VALSPAR CORP
Form 424B3
January 15, 2015
Table of Contents

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File No. 333-201521

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION,

DATED JANUARY 15, 2015

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated January 15, 2015)

$

The Valspar Corporation

$ % Senior Notes due 2025

$ % Senior Notes due 2045

The notes due 2025 will mature on , 2025 and the notes due 2045 will mature on , 2045. The notes due 2025 will bear interest at the rate of % per year and the notes due 2045 will bear interest at the rate of % per year. Interest on the notes is payable semi-annually on and of each year, beginning on , 2015. We may redeem the notes of either series at our option, at any time in whole, or from time to time in part, at the applicable redemption prices set forth under Description of the Notes Optional Redemption. If we experience a change of control repurchase event, we may be required to offer to purchase the notes of each series from holders. See Description of the Notes.

The notes will rank equally with all of our other unsecured and unsubordinated indebtedness outstanding from time to time. The notes of each series will be issued only in registered form in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

The notes are new issues of securities with no established trading markets. The notes will not be listed on any securities exchange or on any automated dealer quotation system.

Investing in the notes involves risks that are described under "Risk Factors" beginning on page S-8.

	Per Note due 2025	Total	Per Note due 2045	Total
Public offering price(1)	%	$	%	$
Underwriting discount	%	$	%	$
Proceeds, before expenses, to Valspar(1)	%	$	%	$

(1) Plus accrued interest, if any, from , 2015, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this prospectus supplement or any of the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form only through The Depository Trust Company, including direct and indirect participants in Clearstream Banking, *société anonyme*, and Euroclear Bank, S.A./N.V., as operator of the Euroclear System on or about , 2015.

Joint Book-Running Managers

BofA Merrill Lynch **Goldman, Sachs & Co.** **Wells Fargo Securities**

The date of this prospectus supplement is , 2015

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

You should rely on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying prospectus may only be used where it is legal to sell these securities. The information in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference may only be accurate as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which contains the terms of this offering of notes. The second part is the prospectus dated January , 2015, which is part of our Registration Statement on Form S-3 and contains more general information, some of which does not apply to this offering.

This prospectus supplement may add to, update or change the information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with information in the accompanying prospectus, this prospectus supplement will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you in Where You Can Find More Information in the accompanying prospectus.

No person is authorized to give any information or to make any representations other than those contained or incorporated by reference into this prospectus supplement or the accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement and the accompanying prospectus, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in our affairs since the date of this prospectus supplement, or that the information contained or incorporated by reference into this prospectus supplement or the accompanying prospectus is correct as of any time after the date of such information.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. This prospectus supplement and the accompanying prospectus do not constitute an offer, or an invitation on our behalf or the underwriters or any of them, to subscribe to or purchase any of the notes, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. See Underwriting.

In this prospectus supplement and the accompanying prospectus, unless otherwise stated, references to Valspar, the Company, we, us and our refer to The Valspar Corporation and its subsidiaries. Our fiscal year ends on the Friday on or immediately preceding October 31 and references to fiscal years are to the twelve months ended on the Friday on or immediately preceding October 31 of such year.

Table of Contents

FORWARD-LOOKING STATEMENTS

Some statements in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Statements in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference that are not of historical fact may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, could, would, should, ex plan(s), anticipate(s), intend(s), believe(s), estimate(s), predict(s), seek(s), potential, continue(s) or negative of those terms or other comparable terminology. These forward-looking statements are based on management s current expectations, estimates, assumptions and beliefs about future events, conditions and financial performance, and are necessarily subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from such statements. These risks, uncertainties and other factors include, but are not limited to, deterioration in general economic conditions, both domestic and international, that may adversely affect our business; fluctuations in the availability and prices of raw materials, including raw material shortages and other supply chain disruptions, and the inability to pass along or delays in passing along raw material cost increases to our customers; dependence of internal sales and earnings growth on business cycles affecting our customers and growth in the domestic and international coatings industry; market share loss to, and pricing or margin pressure from, larger competitors with greater financial resources; significant indebtedness that restricts the use of cash flow from operations for acquisitions and other investments; dependence on acquisitions for growth, and risks related to future acquisitions, including adverse changes in the results of acquired businesses, the assumption of unforeseen liabilities and disruptions resulting from the integration of acquisitions; risks and uncertainties associated with operating in foreign markets, including achievement of profitable growth in developing markets; impact of fluctuations in foreign currency exchange rates on our financial results; loss of business with key customers; damage to our reputation and business resulting from product claims or recalls, litigation, customer perception and other matters; our ability to respond to technology changes and to protect our technology; possible interruption, failure or compromise of the information systems we use to operate our business; changes in governmental regulation, including more stringent environmental, health and safety regulations; our reliance on the efforts of vendors, government agencies, utilities and other third parties to achieve adequate compliance and avoid disruption of our business; unusual weather conditions adversely affecting sales; changes in accounting policies and standards and taxation requirements such as new tax laws or revised tax law interpretations; the nature, cost and outcome of pending and future litigation and other legal proceedings; civil unrest and the outbreak of war and other significant national and international events; and other risks and uncertainties, including those discussed in this prospectus supplement under the caption Risk Factors.

We disclaim any intention or obligation to publicly update or revise any of the forward-looking statements after the date of this prospectus supplement to conform them to actual results, whether as a result of new information, future events, or otherwise, except as required by law. All of the forward-looking statements contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein are qualified in their entirety by reference to the factors discussed under the captions Risk Factors in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations in our most recent Form 10-K (incorporated by reference into the accompanying prospectus) and similar sections in our future filings that may be incorporated by reference into the accompanying prospectus.

The above list of uncertainties and other risk factors that may affect results addressed in the forward-looking statements may not be exhaustive. Other sections of this prospectus supplement, the accompanying prospectus and the documents incorporated by reference may describe additional uncertainties or risk factors that could adversely impact our business and financial performance. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict these new risk factors, nor can it assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information about Valspar and this offering. It does not contain all of the information that may be important to you in deciding whether to purchase notes. We encourage you to read this entire prospectus supplement, the accompanying prospectus and the documents that we have filed with the Securities and Exchange Commission (the SEC) that are incorporated by reference before deciding whether to purchase notes.

The Valspar Corporation

The Valspar Corporation is a global leader in the paints and coatings industry. We develop, manufacture and distribute a broad range of coatings, paints and related products and we operate our business in two reportable segments: Coatings and Paints. Net sales in the Coatings and Paints segments in 2014 were $2,511.1 million and $1,786.4 million, respectively. We have grown our business organically by using new technologies to provide high quality products with superior value and performance. Our global growth has also been fueled by acquisitions that have expanded our scale, technology platforms and portfolio of respected brands.

The Valspar Corporation is a Delaware corporation founded in 1806. Our principal executive offices are located at 901 3rd Avenue South, Minneapolis, Minnesota 55402, and our telephone number at that address is (612) 851-7000. Our corporate website address is www.valsparglobal.com. The information on our website is not part of this filing.

Coatings Segment

Our Coatings segment includes our industrial product lines and our packaging product line. We offer a broad range of decorative and protective coatings for metal, wood and plastic, primarily for sale to original equipment manufacturing (OEM) customers in Asia, Australia, Europe, North America and South America. Products within our Coatings segment include primers, top coats, varnishes, sprays, stains, fillers and other coatings for a wide range of manufacturing industries, including agricultural and construction equipment, appliances, building products, furniture, metal fabrication, metal packaging and transportation. We use a variety of technologies to provide value to our customers. These technologies include electrodeposition, powder, solvent-based, waterborne and UV cured coatings. We also provide a wide range of technical, manufacturing and formulation services for our customers.

Our industrial product lines include general industrial, coil and wood coatings. Our general industrial product line provides customers a single source for powder, liquid and electrodeposition coatings technologies for a wide variety of industries, including agricultural and construction equipment, pipe, lawn and garden, appliance, transportation and marine shipping containers. Our coil product line produces coatings applied to metal coils used to manufacture pre-engineered buildings and building components, other metal building and architectural products and appliances. Our wood product line supplies decorative and protective coatings for wood furniture, building products, cabinets and floors. We also provide color design and technical service to our customers. We supply our industrial products throughout the world.

Our packaging product line includes coatings for the interior and exterior of packaging containers, principally metal food containers and beverage cans. We also produce coatings for aerosol and paint cans, crowns for glass bottles, plastic packaging and bottle closures. We believe we are the world s largest supplier of metal packaging coatings. We supply our packaging products throughout the world.

Paints Segment

Our Paints segment includes our consumer paints and automotive paint refinish product lines. We offer a wide variety of paints, primers, topcoats and aerosol spray paints through retailers, distribution networks and company-owned stores.

Table of Contents

Our consumer paints product line comprises the largest part of our Paints segment. We offer a broad portfolio of interior and exterior decorative paints, stains, primers, varnishes and specialty decorative products, such as enamels, aerosols and faux finishes, used in both the do-it-yourself and professional markets. In the U.S. and Canada, we offer our branded products and private-label brands through more than 10,000 points of sale. The primary distribution channels for these products are home centers, hardware stores, distributors and independent dealers. In China, we sell branded consumer paints primarily through distributors and exclusive retailers. In Australia and New Zealand, we sell branded consumer paints through independent dealers, hardware chains, home centers and Valspar company-owned stores. In the U.K. and Ireland, we sell branded products primarily through a large home center customer.

We develop highly customized merchandising and marketing support programs for our consumer paint customers, enabling them to differentiate their paint departments from their competitors through customer service, paint tinting technology, product and color selection assistance and in-store displays. Our primary brands include VALSPAR and CABOT in the U.S., HUARUN in China, WATTYL, SOLVER and VALSPAR in Australia and New Zealand and VALSPAR and PLASTI-KOTE in the U.K. and Ireland.

Our automotive product line includes refinish paints and aerosol spray paints sold through automotive refinish distributors, body shops, automotive supply distributors and automotive supply retailers. We distribute these products under the DE BEER, VALSPAR, OCTORAL and HOUSE OF KOLOR brands in many countries around the world.

Other and Administrative

In addition to the main product lines within our Coatings and Paints segments, we manufacture and sell specialty polymers and colorants. The specialty polymers and colorants are manufactured for internal use and for external sale to other coatings manufacturers. We also sell furniture protection plans and furniture care and repair products under the Guardsman brand.

Table of Contents

The Offering

Issuer	The Valspar Corporation
Securities Offered	$ aggregate principal amount of % Senior Notes due 2025.
	$ aggregate principal amount of % Senior Notes due 2045.
Maturity	The notes due 2025 will mature on , 2025 and the notes due 2045 will mature on , 2045.
Interest	Interest on the notes will accrue from , 2015 and will be payable semi-annually on and of each year, beginning on , 2015.
Ranking	The notes are our unsecured and unsubordinated obligations and will rank equally with all of our other unsecured and unsubordinated debt outstanding from time to time. Holders of the notes will generally have a position junior to the claims of the creditors, including trade creditors, of our subsidiaries. Also, the notes will be effectively subordinated to any secured indebtedness to the extent of the value of the assets securing such indebtedness. As of October 31, 2014, without giving effect to the issuance of the notes and the use of the net proceeds from the offering of the notes:
	we had approximately $1,556.4 million of outstanding indebtedness on a consolidated basis;
	of such amount, our subsidiaries had an aggregate of approximately $55.0 million of outstanding indebtedness; and
	we had no secured indebtedness.
Use of Proceeds	We intend to use the net proceeds for the repayment at maturity of the $150,000,000 outstanding principal amount of our 5.100% Senior Notes due August 1, 2015 and for general corporate purposes, including the repayment of commercial paper. See Use of Proceeds.

Optional Redemption	The notes due 2025 will be redeemable, at any time in whole or from time to time in part, prior to , 2025 (three months prior to their maturity date) and the notes due 2045 will be redeemable, at any time in whole or from time to time in part, prior to , 2045 (six months prior to their maturity date), in each case at a redemption price equal to the greater of: 100% of the principal amount of the notes being redeemed; and the applicable Make-Whole Amount (as defined in Description of the Notes Optional Redemption); plus, in each case, accrued and unpaid interest thereon to, but not including, the date of redemption.

S-3

Table of Contents

	The notes due 2025 will be redeemable, at any time in whole or from time to time in part, on and after , 2025 (three months prior to their maturity date) and the notes due 2045 will be redeemable, at any time in whole or from time to time in part, on and after , 2045 (six months prior to their maturity date), in each case at 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.
Repurchase at the Option of Holders Upon a Change of Control	If we experience a change of control repurchase event (which is defined in this prospectus supplement and involves a change in control and related rating of the notes of the applicable series below investment grade), we may be required to offer to repurchase the notes of the applicable series at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest thereon. See Description of the Notes Repurchase at the Option of Holders Upon a Change of Control.
Covenants	The indenture governing the notes will contain certain covenants for your benefit. These covenants will restrict our ability to: incur debt secured by liens; and engage in certain sale-leaseback transactions. Nevertheless, these covenants will be subject to significant exceptions. In addition, neither the indenture nor the notes will limit the amount of indebtedness that we may incur or the amount of assets that we may distribute or invest. We will also be subject to a covenant concerning consolidations, mergers and transfers of substantially all of our property and assets. See Description of the Notes Covenants.
Further Issues	We may from time to time, without notice to or the consent of the holders of the notes of a series offered hereby, create and issue additional debt securities having the same terms as (except for issue date and, in some cases, the public offering price and first interest payment date) and ranking equally and ratably with the notes of that series in all respects, as described under Description of the Notes General. Any additional debt securities having such similar terms, together with the applicable series of notes offered hereby, will constitute a single series of securities under the indenture.
Denomination and Form	

The notes of each series will be issued in book-entry form and will be represented by one or more fully registered global certificates deposited with, or on behalf of, The Depository Trust Company (DTC) and registered in the name of Cede & Co., DTC s nominee. Beneficial interests in the notes will be shown on, and transfers will be effected only through, records maintained by DTC and its

Table of Contents

	participants. Clearstream Banking, *société anonyme*, and Euroclear Bank, S.A./N.V., as operator of the Euroclear System, will hold interests on behalf of their participants through their respective U.S. depositaries, which in turn will hold such interests in accounts as participants of DTC. Except in the limited circumstances described in this prospectus supplement, owners of beneficial interests in the notes will not receive or be entitled to receive certificated notes. See Description of the Notes Book-Entry; Delivery and Form; Global Notes. The notes of each series will be issued only in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Risk Factors	Investing in the notes involves risks. See Risk Factors for a description of certain risks you should particularly consider before investing in the notes.
Trustee	U.S. Bank, N.A.
Conflicts of Interest	Because more than 5% of the net proceeds from this offering may be used to repay outstanding commercial paper held by certain of the underwriters or their affiliates, this offering will be conducted in accordance with FINRA Rule 5121. See Underwriting Conflicts of Interest.
Governing Law	New York.

Table of Contents

Summary Financial Information

The following table sets forth our summary consolidated financial information. The summary operating data for fiscal years 2014, 2013 and 2012 and the summary financial position data as of October 31, 2014 and October 25, 2013 are derived from our audited consolidated financial statements incorporated by reference into this prospectus supplement and the accompanying prospectus. The summary operating data for fiscal years 2011 and 2010 and the summary financial position data as of October 26, 2012, October 28, 2011 and October 29, 2010 are derived from our audited consolidated financial statements for the years indicated which are not included or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have a 4-4-5 week accounting cycle with the fiscal year ending on the Friday on or immediately preceding October 31. Fiscal year 2014 included 53 weeks. Fiscal years 2013, 2012, 2011 and 2010 each included 52 weeks. In order to facilitate our closing process, foreign subsidiaries financial results are included in our consolidated financial statements on a one-month lag. Historical results are not necessarily indicative of the results to be expected in the future.

The summary consolidated financial information should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and the related notes and the Management s Discussion and Analysis of Financial Condition and Results of Operations sections included in our Annual Report on Form 10-K for the year ended October 31, 2014, which we have filed with the SEC and which is incorporated by reference into this prospectus supplement and the accompanying prospectus.

	Fiscal Year Ended				
	October 31, 2014	**October 25, 2013**	**October 26, 2012**	**October 28, 2011**	**October 29, 2010**
			(in thousands)		
Operating Results:					
Net Sales	$ 4,522,424	$ 4,103,776	$ 4,020,851	$ 3,952,954	$ 3,226,687
Costs and Expenses:					
Cost of Sales	2,983,378	2,745,718	2,667,147	2,721,146	2,155,009
Operating Expense	979,137	865,634	871,434	862,160	695,601
Impairment of Goodwill and Intangible Assets				409,714	
Income (Loss) from Operations(1)	559,909	492,424	482,270	(40,066)	376,077
Interest Expense	65,330	64,758	67,604	61,511	58,267
Other (Income) Expense Net	2,697	3,871	(2,558)	1,577	(1,387)
Income (Loss) before Income Taxes	491,882	423,795	417,224	(103,154)	319,197
Net Income (Loss)	$ 345,401	$ 289,255	$ 292,497	$ (138,601)	$ 222,056
Financial Position (at end of period):					
Total Assets	$ 4,033,951	$ 4,025,509	$ 3,626,836	$ 3,500,151	$ 3,867,936
Working Capital(2)	725,834	591,591	538,559	538,025	530,435
Property, Plant and Equipment, Net	645,102	633,475	550,968	548,253	567,630
	950,035	1,037,392	1,012,578	679,805	943,216

Long-Term Debt, Excluding Current Portion					
Stockholders Equity	1,011,091	1,122,550	1,223,523	1,212,550	1,630,365
Other Statistics:					
Property, Plant and Equipment Expenditures	$ 121,271	$ 116,749	$ 89,363	$ 66,469	$ 67,732
Depreciation and Amortization Expense	100,910	88,159	93,704	97,747	81,312
Research and Development Expense	134,134	128,265	123,401	120,056	105,090

S-6

Table of Contents

(1) Income (loss) from operations included a non-cash impairment charge on goodwill and intangible assets of $409,714 in fiscal year 2011. Income (loss) from operations included restructuring charges of $41,139, $36,433, $25,845, $34,439 and $12,383 in fiscal years 2014, 2013, 2012, 2011 and 2010, respectively. Income (loss) from operations included gains on the sale of certain assets of $11,497 in fiscal year 2010. Income (loss) from operations included acquisition-related charges of $2,242, $13,275 and $3,173 in fiscal years 2013, 2011 and 2010, respectively.

(2) We define Working Capital as accounts and notes receivable plus inventory less trade accounts payable.

Table of Contents

RISK FACTORS

You should carefully consider the following risk factors and the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended October 31, 2014 which is incorporated by reference into this prospectus supplement and the accompanying prospectus, as well as the other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, before making an investment decision. The following is not intended as, and should not be construed as, an exhaustive list of relevant risk factors. There may be other risks that a prospective investor should consider that are relevant to its own particular circumstances or generally.

Risks Related to Our Business

Deterioration of economic conditions could harm our business.

Our business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, access to and the functioning of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions. Deterioration of national or global economic conditions may reduce demand for our products and overall growth of the paints and coatings industry.

Volatility in financial markets and the deterioration of national or global economic conditions could impact our operations as follows:

- the financial stability of our customers and suppliers may be compromised, which could result in additional bad debts for us or non-performance by suppliers;

- it may become more costly or difficult to obtain financing to fund operations or investment opportunities, or to refinance our debt in the future; and

- the value of our investments in debt and equity securities may decline, including our assets held in pension plans.

At various times, we utilize hedges and other derivative financial instruments to reduce our exposure to various interest rate risks, which qualify for hedge accounting for financial reporting purposes. Volatile fluctuations in market conditions could cause these instruments to become ineffective, which could require any gains or losses associated with these instruments to be reported in our earnings each period.

Fluctuations in the availability and prices of raw materials could negatively impact our financial results.

We purchase the raw materials needed to manufacture our products from a number of suppliers. Most of our raw materials are derived from petroleum, minerals and metals. Under normal market conditions, these materials are generally available from one or more suppliers on the open market. From time to time, however, the availability and costs of raw materials may fluctuate significantly, which could impair our ability to procure necessary materials, or increase the cost of manufacturing our products. As a result, our raw material costs can be volatile, and we have experienced disruptions in supplies of certain raw materials at various times. These disruptions could affect our ability to manufacture products ordered by our customers, which could negatively impact sales.

When raw material costs increase, our profit margins are reduced unless and until we are able to pass along the increases to our customers through higher prices. If raw material costs increase and if we are unable to pass along, or are delayed in passing along, those increases to our customers, we will experience profit margin reductions.

Table of Contents

Many of our customers are in cyclical industries, which may affect the demand for our products.

Many of our customers are in businesses or industries that are cyclical and sensitive to changes in general economic conditions. As a result, the demand for our products depends, in part, upon economic cycles affecting our customers businesses or industries and general economic conditions. Downward economic cycles affecting the industries of our customers and the deterioration of global economic conditions may reduce our sales and profitability.

The industries in which we operate are highly competitive, and some of our competitors are larger than we are and may have greater financial resources than we do.

All aspects of the paints and coatings business are highly competitive. We face strong competitors in all areas of our business. Any increase in competition may cause us to lose market share or compel us to reduce prices to remain competitive, which could result in reduced margins for our products. Competitive pressures may not only impair our margins but may also impact our revenues and our growth. Many of our competitors are larger than we are and may have greater financial resources than we do. Competition with these companies could curtail price increases or require price reductions or increased spending on marketing, sales and research and development, any of which could adversely affect our results of operations.

Industry sources estimate that the ten largest coatings manufacturers represent more than half of the world s coatings sales. Our larger competitors may have more resources to finance acquisitions or internal growth in this competitive environment and may have more resources or capabilities to conduct business with large suppliers or large customers in our industry. Finally, many of our larger competitors operate businesses in addition to paints and coatings and so may be better able to compete during coatings industry downturns.

We have a significant amount of debt.

Our total long-term and short-term debt was $1,556.4 million at October 31, 2014. Our debt categorized as short-term was $606.4 million at October 31, 2014. Our level of debt may have important consequences. For example, it:

- may require us to dedicate a material portion of our cash flows from operations to make payments on our indebtedness, thereby reducing our ability to fund working capital, capital expenditures or other general corporate purposes;

- could make us less attractive to prospective or existing customers or less able to fund potential acquisitions; and

- may limit our flexibility to adjust to changing business and market conditions and make us more vulnerable to a downturn in general economic conditions as compared to a competitor that may have less indebtedness.

Acquisitions are an important part of our growth strategy, and future acquisitions may not be available or successful.

Acquisitions have historically contributed significantly to the growth of our company. As part of our growth strategy, we intend to continue to pursue acquisitions of complementary businesses and products. If we are not able to identify and complete future acquisitions, our growth may be negatively affected. Even if we are successful in completing future acquisitions, we may experience:

- difficulties in assimilating acquired companies and products into our existing business;

- delays in realizing the benefits from the acquired companies or products;

Table of Contents

- difficulties due to lack of or limited prior experience in any new markets we may enter;
- unforeseen claims and liabilities, including unexpected environmental exposures or product liability;
- unforeseen adjustments, charges and write-offs;
- unexpected losses of customers of, or suppliers to, acquired businesses;
- difficulties in conforming the acquired business standards, processes, procedures and controls with our operations;
- variability in financial information arising from the application of purchase price accounting;
- difficulties in retaining key employees of the acquired businesses; and
- challenges arising from the increased geographic diversity and complexity of our operations.

Any of these factors may make it more difficult to repay our debt or have an adverse effect on results of operations. In addition, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize acquisition-related costs or the cost of acquired assets.

We derive a substantial portion of our revenues from foreign markets, which subjects us to additional business risks.

We conduct a substantial portion of our business outside of the U.S. We currently have production facilities, research and development facilities, and administrative and sales offices located outside the U.S., including facilities and offices located in Australia, Brazil, Canada, China, Finland, France, Germany, Greece, India, Indonesia, Ireland, Italy, Japan, Malaysia, Mexico, The Netherlands, New Zealand, Poland, Russia, Singapore, South Africa, South Korea, Spain, Switzerland, the United Arab Emirates, the United Kingdom and Vietnam. In 2014, revenues from products sold outside the U.S. accounted for approximately 46% of our consolidated net sales.

We expect sales in international markets to represent a significant portion of our consolidated net sales. Notwithstanding the benefits of geographic diversification, our ability to achieve and maintain profitable growth in international markets is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks inherent in international operations include the following:

- agreements may be difficult to enforce, and receivables may be difficult to collect or have longer payment cycles;

foreign countries may impose additional withholding taxes or otherwise tax our foreign income or adopt other restrictions on foreign trade or investment, including currency exchange controls;

foreign operations may experience labor disputes and difficulties in attracting and retaining key employees;

transportation and other shipping costs may increase;

foreign governments may nationalize private enterprises;

unexpected adverse changes may occur in export duties, quotas and tariffs and difficulties in obtaining export licenses;

- intellectual property rights may be more difficult to enforce;
- fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services we provide in international markets where payment for our products and services is made in the local currency;
- our business and profitability in a particular country could be affected by political or economic changes or terrorist activities and responses to such activities;
- unexpected adverse changes in foreign laws or regulatory requirements may occur; and
- compliance with a variety of foreign laws and regulations may be burdensome.

Fluctuations in foreign currency exchange rates could affect our financial results.

We earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar. Because our consolidated financial statements are presented in U.S. dollars, we translate revenues and expenses into U.S. dollars at the average exchange rate during each reporting period, as well as assets and liabilities into U.S. dollars at exchange rates in effect at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against other major currencies will affect our net revenues, operating income and the value of balance sheet items denominated in foreign currencies. We do not use derivative financial instruments to hedge our exposure to translation gains and losses. Fluctuations in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against major currencies, could materially affect our financial results.

We have certain key customers, and the loss of key customers could negatively affect our business.

Our relationships with certain key customers are important to us. From 2012 through 2014, sales to our largest customer exceeded 10% of our consolidated net sales. In 2014, our ten largest customers accounted for approximately 33% of our consolidated net sales. Our five largest customers in the Paints segment accounted for approximately 55% of our net sales in the segment. Although we sell various types of products through various channels of distribution, we believe that the loss of a substantial portion of net sales to our largest customers could have a material adverse impact on us.

If the reputation of our company or one or more of its key brands is damaged, it could harm our business.

Our reputation is one of the foundations of our relationships with key customers and other stakeholders. If we are unable to effectively manage real or perceived issues that negatively affect our reputation, our ability to conduct our business could be impaired, and our financial results could suffer. As we continue to invest in advertising and promotion for our key brands, our financial success is becoming more dependent on the success of our brands. The success of these brands could suffer if our marketing plans or product initiatives do not have the desired effect on a brand s image, reputation or ability to attract customers. Further, our growth and results could be harmed if the reputation of our company or a key brand is damaged due to real or perceived quality issues, product recalls, regulatory enforcement or actions or customer claims and litigation.

Technology changes, and our ability to protect our technology, could affect our business.

Our product and application technology is supported by underlying chemistry that has been developed over many years. Ongoing research and development efforts focus on improving our internally developed and acquired technology and formulating changes to improve the performance, profitability and cost competitiveness of our products. If our competitors develop new technology, or if our customers technology requirements change, and we are not able to develop competitive technology, our business and financial results could suffer. Further, although we seek to protect our proprietary technology and information through confidentiality and trade secret protection programs and practices, patents, cybersecurity measures and other means, if we were unable to protect our material proprietary technology or information, our business and financial results could suffer.

Table of Contents

Interruption, failure or compromise of our information systems could adversely affect our business.

We rely on information systems to run most aspects of our business, including sales and distribution of products, purchases of raw materials and supplies, accounting for purchase and sale transactions, manufacturing processes, billing and collections and managing data and records for employees and other parties. Our business may be adversely affected if these systems are interrupted, damaged or compromised or if they fail for any extended period of time due to user errors, programming errors, computer viruses, security breaches or other problems. Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of cyber attackers. Although we strive to have appropriate security controls in place, prevention of security breaches cannot be assured, particularly as cyber threats continue to evolve. We may be required to expend additional resources to continue to enhance our security measures or to investigate and remediate any security vulnerabilities. In addition, third-party service providers manage a portion of our information systems, and we are subject to risk as a result of interruption, failure or security breaches of those systems. The consequences of these risks could adversely impact our results of operations and cash flows.

Numerous laws and regulations affect our business.

We are subject to numerous laws and regulations that control the manufacturing, marketing, sale, use and disposal of our products. These laws and regulations include health, safety, product liability, environmental and labeling requirements applicable to our products and business.

Environmental laws and regulations control, among other things, the discharge of pollutants into the air and water, the handling, use, treatment