INTERVIEW WITH

CONWAY IVY
SHERWIN-WILLIAMS

SEPTEMBER 5, 1991

INTERVIEW CONDUCTED BY

DAVIS DYER
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AND
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10.21.91

Kathleen -
Here's the recovered interview from disc we sent away to be saved. Were there corrections you needed on this?
NO? PB

AT/First Draft/9-10-91

WG: We're talking with Conway Ivy of the Sherwin-Williams Company, and today is September 5th, 1991. Conway, my first question has to do with your thinking about the coatings business in the 1980s. That is to say, at the time the new management team came in, the conventional wisdom was that coatings was a slow growth industry and that if Sherwin-Williams was to survive long term, it needed to find another leg to the stool. And we talked last time about the Gray Drug acquisition and some of the thinking that went into that. But subsequent to that, and certainly the strategy since the mid-eighties, has been a clear focus on the coatings business. What accounts for the revolution in your thinking about coatings as an area of opportunity, as opposed to the slow growth business?

CI: The coatings industry in general, in terms of its growth characteristics, has not changed during that period of time. It's a mature business and we would estimate that on a total, complete business cycle, that the real rate of growth in coatings would be between one and two percent per year. And for example in terms of gallons in 1990 the industry was down three percent. Our gallonage was up--this year I'm estimating the gallonage in the industry will probably be down more than that. Now on a recovery a lot of times the gallonage may be up four or five percent, but you can figure over those peaks and troughs that it might average, long-term, one to two percent growth. Several things caused us--you might say caused the strategy to crystallize in the mid-1980s. And there was kind of that process kind of evolved with two simultaneous things, and I hope I'm not repeating some things that I said last time, but where we were looking to expand the drugstore chain and we were looking at acquiring a major drug company in New York, I want to say Adams Drug Store--I'm not sure, I'd have to go back in the files--but where Gray Drugstores was concentrated in Ohio and then down in the Mid Atlantic area, and down in Florida, this drug chain was concentrated in New York and Pennsylvania and that. So, in the process of doing that analysis for that acquisition where we could combine distribution, advertising efficiency, we looked very closely at industry trends, and we could see, and particularly looking at industry trends nationwide, and we could see the drugstore industry in California and particularly down in the Southwest was changing with the advent of combination food and drugstores coming into the marketplace. In the markets where Gray was serving, that had not occurred yet. Another major factor was also the advent of discount drugstores, and you know, Shulman's and others. And they were--they had started to come in our marketplace. And indeed we even opened up our own discount stores, called Price King down in Canton, to see actually if these people could make money on their margins, and we found out, yes, at certain volumes they could make a lot of money and do better than our existing stores. So we saw very much a competitive change. The combination food and drugstores were run by supermarket people who, if they got a gross margin of 20 or

22% had died and gone to heaven. And where we're operating on a gross margin of 28 to 30%. So out of that, you know, we started to put a hold on the acquisition and see--we said, "Well, how can we survive this competitive onslaught in terms of our investment?" So we went and we used an outside consultant and we, in a very focused manner, we worked closely with him, and we looked at our market share position in each of our local geographic markets, you know, in Richmond and here in Cleveland and that. And we determined that, if we had the number one or number two market share position in each of these local markets, we could, because of the convenience of having--convenience is very important, location of a traditional drugstore. If we really saturated the market where we could get advertising, we could survive an onslaught of combination food/drugstore coming into our market area. But the problem was when we went and evaluated our position in each one of these local markets, you know, we were number one in a few, number two in a few, but mostly number three and number four. So then we ran a model to say we'd have to add so many stores to get number one or number two in these market places. We ran the model and what it came out is we were going to have to invest $200 million, roughly, in this business over a short period of time, and even after that investment our returns on investment, they would be decent if everything worked out well. But, you know, average. They wouldn't be getting us to the objective of 20% after tax return on our investment. Well, concurrently with--so this started, you know, this raised questions of whether we should invest in the drugstore business.

WG: Twenty percent return after taxes, did you say?

CI: Yes. That's our objective. On equity. We're seventeen right now. Concurrently with this, starting in about 1985 and kind of coming out of the joint venture in Canada with CIO, who was owned 74% by ICI, and actually through Bill's efforts, we had kind of a quasi relationship with ICI, and when their people were coming over here, they had chemical operations here, but we could see they were interested in the U.S. coatings market. We had calls from different German companies and that. So beginning in 1985 when these visiting senior delegations would come, they'd always come by to talk and you know, we would talk to them. And we could see there was a growing interest on the part of very strong European companies coming to the United States. Some of them were even saying, you know, we should joint venture and that. But we identified our primary strength in the marketplace is distribution, and particularly in automotive, where we controlled in our distribution channels. And that was one thing that if a European company or Japanese would want to come here on a grassroots basis, they'd have to build distribution and it would be very expensive. So we knew if they wanted to come they'd make an acquisition because they needed to acquire the distribution in place. So we could see that the competitive climate was probably going to change. You know, it wasn't absolutely certain, but you know, you'd look in someone's eyes and tell their determination. And the competitive climate would change not from the importation of products, but by the nature of the changing of American competition. For example--and so some of this is in retrospect and we have the benefit of knowing how it's sorted out. But conceptually we were thinking this way. For example, Glidden was owned by SCM Corporation. SCM had a typewriter business that they lost a lot of money, and they had a titanium dioxide business that we sold them that they didn't do very well until about 1986. And so Glidden was a strong part of their company and a cash generator, but the other weaker parts of SCM were draining resources off of Glidden. And so Glidden was a strong competitor, but had a weak parent financially. If you look at (Renshed) Mason, which was owned by Inmont. (Renshed) Mason was in the automotive aftermarket. Inmont was a part of United Technologies. It was a division buried down in a large group in United Technologies, you know, making aircraft engines and that. This was just basically a business--they didn't really have any other coatings business, so it was kind of running on its own, but not really having a strong drive. Now that business was acquired by the German company BASF. Actually we bid on that Inmont business. It's to date the largest bid we ever made. We bid $750 for it at the time, and we basically wanted the aftermarket and the automotive OE business. Other parts of that business we had arrangements with the a Japanese company, (Di-

Nippon, Inc.) to sell off part of that. But they didn't want to step up on the bidding, so we bid on the front. And BASF paid over $1 billion for that, and they--later the head of their acquisitions, who Bill Eldredge met later down in Brazil, later admitted that they paid $250 million too much for it. So I was pleased to hear that. But it made a significant difference because BASF is a very strong company financially and is very committed to the coatings business. You had Reliance Universal, which is an industrial coatings company. You know, that was bought by Tyler, again a diversified company, and then later bought by Axel, a strong European company, financially strong and committed to the business. So we could see the nature of our competition was going to change. It was going to go into strong hands.

WG: One more question. Did you give any thought to acquiring Glidden?

CI: Yes, in the sense we talked about it, but we couldn't really sort out how it would fit into the company.

WG: But you never got to the stage where you made a bid.

CI: No. We did not get to that stage. But this is history and this will be sealed (for one)?

WG: That's right.

CI: We're looking closely at it now, though, in the sense now that our strategy is matured, there possibly might be a place for it, but at that time we couldn't see. We had Dutch Boy at that time and we were not doing well with it. And so, you know, there was uncertainty. When you look at the coatings industry at that time, there's about a thousand firms in the industry. It's down, maybe 950 now or less. And of the largest nine firms, I'm talking about in the United States, had about 45-50% of the market place. So it was still fragmented. And our share was, you know, 12-13%. That's the confidential figure. But you can see that we were the largest coatings company. So relative to our competition we were the largest company in the marketplace, but relative to the total market, we had a small, absolute share. So the situation in terms of reaching our financial objectives for our shareholders and that, we obviously have to drive our sales, and if you have a low growth market, the way you're going to drive your sales is by increasing market share. And so because we had a low absolute market share, there was plenty of room to grow in the marketplace. You know, it's different if you have 40 or 50% of trying to get to 70, as opposed from 12 to get to 40 or 50. So we felt that, you know, the best strategy was to drive our sales obviously by gaining market share. And we could see where the competition was going to go into strong financial hands, and so we said, "OK." And we could see over here our other large investment in drugstores. We were going to have to invest $200 million there with uncertain outcome and with increasing competition. So we said, "Let's sell the drugstore chain. Let's take that money and concentrate it on the coatings. And our strategy will be to focus just on the North American market where we're number one and get a dominant position in the North American market before we go anywhere else. And all the talk of Europe and that was coming along, and we, you know, have stayed away from that to put our resources in this part of the business. Another thing concurrently with this that had already started in 1983, when we looked at our Sherwin-Williams Stores network, we had, you know the number, 1200-1300 stores. When that was analyzed, we had a stronger representation in rural markets, rather than in metropolitan markets. But obviously most of the population in the United States is in the metropolitan markets. So we really needed to get store density in the metropolitan markets for advertising and distribution efficiency. So that's why in 1983 we announced the objective of opening a hundred new stores a year. And that program, you know, there were variations off of that number, but essentially between 1983 and 1988 we added 500 stores, and almost all of these were in metropolitan markets.

WG: A large number would be acquisition, right?

CI: No, most of them were internal. We picked up some Firestone stores, and that didn't really work out that well. You know, we've had a couple that we've kept. We bought Hughes Paint and

Wallpaper out on the West Coast. That was mostly a wallpaper store, and we thought we could drive paint through there. That didn't really work out. We got a couple of stores there. So really most of the growth was, you know, opening on our own power. And for example, like in the St. Louis market in 1985, I'm guessing, we might have had three stores, that whole area, and now we have 28 or 29. And so once you begin to get that saturation. There's another thing in that time period in Cleveland, for example. The rule of thumb was used. We have a store per 100,000 in population. And we were at that level in the Cleveland metropolitan market. So we said, the Stores-Dave Fuente and the Stores people said, "Well, let's open more stores in Cleveland, see what will happen. Will they cannibalize other or that." And so we found as we opened more stores in the Cleveland market, it actually enhanced our sales. You know, we went down to one per 65, one per 50. So we've never really found saturation level in our stores, and as we pack more into an area, you know, that helps our other stores. Our biggest problem has been in terms of manpower and the ability to manage it. And as we add in--SG&A get added in and the stores will lose money and then it's a question of how quickly we can get sales going through them to break them even. And on a pro forma basis company-wide they should break even in a couple of years. But that's why adding stores in an existing market they get sales in them quicker because of our presence already there, and we can break them even more quickly. So we're investing money in those stores, and then our strategy--actually for the last ten years we had realized we needed a different brand. In 1980 we made a critical decision in terms of having a different brand for a different market channel. And at that time K-Mart really wanted to use the Sherwin-Williams label in their store, and they even threatened to pull the business. And we had to make a decision even at a critical time not to give them the Sherwin-Williams brand name. And so that's why we went out and bought Dutch Boy to have another brand to go through

PE: Well this was before we bought Dutch Boy? We bought Dutch Boy for K-Mart? Or those two were separate?

CI: Well, actually in terms of the meeting, it was Roger Adams and Wendell Gillon were arguing, had to--K-Mart was one of our biggest customers

PE: And they were threatening to . . .

CI: They were threatening to yank the business.

WG: What was the company selling? It wasn't selling Sherwin-Williams paints, was it?

CI: No, K-Mart has their own label.

WG: Oh, it's a private label, that's right.

CI: Well, it was called The Performer. So they said, "We want to get in here, you know, a big medallion "Manufactured by Sherwin-Williams." They wanted to use the line. And "We're going to pull the business." And so, as you know in your history, when we took Sherwin-Williams out of the dealership and we lost all of that gallonage, there was the pressure at that: Are we going to go back to selling Sherwin-Williams branded product through all distribution channels or are we going to stay committed to just going through our own company-owned? Just, you know, stores. Company-owned distribution channel. And so we were threatened--all that business was threatened. And so we had the meeting and at the meeting it was decided no, we will keep Sherwin-Williams for our own stores. If they want to take the business, fine, but let's go find another brand in order to--for not only K-Mart but the mass market. We could see Glidden had actually grown quite a bit by selling into the home center market and the mass market, and they were starting--Sears was still doing fine in actually 1982, you know, Desoto was a pre-eminent company. But that was a market segment we weren't participating in, and Glidden had a major portion of it, and we wanted to grow in that area. So, stimulated by the K-Mart thing, we said, "We need a different brand to go into the mass market." And of course you know I won't forget it. So we said, "OK, let's find another brand." So I went into my office, and we pulled out a brand awareness study, and I'm not sure who else was--someone else was with me, I can't remember who it was--but I remember I went down the list and, you know, Glidden we weren't going to acquire, and so you take the top brand awareness and there was Dutch Boy. So I said, "Well, Dutch Boy." National Lead owned them. The name came up and its brand awareness figures were so high relative to everything else, and we weren't sure who owned it or that. So that became an immediate candidate. So we found, you know, I checked in that afternoon, and it was owned by Dutch Boy, Incorporated, which was a New York Stock Exchange traded company, and we got the Standard & Poors sheet, and you know, 60-75% of their sales were in coatings. And to just show you how these things go, I said, "Well, how in the world--we don't want to buy the whole company." They have all these other things: the Peco copiers and all of this other stuff. And I said, "How in the world can we buy their coatings name, yo know, coatings business, and get them to change the name of their company? You know, this is crazy." But then I said, "Well, you never know unless you ask." So I had the name there of, it was listed Harvey Brothers owned it. So I picked up the phone that afternoon and called him up just cold and Peter Harvey answered, came to the phone, and I introduced myself and I said, "Well, Mr. Harvey, I'd like to come out"--their offices were up in a suburb of Chicago, not Skokie but up around that area. I said, "I'd like to come out to Chicago and talk to you." "Well what do you want to talk about?" I said, "Well, you know, I'm really interested in acquiring your coatings business and would like to explore this with you." And he said, "Well, OK. We can do that." Ted Hopkins was there. So Ted Hopkins and I, we went out and called on Peter Harvey, and of course that was one of the things had to, you know, the name was what we really wanted. So when we came up to his company headquarters, here he's got a big Dutch Boy out in front, and then you walk in and there's Dutch Boy all over the place, and then sitting down and talking to Peter, he's in love with the Dutch Boy, and he's telling about all of these different things. Holy mackerel! How are we going to get him to get rid of that? So we started talking over a period of time, and he agreed that he--we told him we had to have the name, so we got over the hurdle that he'd sell us the name and the coatings business. So he had some old plants that he was shutting down. We didn't want to buy those. His inventory was in terrible shape. His receivables were questionable. So he had a traffic paint business in Baltimore which looked interesting. Old Baltimore Paint & Chemical. So we ended up making a transaction that he would collect his receivables and we'd buy his inventory on consignment. And so, and then we'd just buy his other assets: the trade name, his Baltimore Plant, and then we had an option to buy his Los Angeles plant for a couple of million dollars it was. So excluding that option for the basic assets of the brand, we paid about $3.8 million for it. That excluding the inventory. And the Baltimore plant, we put a lot of money in it. It's now our largest plant. And so I think it's, looking back in retrospect, it's probably one of the best acquisitions we've made in terms of value, though we struggled with it. And you know, I still talk to Peter, and he even told me that day when I called on the phone, he had gotten a call from Continental Bank, his bankers. He was up to here in debt. He had $22 million in debt that he had to pay off.

WG: Nervous people at both end of that phone call.

CI: He said it was the Lord answering his prayer when I called. And out of his receivables, because there was maybe $18 million, counting inventory and receivables, he was basically able to pay off all of his bank debt.

WG: What happened to Ropicoh and all the rest of that stuff?

CI: He had it. He took all of that money and then invested it in the oil business.

WG: ??

CI: 1980. So you know, they're still plugging along, but it was kind of the type of transaction we like to do. It was a very good and appropriate deal for him, and we made a great deal for ourselves, and personally it's the kind of transaction I like to do, because after, you know, here's eleven years, you know, I can pick up the phone and we're friends, and it's good. He's happy and we're very happy. So that's where the strategy started to evolve of having a different brand for each distribution job. And the tough part of that was that you have to support a brand with advertising, and if you don't have the volume there, it's very inefficient. So again the commitment was made in the mid-eighties, "OK, when we look at our competition, Glidden is basically going across all four distribution channels with one brand. And we'll differentiate ourselves because paint is conceived by many to be a commodity-type product, so we differentiate ourselves in the marketplace by brand and other merchandising techniques. So that's really kind of how that strategy evolved that's been--it was already being carried out in the automotive business. We had different brands for different channels there. And that's why we committed to the coatings business, and so the basic strategy for, let's say, architectural coatings, is there's four distribution channels: company-owned stores, home centers, independently owned paint stores, and mass marketers. So we were going to the mass marketers with Dutch Boy. We were going through the independent paint dealers with Martin-Senour. We were going to the discount stores, which ?? mentioned, with Kem-Tone, and that later evolved Kem-Tone by Dutch Boy. And through our own stores with Sherwin-Williams.

END OF TAPE 1 SIDE A. BEGIN TAPE 1 SIDE B.

CI: This was all driven off of a common physical distribution system and common manufacturing system and common raw material procurement system. This is for architectural coatings. And then chemical coatings was different. Dedicated to that. And that's kind of the way the strategy evolved.

WG: I have a question about the stores, which is, actually finish this sentence for me, which is, "The stores are a competitive asset because . . ."

CI: We control our distribution and it's (domiciled), probably the company's greatest asset: its name. And reputation.

WG: So it keeps the name out there.

CI: Well, not only the name, but we control our brands and we actually control our distribution. The only way someone can take that business away from us is to come, get that customer out of that store, cause him to go into some other store or outlet. And as long as we service them with high quality products and that, that gives us a base. Now again, as I describe, that's one distribution channel being supported out of a common physical distribution and manufacturing system, which is driven off of the economies of volume. Now where we have Dutch Boy going in and we've been investing in building that, going in to mass markets--you know, now Sears and that, we have that volume along with the basic core stores volume. That helps us lower our cost. But having that stores there, you know, it's the lion's share of our volume right now. Then if K-Mart goes away, or one of these other customers, for whatever reason, it's not a death shock. We still have that distribution. And we're not like Desoto where we're dependent on one customer. But also if one of those customers goes away, hopefully he's going to be going to a less efficient competitor in the sense, because they won't have the volume as we gain share, hopefully. And so it's a combination of the two that I think adds strength. It's a problem--it makes us very different. We're a unique company in that way. And this is something that I've been thinking a lot about in the last two months. When you look at our credit rating, our S&P rating, our commercial paper, we're A2P2 and we're A-. We should be definitely A1P1 and we should definitely be, I think, an AA. Why is that? So then kind of going back into that thinking. Well, it's interesting. Kind of give you a current flavor thing. S&P looks at us as a chemical company. And because we have this retailing component, our ratios don't match up to the chemical company. Moody's looks at us as a retailer. And because we have the manufacturing side of that, we don't match up to a retailer. And I'm just kind of almost giving you train of thought of my thought process, but I think we're stronger than a chemical company because a chemical company is selling to others, and we have our distribution that gives us stability, and we're stronger than a retailer in the sense that we have the benefit of manufacturing our own products and all of those efficiencies. So I'm trying to think of a good way to articulate to each of these analysts how we're not really either--you know, we're a combination of that, but the combination makes us stronger than either one of those two industry factors, and so therefore, you know, that's the conceptual argument of trying to think--but that's a problem of how people . . .

WG: Yes, it's a hard (subject). I mean I'm confused by it.

CI: And actually that's probably pretty good for our competitors, because others have said, "Well, you know, the answer is to open up stores," which is very, very difficult to do, and then they open it up and they lose money.

WG: The second part of the question is, why don't your competitors--I mean Sherwin-Williams <u>is</u> unique, at least in the magnitude of the stores. Some of the others have stores, but nobody has anything like the number that Sherwin-Williams have. Why haven't the competitors followed suit? Just because of the sheer expense? Or is it because, I mean I would hypothesize that they might say, "It's a high cost distribution system. Why should we do it?"

CI: No, there's competitors that are trying to do that. And Glidden had really followed with opening up stores, and they became aggressive in that the last four years, and now they're closing stores. They closed over 120, you know, last year. We have them going the other way. And it's very difficult to open stores. You know. I hope this is--will always be sealed, but in other, you know, you have to do it very, very slowly. And it's very difficult. Other--Saxon's Paint was a successful retailer in Chicago, and they went and they took over a lot of the old A&P food stores there, and they're in Chapter 11. You know, they're out of business now. Because they didn't replace their stores with the rents. Standard Brands, you know, when we came into the company, one of the few publicly traded coatings companies was Standard Brands. I think I told you that story I saw where they were making 7.5% on sales, and they said, we said, "Well, if they can do it, you know, Sherwin-Williams ought to be able to do that." Well, they're losing money now. They were making that margin because they owned their real estate in California. When you mark all that real estate to market, you know, they'll lose money. And they're about out of business. Now they've been hurt by the home center. They were kind of between smaller stores like we have and the big home center. And so they're in a format that they're kind of locked in and they can't get the sales per square foot. But it's hard.

WG: Kathleen and I have been noodling about how the stores work and what they contribute to Sherwin-Williams. Obviously they contribute, at least if the end of year reports are right, you get the bulk of your sales through the stores. So they really are working. But classical marketing theory makes Sherwin-Williams hard to understand because you've got a hybrid marketing system. You sell through your own retail outlets and you also sell to dealers who are competing with your retail outlets, sometimes in the same locations or similar locations. And that's counter-intuitive. It runs across the grain in marketing.

CI: The thing is, if a retailer--well, I guess there's two things: One, as a rough cut, and we're talking architectural coatings primarily. I mean we can add on the industrial coatings, but that would complicate it right now, and it's really a different distribution. So for architectural coatings . . .

WG: Which is the big volume business.

CI: Well, you know, the total coatings market in the U.S. is about $11 billion. And architectural coatings is about 40% of that. So that's about $4.4 billion. These are in producer shipments, not the final selling price of the product. And you could say roughly half of that market, architectural coatings, goes to contractors, and roughly half goes to do-it-yourselfers. And your first split in terms of distribution channel will go along those lines. Paint companies that own their own stores will tend to sell to contractors, primarily. And so like our mix of our sales in our stores are about 75% to contractors. So the . . .

WG: Has that always been true?

CI: It was a little bit lower, I think it was about 65 when I came. Well actually when you go back and look, the DIY market up until this year was flat for the last five years and the contractor segment was growing. And there, you know, we had that volume going through in terms of working our whole structure, was being driven. That was a tremendous advantage. And you know, if we were all DIY, we wouldn't have gotten that. Now the converse is working this year. We have a retail volume is going and you know, that's where it's helping us over in the consumer division and part of the retail and stores are contractor slice. That's helping drive our volume. That's why we're gaining tremendous amounts of share. So when you look at it coming back to the marketing question, one, you have a very different customer base. One's contractor. I mean there's going to be gray areas as always true, but the contractors will also go to independently owned paint stores, who Martin-Senour would sell to. Pratt & Lambert. Going through a dealer network. The contractor will go there. Well, our Sherwin-Williams stores can exist where they're competing with an independent dealer because the independent dealer is offering service, he has knowledge of that contractor, and as long as we're offering a good product at a fair price where he has a good margin, he's going to survive because of that that extra service that he adds. Now in particular right now in that independent dealer market like that we offer Martin-Senour, which is really more of an upscale brand with colors. And in terms of a do-it-yourself customer going to a Sherwin-Williams store as opposed to K-Mart or Home Depot or Sears or that, each one of those stores will have different demographic characteristics. Our retail customers will tend to be older. They're also people wanting to have advice, where they can hopefully talk to a knowledgeable person will go there. They will not get that kind of service in K-Mart. Home Depot is starting to offer some of that end-store service. But you deal with different demographic characteristics. And as long, you know, if we're the low cost supplier and for at any price point we can offer the best quality, and where that retailer can make a good margin and he sells, then he won't have a problem with there being Sherwin-Williams stores down the street. He won't have a problem because it's a different brand. You know, it's coming out--and it's a different organization. Now you get cross--Heckinger's has complained for years. They carry, it's a little bit of an aberration. They carry Martin-Senour. And they would complain when a Sherwin-Williams store would come in. But you know, we'd say, "You're doing fine." You know, they <u>have</u> been doing fine. But it's a different brand. So as long as they're making money and driving their sales, we've so far been able to manage it.

WG: But you are competing--I mean what's interesting is that both types of stores are competing for the same customer, so many the mix is a little different.

CI: No, a little bit different customer. You know, Walmart is going to be a discount store, so they will be selling the lower price points in paint, and they will tend to be selling to a younger customer. And the mixed retail business in our stores will be upper price points, tending to sell to older customers. So you do get . . .

WG: Yes. But a Sears or a K-Mart would have different levels of brands. I mean you can buy the low price or the mid price or the high price point.

CI: Right. And you know at Sears now we have Dutch Boy is the top price point. So, as you also know right now, there's a lot of consolidation going on in retail distribution channels. And the other thing hopefully and conceptually is by us being able to sell product in all of these different channels with different brands so the Walmart down the street doesn't mind Sears selling Dutch Boy. You know, they're selling Kem-Tone and that. No matter how these channels shift and how preferences for channels shift, we hopefully will be able to shift with it. And the other thing is they are between 90,000 and 100,000 outlets in the United States to buy paint, and those outlets exist because of consumer preferences, wanting to go to those outlets. If we were just going to focus entirely on stores, we would never be able to get 50% market share. Now we have an unlimited potential in stores. We could have easily 4,000 stores. And when you get to 4,000, you can go to 6,000. You're talking about that in terms of the volume, and we'll eventually long enough, you know, get there. But I think that gives us a lot of opportunity. Stores becomes very important because that is a tremendous core business that we have that we can grow and we can control, and it helps keep our costs low. Vice-versa, anything we add going through these other channels comes back and helps support the other. So I wouldn't want to have one without the other.

WG: Yes. Again, it just strikes me as, looking at it from the outside, and this may be the problem you have with the analyst, it just looks like a high cost distribution.

CI: Yes. The other thing we've done in the last two years with the analyst--it was a question of how you characterize the company: are you a specialty chemical, are you a retailer, or that? And S&P had us in a miscellaneous category. Now when they called, right after I took over the function, they said, you know, "Do you want to be classified as miscellaneous or building products or that?" And I very consciously chose that we'd be classed as a buildings products company. Now we are--paint, you know, architectural point is mostly repaint--refinish and remodeling. Now I chose building products because when people think about paint, they think about building, they want to talk about housing starts. So people have already put you in that category. But more importantly, from an investor relations strategy, is most of the companies in the building products category are cyclical companies. Now we're cyclical too, but we would have, you know, hopefully earning stability and a good, strong balance sheet, and people would look upon us as a defensive company. And so my thought process was you have all these building products analysts and when you go through a period like we're going through now, they don't have anything--most of their companies are doing well, so they don't have anything to write about. So, you know, and that's the reason why we've gotten good coverage is here's something positive happened, and so the building analysts have something positive to write about. And the whole strategy is ultimately when you look at a portfolio manager, they want to have a, you know, a diversified portfolio, and maybe right now people are uncertain whether the housing market is going to pick up. Well, if it does, then our sales will do great. If it doesn't, we'll keep chugging along. So hopefully it will evolve that they'll use Sherwin-Williams as a core holding in terms of keeping a position in this cyclical building products and housing. So in terms of enhancing our shareholder value and our multiple and that, and you know, along with our financial performance will determine that, but we get into that category and it become a core holding like IBM or AT&T

or that, you know, then I think we're positioned right. And I think, who knows, we'll have to see, but I think we have had a multiple expansion in the last two years. So there was a definite reason for selecting that, as opposed to being specialty chemical. How are we going to compete with the margins at some of those specialty chemicals? We don't. And we're not trying to. So in terms--that was the method behind the madness.

WG: Still back to the question of high cost distribution. SWP or the paints that are sold in the Sherwin-Williams stores are more of a premium paint than, say, the ones that are sold in home centers. That seems hard for me to understand, that your premium paint would be responsible for most of your

WG: Your big seller.

WG: Yes.

WG: And your mass market paints are not.

CI: That's the strength of that brand and that name.

WG: Really? So--yes.

CI: It's a quality image, and justifiably so. You know, over the years. And people would want a quality paint. They think of Sherwin-Williams. I think that's the main reason.

WG: Back to the original question about the attractiveness of the coatings industry. To what extent were antitrust considerations factored into your thinking? In other words, that it would be possible--the company made no acquisitions in paints, in coatings, with any scale between 1930 and 1980.

CI: I think that was--well, I think 1930-1940 would be self explanatory.

WG: Yes. There was a lot of assets out there for cheap.

CI: Yes. Then I'm only speculating, but just looking at it from a historical point of view with the development of Kem-Tone after World War II and the sales of that doing so phenomenally well, there wasn't any need to go out and acquire. And so they're getting good growth, you know, excellent earnings, cash, and that. So then it was in the, I guess the mid-sixties is when, you know, coatings, their competing surfaces, aluminum siding, and all of this, we need to diversify. And so I think that's--and of course that was also the age of a lot of conglomerates and that. And so here you had a good core business that was generating a lot of cash. It was, you know, strong so that would support the diversification hypothesis. So I know up until 1980 there were certainly not any antitrust considerations. I don't think that that was limiting strategy.

PE: Is that so, really?

CI: Yes. I think it was just--at least I haven't ever come across anything. And again our share was 5, 6%. So even then I don't think it would be a problem. In terms of the 1980s, we've not been concerned about that because of the extremely price . . .

WG: (No enforcement?)

CI: Well, yes, but it's an extremely price competitive business. You've got people going out of business and it's a question--you know, we obviously own a large acquisition, have to look at it. And like again I said on Glidden, you know, where this, you know, maybe you might think offhand there may be antitrust problems and we're looking into that, but when I break their business down, I don't really think that they are. But that's where, you know, a lot of times you don't want to close your mind based on that.

WG: Yes. Also if you're the biggest in the industry, and you're still somewhere in the 15% range or something, and you buy the next biggest, that can't but take you up to a quarter in that industry, which is not all that big a share.

CI: That's right. There's nothing we could acquire, though, that would have 10 percentage points.

WG: You're that much bigger than Glidden.

CI: Well, let's see.

WG: PPG.

CI: I'd have to--the reason why I'm hesitating is a lot of the share figures we get are based on purely the DIY market and then after factoring in the--Glidden could be, maybe overall could be 10%. So I take that statement back. That's right, yes.

WG: Glidden was obviously for sale once before when SCM bought it. And I don't know exactly when that was, but I wonder if the company ever thought about--since Glidden is kind of an offshoot of this company to begin with.

CI: I don't know when SCM bought it. It was a long time ago.

WG: Yes. Sixties.

CI: The most recently would have been when SCM was quite undervalued and Hanson bought it. It'd be for sale. Now we looked at it that time, but we didn't want to do something that was unfriendly, and you know, if there was going to be an antitrust problem, that would certainly be brought up if we were going to do it in an unfriendly takeover at that time. And I have to say, one, because we couldn't see how we'd fit in the distribution, and then with that potential problem where they didn't want to be sold, you know, is the reason why we didn't go forward with that.

WG: Yes. It appears to us that the strategy from the mid-eighties on of the company is just very clear, coherent, makes a lot of sense, yielding a lot of results. Are there any boogiemen that you worry about, or anything keep you up at night tossing and turning as to, you know, whether this makes sense? Or is it merely a matter of implementing the next few years? What are the challenges involved?

CI: Well, you know it all comes down, the key is people and our ability to execute. I think just personally I think our SG&A expense in stores is too high. But having said that, you know, and when I go through the figures, it's a lot in the stores. So I don't know the answer. But kind of a nagging question is, is there something in our costs, the way we're organized, that causes those SG&A expenses to be too high? I think the key to getting new stores profitable is getting the sales up quickly enough. And that's been a concern, you know, for a long number of years. But now there's some hope in Canada, where we've opened up the six stores this year, and they are doing well. And you know, they'll lose money for the year, but a couple of them have even made money. They've only been open six months. They made money in July. That's unusual. So and I think you know the Stores people have learned a lot from that. You come back--you know, I referred you to this article-- which I know you've read now--last time, that 1935-36 article? <u>Fortune</u> article?

WG: Yes.

CI: And they talked about the problems and the issues in the paint industry. It really hasn't changed. And when you really look at it, the problems that they were enumerating then and maybe the ones I'm enumerating now are problems of execution and getting people to do their job each day. And that's the challenge of getting 16,000 people to do their job each day, and those are things that, I mean I haven't lost sleep over them or that, but now on the other hand opportunities--tremendous opportunity. And the one thing that I get really excited about, and I don't know how this is going to work out, but if you look at our, you know, if we really, we can keep chipping away at market share and we'll continue to do that. But ever since I've been here, and all of us have been, how can we change the cost structure of an industry? And you go back and look at other industries. When you see where there's a basic change in the cost structure of that, you almost get a whole new growth curve. You can look at a classic example, the airline business going from piston to jet and there's many examples of that. So what a bunch of us have been looking for is how do we change the basic cost structure of the industry? Well, when you look at our cost of goods, raw materials is one of our biggest percentages. And I think we're doing--I don't know how this is going to work out, but we're doing some innovative things in trying to break down that cost structure barrier of raw materials. And when you go back to the industry, I mentioned, you know, 1000 manufacturing firms in the industry. Well, when you look at the industry structure, those 1000 firms are supplied by a monopsony of suppliers. Of latices suppliers, resin suppliers, raw material . . .

END OF TAPE 1 SIDE B. BEGIN TAPE 2 SIDE A.

CI: This has been true--you know, even 60 years ago there were 2600 firms--manufacturing firms. But supplied by a monopsony of chemical suppliers. Now if anybody wanted to get into the coatings business, it's still true today: you go to the suppliers and they will give you the formulas. If you and I wanted to start business, you know, as we said the saying "if you want to get in the paint business, all you need is a bathtub and a canoe paddle." You've heard that saying. The suppliers would give the formulas because they wanted to expand the marketplace. And the money, part of the money was being made back here in this raw material chain. Well you've no doubt gotten into the issue of our being a member and not being a member of the National Paint & Coatings Association. Well, the National Paint & Coatings Association, in my opinion, primarily was an association formed by these monopsonistic suppliers to communicate information and keep all of these competitors in business. That's their business. And it's against their basic interest to have a shrinkage in that, because you know, then they have a purchaser on the other hand that gets stronger. So we're kind of in the tug-of-war here. You know, we're gaining share, and so they're trying to ride both horses and we're pushing. So that's one of the key, aside from getting--the most important thing is the ultimate sale to the customer and all of the merchandising, service strategies, and you know, quality and that, that's where it all starts. But once you start there, then the tug-of-war with the suppliers, particularly if the market is slow, like it is now, then hopefully we'll be able to exercise purchasing power leverage. If the market is tight like it was three years ago, you know, we get a margin erosion. So that's part of the challenge. Well now when we came into the company in 1979, the technology of our products--we went to our suppliers. We went to Rohm & Haas. We went to Union Carbide. They developed our basic backbone resin systems. And they own the technology. And we would establish one of their resin lines. They would come and develop it and they'd let us use it a year or two years. They'd get the advantage of all of our volume, and we would work out all the kinks, and then they'd go and sell it to a competitor. You know, that still goes on. And so in terms, we were never able to differentiate ourselves as a paint product. So that's partly what made paint as a "commodity type" product. That was driven by the suppliers. Now, so the question is, those suppliers are efficient, they're good suppliers, and we don't want to do away with them. We don't want to go back where we're fully integrated, because if we just fully integrate on our piece, we won't get all of the other economies that they have in terms of supply monomers and that. So how does our strategy evolve where we can use their efficiencies of economies of scale, but not have them with their gun at our head? And so the key to that is controlling the technology. And so the things that we're experimenting with now--this is not history, we're going to the future now--but where we're developing our own resin and latex technology, and then we will have that total manufacture where we control that technology. It cannot be sold to another party, but we use their basic manufacturing and purchasing. And the exciting thing is in the pigment side. We look at TiO_2. We can't find a good replacement. But for TiO_2 to get that performance. And that's the thing where I've spent a lot of time on this research project down in New Zealand. You know, why we went and bought that. It's a whole new process for making TiO_2.

And the two basic elements, why we've done that, is right now in the chloride process--DuPont's chloride process is the most efficient process for making TiO_2. And the minimum size plant that you need to have an economic production would be about 60,000 tons per year. Well, and given geographic dispersion and that, if we went back into the TiO_2 business, we would have to sell to our competitors in order to maintain the plant load. And so if we had an 80,000 ton per plant we're selling to our competitors to keep the plant fully loaded, and you don't really make money until you're above about 85% capacity utilization. So what happens when you have an economic downturn, you know, a decline of 3% in gallons? Well who's the first supplier they're going to cut off, is the guy they're competing with. So you know, our swings on that become a lot wider. So for TiO_2 you know we're buying again from a small group of suppliers. Well, the TiO_2 we're buying is not to our specs. It's what makes their plant run most efficiently. It's their specs. And then we have to take their specs and formulate our paint around their specs. Well, in terms of the equation, you know, we're starting out with 65% of our cost already determined, and we're having to work around that. That's why everybody for years, you know, they spent all of their time formulating. So . . .

WG: That's also why DuPont is defending its TiO_2 business so fiercely.

CI: Right. Now you get back, is the question, "Is there something that we could in terms of changing the way TiO_2 is made and you come out with a different product that doesn't maximize the efficiency of a TiO_2 plant, but maximizes the paint performance out here, but something you change further back in the line, starting basic ?? . Well, you know, that was all nice and theoretical because, you know, we couldn't go with a 60 or 80 thousand ton per year plant. Well, when there was an article in Chemical Week and said Fletcher Challenge down in New Zealand had this process and they're in the process of selling and they had a large (luminite?) deposit, and the thing that struck our interest was they said they were talking about building a pilot plant of 3,000 tons per year. And I'd never, ever seen, and they would have an efficient plant at 12,000-15,000 tons per year. Well, I'd never, ever seen anything that, you know, if it were going to be efficient, on that scale. So we--do you want war stories on this?

WG: Yes.

CI: All right. Well, I mean there's many war stories on each one of these acquisitions, but while we're talking about this one, and this is sealed, right?

WG: Sure. Absolutely. Time capsules.

CI: OK. So we saw that and then the great thing about Jack, we went in and said, "We want to look at this." "Well, we don't want to get back into the TiO_2 business." Well, it has interesting--it's technology. So we finagled enough money, a group of us, to take a trip down to New Zealand to see this. And it really was different technology. So then we look at their (ilminite) deposit and they don't have enough reserve, so we say we don't want that. We just want the technology. And they have a pilot plant. So it comes up where we're bidding and have a deadline. And so Jack says, "Well, it can't be any good because why wouldn't DuPont or these other companies buy it and squash it? They've been down there and they've looked at it." They say, "Well, we don't think they have. They have a "not invented here" syndrome. And so we were up--and this is part of the process, which is very good, is Jack and Tom force all the rest of the management to sell them on that. So in that process you get the commitment of the organization to carry it. That's a very definite, key part of the management structure, and I think part of our success. The problem in managing that, though, is you don't want to--if you turn it off too much, you'll turn off innovation. So it's a delicate process. But you gain commitment. You know, like I'm really committed to this project. I mean to see if it's going to work, to make sure it's going to work. So we get up where we have to bid for it. And Jack says, "Absolutely. We don't want to do it. There's not any other titanium producers interested in it, it's probably no good." So

I said, "Well, let me make a bid subject to us entering into a joint venture with another titanium producer, where we could use their plant. And like we talked to Ishihara because we wanted to bring along another producer. So he said OK. So we got our bid in. And so we got the winning bid. So then we go and we get Ishihara to come there and they don't want anything to do with it. We talked to Kerr McGee and they don't want anything to do it. And the more, you know, after we made the bid, we got into the technology, we could really see it was different. And the problem was all of these people were, it was a "not invented here" syndrome, and they were all coming from looking at it the wrong way. The thing that we . . .

WG: By cannibalizing their own business and all kinds of things.

CI: Absolutely. And the thing that we saw is this, you know, the jury's not out yet, but we could, as I say, from anywhere from 12,000 to 20,000 tons per year, we could have on a pro forma basis we could manufacture TiO_2 at an equivalent cost of an 80,000 ton per year plant, and the capital cost would be the same cost per ton. So we would not be at a disadvantage, but we'd have a smaller scale. And with the smaller scale we could supply a portion of our needs. We'd want to continue to buy from DuPonts and others, but we'd buy the commodity stuff from them. But most importantly, having to go through this, we've already paid for the acquisition many times over, and it wasn't that much money and it's just an expense, but we can go back and we've learned more about the manufacture of TiO_2 in that, and ultimately we think--now this is theoretical--there are things that we can change in the manufacturing process. But now that we have the whole thing, we can tweak it back here to see what comes out of the product, and now we have it integrated. And you know, as of now we are making good or better quality TiO_2 than DuPont.

PE: I don't have this. Fletcher what?

CI: Challenge. That's who we bought it from.

PE: And when did we buy? We bought the process? We just bought the process?

CI: Process and a pilot plant down in New Zealand. That was late '89--1989. See, we didn't want to really talk about this, so we didn't talk about it.

PE: You didn't put out any . . .

CI: No. Then it leaked out. So then particularly this was when TiO_2 was (tight) and then the industry--TiO_2 industry got--everybody's talking about it now. But even then. And I argue with Jack, whenever Frank Butler and I--it's Frank Butler, myself, and Glen Cunningham were the basic champions, and then

John Muick is the project manager. But when we went to sell this to Jack, like anytime we go on an acquisition, particularly with Frank Butler and I, he goes over all our failures. He says, "Well, is this another Hillsboro? Is this another Energy Field Chemicals?" And so last time when we were going to buy Desoto, we're used to the litany. You know, he goes through all that. And he said, "Now you got another one down in New Zealand." I said, "Jack, Frank is--we've already made more money on that than we've ever lost on these others." He said, "How do you figure that?" When the word got out that we were going back in the TiO_2 business, our stock went up two points. And so that was at 44 million shares . . .

PE: You're kidding!

CI: I figure we added $88 million to shareholders value for a very small amount. And it was true. It got DuPont's attention. And they've actually had spies to go over there and try to spy what we're doing.

PE: Is that so.

CI: Yes. And they've apologized for that. But and now we're looking for (ilminite) sources. And I called on one of the major mineral sands producers, and they had an operation down in Florida. And so John Muick and I were going down there, since

John Muick and I kind of having a mining background, we were looking at the--and because we were coming down, they flew a person all the way from--they're an Australian company--they flew a person all the way from Australia for the meeting because everybody's very curious about what's going on. So just from what we've learned about TiO_2 and what I think we've gotten a little better response from our suppliers and that, we've, in my opinion, we've more than paid for the acquisition. So if we can break that raw material cost structure through these different means and technology, then I think that will give us a tremendous leg up. And that would be our own technology. That's ten years out.

WG: Well I mean one of the really interesting points in there is that if you could make your own TiO_2, you could tailor it to needs of the paint consumer rather than the needs of the supplier. That could really represent value right there. And differentiate you.

CI: Well and then, see, once we develop--we use our own process to develop the proprietary titanium dioxide. But then we know what it is, what the TiO_2 it is we want. Then we can--we own that, and we can toll that with the producer, but make sure they can't take that elsewhere. And so there will--we don't want to get in the merchant business, but there can be a relationship with our existing suppliers and the real specialty stuff we can continue to make. You know, there will always be room for commodity type. So again, it puts that relationship maybe more on an equal footing. But I'm really talking about, this won't have an impact. The earliest it could have an impact is five years. But looking at how we change the structure of the industry and looking out ten years and seeing this constant relationship of this raw material cost, that's why I get excited. There is a tremendous opportunity.

WG: Yes. I suppose another way is that if you get significantly bigger, you'll have that much more purchasing power with your suppliers.

CI: Yes. And you see, just, when you look back for historical parallels, what was the thing that really made Sherwin-Williams a national company? It was the SWP and the grinding of the pigments and ready-mix paint. That was a technological innovation. Another technological innovation was water-based paint with Kem-Tone. This in terms of if we could change the raw material cost structure with proprietary product, that would be another technological innovation. Then, you know, you have something like that, then you have something that you could also take worldwide and so if you can crack that key, then, you know, you can cover the Earth if the Lord's willing and the creek don't rise.

WG: I'm about out of questions.

WG2: Well, I do want to follow up your vision of the future, Conway, with just asking you--we've heard from a couple of people who look to the Annheuser Busch model as their model for the future. Yours sounds a little bit different.

CI: No, it's the same.

WG2: OK. Could you explain that--how you . . .

CI: Well, I think, you know, where Annheuser-Busch, they had a similar characteristic where they had about 10% market share, and they looked through different brands and that, expanding, and now they're up to 40-45% market share, going through, controlling their, getting the brands in different channels of distribution, having . . .

WG: Taking out the small independents.

CI: Right. Having very efficient manufacturing, you know, and good distribution. So it's, I think it's very similar to that. Now they've had to go to the next phase where they're diversifying into theme parks and that. So you see, you know, if you talk to Jack now, you know, if you look ahead five years or ten years, you might say on this, you know, we might have to be thinking about diversification. We'd never breathe a word of this outside of the company, but if I can crack that raw material barrier, we won't have to think of that diversification for 25 years. Because there you can get to 60% share, or better, and then you have a role model.

PE: Is pigment the major factor, then? Would that be? Or are we also working on latexes and things like that?

CI: I mean pigment is, you know, a major part of the cost structure. But that same idea we're trying to apply in latices and others. And really the jury's still out.

WG: Yes. I mean what it depends on is the chemical companies not waking up. That is to say, if Dupont had really perceived a threat in New Zealand, they could have got there before you, or got there with more money than you.

CI: Yes. But you see, that's the whole thing. Any time you see arrogance, you know you can beat it.

PE: That's great.

WG: The trick is not to get arrogant.

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CI: And in a sense, why do industries change? There's absolutely no incentive for any existing TiO_2 maker to gain another process. He's going to obsolete all of his capital. Now the interesting thing about this, you know, they're at least right now running out of high grade (ruteel), which is a key. So now they're having to make significant capital investments in synthetic (ruteel) plants to upgrade (ilminite). We use low grade (ilminite), and so we're even, in terms of the ore source, our process fits down on the lower grade scale, on the ore source, which is really stuff that's marginal, can't be used. They have to blend it now. And that's why we're getting interest with some of the independent mineral science (companies). But that's only one aspect.

WG: One other thing is we were hoping to get some numbers.

WG: Yes, some data sources. That is, we're not looking for anything proprietary, necessarily, but just when you can quote industry statistics, like, "There were $11 billion of producer shipments." Is that the industry association to which the company doesn't belong that publishes that?

CI: No, it's the U.S. Department of Commerce. In any industry statistics, without even going back historical, you should call Lydia Bazarko who is my director of corporate planning. She'll have a lot of that. The thing--I don't know how interesting this would be, but there's kind of a little story behind each acquisition we've done. And we're almost out of time, but that's in and of itself, I don't know if that type of stuff . . .

WG: Yes, I would be interested in that.

CI: Every one kind of, I can't remember them all, but in terms of why, you know, why the company did things. I don't even know if we went through all of the Gray Drug or that.

WG: We talked about Gray Drug, but I'd be really interested in Desoto and Crylon and Cuprinol. Some of the . . .

CI: Yes, even going back there's Western Automotive. And there's kind of vignettes on . . .

WG: Well, let's get them on. Can we do?

CI: How much time do you have?

WG: Our plane doesn't leave until 7:15, so we could . . .

CI: Let me stop for one minute. I'll do them off the top of my head, and there might be some that we miss.

WG: We talked about Dutch Boy. The next one we have is Western.

CI: Well, not chronologically. I mean do you want to do this in a definitive way, reasonably?

WG: Reasonably definitive way, yes.

CI: Well, there's an acquisition. I wasn't that intimately involved with that; since it didn't work out that ??

. Do you want to go over even the chemical acquisitions, that stuff?

WG: Yes, sure.

CI: The first one in the company was Fords, New Jersey, that we acquired.

WG: Fords?

PE: When was that?

CI: That was in 1979, I think.

PE: Just as soon as you came on board?

CI: In the chemical division. You know, I wasn't that closely involved. I was involved, but not that closely.

PE: Had it been started before?

CI: No. That was in that period that--where we thought we'd expand the chemical business. And we had a paracresol business in Chicago, which was a chemical intermediate. And that is a chemical intermediate that went into a, call it an antioxidant--butylated hydroxytoluene--BHT or BHA. It's a food preservative and that. Well, that was being produced--a major producer of that was Ashland Chemical Company. And they had a plant in Fords, New Jersey. And they had had a fire at that plant and shut down capacity; and then the price of BHT went sky high. And so we thought by being an integrated producer, of having the basic intermediate, that we could control the ultimate market in the sense of the final price. I think eventually PMC did that, but we were in the wrong part of the market cycle. That historically, though, we spent a lot of money because there were a lot of environmental problems that we inherited with that plant. And I have to say personally speaking, and I think though there's a very bad situation, the positive thing came about because we were sensitized very early in the 1980s on the environmental hazards. Not only, while dumpsites we'd been sensitized by the situation at Gibbsboro, but in terms of plant sites and acquisitions, we were sensitized very early, and we were very on the cutting edge with (Ecra) there in New Jersey, and I think that flavored a lot of what hour environmental strategy has been for the last ten years, and as this evolves.

And I think looking out into the future, that is ultimately in my opinion also going to be a factor that's going to separate out competitors. Some of them are going to be forced out of business, and since, if need be, we'll be the last coatings producer in the business. I think it's very important to have a sound environmental policy. And eventually, though it hasn't been so far, but eventually that will be reflected in the price of the product. And so we've done that early in that, and we don't have those expenses later, then we'll have an advantage. So one of the problems we were looking at a chemical strategy too narrowly there. We were building up one product line. Then we acquired I don't remember the year, but we acquired Hillsboro, which was a zinc, zinc oxide producer. And Coffeyville had been running off of zinc fumes from the Bunker Hill and Solomon zinc plant out in Kellogg, Idaho. And we were buying these zinc--you'd have to ask Frank Butler about this, but this was one of the zinc byproducts. And actually when Frank got into it and analyzed it, we were losing money. Coffeyville was losing money and we figured we were paying too much for this, and this was a byproduct. So he figured out another source. And so we went to Bunker Hill and said, "No, you know, we aren't going to pay that much money." And he said, "Well, you know, we won't supply you." Mexican stand-off. So we quit buying from them and then they filed Chapter 11. Whatever money they were making was off of us. Then we bought Hillsboro because they were recycling zinc. We thought the zinc market would pick up. Well, the zinc market would pick up, but in terms of the margins, it didn't. And again, I think that mistake was looking at the business too narrowly. And the other thing in chemicals . . .

END OF TAPE 2 SIDE A. BEGIN TAPE 2 SIDE B.

CI: . . . Coffeyville, Kansas operation. And they have produced barium sulfate for a long number of years, making lithopone and also pigments there. That has wound down and then with the booming part of the oil industry we looked at starting supplying baryte because we were requiring baryte in Missouri and that to the oilfield industry. And then we got into adding chemicals to that and so out of that came the idea that we could take that structure down there and devote it to energy field chemicals, which would be a specialty type chemical for oil production and exploration. And basically driving off that baryte plant. And one of the elements to come out of this is we had all this barium sulfate in this big residue pile of 300,000 tons there and we thought, you know, we could eventually--or hoped, I should say, subject to testing--that we could recycle that pile and sell it as these chemicals, which we were never able to do that technologically and then the market fell out of bed, so that was kind of a venture that didn't work. We came out with one good employee, Dave Carrier, who's now in the automotive business. He was actually fired, actually released from the company and then was floating, so I got him an interview with Len Ward, and so he hired him. But he was actually out of the company for a week, I think. But we got it reversed. But then when Frank Butler became general manager of the chemicals division, he really looked at the business. And we were really a collection of four different chemical businesses, each about $25 million, and none of them were really related. And so in terms of again being effective in the chemical business, you needed about, we figured, $400-500 million in sales, and they had to be related businesses. And they weren't even related to coatings. Tied in also to thought. And Tom Commes was correctly pushing on this. He said we really didn't want to be in capital intensive businesses because they would be more cyclical on a downturn. And so given that and the unrelated nature of these businesses, which led to the sale of the chemicals business. And when I look at those acquisitions and that is, you know, at least I feel my mistake, is I wasn't looking at the business broadly enough. We're trying to build it up piecemeal.

WG: Was there a predisposition to do--they strike me as small investments. Was there a predisposition to avoid big investments in acquisitions?

CI: I think it was mainly what became available, and we weren't looking at establishing a whole new line. We were looking at building on what we had. And as a result, each one of these individual units, you know, being small or $25 million, looking retrospectively I think that dictated a smaller amount. I think there was also, given our conservatism, we didn't want to bet a lot of money. You know, the Gray acquisition for a long time was our largest acquisition. That was $58 million. So I think maybe a combination of those. In retrospect it was good that we didn't risk a lot. Most of the time, you know, '82, '83, '84 was spent in divestiture activity. We looked at--well, we bid on DAP during that time period, the caulk. You're talking about ones that didn't work. That was being sold by Schering-Plough, and we bid I think $62-63 million. After three years I was really pleased. We got our bid multiple up to 12 times earnings. And that's what we figured it was worth, and Beecham paid $84 million for it. And Beecham turned around and three years ago put it up for sale. We bid on it again. They'd added a lot of additional businesses, and I think we bid $85 million for it then and USG bid $130, and now they're--and actually it's interesting because their cash flow, a lot of the things that we thought were problems turned out to be problems. And then USG now has put it up for bid again and this is the third time, and we bid on it again. It's not closed yet, but you know, we lost again to another party who bid at least $30, $40 million more than us. And so if we want to, I imagine sometime we may bid on it a fourth time.

WG: The acquirers are losing on it every time.

CI: Oh, yes.

PE: And then they ask more money for it.

WG: More money back, yes.

CI: Big time. Big time, yes.

WG: P. T. Barnum said it.

CI: Yes. I don't know that it'll make it another time, but you know, that's then business, you know, that type of business.

WG: So you would go with other building type products, then.

CI: Yes. But you see there, in terms of caulks and sealants, the technology is similar to coatings, and then particularly distribution, is sold in a paint department. I can be way off on these dates, but Duplicolor was another company we bought. In that, Len Ward in the automotive division initially thought--we could see trends in the marketplace that there might be a growing trend in do it yourself on automotive touch-up and fix-up, and going through do-it-yourself channels and so he saw that as an opportunity. We had approached them through bankers several times, and then finally a partner of Goldman Sachs called me up and said that American Home Products own it, that they were interested in selling it. That was one of the more interesting negotiations I had with the Chief Financial Officer of American Home Products. His name was Bob Blount. We'd talk on the phone and he'd have his controller doing the negotiation, and he would always would call back and reject and said, you know, "Mr. Blount just beat me up on this and that. And you know, we can't do this and that." This is after we negotiated a point. So I finally told the bankers, I said, "Look. Every time we negotiate, we reach an agreement, and then they open the back door and we hear the gorilla rattle around in his cage and say, you know, we can't do that." And I said, "We're going to go forward. We need to settle this, and we need to do it face to face." So he said, "Fine." So Len Ward and I, we went to New York and Mr. Blount--and actually he's a nice guy--he said, "OK. We'll"--kind of an upscale guy--"we'll go to 21 for dinner." So we're sitting there at 21. There's four of us. He has his, you know, the controller there. And so we're down to a price. So he looks across the table, you know, he's sitting there having a steak. And he said, "All right. How much do you want to pay for it?" And so Len and I had already worked this out and we said, "$16 million." And he said, "I want $24." And I've never seen a guy--you know, so I'd start in with all the reasons why it wasn't worth $24." "I don't want to hear that. $22." "No, $17." So it just went kind of back and forth on the price. And, well, we didn't reach agreements. "Come on into the office next day." So we go into the office next day and he said, "I want you to come in and give me your absolute final bid. And you all go on in the room and talk. I'm not going to go over this stuff," because I think we'd gotten up to $19 and he was $24, I forget the range. So we'd already figured we could take a lot of working capital out, so we went in and Len and I met and Ed Dunfield's there, I think. Said, "OK. How much?" He said, "I'll go $22.5 as a maximum. This is it. This is final bid. $22.5." And so I said, "OK." And I could be off, off a number. So we went in and so Blount says, "What's your price?" I said, "$22." Len Ward almost turned white. And he said, "I want $22.5." I said, "OK." So that was really strange. I'd never had a negotiation like that. But there we bought that for the do-it-yourself business, but it didn't work out that way. The value was in the brand name and where--and it was in the automotive business, and then a decision was made to move that over into Spray-On Division at that time, and it really became--their aerosols became a brand, again on this multibrand strategy, and I'm leading up to Krylon, but Spray-On was a custom filler of aerosols and needed a brand to go on the mass market. So Joe Scaminace started to use a Duplicolor brand to go into K-Mart and other places, but it's, you know, kind of climbing up a steep stair. And we had always--I'll jump around a little bit, but in context we had always wanted a national brand for the aerosol business. We're a low-cost filler here, but we needed a brand to go into to the marketplace, and Krylon was always a brand, and so for three or four years Jack, have him call up Borden, "Want to sell Krylon?" "No, it's not for sale." Are you sure this is going to be sealed?

WG: Yes.

CI: So then they called up one in August of '89 and "We want to sell Krylon. We're only talking to a couple people. We'll send you a book. We want you to look at it. We want you to come back in a week and tell us what you think it's worth, and if the price is to our liking, then we'll sit down an do the deal. If not, then we're going to take it out to the marketplace. So the book came in and everybody scrambled around and we came up with a price and gave it to them. You know, they're very tough people, and said, "OK, that's fine. Now our people don't know about this, but you can go down and have a meeting in Columbus. I was actually on a vacation. I didn't go on the first meeting. But Joe Scaminace and his people went down to Columbus. That's where it was domiciled. And they hadn't told any of their people. So there was one guy down there and he didn't have any information. But the thing that came out of it is that Krylon aerosols was integrated totally under their Elmer's Glue operation. Order entry was combined, their salesforce was combined, their distribution was combined. And so, and all we were buying, we were paying a major price for a brand and a customer list, basically, because we were filling partly for them, but you know, we're not, they had no manufacturing or other assets, just inventory. And so when we went through the analysis--they came back. This was in August. They said, "Well if you want to do this, you have to close by the end of September." And so we said, "Well, we really can't close before the end of September." And they said, "Well, if you can't close, it's no deal." And we really wanted this. And the problem, why we didn't want to close in September was because of the highly integrated nature of the business, and they were keeping all of their people, basically. And so we'd have to build an organization and we would have to completely separate out all of this. So I think we were talking--I'd have to go back on my notes, but we might have been talking a price of $160 million. That's a lot of money, and in terms of transitioning the business, it's a profitable business, but we couldn't allow any glitches. Well, it's interesting. They had--six weeks before they called us they had acquired Illinois Bronze, an aerosol filler out in Lake Zurich, Illinois. Now going back to ones we didn't make, this keep in contact, that was owned by a family, and Joe I went out when that was for sale, and we were going to--wanting to acquire it. And we ended up we were going to offer--business was worth $12 million to us, and we'd identified about $4 million or more of environmental liabilities. So net price was down about $8 million. And the owners, they said no, you know, "We don't want to sell at that price." So, you know, fine. And they had been in financial trouble. They had a consultant in there and they weren't making any money. So we'd even offered a very full price. Business hadn't changed that much, and they sold it to Borden for $22 million with the environmental liabilities and everything else. So they bought that six weeks before they called us and told us they wanted to sell Krylon. So but Illinois Bronze was not part of the deal. So then, in--since this would be sealed, you know, the chairman of Borden, (Ventress?), we were on a conference call in Jack's office and this guy berates Jack in the typical New York style. You know, "I've done 150 deals, 200 deals. You don't know how to do deals. If you can't close in terms of September and you're saying we had to go through all this transition. You guys don't know what you're doing." And so really I've actually, you know, I've never heard anybody talk that way. I actually got irritated so I started lighting into him. But anyway. He said, "Fine. I'm going to take it to a banker." "Well, OK. We'll close the end of October, but we can't close the end of September because of this transition problem. Take it to your banker, and then when he does a book, ask him to send it to us. We're still interested and we'll be a bidder." So in very--come back to the arrogance. And if you might recall other remarks I mentioned I saw a bit of arrogance in the Sherwin-Williams company when we came. And so they hired Bear Stearns. This time we bid. We bid $140 million--less than we did before, and this time it included Illinois Bronze, and we won the bid. And so then we went down there and I can't give you all of the war stories, but the misrepresentations that they made and we would be negotiating a deal and we would reach points, agree on points, and then they'd come back and say, "No, we didn't agree on that." They were absolutely the worst people I've dealt with to date, and I've really had some interesting experiences. So, you know, but it made a lot of sense and it's been an excellent acquisition because it gives us tremendous market share, and so particularly Joe Scaminace and all of his operating people, they sorted through all of that and got it all cleaned out, and it's really given us an excellent position in the marketplace.

WG: Did you get a chance to talk to the chairman of Borden about it?

CI: Oh, to finish the story: The reason why he wanted to do it the end of September is they had, it was either $250 or $300 million write-off from acquisitions that they were making, and they were looking for the gain to offset that. But it was in the journal and stated from previous acquisitions they had made, which I thought was ironical after he'd told Jack. But you know, they'd been buying pasta companies and stuff like that, so. So that would explain Duplicolor where they were in the automotive touch-up paint and these little bottles where you'd touch up. That kind of business kind of died, but we had the aerosol business. We got a good aerosol plant in Oak Grove, Illinois. Then there are other stuff we bid on that I've forgotten, but maybe the next one was Western Automotive Finishes. That was primarily oriented to production shops. A production shop would be like an Earl Shibe, though Earl Shibe was not a customer. Did overall repaint. Maaco was a major customer. So again the automotive division identified in the marketplace where, because of the grown in OEM automotive production, overall repaint in the automotive market were not doing well. You know, that business was flat. And so the more aggressive production shops were looking at going into body and panel repair. Particularly people want a quick job, they can leave their car and get their fender repaired in one day and that. So but they do not have--these paint suppliers in that market do not have the ability to color match. You know, color matching was not important because you were going to paint the whole car. It wasn't required. So they needed new technology, and we could see that as a market niche that we could go into. And they had a plant that at the time we felt we needed in Grand Prairie. And they also had a separate distribution business going through independent distributors through a western brand. So we made that acquisition. That plant is now being shut down because we were able to move that production into Richmond. It was later transferred to chemical coatings and then shut down, but that has worked out reasonably well. We bid on Olympic Lucite and that was an acquisition we wanted. Olympic was a leader in stains, and Lucite--well, actually going back, Lucite was of course owned by DuPont, and DuPont sold that in I think 1983. We bid on that, on Lucite at the time. I think we bid around $30 million for it, but there was a big question in our mind of what was carrying the brand:

was it Lucite or the DuPont oval, and you couldn't get the DuPont oval. So we bid, you know, $32 million and I think Clorox bid $50 million or something like that. Well, that brand went downhill over that period of time because I guess there was a quality image that the DuPont oval added and the Lucite didn't quite have it. But it was a good discount brand. So we wanted Lucite to have another brand to go on the mass market to particular retailers. And Olympic being the key stain brand. And we found-- this will lead into the other acquisition--that a paint brand is usually not very good for stain, and a stain brand is not good for paint. You know, they're really separate. And Olympic had the major share, around 20-22% share. So we were very interested in that and we bid on that. They gave us a contract. They had very limited due diligence. You know, allowed us very limited access. So in terms of the contract, you know, at Larry Pitorak's suggestion and I full heartedly agreed that we would keep very tight representations of warranties because of the failure to allow us to do a lot of due diligence in this bidding process, and then we would relax them later. So I thought we had won and our banker had kind of sent that signal. We bid $120 million and I'll never forget that. That was up in a Mt. Washington hotel on vacation between this and the other one, this was going on. So PPG was in bidding and then they said they had a problem with our contract. And so I said, "Well, if you guys talk to the general counsel we can lower that." And then PPG, I don't know where their bid was later, but then they upped it to about $130 million. And then about three months after the acquisition they sued Clorox for misrepresentation.

PE: What year was that?

CI: That was 1989. And I guess they later settled that. And with Lucite, you know, PPG's become very competitive in the marketplace. We fended them off, so now I think they're hurting Glidden, you know, primarily now. Well, we've always wanted a stain brand and we need a stain brand. And so when you look at the other major stain brands you have Olympic, you have Thompson's, which is a hybrid of water seal and that; and Cabot, and Cuprinol. Cuprinol and Cabot, they're both about the same. Well, when Ensin Bickford, you know they wanted to invest in their other businesses, you know, fiberoptics and that. So they approached us and we said yes we were interested. And Cuprinol is basically a regional stain brand in the Northeast and the Northwest, and they couldn't really take it national. We could see how we could take it national. They have an excellent product. They've had a VOC--volatile organic compound--complying product, and it meets the most stringent standards in California for eight years, truly tested. And it works very well. So with that technology that we would have, and then we can take it national, and you know, that's what we'd be doing the next three years. That would give us a stain line, though it's not Olympic, and we have to invest a lot in advertising. But in with all of the decks and that around, you know, there's a tremendous market potential. So that's how we looked at Olympic. And then when this other came up, that evolved. We've looked at numerous chemical coatings acquisitions. For one reason or other they fell through. We looked at the Moline Paint Company. Relative to price they were a big supplier of John Deeres. And this is going back four or five years ago, what was going to happen there, so we never got together there. We looked at several smaller ones.

WG: (There's) a division of Sterling Drug. Or it's part of Kodak, Sterling Drug, and then . . .

CI: Minwax?

WG: Yes.

CI: Minwax is one. Formby's is another. Formby's we looked at, but it was more of a specialty brand. We couldn't see how much we could do with that. Thompson's is part of that group. And that's another reason why we acquired Cuprinol, is we think Thompson's is in a weakened position. They're spending a lot on advertising, but all of their trade terms and that there's a problem, so we see a window.

WG: How big is the market for stains relative to the market for other coatings, for other architectural coatings?

CI: Believe it not, it's hard to get a handle on it because stains might be $300 million, but then they have clears, and nobody measures clears. And it could be substantial.

PE: Clears? Excuse me.

WG: That's a water sealer, like a . . .

CI: Preservative. So that goes a lot, you know, Thompson's is doing that.

WG: Those also are related to the floor finishes.

CI: And all those wood treatment type products. And we looked at a lot of smaller chemical coatings type acquisitions. Sap-o-lin Paint down in North Carolina. You know, they all, either the price was too high. Sap-o-lin paint in North Carolina was a problem with their plant location. Was on a creek that went into a reservoir that was the water supply for Winston-Salem, and we thought that that would be a problem if we ever had a fire there. So we backed down. It's amazing. Every one of them is different. But we backed away from that. Whitaker, we spent a lot of time. That would have been a great acquisition for us, and . . .

END OF TAPE 2 SIDE B. BEGIN TAPE 3 SIDE A

Whitaker, in going around and visiting Whitaker, that they had a different strategy. They had smaller plants--regional plants that they were serving their marketplace from. And through this analysis, Roland (Chosen) and myself, we realized that probably our chemical coating strategy was wrong. We were trying to supply the marketplace out of two plants, and actually even going back to Joe D. Pretorio, we realized that was a problem and wanted to add regional plants because of the service levels required of competitors. So we were told there were no environmental problems on that acquisition and so we bid $145 million for it, assuming no environmental problems, and when we did our environmental assessment, we came up with between $15 and $22 million worth of potential problems. And Whitaker was doing a financial restructuring, and they had borrowed a lot of money and bought back stock to stay independent, and their bank loans were coming due. So they had certain cash requirements that they had to meet. And so I told you Mr. (Alibrandy) and Greg Parkos, who is the president--oh, by the way, let me come back. This is interesting. They wanted to sell their coatings business and we were interested in it, there was a problem because we were involved in a lawsuit. They were suing us because we had sold them a part of our qual coatings business, and they were incorrectly, I think, claiming that for a couple hundred thousand dollars they'd bought this $8 million business, and so they were suing us for misrepresentation. There's a terrible, and I could see why, but there were heated words in court between our general counsel and their general counsel, and it was hammer and tongs all the way. So that was an interesting thing of how you (don't) acquire a business when you're locked in a suit. So one good thing came out about that. We settled the suit and at least with Greg Parcos, who's a reasonable guy, you know, he and I got along well together, and that was one good positive thing that came out of that. So when we got down to everything, there was this $15-22 million problem. Now we said, "We really don't want the problem," and you know, they were saying it might only be $3 or $4 million. And I said, "We're not trying to take the purchase price down. We just don't want the problem, so let's take the"--you know, I even scaled it back to $15 million and put it in an escrow account and then that would go to supply the cost to clean this up. If it comes out less, you get the money and the interest. Well, they could not afford to take that much cash out of their deal because they had to repay the bank loan. So that fell apart purely on that reason. And then they ended up doing a masterful deal. They turned around and added an adhesives business to this and sold it to Morton Thiokol for $220 million. So they really came out in spades. Well, coming back to this environmental thing, because we are always trying to be very conservative in evaluating acquisitions and the environmental cost of those. And this was--it came down to the issue, you know, we would not budge on that. And so it came down to whether hour estimates of what these potential environmental costs--whether they were correct or not. And so, and it would have been a very important acquisition for us to have. So you're talking about you stay up nights, you know, wondering is our bidding process wrong, or are we really being too nit-picky on this? And it was interesting. We later confirmed, well, actually I can probably go ahead and say this. Totally independent of the whole process we hired one of Morton Thiokol's environmental people, a very good guy. He's one of our employees now. So, you know, off the record I said, you know, "What was your estimate that you came up with?" He said "$22 million." So I think the point, coming back to strategy, is various companies may take different approaches to this, and if they're not careful, they will be adding future liability strain in terms of environmental things, and if we're careful, then that's where the differentiating fact might come ten, fifteen years from now. And I just point out these things to indicate this is true really of, and it's the tone that really Jack has set that really has carried down through the organization of being detailed and careful and conservative, and just like we walked from the Krylon thing the first time because, you know, that transition, we walked from Whitaker because of the environmental thing.

WG: ?? from DAP a number of times.

CI: Yes. Now on Desoto, that was an interesting thing. I can go back three to four years just to talk about the thought process. Frank Butler and Scott Keane I think went to Tom and Jack and said, "Well, we ought to be selling Sears." And of course you know when you first think about that, you say, "Well, you know, that's crazy. How in the world are we ever going to be able to do that?" Well really to their credit, particularly Scott King's credit, they went and sold Sears with that change in Sears's distribution policy of the Dutch Boy branded goods. And we were up against Glidden and others who wanted that account. So that was, in my mind, very significant. You know, you could say the jury is still out, but we go over this reasons for its significance, but before when we were talking about multibranded strategy and the need to advertise, and you have a smaller base, well, we've had to advertise almost on a spot basis to select our shops to make it look like national advertising. And they're very, very good at it. Well, with being able to put Dutch Boy in Sears, in 850 outlets nationwide, that gave us the distribution structure where we could now really afford to advertise nationally. And so that has helped strengthen the brand. The other thing that that gave us is, one, a great insight in terms of doing business with Sears and importantly, on the other hand, where our people took the Dutch Boy and rolled it out to all of their stores gave Sears confidence in us as a supplier. So when

Desoto had this group that tendered for their stock and they said, "OK, we're going to sell off our architectural coatings business." And two thirds of their sales in their architectural coatings were at Sears. And so Sears said--they canceled their contract. Put them on notice they had a two-year provision. And they said, "We'll have to negotiate a new contract with a new buyer." So in essence, you know, Sears was in part choosing who would buy Desoto. And there's elements of this that I can't even talk about today, even on a sealed contract. But we went through and did all the due diligence and we made the bid and basically we won. I think our price was fine, but also Sears said, you know, "We're comfortable with that. When you add it--put it all together in the one pot it comes out to Sears saying, "We're comfortable in doing business with Sherwin-Williams." Desoto is losing in that business about $15 million, and so one thing we've had to explain is how we would turn Desoto around. And have I gone over this?

WG: No.

CI: And so maybe we'll go through first of all why we wanted to buy. Because Sears had lost market share. From 1983 they've gone from about 30% of the DIY market down to 18%. You know, Home Center's growing. "So why do you want this? It's losing money." Well, they are a private label supplier. We are not really that big in the private label market. They could supply

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that. Sears is also an account that we would want, even though they had lost all this share, they're still the largest in the DIY market. And it's a question of whether that sales decline could be stabilized. We didn't base any of the acquisition evaluation on improving Sears. You know, we just said it's going to stop and remain the same. They also had Home Depot, you know, as a major private label account. We had a portion of the Home Depot stores for Dutch Boy, but we wanted that private label business. Well, when we got in to analyze, Desoto really didn't know their cost structure, and they had up until, you know, two years prior to the acquisition what was called a known cost agreement with Sears that, given the--they would say, "This is the cost," and then there'd be almost like a cost plus. But Sears controlled their margin. Well, I need to be careful by the way I say this, but Desoto also had an industrial business, and in order to supply Sears, you need to be a national manufacturer. So you've got to have plants all over the country. So they also had their industrial business in all of these plants. So if you're in a known cost agreement with one supplier, you're not going to invest any money in cost accounting resources. And so I think a lot of the cost was purposely confusing. And then they had a centralized administrative research center which was about a $30 million cost, and they had all this aggregated there, and they were distributing these costs out over--they had architectural coatings, they had industrial coatings, they had surfactant chemical business, and they had a soap business. And so these costs were distributed out. Well, we went through the allocation. I was in favor of looking at the whole company and then maybe we could sell pieces off, because they were initially saying, you know, we'd have to do a stop deal. So part of the acquisition evaluation process, we in different parts of our team visited every one of their plants. So we started to build the P&L up by plant for each of their businesses. And then we found where they said they were making a small amount of money in surfactants and detergents, we actually found they were making a lot of money there in terms of the allocation. And the most amazing thing is we could not determine the number of people they had employed, you know, since we were (done) portion of the business. They did not know how many people they had employed in their company.

PE: In the whole company, or just that section?

CI: In the whole company. You know, a couple had moved around. They had all these people in this administrative and research center, and they'd get double allocated and we never could get a single number. And then on the accounting system, all these costs were allocated so you couldn't rely on any of the numbers that they had. So we said, "All right." We bid on the architectural coatings piece. We did not bid on the industrial piece because we were misled by Goldman Sachs that we had to buy the stock of the company, and they had all of these pension liabilities, pending shareholder lawsuits, and everything else, and we didn't want the liabilities. Well, (Cortells?) to their credit, they came in and said well they just bid for the assets on this industrial aerospace business and you know, they won, but that was--and they bid a lot of money. I don't know if we would have ever been able to beat their bid, but we were definitely misled by the banker. Anyway. So we focused on the architectural coatings piece, but in doing our evaluation, we built up a P&L by that unit and we looked at the specific people, and the organization charts, and then outside of the plant organization structure we identified fifty people that we needed and wanted to come over to our business. So we built the SG&A structure from bottoms up. So we left a lot of their costs, you know, with them. So that was the first step. Then the second step was, in order to supply the Sears account, they were manufacturing architectural coatings in six plants. They have a plant in Berkeley, California; one in Garland, Texas; one in Chicago Heights; one in Greensboro, North Carolina; one in Orlando, Florida; and one in Columbus, Ohio. Well, the (Cortalls) people bought the Berkeley plant. Now we have a plant two miles away in Emoryville, California. So we were able to take that production that was in the Berkeley plant, move it in our Emoryville, California plant, and shut down a warehouse. The (Valspar) who bought the Garland plant--the Garland plant was next door to--the Garland production, moved it in our plant, shut down two warehouses. Then the Chicago Heights plant, which was primarily a big resin plant, but also had paint manufacturing capabilities, we negotiated a separate deal with Rohm & Haas to sell them that plant, and the minute after we closed on the DeSoto transaction, we sold that plant to Rohm & Haas, and then they (tolled) manufactured paint production for us until we shut it down in March of this year. That production was moved into our Chicago Emulsion plant in Chicago, and shut down a warehouse. The Orlando plant, which was built about 1979, a latex plant, it's as big as our Chicago emulsion plant, with some additions we've done. It's very, very efficient. We needed a plant down there, capacity to serve Southern Florida. We were able to reduce--will be able to reduce the transportation costs from Morrow, Georgia down there. We gain that capacity and then, you know, Morrow can be freed up to supply others, and we end up with a plant that is CEP. And then the Columbus plant was a pigment and not emulsion plant. Primarily a solvent base plant that they were making architectural coatings products in. And we needed capacity for our industrial maintenance business, and so we're starting in that process. And we don't really need that for architectural coatings, and where we needed capacity in solvent base products. Greensboro plant, which was their oldest three-story plant, and that a very good workforce, very constrained in terms of work flow and product movement, and that was our highest volume plant. They had all of their high production volume. We took that out and moved it to Morrow and around. And that will be a, at least right now, a specialty coatings plant. They had a colorant business of maybe $15 million, a nice specialty business. We have to buy our colorants on the outside. So this is a base business that we're fitting in there. So from their whole cost structure where they were supplying their customers out of six plants, we're supplying them out of our plants, plus one and a half. So this . . .

WG: Suddenly the Sears account got profitable.

CI: Well, yes, it's starting to make money now. They were serving out of twelve distribution centers, and we folded all that into our distribution--by the end of the year, you know, all of those twelve will be shut down. There's other efficiencies, you know, to be gained. This--we'll have to wait and see. This could challenge Dutch Boy, has been one of our best acquisitions. We ended up, we paid because of the way the inventory cycle, the end of the season, we paid $65, $66 million for it. And for the total thing we got $25 million for the Chicago Heights plant. So that leaves $42 million. This is all confidential. The inventory and working capital we brought with it was $30 million. So for $12 million they got fixed assets, and we've got a plant in Orlando, Florida that's equivalent of CEP. We have a pigment and nonemulsion that was built around that same time in Columbus that's 10-15 million gallons of capacity. It would be $20 million to replace. So we bought maybe $30 to $40 million of

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assets for $12 million--fixed assets--for $12 million, aside from business. So even if Sears disappeared, . . .

WG: It would be a hell of a deal.

CI: . . . we wouldn't want it to disappear, but we'd be in good shape. Now the interesting thing, coming back to we'll talk about our current subject on chemical coatings where we eliminated the chemical coatings division. What was happening and after looking at Whitaker, you know, to show you how kind of all of this kind of ties in, with Whitaker we saw what they had done in the marketplace by having these regional plants, serving those out. So chemical coatings was working on the strategy, you know, with our approval, of building up regional plants. And automotive didn't have a use for Grand Prairie anymore, and so Chemical coatings had taken that over, so they'd have one in Greensboro, not a DeSoto plant, but a different plant in Greensboro, one in Chicago, and one in Dallas. They're going to need one out on the West Coast eventually and one up in the Northeast. So with all of this, the industrial coatings business was gallons going down, because of the recession. Service problems in Chicago. So on the one hand we had all these capacity over in the consumer division that we had gotten from the DeSoto acquisition. Had a new, modern plant down in Columbus. And on the other hand we're adding by capacity over here, the strategy was not consistent. We had two salesforces that were, you know, competing with each other. Now that has been made one. The jury's going to be out on this in terms of, I think, in terms of the transition and how hour customers respond. But if we're right, it should really help sales a tremendous amount, going out three and four years. But now all of the chemical coatings and consumer capacity is all one that can be rationalized. And we probably would not have been able to consider this if we didn't have that Columbus plant of Desoto. So that was not the thinking at the time, but we knew that modern P&E capacity, we at least needed it for industrial maintenance. You know, and all of this kind of evolves.

WG: When something like that becomes available, are you always bidding against ICI or Glidden or PPG?

CI: Yes, it varies. Cuprinol wasn't a bid situation. DAP was a different set of players, obviously, because of caulk. It really varies. Every situation is separate. I don't know, you'd have to--there's probably some other acquisitions.

WG: Just quickly, have the other, the major competitors--PPG and ICI--these strike me as a number of very smart acquisitions. Have your competitors been doing the same thing, buying major national brands, or . . .

CI: Well, I think PPG in terms of their buying Olympic and Lucite. I think that could be a good acquisition for them, but the way they're running it, it's not going to be--Glidden hasn't really, they acquired the Roach paint store chain down in Texas. I don't think that's been a good acquisition for them.

WG: They haven't been acquiring producers.

CI: No. They haven't been very active.

WG: I'm going to ask one last question, which is, are there small acquisitions going on that we don't know about that the little mom and pop paint manufacturers seem to be disappearing. A lot of those, I imagine, are bought just simply to retire the capacity or to . . .

CI: Part of their distribution. We're looking at some like that.

WG: But are there those kinds of things going on all the time? I mean when the number of paint companies goes from over a thousand down to 900, there's . . .

CI: Mostly. From acquisitions. So it's--and we've looked at, you know, Crown Paint out in San Francisco, you know, we looked at. Fuller O'Brien beat us out on that. I think there's been a lot--Coronodo paint.

WG: Those are too small to even show up.

CI: Well I mean, no, we didn't buy them.

WG: You didn't buy them.

CI: No, no. Those, I was just going over--you know, in the sense we have a lot of, a high level of activity where we look at a lot of things. Even we bid on some stuff in Europe, one such thing in Europe this last year--this year. But can you think of ones we've bought that are--well, that's enough.

WG: OK. Thank you.