactures and distributes its products to professional, industrial, commercial and retail (do-it-yourself homeowners) customers primarily in North and South America with additional operations in the Caribbean, Europe, and Asia. The Company is the third largest coatings company in the world, and is the U.S. market leader. Leading brands include Sherwin-Williams, Dutch Boy, Pratt & Lambert, Thompson Water Seal, Miniwax and Krylon spray paint. It has three operating segments — Paint Stores Group, Consumer Group and Global Finishes Group. The company was founded in 1866 and incorporated in Ohio in 1884.

*We expect  
that multiple  
catalysts will  
boost results in  
the coming  
quarters*

## *Growth Opportunities*

We believe that there are four factors that will boost results in the coming quarters: First, is the likely stabilization of the housing and commercial real estate markets (as well as automobile and industrial goods manufacturing), which should boost the volume of product sold; Second, the renewed use of professional contractors by homeowners should support margins; Third, cost controls implemented during the recent tough times will continue to help; and finally, strong cashflow and a healthy balance sheet should provide management with the wherewithal to explore (accretive) acquisitions.

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*Sherwin has  
an impressive  
track-record*

## *What About The Stock?*

We believe that the shares are best-suited for multi-year, moderate-risk-tolerant investors who desire the high probability of a solid total return (the shares carry a 2.4% dividend yield). Too, we believe that our estimates, and hence the stock price target, may prove conservative, as the growth opportunities detailed within this report bear fruit.

## *This Is a Well-Run Company*

As the multi-year stock price chart on the opening page attests, share-holders have been well rewarded, over time. The company earns an A rating for Financial Strength, and also scores high on a number of other metrics. Return on Capital and Return on Equity have exceeded 20% since 2005; the company scores 85 out of 100 for Earnings Predictability, 90 of 100 for Stock Price Stability, and a perfect 100 for Price Growth Persistence.

## *The Housing and Commercial Real Estate Markets Matter*

The consumption of paint and related products is highly dependant on the sale of new and existing homes, as new owners personalize and refurbish their residences. The debacle in the U.S. housing market reduced architectural paint sales volume beginning in 2007, and the reduced demand for coatings expanded into other U.S. paint markets, including commercial real estate, in 2008. The economic downturn in the U.S. spread into foreign markets during the last half of 2008, contribut-

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*We expect that demand will improve in 2010*

ing to an overall decline in business. Too, paint sales volume remained depressed in the third quarter and the first nine months of 2009.

That said, the trend in U.S. housing demand appears to be in the process of stabilizing. Housing starts rose in May, June, and September, and declined a tad in July and August. In October builders unexpectedly broke ground on fewer US homes, and building permits, which are a sign of future construction, also decreased. Still, activity may have slowed in part as builders waited to see if a Federally-funded first-time buyer incentive would be extended. In fact, in November Congress extended the tax credit of as much as \$8,000 for first-time homebuyers from Nov. 30, 2009, to April 30, 2010, and expanded it to include some current owners. The new legislation should improve building prospects, at least through next April 30th.

Importantly, the annual rate for housing starts has increased significantly (almost 40%) from the January, 2009 lows. Luxury home-builder Toll Brothers, for example, recently said that orders surged 42% and cancellations slowed in the quarter ended October 31, 2009.

Meanwhile, existing home sales rose in June and July, but fell in August. Still, existing home sales have firmed more recently, as has industrial production. Too, Home Depot, which we consider a bellwether for housing-related spending, reported that it is seeing signs of stabilization in California, Florida, and Arizona, which have been among the states hit hardest by the housing crisis.

Looking forward, we expect demand for architectural coatings to

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*Historically low  
interest rates  
should help*

increase beginning in 2010, driven mainly by an improvement in existing home sales and housing starts, supported by historically low interest rates, and an improving economy. We suspect that aging homeowners will once-again choose to hire professional painting contractors, especially as employment prospects improve (The number of Americans filing first-time claims for unemployment benefits held at a 10-month low, and the four-week average of claims dropped to its lowest point in almost a year as we went to press). If contractor hiring does, indeed, pick up, Sherwin-Williams stands to gain, as it is the supplier-of-choice to the contractor market, due to the consistently high quality of its products. Too, rising occupancy rates should lead to improved sales to the commercial and industrial real estate markets, as new tenants look to refurbish their leaseholds.

### *Interest Rates Matter*

Federal Reserve chairman Ben Bernanke recently noted that the Fed intends to keep interest rates “exceptionally low” for an “extended period”. The very low interest rates, intended to spur economic gains, have a direct impact on housing demand, as it lowers the interest cost imbedded in a monthly mortgage payment, in turn making home-ownership more affordable. In fact, borrowers with good credit histories can now obtain 30-year fixed-rate mortgages for under 5%, in some cases, which is near the lowest levels in 50 years.

### *Contractor Sales*

The aging U.S. population, coupled with a higher proportion

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of two-income families, has supported the use of professional contractors in recent decades. In fact, in 2006, professional contractors accounted for 63% of sales, versus 37% from do-it-yourself home-owners. Although the recent tough times have caused about a 5% increase in the do-it-yourself camp, we expect that the trend will reverse itself and once again favor the contractor segment, as housing starts and employment gradually recover over the course of 2010 and 2011.

### *R&D Is Spurring Product Enhancements*

Professional contractor's preference for Sherwin-Williams products appears to be well-founded and sustainable. The company continues to refresh and refine its products to meet consumer demands, and in 2008 launched Resilience exterior paint that dries in half the time, and also launched a Dutch Boy paint that removes odors caused by pets, smoke, mildew, and the like. Too, recent innovations include an interior paint that goes on thicker to cover imperfections on a wall, and a single-coat exterior paint that carries a lifetime warranty against cracking and peeling.

### *Distribution Counts*

The corporation has a network of about 3,400 stores in the U.S. and Canada that is almost twice as large as its top-ten competitors in the U.S. market combined. The Paint Stores Group consists of company-operated specialty paint stores in the United States, Canada, Jamaica, Virgin Islands, Trinidad and Tobago and Puerto Rico. The stores sell paint, coatings and related products to individual retail customers. The Con-

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*Brand-name  
recognition  
begets business*

sumer Group produces and sells a variety of paint, coatings and related products to third party customers primarily in the United States and Canada. The Global Finishes Group develops, licenses, manufactures and sells a variety of architectural paint and coatings, industrial and marine products, automotive finishes and refinish products, OEM coatings and related products in North and South America, Europe and Asia.

### *Trademarks and Trade Names*

Brand-name recognition contributes significantly to sales. The major trademarks include:

- *Paint Stores Group:* Sherwin-Williams<sup>®</sup>, ProMar<sup>®</sup>, SuperPaint<sup>®</sup>, A-100<sup>®</sup>, PrepRite<sup>®</sup>, Classic 99<sup>®</sup>, ProClassic<sup>®</sup>, Duration<sup>®</sup>, Master Hide<sup>®</sup>, ExpressTech<sup>®</sup>, Duron<sup>®</sup>, Columbi-a<sup>™</sup> and MAB<sup>™</sup>.

- *Consumer Group:* Thompson's<sup>®</sup> WaterSeal<sup>®</sup>, Dutch Boy<sup>®</sup>, Cuprinol<sup>®</sup>, Pratt & Lambert<sup>®</sup>, Martin Senour<sup>®</sup>, H&C<sup>®</sup>, Rubberset<sup>®</sup>, Dupli-Color<sup>®</sup>, Minwax<sup>®</sup>, White Lightning<sup>®</sup>, Krylon<sup>®</sup>, Purdy<sup>®</sup>, Bestt Liebco<sup>®</sup>, Accurate Dispersions<sup>™</sup>, Dobco<sup>™</sup>, Kool Seal<sup>®</sup>, Snow Roof<sup>®</sup>, Uniflex<sup>®</sup> and VHT<sup>®</sup>.

- *Global Finishes Group:* Sherwin-Williams<sup>®</sup>, Martin Senour<sup>®</sup>, Lazzuril<sup>®</sup>, Excelo<sup>®</sup>, Baco<sup>®</sup>, Planet Color<sup>™</sup>, Ultra-Cure<sup>®</sup>, Dutch Boy<sup>®</sup>, Krylon<sup>®</sup>, Kem-Tone<sup>®</sup>, Pratt & Lambert<sup>®</sup>, Minwax<sup>®</sup>, Sher-Wood<sup>®</sup>, Powdura<sup>®</sup>, Polane<sup>®</sup>, Ronseal<sup>™</sup>, Col-orgin<sup>™</sup>, Sumare<sup>™</sup>, Andina<sup>™</sup>, Marson<sup>™</sup>, Tri-Flow<sup>®</sup>, Thompson's<sup>®</sup> WaterSeal<sup>®</sup>, Metalatex<sup>®</sup>, Novacor<sup>®</sup>, Loxon<sup>®</sup>, Napko<sup>™</sup>, AWX<sup>™</sup> and Ultra<sup>™</sup>.

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## *Competition*

Sherwin-Williams is the third-largest Coatings company in the world, following European rival Akzo Nobel and PPG Industries. That said, its 3,400 North American stores compare favorably to Akzo's 580 and PPG's 400. Competitors include other paint and wallpaper stores, mass merchandisers, home centers, hardware stores, and manufacturer-operated direct outlets. Product quality, product innovation, breadth of product line, technical expertise, service and price determine the company's competitive advantage.

## *Costs Matter*

Cost cuts and relatively stable raw material costs should support results even if economic conditions remain challenging into 2010. Because Sherwin-Williams derives most of its sales from company-owned stores, it has good control over its costs, resulting in steadier profit margins than many of its competitors. For example, the company has closed redundant store locations and has consolidated branches in an effort to control costs.

## *The Balance Sheet and Cash Flows Provide Flexibility*

The company's strong balance sheet and high cashflow (as evidenced by its rank of A for Financial Strength) enabled Sherwin-Williams to complete over \$980 million in acquisitions from 2004 to 2008, and provides management the flexibility with which to pursue additional purchases. Expansion

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*Sherwin's  
strong financials  
provide a solid  
platform*

opportunities exist, especially in the western U.S. and overseas, which would complement the company's dominance in (and dependence on) North America. We estimate that over 90% of the US population lives within 50 miles of a Sherwin-Williams paint store, and that its North American stores generate about 90% of total sales.

We expect that cash flows will be adequate to support dividend increases, to meet management's goal of paying out 30% of the prior year's net income. The dividend has increased each year since 1979, and management chose to raise the payout even during the recent tough times. The dividend yield stood at 2.4% as we went to press.

Finally, the company has repurchased \$2.2 billion worth of stock since 2004, supporting earnings-per-share. The paint provider repurchased 3.9 million shares in the third quarter, after repurchasing one million shares in the preceding two quarters. That said, Sherwin has authorization to repurchase almost 15 million additional shares, equaling about 15% of common shares outstanding.

## *Recent Results*

Third-quarter results reflected a continued decrease in demand for coatings and other building materials, due to the global economic downturn and the sluggish U.S. housing market. Sales decreased 12% in the third quarter to \$1.99 billion from \$2.27 billion in the third quarter of 2008, and have fallen 12.5% in the first nine months of 2009, to \$5.50 billion.

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*The most-recent share net total was the first positive year-over-year comparison since 2007*

Still, both the gross and operating profit margins increased in the third quarter versus the year-earlier period, due to lower raw materials, freight and distribution costs, as well as reduced expenses related to cost control initiatives. The margin improvement is consistent with the first two quarters of 2009, as earnings have been bolstered by lower raw materials costs and internal cost reductions. Notably, third-quarter share net exceeded expectations, totaling \$1.51, versus \$1.50 last year, the first positive comparison since the final quarter of 2007.

### *Earnings and Projections*

The domestic housing market appears weak, but there are signs of stabilization. Management recently issued a seemingly cautious forecast for the fourth quarter of 2009, indicating that sales for the quarter could be down 8%-12% with share net of \$0.35-\$0.55, compared to \$0.42 last year. It expects to give preliminary 2010 guidance on the first-quarter conference call early next year.

Management has historically been conservative in its guidance, and the shares now reflect the likelihood of less-than-stellar results for the coming quarter. Similarly, we believe that our estimates, and hence our stock price target, may prove conservative, as well, especially if this financially strong manufacturer and retailer can successfully grow via acquisition.

### *Risks*

Government stimulus measures are, in general, winding down, even though the tax credit for first-time home owners has been

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extended through next April. Too, at some point in time interest rates will rise, damping demand for homes and real estate, all else being equal.

About 90% of the US population lives within 50 miles of a Sherwin-Williams store. While this makes it easy for customers to purchase paint, it also limits opportunities for organic sales growth. That said, we believe there is room for expansion, particularly in the western U.S., New York and Massachusetts.

Finally, raw materials costs are sensitive to the price of oil, as many of the products are petrochemical-derived. Still, the sluggish economy argues for limited price pressure in the near-term.

## *Summary*

Results at Sherwin-Williams Company, one of the world's leading paint, coatings and related products providers, have been hurt by the global economic slowdown, and specifically by the decline in the U.S. housing and commercial real estate markets.

That said, we believe that earnings, and hence the share price, will improve in the coming quarters. We expect that the housing market will continue to stabilize and then improve; that home-owners will renew their use of professional contractors; that cost controls implemented during the recent tough times will support profitability; and that the strong cash-flow and balance sheet will afford management the means to explore accretive acquisitions, repurchase shares, and boost the dividend.

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*The shares are  
best suited for  
multi-year,  
total-return  
oriented  
investors*

We expect demand for architectural coatings to increase beginning in 2010, driven mainly by an improvement in existing home sales and housing starts, supported by historically-low interest rates. Too, we suspect that demand for professional painting contractors will improve, playing to Sherwin-Williams' position as the leading supplier-of-choice to the contractor market.

The company carries an A rating for Financial Strength; Return on Capital and Return on Equity have exceeded 20% annually since 2005; Price Growth Persistence is a perfect 100; and the company scores 90 for Stock Price Stability and 85 for Earnings Predictability. Finally, the dividend has been increased for 31 consecutive years.

Although the exact timing of fundamental improvement remains uncertain, we suggest that investors consider purchasing shares now, on the notion that share gains typically precede earnings gains. We believe that the shares are best-suited for multi-year, moderately risk-tolerant investors who desire a good probability of a solid total return (the shares carry a 2.4% dividend yield), over time.

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# FINANCIAL STATEMENTS

## INCOME STATEMENT DATA

	2008	2009	2010	2011	2012	2013
Net Sales	7979.7	<b>7050</b>	<b>7500</b>	<b>8000</b>	<b>8600</b>	<b>9400</b>
Cost of Goods	4315.4	<b>3810</b>	<b>4025</b>	<b>4270</b>	<b>4565</b>	<b>4950</b>
Gross Profit	3664.3	<b>3240</b>	<b>3475</b>	<b>3730</b>	<b>4035</b>	<b>4450</b>
Operating Expenses	2643.6	<b>2400</b>	<b>2525</b>	<b>2675</b>	<b>2875</b>	<b>3150</b>
Operating Income	1020.7	<b>840</b>	<b>950</b>	<b>1055</b>	<b>1160</b>	<b>1300</b>
Depreciation	165.5	<b>165</b>	<b>175</b>	<b>182</b>	<b>200</b>	<b>220</b>
Interest Expense	65.7	<b>60</b>	<b>60</b>	<b>65</b>	<b>65</b>	<b>65</b>
Non-operating Income	-75.1	<b>-5</b>	<b>5</b>	<b>-9</b>		
Pre-tax Income	714.4	<b>615</b>	<b>710</b>	<b>808</b>	<b>900</b>	<b>1006</b>
Income Taxes	237.5	<b>196</b>	<b>234</b>	<b>271</b>	<b>306</b>	<b>352</b>
Effective Tax Rate	33.26	<b>31.80</b>	<b>32.90</b>	<b>33.50</b>	<b>34.00</b>	<b>35.00</b>
Minority Interest	0.0	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Equity Income	0.0	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Preferred Dividends	0.0	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net Income	476.9	<b>420</b>	<b>476</b>	<b>537</b>	<b>594</b>	<b>654</b>
Diluted Shares	119.3	<b>116</b>	<b>114</b>	<b>113</b>	<b>111</b>	<b>109</b>
Earnings per Share	\$4.00	<b>\$3.62</b>	<b>\$4.20</b>	<b>\$4.75</b>	<b>\$5.35</b>	<b>\$6.00</b>

## PERCENTAGE ANALYSIS

	2008	2009	2010	2011	2012	2013
Gross Margin	45.9%	<b>46.0%</b>	<b>46.3%</b>	<b>46.6%</b>	<b>46.9%</b>	<b>47.3%</b>
R&D as % of Net Sales	1.3%	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>
Operating Margin	12.8%	<b>11.9%</b>	<b>12.7%</b>	<b>13.2%</b>	<b>13.5%</b>	<b>13.8%</b>
Pretax Margin	9.0%	<b>8.7%</b>	<b>9.5%</b>	<b>10.1%</b>	<b>10.5%</b>	<b>10.7%</b>
Net Margin	6.0%	<b>6.0%</b>	<b>6.3%</b>	<b>6.7%</b>	<b>6.9%</b>	<b>7.0%</b>

*All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are Value Line estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number. Footnotes are on page 19.*

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# FINANCIAL STATEMENTS

## AVG. ANNUAL RATES OF GROWTH (2009 to 2013)

Net Sales	5.9%
Gross Profit	6.5%
Operating Income	9.1%
Earnings per share	13.5%

## FLOW OF FUNDS DATA

	2008	2009	2010	2011	2012	2013
Cash Flow	642.4	<b>585</b>	<b>651</b>	<b>719</b>	<b>794</b>	<b>874</b>
Debt Financing	13.4	<b>0</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>0</b>
Pfd Equity Financing	0.0	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Com. Equity Financing	37.2	<b>0</b>	<b>25</b>	<b>0</b>	<b>30</b>	<b>0</b>
Other	95.8	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Funds In</b>	<b>788.8</b>	<b>585</b>	<b>676</b>	<b>729</b>	<b>824</b>	<b>874</b>
Capital Spending	117.2	<b>150</b>	<b>100</b>	<b>200</b>	<b>175</b>	<b>110</b>
Other Investments	68.7	<b>25</b>	<b>30</b>	<b>100</b>	<b>200</b>	<b>300</b>
Dividends Paid	165.1	<b>165</b>	<b>170</b>	<b>175</b>	<b>180</b>	<b>185</b>
Debt Retired	0.0	<b>0</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>39</b>
Pfd Equity Retired	0.0	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Com. Equity Retired	393.5	<b>165</b>	<b>120</b>	<b>90</b>	<b>190</b>	<b>200</b>
<b>Total Funds Out</b>	<b>744.5</b>	<b>505</b>	<b>440</b>	<b>590</b>	<b>775</b>	<b>834</b>
<b>Yearend Working Cap'l</b>	<b>-27.5</b>	<b>52</b>	<b>288</b>	<b>427</b>	<b>476</b>	<b>516</b>

*All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are Value Line estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number. Footnotes are on page 19.*

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# FINANCIAL STATEMENTS

## HISTORICAL BALANCE SHEET DATA

	2006	2007	12/31/08
<b>Cash &amp; Equivalents</b>	469.2	27.3	26.2
<b>Receivables</b>	865.0	870.7	770.0
<b>Inventories</b>	825.2	887.5	864.2
<b>Other</b>	291.0	284.1	248.8
<b>Total Current Assets</b>	2450.4	2069.6	1909.2
<b>Net Property, Plant</b>	828.8	899.4	860.1
<b>Intangible Assets</b>	1202.4	1347.8	1306.7
<b>Other</b>	513.5	538.5	339.8
<b>Total Assets</b>	4995.1	4855.3	4415.8
<b>Payables</b>	779.4	740.8	738.1
<b>Debt Due</b>	212.9	14.9	516.4
<b>Taxes Payable</b>	61.3	70.7	58.5
<b>Other</b>	1021.2	1315.0	623.7
<b>Total Current Liabilities</b>	2074.8	2141.4	1936.7
<b>Long Term Debt</b>	291.9	293.5	303.7
<b>Other Liabilities</b>	937.4	897.5	818.3
<b>Stockholders Equity</b>	1992.4	1785.7	1605.7
<b>Total</b>	5296.5	5118.1	4664.4

## CAPITALIZATION & RETURNS ON CAPITAL

	2008	2009	2010	2011	2012	2013
<b>Long Term Debt</b>	304	<b>304</b>	<b>284</b>	<b>269</b>	<b>239</b>	<b>200</b>
<b>Stockholders Equity</b>	1606	<b>1696</b>	<b>1907</b>	<b>2178</b>	<b>2432</b>	<b>2701</b>
<b>Return on Total Cap'l</b>	26.7%	<b>21.0%</b>	<b>21.7%</b>	<b>21.9%</b>	<b>22.2%</b>	<b>22.5%</b>
<b>Return on Equity</b>	29.7%	<b>24.8%</b>	<b>25.0%</b>	<b>24.6%</b>	<b>24.4%</b>	<b>24.2%</b>

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# FINANCIAL STATEMENTS

## QUARTERLY NET SALES

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Year
2006	1768.5	2130.0	2116.7	1794.6	7809.8
2007	1756.0	2198.2	2197.2	1853.9	8005.3
2008	1781.7	2229.5	2268.7	1699.8	7979.7
2009	1550.7	1947.8	1996.9	<b>1555</b>	<b>7050</b>
2010	<b>1600</b>	<b>2000</b>	<b>2100</b>	<b>1800</b>	<b>7500</b>

## QUARTERLY NET SALES GROWTH

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Year
2007	-0.7%	3.2%	3.8%	3.3%	2.5%
2008	1.5%	1.4%	3.3%	-8.3%	-0.3%
2009	-13.0%	-12.6%	-12.0%	<b>-8.5%</b>	<b>-11.6%</b>
2010	<b>3.2%</b>	<b>2.7%</b>	<b>5.2%</b>	<b>15.8%</b>	<b>6.4%</b>

## QUARTERLY EPS <sup>(D)</sup>

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Year
2006	0.82	1.33	1.30	0.74	4.19
2007	0.83	1.52	1.55	0.80	4.70
2008	0.64	1.45	1.50	0.42	4.00
2009	0.32	1.35	1.51	<b>0.44</b>	<b>3.62</b>
2010	<b>0.45</b>	<b>1.40</b>	<b>1.60</b>	<b>0.75</b>	<b>4.20</b>

## QUARTERLY EPS GROWTH <sup>(D)</sup>

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Year
2007	1.2%	14.3%	19.2%	8.1%	12.2%
2008	-22.9%	-4.6%	-3.2%	-47.5%	-14.9%
2009	-50.0%	-6.9%	0.7%	<b>4.8%</b>	<b>-9.5%</b>
2010	<b>40.6%</b>	<b>3.7%</b>	<b>6.0%</b>	<b>70.5%</b>	<b>16.0%</b>

## QUARTERLY DIVIDENDS PAID

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Year
2006	0.25	0.25	0.25	0.25	1.00
2007	0.315	0.315	0.315	0.315	1.26
2008	0.35	0.35	0.35	0.35	1.40
2009	0.355	0.355	0.355		

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## Footnotes to the Sherwin-Williams Company Report

- (A) *The Timeliness Rank is Value Line's assessment of a stock's probable relative market performance in the 6-12 months ahead. It is computer generated, and uses input items including the company's multi-year price and earnings history, recent price and earnings momentum, and earnings surprises. All data are known and actual. Stocks ranked 1 (Highest) and 2 (Above Average) are deemed likely to outpace the year-ahead market.*
- (B) *The Technical Rank is Value Line's assessment of a stock's expected stock price performance relative to the overall market in the next three to six months, based on an analysis of the stock's relative price performance during the prior 52 weeks. Earnings are not a factor in the Technical Rank. Instead, it is purely a function of relative price action and is primarily a predictor of relative short-term price movements.*
- (C) *The Safety Rank is a measure of potential risk associated with individual common stocks. It is computed by averaging two other Value Line indexes—the Price Stability Index and the Financial Strength Rating. Safety Ranks range from 1 (Highest) to 5 (Lowest). Conservative investors may wish to purchase equities ranked 1 (Highest) or 2 (Above Average) for Safety.*
- (D) *Diluted earnings. Next earnings report due mid February.*

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TIMELINESS: 3

SAFETY: 2

TECHNICAL: 3

RECENT PRICE: 79

3- TO 5-YEAR PRICE  
FORECAST: 85-105

VALUE LINE SELECT™

## SUPPLEMENTARY REPORT\*

### SHERWIN-WILLIAMS

#### *Times Are Getting Better*

Sherwin-Williams Company, one of the world's leading paint, coatings, and related products companies, (NYSE:SHW) reported March-period revenues of \$1.6 billion, up 1% from the year-earlier figure, and adjusted share net of \$0.40, versus \$0.32 in the prior-year period. The adjusted figure ignores the loss of deductibility of a prescription drug subsidy in retiree health care benefits, which resulted in a one-time charge of about \$11 million, or \$0.10 per share.

Sales to professional contractors declined about 5%, but sales to retail consumers rose 1.4%, and global sales advanced 16% in the recent quarter versus the prior-year. Sales to the consumer segment (do-it-yourselfers) have, year-to-date, outperformed sales to professional painting contractors, but the rate of decline in sales to professional contractors has recently slowed, reflecting, we think, the nascent improvement in the housing market. In fact, the amount of credit extended by Sherwin to professional contractors rose throughout the quarter, and sales of spray equipment, a large ticket item typically purchased by contractors, has increased in recent weeks. Too, management noted that March and April (to date) were especially strong, following lackluster sales in January and February.

(CONTINUED ON NEXT PAGE)

*\*Only those subscribers who ordered Value Line Select prior to the original report's publication date are entitled to the in-depth review of this company. Each Supplementary Report is a follow-up to the original recommendation and is not necessarily sufficient by itself to form the basis for an investment decision.*

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Although the top line continues to be challenged by relatively difficult housing market conditions, future results will likely benefit from what appears to be improving housing-related activity. Coupled with still-low interest rates (which support home sales), we believe the multi-year outlook for the shares is very good.

### *The Economy Matters*

We expect that the gradually recovering economy will support the renewed use of professional contractors (as opposed to do-it-yourself customers) by aging homeowners, especially as employment prospects improve. The demand from professional contractors plays to Sherwin's strengths, as the quality of its products makes it the supplier-of-choice to the contractor market. Further, rising occupancy rates should lead to improved sales in the commercial and industrial real estate markets, as new tenants look to refurbish their leaseholds. Finally, Sherwin's strong cash flows and solid balance sheet enable share repurchases, supporting earnings per share.

Although the shares have advanced more than 30% since we recommended them in November, we believe that upward earnings revisions and additional share gains are likely. In fact, management recently raised its 2010 share earnings guidance from \$4.05 - \$4.45 to \$4.20 - \$4.60.

We believe that the shares are best suited for patient investors seeking a below average level of risk and good total return potential (the shares carry a 1.8% dividend yield), over time. We are reiterating our BUY rating.

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# FINAL SUPPLEMENT

## SHERWIN-WILLIAMS

### *Time To Take Profits*

Sherwin-Williams Company, one of the world's leading paint, coatings, and related products companies, (NYSE:SHW) reported June-period revenues of \$2.15 billion and adjusted share net of \$1.64, up 10% and 21%, respectively, from the very poor year-earlier figures. The results reflect a modest increase in demand from 'do-it-yourself' retail customers.

That said, management lowered 2010 guidance by \$0.08 and now expects to earn \$4.12-\$4.52 a share. Further, it provided a sober assessment of business prospects, noting that it expects "more pain to come in the housing market" which is a key driver of paint demand. In fact, paint store sales decelerated over the course of the quarter, reflecting the 5.1% decline in existing home sales, and the 5.5% drop in housing starts in June.

Management also noted an increase in raw materials costs, which, if continued, would likely depress profits.

We believe that the shares will be range-bound for the foreseeable future, and recommend that subscribers take profits, and sell the stock. This will be our final report on Sherwin-Williams.

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