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PPG Industries, Inc. (PPG)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Alejandro Lopez Bustamante

Vice President-Investor Relations & Operational Finance

FINANCIAL MEASURES

- Both the prepared commentary and the discussion during this call may include forward-looking statements and non-GAAP financial measures
- Forward-looking statements involve uncertainties and risks that may cause actual results to differ
- Please read our cautionary statement on Slide 2 of the presentation materials
    - Please refer to our presentation materials and SEC filings available on our Investor Center website for additional information and reconciliations of non-GAAP financial measures

Timothy M. Knavish

Chairman & Chief Executive Officer

Q3 REVIEW

Q3 Highlights

- Welcome to our third quarter 2026 earnings call
- I will begin with highlights from our record third quarter, and then we'll share our outlook for the remainder of the year
- Before reviewing our results, I'd like to once again thank our employees for their dedication and resilience during this challenging period in many regions of the world
- Please continue to prioritize your safety and the safety of your families above all else
- This was an outstanding quarter for PPG.
- We delivered record third quarter earnings and our teams around the world executed with exceptional discipline, driving a 5% increase in organic sales, including 2% volume growth
- This marks our seventh consecutive quarter of organic sales growth
- We outpaced the industry by 300BPS, clear evidence of the quality of our businesses, our innovation, our technology and the value that we deliver to our customers
- As we discussed over the past several quarters, we have been systematically building our organic growth muscle and the results are now clearly visible
    - Our strategy to deliver product innovation and productivity solutions for our customers is accelerating our momentum

Key Financial Highlights & Inflation Offset

- Third quarter net sales grew 7% y-over-y to $4.4B.
- Adjusted EPS increased 6% to $2.25, a third quarter record, and total company adjusted EBITDA margin was above 18%
- Exceptional results in our differentiated aerospace and architectural coatings Latin America businesses led this performance

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    - Importantly, our commercial actions fully offset cost of goods sold inflation during the quarter, a significant milestone for us
- We achieved this in just six months, half the time it took in the 2021 inflation cycle and one-third the time it took in the 2016 cycle

Commercial Strategy & Cash Flow

- We remain focused on achieving appropriate value for our unique products and solutions with targeted actions where necessary to address inflation and market dynamics, all enabled by the innovative solutions that we provide to our customers
- We also repurchased approximately $150mm worth of shares during the quarter, and our YTD operating cash flow is approximately $1.2B, about $100mm higher than last year
    - Jamie will provide more detail on our balance sheet and cash shortly

SEGMENT PERFORMANCE

Global Architectural Coatings

- Turning to our segment performance
- Global Architectural Coatings grew net sales 4% y-over-y to approximately $1.1B.
- Organic sales increased 2%, driven by higher selling prices in all regions
- Lower sales volumes in Europe were offset by solid growth in Mexico
- Organic sales for architectural coatings Latin America and Asia Pacific increased by a mid-single-digit percentage, driven by higher selling prices and volume growth in Latin America
- In Mexico, retail sales were robust and project-related sales grew at a moderate pace as foreign direct investment sequentially recovers
- In EMEA, organic sales increased by a low single-digit percentage as higher selling prices more than offset lower sales volumes
- Our European architectural business continues to benefit from strong execution of our strategy
- Productivity enhancements, footprint optimization and structural cost actions are improving efficiency and are driving YTD earnings and margin expansion
- Segment EBITDA grew 19% and EBITDA margin expanded 300BPS to 24%
    - Looking ahead, we expect fourth quarter organic sales to range from flat to growth of low single-digit percentage y-over-y, along with EBITDA margin expansion vs. prior year

Performance Coatings Segment

- Our Performance Coatings segment delivered net sales growth of 10% to $1.6B.
- Organic sales increased an outstanding 8%, led by 5% sales volume growth
- Aerospace delivered another exceptional quarter with double-digit organic sales growth, and our order backlog remained at near $300mm
- Demand for our unique aerospace products remains robust
    - And shortly, I will go into more detail about the investments we are making to support this outstanding growth for today and well into the future
- Automotive refinish organic sales increased by a mid-single-digit percentage, driven by both higher selling prices and higher sales volumes
- In the US, collision claims vs. prior improved sequentially from negative 6% in Q2 to negative 4% in Q3

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- Protective and marine coatings organic sales increased by a high single-digit percentage, extending this business' streak to 14 consecutive quarters of sales volume growth
    - This included above-market marine volume growth in Asia Pacific, driven by our innovative technologies
- Segment EBITDA grew 21% and EBITDA margin expanded 220BPS to 23.9%
- In Q4, we expect organic sales growth in the range of low to mid-single-digit percentage y-over-y with further EBITDA margin expansion vs. prior year

Aerospace Segment

- Turning to aerospace, this business is a significant growth engine for PPG, delivering its 22nd consecutive quarter of organic sales growth with quarterly y-over-y growth during that period averaging above 10%
- This year, we expect to generate more than $2B in sales in aerospace, making it one of our larger businesses
- We are investing more than $500mm to expand capacity and improve productivity across the business
    - This includes a recently announced $70mm expansion of our Aerospace Transparencies operations in Huntsville, Alabama
- This project will increase operational efficiency and create additional manufacturing capacity to support growing customer demand for aircraft cockpit and passenger windows
- In addition to this CapEx, we continue to invest in aerospace R&D to further expand our technology offering
- These ongoing investments, combined with our broad portfolio of highly specified products, technology leadership and global footprint and deep customer relationships reinforce our confidence in the long-term growth outlook for this unique business

Industrial Coatings Segment

- In the Industrial Coatings segment, third quarter net sales grew 5% to approximately $1.7B.
- Organic sales increased 4% with equal contributions from higher selling prices and sales volumes, reflecting the benefits of new business wins and successful launches
- In automotive OEM coatings, organic sales declined by a low-single-digit percentage as a result of lower industry builds
    - Importantly, our team drove a sales volume performance that outpaced global automotive industry production
- Industrial Coatings delivered strong organic sales growth of high-single-digit percentage, driven by sales volume and selling price growth in all regions
- This marks the second consecutive quarter of growth for this business, with strength in heavy-duty equipment and general finishes, including electrical infrastructure for data centers

Packaging Coatings

- Packaging coatings delivered outstanding double-digit organic sales growth, with sales volumes now up more than 20% on a two-year stack basis
- PPG is benefiting from share gains driven by our advantaged BPA Non-Intent technologies, our global manufacturing footprint and our long-standing technical partnerships with our customers
- Industrial segment EBITDA declined 11% and EBITDA margin decreased 260BPS to 14.4% as cost of goods sold inflation outpaced the timing of index-based pricing

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- Higher selling prices and volumes partially offset that pressure, and we are now beginning to realize the benefits of index pricing

INDUSTRIAL OUTLOOK & BUSINESS WINS

- In Q4, we expect segment organic sales essentially flat y-over-y
- We expect the pace of EBITDA margin compression to moderate sequentially as index-based pricing and our productivity initiatives take hold
- In our industrial segment, our team continues to win additional business driven by our technology solutions that enable our customers' success
    - With that, I'll turn the call over to Jamie Beggs, our SVP and CFO, to discuss our balance sheet and cash flow, as well as our fourth quarter and full year financial outlook

Jamie A. Beggs

Chief FInancial Officer & Senior Vice President

FINANCIAL PERFORMANCE

Balance Sheet Strength & Capital Structure

- Our robust balance sheet continues to provide financial flexibility to invest in our businesses and return cash to shareholders
- We ended the quarter with cash and short-term investments of $1.6B.
- Net debt was $5.2B, a decrease of approximately $200mm from Q3 last year
- YTD, cash from operating activities was approximately $1.2B about $100mm higher y-over-y
    - As a result, our net leverage moved lower to 1.8 times net debt-to-adjusted EBITDA.

Cash Deployment & Shareholder Returns

- We repurchased approximately $150mm of shares during the quarter, bringing YTD repurchases to $320mm
- We also paid more than $480mm in dividends through the first nine months of the year
- Our cash deployment remains focused on maximizing shareholder value creation and maintaining a strong balance sheet

Q4 Guidance

- Looking ahead, our organic growth momentum and commercial actions position us well for the remainder of the year
- For Q4, we expect organic sales growth of a low-single-digit percentage, led by aerospace, architectural coatings in Latin America and packaging coatings
- We expect total company adjusted EBITDA margin to range from a flat to an increase of 100BPS y-over-y
- Within the segments, we expect Global Architectural Coatings organic sales to be in the range of a flat to up a low single digit percentage
    - Performance Coatings organic sales are expected to grow by a low to mid-single-digit percentage while Industrial Coatings organic sales are expected to be in the range of a down to up a low single digit percentage

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Inflation Expectations & Full-Year Guidance

- We expect cost of goods sold inflation to be in the high single digit range in Q4
- We plan to offset this pressure through our pricing actions as we realize appropriate value for the unique products and productivity solutions we provide to our customers
- Considering our strong growth momentum and the execution of productivity programs, we are raising the midpoint of our full year adjusted EPS outlook and narrowing the guidance range to $7.90 to $8.10 per share
    - With that, let me turn it back to Tim for closing remarks

Timothy M. Knavish

Chairman & Chief Executive Officer

STRATEGIC PRIORITIES

- In closing, we delivered record third quarter earnings, which reinforces our confidence in PPG's strategy and the strength of our business model
- We delivered outstanding organic sales growth driven by both volume and price, fully offset cost of goods sold inflation, expanded earnings, delivered adjusted company EBITDA margin above 18% and generated robust cash flow through disciplined execution across our portfolio

Customer Value & Competitive Advantages

- Additionally, our Outside the Can productivity solutions for PPG's customers are growing at three times faster than the average growth rate of our portfolio and with a higher margin profile, and now represent a solid double-digit percentage of our total sales
- Our customers greatly value the innovative solutions that we provide
- Our investments in technology, brands, customer relationships differentiate us and enable us to solve some of our customers hardest problems
- Our field service capabilities and install base keep us close to those customers, while our channel access and global reach provide a strong foundation to serve them with world-class effectiveness
    - Combined with our flexible cost structure and solid financial position, these capabilities give us the capacity to invest and win

Long-Term Capital Allocation

- We see meaningful opportunities to drive further organic growth through innovation, share gains, and continued investment in our differentiated businesses
- We will also selectively consider portfolio actions to accelerate our strategy and drive shareholder returns
- We are focused on creating long-term shareholder value by both investing organically and by evaluating opportunities to enhance our mix of high growth and high margin businesses
    - We will continue to allocate capital with discipline, balancing investments and growth with maintaining a strong financial position and returning cash to our shareholders

CONCLUSION

- Thank you to our PPG team around the world for their focus and execution

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- Their dedication enables us to serve our customers and deliver on our purpose every day, we protect and beautify the world
- And we appreciate your continued confidence in PPG.
    - That concludes our prepared remarks

QUESTION AND ANSWER SECTION

David Begleiter
Deutsche Bank Securities, Inc.

Q

Tim, on Industrial Coatings, two things. Could you talk to when you expect the index-based pricing to catch up to the COGS inflation? In terms of your Q4 guide of roughly flat organic sales growth vs. up 4% in Q3, could you talk to what's driving that more modest assumption in Q4? Thank you.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Sure, David. Thank you. So, on Industrial Coatings index pricing, we started to see a little bit of that benefit in Q3 and Q4. But most of that benefit will come in Q1 and Q2 of next year, just because of the structure of our contracts across our businesses. That said, we expect the margin compression to moderate as we move through Q4.

And beyond that, as far as when it exactly matches neutrality in that segment, while we have met neutrality across the company, we'll have to see what our 2027 guidance is and what happens to inflation in Q1 and Q2. But right now, our Q4 outlook is – margin compression to be slightly better than it was in Q3.

As for volumes, most of that is based on automotive builds. As you know, we use S&P's IHS, and they have reduced their builds in Q4, in particular in China. And most of what you see in the delta between Q3 and Q4 growth for that segment comes from that factor.

John P. McNulty
BMO Capital Markets Corp.

Q

Yeah, thanks for taking my question. So, wanted to unpack the refinish business a little bit. You did largely as you had called out. I think you'd said you expected to kind of see an inflection. But clearly the industry didn't. I mean I think you cited claims were down 4% still, and yet you were up. That seems like a bigger outperformance than what we normally see, even from your refinish business.

So, I guess, can you help us to understand what drove that on the volume front, if there were, kind of, any major account wins, or if it was just maybe some of the inventory timing? Maybe just a little perspective on what drove that, kind of, significant, looks like mid-single-digit outperformance.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah, John. First of all, you're right. This has played out – it's been a painful four quarters for us since we first raised this issue last year that we would see four quarters worth of destocking. And that's behind us now. And I would say that internally here, the quarter played out a little bit better than we expected, but not a huge amount better than we expected.

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It's a couple of things. One, the destocking, is behind us, so you do have some more normalization of purchase orders. Body shop activity, while still below where it was pre-COVID, incrementally sequentially improving a bit. From a share shift standpoint, this business always has share shift. We track net body shop wins. And while we can't really point to anything huge for us, I know there's some other stuff happening out there.

We still win, a couple hundred net body shops a month, but more than anything, it's the normalization of both the inventory patterns and slight normalization of the industry. In a way, I would summarize refinish going forward right now, clearly activity levels at the end user are not back to where they were pre-COVID. We had throughout 2025, US collision claims down like an average of 10% every single quarter. Q1 and Q2 of this year, it's been minus 6%, Q3 minus 4%.

So, it's still an industry that is below 2019 activities. But some signs of normalization. The destocking is behind us. We've got net body shop share wins, positive price. This is one of our businesses where we have a lot of outside the can solutions that drive additional revenue for us. The other thing that's normalized, John, and then I'll move on is, another factor that was really impacting 2025 was high auto insurance rates. And you've started to see those come down a bit.

So, a number of factors point to modest sequential normalization. Our inventory issues behind us and net-net we're winning. But all-in-all this was a little bit better than we expected but not a ton.

Kevin W. McCarthy
Vertical Research Partners LLC

Q

Yes. Thanks very much. Tim, I was wondering if you could elaborate on the industrial sub-segment within your Industrial Coatings segment. As I look at slide eight, you flagged that industrial, posted high-single digit growth at the sub-segment level there. And if I'm not mistaken, I think that's probably the best in four years or so. So, just wondering if you could, kind of, unpack how much of that is price acceleration vs. volume acceleration and what your outlook is for that piece of the company?

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah. First, Kevin, you just made the day of Juliane Hefel, who runs that business for us by calling out the best in four years, so thank you for that. Yeah. I'm really proud of this team for sequential improvement here. Q1 minus low-single digits; Q2, up mid-single digits and Q3 up high-single digits and we feel really good about new business wins and pipeline going forward.

As far as the blend of how the team achieved that organic sales, it's almost exactly half, volume and price. So, we've got good momentum in the various pieces of that business. Think about powder, for example, we had double-digit growth in powder. We called out, heavy-duty equipment, mostly in the non-ag area, transportation. We've got a nice little specialty business in there, that's doing well. All regions grew and we did get some nice bumps from data center related electrical infrastructure.

So, it's fairly widespread and it's not like we've seen, as you know, any big hockey stick improvement in industrial production. I would say, a lot of this is just execution of the selling machine, the commercial excellence that this team has been working on for a number of years. And now we're starting to see it on the P&L.

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Michael J. Harrison
Seaport Research Partners

Q

I have kind of a two-part question on the Global Architectural Coatings business. First of all, the strength in margin there, just wondering if the 24% EBITDA margin is something that you feel like you can sustain going forward in these seasonally stronger Q2 and Q3 quarters or was there something unusual that helped to drive the margin strength and maybe suggest this is a high watermark? And then just digging in on architectural EMEA, curious on how the situation in France is potentially going to affect volumes and demand into Q4? Thanks.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah. Hey, Mike. On the first one, we have said, and I've consistently said that our Global Architectural business should be consistently 20% plus EBITDA business. And I believe that strongly. Q3 was a combination of two things. Yes, we had great execution by the team. We've got really strong brands, really strong, innovative products, great relationships with our distribution partners, that helped us from a mix standpoint as well as a price standpoint. So, that definitely helped. And that was the biggest contributor to the strong margin you saw.

Full transparency. If you look at our Mexico business here, we buy in dollars and we sell in pesos. So, we did get some help in Q3 from the stronger peso. So going forward, and I don't like to say high watermark because that implies that there's a cap on what we can do. But what I will say is, our aspiration is, this in total is a 20%-plus-plus EBITDA business. But we did have a bit of help in Q3. You just watch the peso and that'll give you a little indication of how much headwind or tailwind we'll have in our Mexico margin.

Now, as far as France, obviously it's terrible to watch on television and see the violence and destruction. So far, fortunately none of our stores have been affected. Obviously, it's not likely to be a boost to consumer confidence or to construction activity. But so far we have not seen a demand impact, but we're watching that closely. We are seeing logistics impacts, some ability to move product around. So, I'd say in the short-term, Mike, that's all we're seeing. But obviously longer term, it's not great for, first of all, the safety of the people on the ground there, but it's also not great for consumer confidence.

James Hooper
Bernstein Societe Generale Group

Q

I wanted to ask a little bit about industry consolidation. So, clearly the merger going on in your space, there's a couple of disposals being announced. How are you thinking about those in M&A? And, just maybe as a follow-on. Are your teams seeing any changes to the competitive dynamics on the ground as we move towards these mergers completing? Thanks.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Okay. Hey, James. So, first part, what's happened in Brazil, I think it was last year. Obviously what's happened with Surventis and the legacy BASF business, and then you've got the pending merger of Akzo-Axalta. So far – and again, we don't have a deco business in Brazil. We have a tiny little boutique business, basically in one state in the South, but nationally, we don't have a presence. So, we're not really involved in whatever's going on there.

And from Surventis, so far, we really haven't seen any change in behavior in the marketplace. And then, of course, it's still early days on Akzo-Axalta, because they're not officially together yet. So, we haven't really seen any change there. It's, obviously – we'll do what we can to take advantage of any distraction. We've been through

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those acquisitions ourselves in the past. So, we'll do what we can to help customers that may be looking for opportunities. But I'd say, so far not much changing on the ground.

As for dispositions, I think, Surventis, it's still fairly recent. So, we'll see how that plays out over time. Nothing active now. With Akzo, we really weren't interested in their India business, weren't interested in their deco Southeast Asia business. And the only thing we're aware of, kind of, officially is wood here in the US and frankly doesn't fit our enterprise growth strategy. I know, there's some rumors about another part of their business in Europe. If and when those rumors become a reality, we'll take a look at it. But, it's not what I think about every night or every morning.

Ghansham Panjabi
Robert W. Baird & Co., Inc.

Q

Thank you. And first off, congrats on a strong Q3. So, Tim, as you zoom out a little bit, and think about 2027, how are you thinking about the trend line for volumes across your major end markets because obviously interest rates have gone up significantly since you last reported and growth in some of the international geographies seem a bit more challenged from a macroeconomic perspective, including in markets like China, so how does that net out for PPG at this point as the way you see it at this point, in context of some of the advantaged growth verticals you have including in aerospace? Thank you.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Hey, Ghansham, first of all, thank you for the comment. I'm sure my team will appreciate it, because they work really hard, not only in the quarter, but the last couple of years building up this muscle. So, appreciate that. Look, it's early for us to give our 2027 guide. You'll hear that from me and Jamie at the end of January. First of all, you're not going to hear from us that we're expecting any significant hockey stick recovery across any of our markets.

So, from an end market standpoint, sitting here today, kind of more of the same, but on the positive side, you should expect our organic growth momentum to continue. And we see that in our pipelines. You should expect our margin expansion to continue. As you know, we continue to execute the commercial actions, continue to drive a richer mix. And we're confident in not only the technologies out there today, but the technologies that are in our R&D pipeline.

So, while we are not going to count on anything, any macro help, unless something changes between now and mid-January, the key themes will be organic growth momentum will continue, margin expansion momentum will continue. The rest of it will depend on what we learn in the next couple of months regarding inflation.

Aleksey Yefremov
Barclays Capital, Inc.

Q

Thanks. Tim, could you just provide us an update on what has been achieved in terms of cost actions in architectural EMEA overall, and what do you expect to happen the remainder of this year and in 2027?

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah. So, first off I'll talk overall – I'll start there. And high-level, what you should expect in 2026 and 2027 is about $100mm combined between restructuring and productivity actions. And the mix between restructuring,

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productivity may shift a little bit, but that's how I think of it, Aleksey, is about $100mm total between those two for 2026 and 2027.

Now, architectural EMEA specifically, we've been working on productivity, throughout most of this year. And that's what's delivered some of our YTD margin expansion. But the bigger step change for us will be execution of the four plant closures that we talked about earlier this year. You won't see much of that benefit in 2026, but as you're modeling out 2027, you should expect a significant portion of that restructuring benefit that I just mentioned to come out of that business in H1 2027.

John Roberts
Mizuho Securities USA LLC

Q

Thanks and congrats as well on a nice quarter. Could I ask what your highest priced house paint is in Europe currently? And I ask that because before the pandemic, I think we went a couple decades without volumes in the DIY business moving up or down more than a low-single digit percent. All the cyclicality was in the Pro business, because it's new construction and high labor costs. But, maybe it's not just this pull-forward. Maybe prices are now high enough that we've got some demand elasticity?

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah. I wouldn't say we have, demand elasticity. I don't feel that's what's driving. I think it's more the underlying macro, John, that's driving the volume challenges. As far as price point on the shelf, and this is not just for PPG, for industry, you know, having traveled over there and looked at the products on the shelves in different countries that, first of all, the formulation costs and the preference of the local painters varies country to country.

Surprisingly enough, even in the Benelux, if you look at the difference between what a painter in the Netherlands prefers vs. a painter in Belgium is different. And as a result, without going through all of the countries we operate in, off the top of my head, the highest price point would probably be in the Netherlands. And it's based on, frankly, the higher formulation cost in the Netherlands.

Alejandro Lopez Bustamante
Vice President-Investor Relations & Operational Finance

A

And hey, John. This is Alex. Just an additional data point. If you look at the savings rates of European consumers today vs. pre-COVID level, 2.5 times, 3 times higher. So, really the issue that Tim is mentioning is not that much the elasticity, it's the consumer confidence.

Matthew DeYoe
BofA Securities, Inc.

Q

I'm going to be a bit annoying and ask a three-parter. But I think it kind of gets at what most investors we're talking with, and I guess myself are maybe struggling with or want to know for the quarter. So, architectural EBIT up $40mm y-over-y, You mentioned the peso benefit, right, but like – so you have $1B of sales and price is 4%, that's $40mm, so that kind of covers the growth. But you also had higher raw material costs, which is maybe most of that $40mm and a 2% drop in revenues.

So, it's almost like back to square one. I would almost look at that and say the peso benefit in and of itself could be $40mm. And I don't know if that's right or not, but that's kind of the hole that I'm looking at filling. And I could almost run the same math on performance, but there you have good volumes, right, so I can think of incremental

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margins, almost 80%. And I know refinish is a big incremental margin business and that's growing again. But are we in the right ballpark?

And then, last one, I know you talked about volumes in auto builds decelerating in Q4, but you have implied volumes decelerating basically across the board in your business for Q4. Like, how should we read this? Is this more conservatism given the macro crosscurrents? I mean, it's particularly interesting in performance, because some of these markets are conceptually more durable, right, but you're going from high-single-digit to low-mid on the guidance. And so, I think clarity on all these topics would be helpful.

Timothy M. Knavish
Chairman & Chief Executive Officer
A

Okay. Matthew, let me do my best with that. And I'll look for my teammates to help me here. But first of all, Architectural Coatings EBIT, the walk you described, the $40mm was not the benefit of the peso. It would be significantly lower than that, right. So that plug, I think, would be a bit off. I'd say, it's a couple – the big drivers there are volume in Mexico, mix in Mexico, price in Mexico, price in Europe and cost-out in Europe. Those would be the biggest drivers. And then we got a little bit of help from the Mexico peso.

On performance, two things I'd say. First of all, your thesis on, kind of, refinish being a very rich business, dropping good EBIT to the bottom. Yes, you're correct there. Aerospace is also a very good business for us. So, their growth drops at a good margin for us. But to your point on volume being a bit softer there, remember, we have two businesses there that are lapping multiple double-digit quarters, multiple double-digit Q4s. So, just by the laws of big denominators, it starts to get a little more high-single digits and mid-single digits.

Volumes overall in Q4, it's largely two things. Automotive builds, pretty significant reduction. If you look at just China alone, Matthew, China roughly builds one-third of all the new cars in the world and S&P has reduced their builds projection to China for something like minus 8%. And you might have seen the Journal article this morning. And while export China is helping us pretty significantly, domestic China is a true headwind. That's the biggest.

And then the second one is contributing to overall volumes, just uncertainty in Europe. The European – to the previous question, the problem is not only in France, there's problems across the continent affecting consumer confidence and so we've built some of that concern into our Q4 guide. So, hopefully, team, did I miss anything, Jamie?

Jamie A. Beggs
Chief Financial Officer & Senior Vice President
A

Sure. Yeah. Let me just go back to Architectural for just a moment. I think Tim highlighted a couple of the great things that business is doing between both Europe and Mexico. Part of it is pricing appropriately to cover inflation. The other part of it is about – more than 50% of our productivity initiatives and restructuring actions are actually happening in the Architectural business. So, that's another reason for the uplift.

Tim mentioned earlier of getting to that sustained 20% EBITDA margin, which I do think based on what we're trying to do with the cost structure also allows us to be able to maintain those types of margins. He also mentioned that the peso dynamic was a benefit to the quarter. That's about $15mm to $20mm of that bridge that we're talking about, so it definitely did impact the quarter. But like I said, the majority of that had to do with other pricing initiatives as well as some of those productivity initiatives.

And if I just touch real quickly on the performance segment, half of that sales increase was related to volume, the other half related to price. And as you've seen and heard us talk about aerospace and also the impact of our

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refinish business, there's a really nice healthy mix associated with that. And that's another reason why those margins continue to improve on a y-over-y basis.

And then lastly, what I would say with those two segments in particular, we were able to cover net costs of goods sold inflation with our pricing initiatives, which I think is really important. The one that's slower based on index dynamics and pricing of the contracts is industrial. And that's the only segment that hasn't yet covered at this point.

Timothy M. Knavish
Chairman & Chief Executive Officer
A

Great. Thanks, Jamie. Look, just to put a bow on it, Matthew, because I can read, with all your questions a bit concerned over Q4. Our Q4 guide, while not as strong as our Q3 performance is not a weak guide. In a world of difficult macro, we're going to deliver organic growth. We'll deliver EBITDA margin expansion, and we will deliver at our midpoint double-digit EPS growth. So, despite some of these comp challenges and auto builds and a little anxiety over Europe, it's still a good quarter for us.

Jeffrey J. Zekauskas
JPMorgan Securities LLC
Q

Thanks very much. I have a two-part question. You talked about strength in the Industrial Coatings sub-category. So, if what we did is, we excluded the performance of the auto OEM business in Industrial Coatings, where you have constraints because of index-based pricing, would Industrial Coatings operating income – would it have been up y-over-y in the quarter or down?

And secondly, various companies seem to want to buy Architectural Coatings businesses in Europe. Is that a business that you would consider monetizing at the right price or is it strategic? And it holds a particular strong position within the overall PPG portfolio. How do you regard that business in the world we're in now?

Timothy M. Knavish
Chairman & Chief Executive Officer
A

Yeah. Thanks, Jeff. I'll take it. And then, if Jamie or Alex wants to fill in gaps, fine. But look, Industrial Coatings sub-categories, I've already talked about. Your question around, if it weren't for the challenges in automotive OEM, would EBITDA have grown in that segment? The answer is yes. Okay. But I will caution a little bit, because auto OEM isn't the only one that has index pricing there. Packaging does as well. Packaging started to see some of their indices kick-in, Jeff, where autos really will come in, in Q1 and Q2.

And even, while we had positive price in both packaging and Industrial, because of the structure of those contracts, even those two still have more work to do relative to the rest of our portfolio. So, a high level answer is yes, you're correct. But I want to give you a little more color there.

And on architectural Europe, so look, we like this business and here's why it's in our portfolio. It delivers really good earnings for us, really good cash for us, clearly not a growth driver for us, Jeff, and you know that and it's been the case for years. But the role in the portfolio is get the margin to where we believe it should be. And get us great earnings and great cash like we did just not that long ago, I think 2023 in a pretty difficult macro, we were spitting out records.

And so, the role in the portfolio is, while it isn't a great growth business for us, it should be – it's a good margin business, should be a great margin business. It's a good cash generator for us, should be a great cash generator

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for us. And that helps us fund a lot of what we need to do in our high-growth, high-margin businesses like aerospace. We're spending a lot of cash there. I got to get it from somewhere.

That said, every day, our job is to maximize long-term shareholder value. And I think you saw with what we did with architectural US, there's nothing that's sacred. If we believe that we can maximize shareholder value some other way. Now, earlier this year, I lose track of time. There was talk of another architectural Europe business and the implied multiple that was being thrown around at that time, would not have added long-term shareholder value, vis-à-vis our organic strategy there.

So, every business has to earn its right to stay in the portfolio every day. But every business also at the right price, if it makes sense for long-term shareholder value, that's certainly a path we'll consider like we did with architectural gusto.

Duffy Fischer
Goldman Sachs & Co. LLC

Q

Yeah. Question just on COGS and raw materials, so last quarter you saw the forward quarter up high-single digits and the year up mid-single digits on inflation. It's basically the same view today. But since that period, oil is up 30%.

So, do you think that just your suppliers are going to eat that oil hit and that raw materials will roughly be similar to what you thought 90 days ago or is there some inflation yet to come, do you think in the raw materials, if oil stays, up at this $110 level and that will be a bigger issue? So, maybe just, kind of, a view into H1 next year if oil stays flat, roughly what kind of raw material increase will you guys be looking at next year?

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah. Hey, Duffy. First of all, we were projecting – in our last guide for Q3, we projected high-single digits and we actually came in at mid-single digits for actual Q3. Some of that is business and region mix and some of that is procurement excellence, arbitrage abilities of our team that was able to bring that lower than we had estimated.

We're guiding high-single digits for Q4, a bit early for us to guide for 2027. But just mathematically given that most of this inflation didn't really start kicking in until Q4. From a comp standpoint, we'll have some significant y-over-y inflation in Q1. And beyond that, it's really hard for me to project Duffy. I don't know what's going to happen in the Middle East, what's going to happen, the price of oil, what's going to happen to other supply demand.

But what I will say is with our industry, the macro economic conditions always provide a bit of a shock absorber for coatings. In that when macros are down that typically drives some pressure for suppliers to go after volume. So that can be a bit of a hedge to some of what you see on the news. But right now, I can't give you a guide yet for 2027, I'll give you that in January. But just mathematically, we'll see high single digits in Q4. It'll be relatively high in Q1 just from a comp standpoint. And from there we'll see how the year plays out.

Frank J. Mitsch
Fermium Research

Q

Thank you. Tim, in the prepared remarks and in the press release, you spoke about the protective and marine business, with a special emphasis on the marine side. We've heard from others, speaking about the protective side being a key area of growth. I wanted to give you an opportunity to expand upon all that might be going on the protective side and the sustainability of the growth that you might see there? Thank you.

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Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah. Thanks, Frank. Look, we're performing on both sides of the business. We called out the marine, particularly in Marine Asia, because, I would call it strong outperformance, and given that it's mostly technology driven with some of our antifouling and fouling release technologies that that's super exciting to us.

But protective is doing well, too, around the world. Infrastructure, everybody talks about data centers. We're doing well there. You may have seen our article in the Times the other day. We're doing well with the infrastructure investments across the United States and other countries, so it's a mix of both. But if I were to rack and stack looking at our own results, marine new build, marine dry dock are our two strongest sub-segments.

Data centers, yes strong, but it's off a fairly small denominator. So, even as good as the pipeline is, and I think we tripled our sales from 2025, but it's off of a small number. In total data center protective coating sales are still low-single-digit percent of our whole company. So, that's exciting and fun to talk about. But with scale right now, it's marine new build and marine dry dock.

Joshua D. Spector
UBS

Q

Yeah. I wanted to ask a couple follow-ups if I could, kind of, going down the line that Matt was going down. Just thinking about overall COGS and inflation, it looks like in Q3 your COGS inflation was up less than what it was in Q2. Even though raw material inflation accelerated, albeit it sounds a little bit less than what you thought. Was there anything in there other than FX that would be a call out either tariffs or LIFO or something else, because it just doesn't seem to fit the narrative that we're seeing?

And then just a quick follow-up on FX. We're talking about that a lot in Q3. It looks like the benefit would have been similar, maybe even better in H1. So, I'm not sure kind of what changed, if there's a bigger impact now. So, maybe you can help unpack that a little bit more, please.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Sure, Josh. I might need some help from my team on this one because my recollection is, Q2 COGS inflation, we saw mid-single-digits. Q3, we thought we were going to see high, but we saw mid again, and the only unique factor that I can think of that would have held Q3 down was the peso strength.

As I mentioned on the previous question, though, our procurement team, I'll put against anyone as far as their ability to get the best deal and use our global footprint and our global arbitrage. So, there may have been a little bit of that as well. But the only one that hits my radar screen is some specifically, Mexican peso FX, because most of our businesses, other than that one, buy and sell in the same currency, Josh, so it's really the peso, if you want to see an impact on our net raw material inflation, the Mexican peso is the one that we should watch.

Alejandro Lopez Bustamante
Vice President-Investor Relations & Operational Finance

A

And the reality, Josh – this is Alex, the impact that we saw in Q2, mid-single digit inflation, let's call it solid mid-single digits vs. Q3 on the high-end range of those mid-single digits. So, it's higher in Q3 than Q2, probably without the peso, it would have been on the high-single, based just in pure math. So, it's really the pricing action accelerated. If you look at pricing Q2 to Q3, pricing accelerated and we expect similar acceleration going into Q4.

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Salvator Tiano
KeyBanc Capital Markets, Inc.

Q

Yes. So, I want to drill down a little bit more on the price cost situation. Firstly, you said you reached net neutrality when you take into account commercial actions. I wanted to clarify, is this purely pricing or are there any other things that we're taking in the mix when we think about the neutrality?

And given that you've already reached the price cost neutrality at this point in Q3, does this mean in the next few quarters we're going to get actually a tailwind from price costs or as you're seeing the acceleration in raws a little bit later I guess than you expected, we're going to stay at that neutral place for Q4 and Q1?

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yes. Hey, Salvator, first of all, the commercial actions are well over 90% price, okay, so you can clear that one off the deck. There's a little bit of other mix elements in there, but it's well over 90% price. Now, as far as how to think about it going forward, we are at neutrality for COGS inflation as a total enterprise. But you heard me say mostly in the Industrial segment, we've still got some catching up to do within individual businesses. And we'll be holding in others depending on what happens to inflation.

So, we've still got some catching up to do but, I would not expect a tailwind again depending on what happens in inflation. And we just don't know that yet for 2027, but I would certainly not assume price inflation to be a tailwind in the short-term, because we still got some work to do.

Jamie A. Beggs
Chief Financial Officer & Senior Vice President

A

And the raw material basket continues to escalate. So, the commercial teams are very focused on initiating new actions as needed as the dynamic environment continues to unfold. So, we're a little cautious, I think, on saying there's a tailwind, obviously that would happen if raw materials stabilize, but that's not what we're seeing today.

Vincent Stephen Andrews
Morgan Stanley & Co. LLC

Q

Thank you. Tim, I was wondering if you could comment a little bit about, the European Union is set to put some quotas on Chinese automobile imports. And I know you obviously paint cars in both geographies, so there's probably a little bit of a wash on volume, but maybe you could just talk about what, if any, effect on PPG that will have, whether it's from a mixed perspective or margin perspective or just any thoughts on that? Thank you.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah, hey, Vincent. So, I would say very little impact on us, because to your point, we're well represented in every car producing country in the world. And what we care most about is, net vehicle sales off the lot, because that's what drives the painting of course.

The only asterisk I would put is, EV penetration because per our earlier discussions, EVs give us content opportunity. And so to the extent that EV penetration accelerates as it is in some parts of the world, not here, but most parts of the world, it is. That's a content opportunity for us. But as far as whether the car is produced in China or Europe or Latin America or US, Canada, we're pretty agnostic to that.

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Eric Boyes
Evercore ISI

Q

Thanks. Maybe another one on refinish. Could rebate thresholds or year-end purchasing be cushioning some of the stabilization there? And what does that mean for comps in first quarter or H1 for our expectations? Thanks.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

It's a good question. A great question, Eric, because we really don't know how a lot of our distributors are going to play out at year end. Because while the major destocking is behind us, each of these folks are independent private business owners and they manage their own cash flow. And so, if they're within striking distance of a rebate, they may buy a lot in Q4. If they're not, they may say, you know what, I'll just hold off until Q1 and make my 2027 rebate.

So, that is a dynamic that we watch very closely. It's still pretty early in the quarter here for us to say how that's going to play out. We've given the best guide we could possibly give, but you have nailed on a subject that always affects Q4. But it could bring in some additional variability this Q4, given the two dynamics that we talked about earlier.

One, the kind of previous destocking in H1 this year; and second, the really close monitoring that everybody is doing on what is happening with actual body shop activity and US collision claims. So, it's a good call out. It's a watch closely. And we've built our best possible estimate into our guide.

Arun Viswanathan
RBC Capital Markets LLC

Q

Great. Thanks for taking my question. If I could just maybe get your thoughts on maybe some initial framework for 2027, so it sounds like you are implementing price increases that'll flow through maybe in the low- to maybe mid-single-digit range. And then, your volumes, it seems like your business wins and then strength in a few categories, maybe aerospace and packaging could lead you to also consolidated low-single-digit volume growth.

And so, that could put you maybe in the mid- to high-single-digit EBITDA growth. And then, maybe with some capital deployment, you can get to high-single-digit EPS growth. Is that a fair framework that we can keep in mind? Maybe just any help on that would be appreciated. Thanks a lot.

Timothy M. Knavish
Chairman & Chief Executive Officer

A

Yeah. Arun, I said a couple times, it's a bit early for us to give granularity on our 2027 guide. We're just early in Q4 here, which in a world that has more volatility than normal from both a demand side, geopolitical side and an inflation side, so can't get into granularity yet.

But the themes I mentioned earlier that I do feel confident in is, we will continue our – I mean, based on what we know today without something falling off a cliff, we will continue our organic growth, because we've got a good pipeline. We will continue our margin expansion, because we have some catch-up to do on pricing in some businesses.

And we've got significant productivity and restructuring actions that will drive some margin enhancements for us across the business. So, we're expecting top line growth, and we're expecting EBITDA expansion, too early for me to quantify that.

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And if you look by-business, I can talk about the ones that we have great certainty over. And aerospace will continue to grow. I've got backlog that will last for years unfortunately, I wish I could sell it all today. But that will continue to grow for us. Now, when you lap 22 quarters of averaging double-digit, maybe it goes from double-digit to higher-mid, but that'll still grow for us, our packaging business, the same thing, confident in our Mexico business because we've got retail sales being pretty robust.

And while I mentioned in my opening remarks that we've seen sequential recovery in FDI, it's still not back to where it was pre-tariff and USMCA uncertainty. So, there's still upside in Mexico that's a potential as those things release. And the other businesses are a little more uncertain at this point, until we see how consumer demand is, until we see how auto production is. So net-net confident in the growth, confident in EBITDA expansion and the rest of it we'll share with you in January.

Abigail J. Eberts
Wells Fargo Securities LLC
Q

Hi. Thanks for taking my question. Just a quick one on traffic solutions, anything worth calling out there or was the mid-single digit organic growth decline, mainly weather related?

Timothy M. Knavish
Chairman & Chief Executive Officer
A

Yeah, hey, Abigail, two things. You nailed part of it. This is a business, first of all, it is by far our most seasonal business. So you really need to watch it in the summer months. That's when we make all of our money. And there – you could call it one summer month in the quarter, and then it's a pretty, pretty volatile base then because you got a small denominator as you move through September, October. That was one piece.

We don't like to call it weather because I don't like to be one of those people that blame things on weather and then not take credit for it when weather's good. But the cycle of our customers actually their buying patterns were different than what last Q3 would have been which is what drove the minus mid-single digits.

Alejandro Lopez Bustamante
Vice President-Investor Relations & Operational Finance
A

Yeah. And if you look at those buyer buying patterns, Abigail, H1 traffic solutions was very strong. So, I think that some of those customers were taking advantage of that nice spring we had.

Laurence Alexander
Jefferies LLC
Q

Just very quickly, most of our discussion the past few years about the price vs. cost has been about innovation or demand helping you get through pricing faster and be able to offset cost inflation. But can you talk a little bit about what's happening structurally that is, when we look at moves in the oil price, the amount of inflation that flows through to you, is there anything that has strategically changed or is improving or are there moves that you can do over the next several years that could structurally change the sensitivity that you have to the kind of underlying moves in the raw commodities?

Timothy M. Knavish
Chairman & Chief Executive Officer
A

Yeah. A couple of things. We've been able to move much faster this time for a number of reasons. One, we learn, we learned from prior cycles, done well, do better. Our commercial excellence is much, much better than it was

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historically. Our selling machine, we're on top of what's happening to our COGS. We're armed to have earlier and better conversations with our customers.

Another reason I'll point to is, our R&D investments eventually lead to better innovation. Better innovation leads to a better offering for our customer to help their businesses be more successful, so that's a very different discussion than just pure price vs. inflation. So, we've kind of progressed all of those things as we've moved over the last couple of years, Laurence, but fundamentally we're still going to be tied to certain commodity chemicals.

I don't want to do anything that links 100% of our pricing directly to those chemicals because we have innovative products that provide value far beyond the combination of raw materials. So, we focus mostly on innovation excellence to bring value to our customers, commercial excellence to articulate that value to our customers. And that enables a much different discussion when you do have inflation and you're delivering good productivity to our customers and enables us to capture it faster.

Alejandro Lopez Bustamante
Vice President-Investor Relations & Operational Finance
A

Yeah. And I think that structurally, Laurence, the industry, the chemical industry is still long, there's still excess capacity. So, our procurement team is working on diversifying our supplier base to have, kind of, better suppliers for PPG.

Timothy M. Knavish
Chairman & Chief Executive Officer
A

And one last thing I will say, because it's exciting and fun to talk about is. I mentioned on one of my calls a couple quarters ago, what we're doing with AI formulation. We use AI to optimize our raw material combinations without sacrificing performance for our customers. And 100 years worth of formulas scattered across 100 labs around the world and AI has brought us that capability. And we're over 150 formulas now that we've done that with, and that delivers us good offsets to what happens out there from an inflationary standpoint.

Harris Fein
Wolfe Research LLC
Q

Hey guys. Just a quick one for me. You outpaced the industry by 300BPS in the quarter. I guess how much of that was you being aligned with the right existing customers vs. new incremental share gains that you can point to flowing through? And, across the portfolio, in the past you've called out like dollar amounts on share gains that you see in the pipe? Just how much in terms of share gains do you have visibility to that still hasn't flowed through yet? Thanks.

Timothy M. Knavish
Chairman & Chief Executive Officer
A

Yeah. So it's both, Harris. We have a win with the winners strategy that cuts across many of our businesses. And I'll credit Alisha, who started it in automotive, but we've spread it across many of our businesses, where we try to pick the winners and deliver our value proposition to them and then ride their growth, right. So, that's part of it. But we also have talked about some pretty significant share wins, chunky ones. That's largely in the industrial segment just because of the nature of the customer.

If you think about an Architectural Coatings customer, that takes hundreds and thousands of micro wins. And that's what we're fighting every day whereas Industrial segment where your factory-to-factory larger, chunky wins.

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I think we've said we've got a pipeline that we'll get about $25mm a quarter of new Industrial segment wins. And that's been our run rate. And that's what you should expect to continue to see over the next several quarters.

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