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EDITED TRANSCRIPT

PPG - Q1 2015 PPG Industries Inc Earnings Call

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OVERVIEW:

Co. reported 1Q15 net sales from continuing operations of $3.7b and adjusted diluted EPS from continuing operations of $2.37.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2015 PPG Industries earnings conference call. My name is Tawanda and I will be your coordinator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Vince Morales, Vice President, Investor Relations. Please proceed, sir.

Vince Morales - *PPG Industries, Inc. - VP of IR*

Thank you, Tawanda, and good afternoon, everyone. Once again, this is Vince Morales, Vice President of Investor Relations for PPG Industries. We appreciate your continued interest in PPG, and welcome you to our first-quarter 2015 financial results overview.

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Joining me on the call today from PPG is Chuck Bunch, Chairman and Chief Executive Officer; Michael McGarry, President and Chief Operating Officer; and Frank Sklarsky, Executive Vice President and Chief Financial Officer. Our comments relate to the financial information we released today, Thursday, April 16, 2015.

I will also remind everyone that we posted detailed commentary in the accompanying presentation slides on our investor center at PPG.com. These slides are also available on the webcast site for this call, and provide additional support to the opening comments Chuck will make momentarily.

Following Chuck's perspective on the Company's financial results for the quarter, we will move to a Q&A session.

Both the prepared commentary, the presentation slides, and discussion during this call may contain forward-looking statements reflecting the Company's current view of future events and their potential effect on PPG's operating and financial performance. These statements involve uncertainties and risks which may cause actual results to differ. The Company is under no obligation to provide subsequent updates to these forward-looking statements.

The presentation also contains certain non-GAAP financial measures. The Company has provided in the appendix materials, which are available again on our website, reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. For additional information, please refer to PPG's filings with the SEC.

Now, let me introduce PPG's Chairman and CEO, Chuck Bunch.

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

Thank you, Vince, and good afternoon, everyone. I want to thank you for your interest in PPG. Today we reported record first-quarter 2015 financial results from continuing operations. We achieved record first-quarter net sales of $3.7 billion, and record first-quarter adjusted earnings per diluted share from continuing operations of $2.37.

Overall, we continue to deliver strong financial results, and I am pleased with our sales and earnings per share growth in the quarter.

Our adjusted earnings per share were up 20% versus the first-quarter record established last year, with each of our reporting segments growing earnings by at least 10% in local currencies.

As I will discuss in a few minutes, our strong performance was despite the fact that we faced some difficult prior-year sales comparisons. As a global company we were also impacted by unfavorable currency translation and continue to see variation in economic conditions among the major global regions.

Contributing to our record first-quarter results were the benefits from our recent strategic actions and cash deployment. This included both acquisition-related earnings and a reduction in our share count stemming from cash deployed on share repurchases.

We have also continued to work diligently on other Company-specific actions. This included a debt refinancing we recently completed which reduced our net interest expense in the quarter by nearly 50% versus the prior year. In addition, we have continued our strong legacy of cost and productivity improvements, which you have come to expect from PPG.

Finally, several of our businesses have continued to deliver strong and above-industry growth rates, as we benefited from our leading technologies and excellent customer service. Again, we achieved excellent quarterly results that were aided by specific actions we have taken strategically, operationally, and financially.

Now I will discuss some specific business trends for the first quarter. Our net sales in local currencies grew by 8% while sales reported in US dollars were up 1%. Foreign currency translation unfavorably impacted sales by 7%, offsetting acquisition-related sales growth of about 7% in the quarter.

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Our sales volume growth was modest, increasing about 1% year-over-year, and reflects overall subdued global economic activity and a difficult comparison with strong prior-year growth rates in certain regions.

Regionally, our highest coatings growth rate was in emerging regions, which in aggregate grew at about 6%. This is up versus recent quarters, as each of our businesses delivered emerging region volumes growth year-over-year. This improvement was driven by a performance in Asia and specifically China. In Latin America, demand was mixed by country and also by end-use market. Volumes at our US and Canadian coatings businesses declined slightly, decreasing 1%.

Sales volumes this quarter were compared against sales in last year's first quarter that included 7% volume growth, which is a difficult comparison. Last year's volumes were favorable across many of our businesses, reflecting strengthening regional economic conditions, coupled with pipeline fills of new products at several of our major architectural coatings customers.

Despite the modest volume decline in the first quarter this year, overall demand conditions in the region were generally favorable. Most of our businesses continued to experience modest but consistent growth.

From a seasonal perspective in the region, overall retail activity was weak in February, but did recover, and ended the month of March strongly. We expect increased economic growth and higher PPG growth rates in this region in the coming quarters.

In Europe, the Middle East, and Africa, or EMEA, our volumes grew by 1%. This was also in comparison to strong coatings volume growth in the previous year's first quarter of 4%, which was very high relative to the economic conditions in that region. The previous-year sales benefited from very favorable weather conditions that allowed for an early start to the architectural paint season. The region experienced a more normal weather pattern this year.

Strong performance from our automotive OEM business offset the lower year-over-year architectural coatings results. We remain optimistic regarding the European auto market, given the pace of regional auto sales during the first quarter. As with previous quarters, overall demand throughout the region varied considerably by country. Most businesses delivered growth in the region with particular support from the UK, Ireland, and certain Central and Eastern European countries. Conditions remained weak in other countries such as France, and also in our business in Africa.

Overall for the EMEA region, we remain constructive on economic growth in the coming quarters. We expect consumer spending in the region will benefit from the lower cost of oil. Weaker European currencies are anticipated to stimulate higher exports, and this is being coupled with overall Central Bank stimulus actions.

From a PPG perspective, we significantly lowered our cost structure in the region, and, as we've experienced over the past several quarters, we expect excellent earnings leverage on any future volume growth.

With respect to currencies, as I mentioned earlier, unfavorable currency translation impacted our overall PPG sales by about 7%, which equated to about $260 million in the first quarter. This is primarily attributed to a weaker euro, but included impacts from other currencies as well.

Based on current exchange rates, we anticipate a full-year unfavorable currency impact on our net sales of about $1.1 billion to $1.2 billion and about a $110 million to $120 million unfavorable impact to earnings. This is an increase from the figures we provided in early January when we reviewed our 2014 full-year results, and reflects further weakening of many major international currencies against the US dollar throughout the first quarter.

We expect the largest unfavorable currency translation impact for the year to occur in the second quarter, given the seasonality of our businesses. As a reminder, our second quarter is traditionally our highest seasonal quarter of the year. Based on current exchange rates, we expect the quarterly currency translation to reduce sales and the second quarter by $350 million to $375 million.

From a segment perspective, our performance coatings segment contains roughly two-thirds of our EMEA sales exposure, as it includes our large architectural coatings EMEA business.

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A last but important point with respect to year-over-year sales comparisons, our 2014 acquisitions added about 7% to our first-quarter sales. This was primarily from our Comex acquisition which we completed in November, but included other, smaller acquisitions as well.

We remain very excited about our Comex acquisition. The performance of the acquired business over the first five months has been excellent. The business grew by more than 10% this quarter versus the prior-year pre-acquisition quarter, and we remain on track for high-single-digit volume growth for the full year.

We expect to achieve the previously communicated acquisition-related cost synergies, with action plans well underway. In addition, we are now looking to fully utilize their very well-established concessionaire distribution network for the sale of other legacy PPG products in several areas, including light industrial coatings and protective coatings within Mexico. We plan to provide updates throughout the year on the acquisition and our progress on these potential sales synergies.

Moving to our first-quarter earnings performance, our 20% adjusted earnings per share growth continues a strong multiyear trend for PPG. Over the preceding three full years beginning in 2012, we have grown adjusted earnings per share by 20%, 31%, and 27%, respectively. This is a reflection of our transformed business portfolio and strong operational execution.

For the quarter by segment, performance coatings sales grew 2% and segment income was up 6%. Contributing to the results were the benefits from the Comex acquisition, partly offset by unfavorable currency translation.

Sales for the industrial coatings segment were down 2%, as strong volume growth of 5% was offset by a 7% unfavorable currency impact. Segment income was up 6% on the volume improvements and improved manufacturing costs.

Glass segment sales were flat, with higher selling prices in both businesses along with positive flat glass product mix, offset a unfavorable currency translation. Glass segment income rose to $30 million versus $4 million in the prior-year quarter. Results were aided by the improved product mix and lower manufacturing costs, including the benefits from our 2014 sale of a flat glass manufacturing facility. Additional segment details are available in the presentation material.

Overall, our businesses performed well. However, we remain focused on our costs and are initiating restructuring actions focused on productivity measures in certain businesses or regions, along with securing the synergies we committed to with our recent acquisitions.

We have approved and will record a restructuring charge of $135 million to $140 million in the second quarter. We anticipate the restructuring actions will be completed by the end of 2016, and expect full-year pre-tax savings of $100 million to $105 million in 2017. Partial year savings in 2015 will be approximately $15 million to $20 million, pre-tax. While these are difficult actions, we need to continue to aggressively manage our costs.

Lastly, we continue to work on balance sheet optimization and earnings-accretive cash deployment. As I have previously mentioned, we refinanced some of our higher cost debt in the fourth quarter of 2014. Additionally this quarter, we issued about $1.3 billion in long-term euro-denominated debt at an average interest rate of 1.1%. We ended the quarter with $1.2 billion of cash and short-term investments, maintaining strong financial flexibility.

Also, we remain active with respect to acquisitions. We completed the previously announced acquisition of REVOCOAT, an automotive specialty materials manufacturer. We also announced during the quarter that we submitted an offer to acquire the majority interest in an aerospace and automotive sealants business, and are currently working through the customary works council and regulatory review processes. We have an active M&A pipeline, and while we remain disciplined, this remains a priority for cash deployment.

With respect to our shareholders, we repurchased $200 million of stock in the first quarter. Also, today, our Board approved an increase in our quarterly dividend to $0.72 per share. We have raised our annual dividend for more than four decades and are proud of our track record. The Board also approved a 2-for-1 stock split that will be effective in June of this year. So as you can see, we have remained active on all fronts.

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Now, I will quickly summarize. In the face of somewhat subdued economic activity in the quarter, we delivered record first-quarter financial performance supported by continued and aggressive operational execution. We had excellent contributions from our recent cash deployment, including the Comex acquisition. We have continued to optimize our balance sheet and have kept a focus on rewarding our shareholders.

This concludes our prepared remarks. Once again, we appreciate your interest in PPG.

And now, operator, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John McNulty, Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

A quick question on Comex. I guess you had indicated that you saw volume growth, it was about 10% year-over-year organically. And I guess I'm wondering what's driving that, because it certainly seems a stronger than the general end markets down there would imply.

Michael McGarry - *PPG Industries, Inc. - President and COO*

John, this is Michael. The Comex business has been performing on all levels. So they have -- the GDP down there is a little bit around 3%. And we've been growing -- we expected -- we told you the last call we'd grow probably 1.5 to 2 times that. We've outperformed that. That's been both government sales as well as the cohesion with our other PPG products. So, all in all, I would tell you they're doing a very good job. And they had an early Easter promotion as well in that segment, augmented sales.

John McNulty - *Credit Suisse - Analyst*

Great, thanks. And then maybe a question with regard to the restructuring plan and where the $100 million to $105 million of savings are coming from, can you give us a little bit of clarity as to where you do see the biggest buckets in terms of opportunities there?

Frank Sklarsky - *PPG Industries, Inc. - EVP and CFO*

John, this is Frank. So a little more than half of the actions are focused on some of the markets that have seen some subdued economic conditions. So they will focus on Europe and some other areas where we have challenging economics. So some of that savings will be in the area of administrative, back office, increased shared services, parts of the supply chain in terms of manufacturing productivity, warehousing efficiencies, things like that. But if you look across the spectrum of the $100 million $105 million savings, it really does run on across all regions, all businesses, and all functions.

The other thing that we were focusing on, too, as we stated in the release, is that part of the restructuring is focused on the acquisition synergies achievement. And that was -- we always planned to do that, so that's also a part of it.

John McNulty - *Credit Suisse - Analyst*

Great. Thanks very much.

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Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank - Analyst*

Chuck, on raw materials, did you see any material benefit in Q1? And what's your expectation in terms of Q2 for gross margin expansion, given lower raws?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

We saw very modest improvement in raw material pricing, David. In fact, if you look across all the Corporation, in both our fixed and variable costs, we had inflation that was just slightly negative; less than 1%. So, we still have not seen the full benefits of the raw material price reductions that we anticipate later this year. We think the second half of the year we will be able to pull through some of these raw material price reductions in a more meaningful way.

I think we've talked about first quarter working through higher cost inventory levels, as an example, and getting those savings pulled through from our suppliers. We don't have indexed prices, as a rule, with either our suppliers or customers. So we focused on that. And we think as we go through the year, but certainly in the second half, we're going to see more raw material benefits from our raw materials.

David Begleiter - *Deutsche Bank - Analyst*

Very good. And just in Asia and China, you noted some acceleration in China. That's perhaps against what we're seeing in terms of growth slowing. So what are you doing well in China and Asia overall?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

I think for PPG, we've been well positioned with several of the more consumer-oriented markets; not as focused on exports or construction. We have exposure to those businesses. And I think our strongest markets in China were automotive OEM, which is a domestic market in China. Those sales have continued to grow slightly above what their overall GDP growth has been stated as, so high single digits for automotive growth.

And we've been well positioned there with some of our new technologies, compact processes. We've done well in that sector. Packaging coatings would be another example of a consumer-oriented end-use market that has grown faster than some of the export-oriented or construction-related businesses.

David Begleiter - *Deutsche Bank - Analyst*

Thank you very much.

Operator

Ghansham Panjabi, Robert W. Baird.

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Ghansham Panjabi - *Robert W. Baird - Analyst*

First off, Chuck, are you sensing a new level of optimism from your customers in Europe correctly? Or are your comments on lower energy costs and the pickup in exports from the region more your expectation on a go-forward basis? And also, any early cycle businesses in the region that are starting to improve that you are particularly excited about?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

Yes, Ghansham, it's good to hear from you. I would say in Europe we have been probably waiting for a recovery for several years. And we've remained cautious on how the markets are trending, but I have been encouraged. And this is not just a personal view. This is our team. And they've been as pessimistic or as cautious as I've been.

But especially on the automotive side of the business, you've seen sales growth accelerate here in the first quarter, especially in Southern Europe. So we're talking now about kind of high-single-digit sales growth that we haven't yet seen translated into production increases or production growth, which is where we have our sales and earnings.

And our team feels that if these sales levels continue that we're going to see higher growth rates in automotive as we go through the year. If you look at consumer confidence indicators, they have also turned up in Europe. And I think the combination of -- yes, we are facing some weaker currencies there -- but the combination of some of the Central Bank actions with some of the earlier cycle markets like automotive starting to move, I am a little more optimistic.

In the recovery here, after the 2008-2009 recession, automotive was one of the early movers after it really went down quite drastically. And then it was the construction markets here in North America that took a little longer to recover. And I would say that seems to be the case a little bit with us, at least in France and Southern Europe. We're not seeing the construction markets bounce back yet. But automotive, we're all more optimistic. And that, I think, bodes well, not only for that end-use market, but for a number of other industrial production end-use markets.

So I'm a little more optimistic, even with the weaker currencies. And, in fact, that's probably going to be one of the contributing factors as we go through this recovery in the overall economies there.

Ghansham Panjabi - *Robert W. Baird - Analyst*

And then just as a follow-on on North American architectural, is it your view that pricing is sort of stable in the market? Just curious on what you are seeing from a competitive standpoint, just given all the promotional activity in the channel.

Michael McGarry - *PPG Industries, Inc. - President and COO*

The pricing is flat in the marketplace.

Ghansham Panjabi - *Robert W. Baird - Analyst*

Is that your expectation that it stays flat for the year?

Michael McGarry - *PPG Industries, Inc. - President and COO*

Basically, expectation is that it will remain flat.

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Ghansham Panjabi - *Robert W. Baird - Analyst*

Okay. Thanks so much.

Operator

Kevin McCarthy, Bank of America.

Kevin McCarthy - *Bank of America Merrill Lynch - Analyst*

Chuck, it looks like we have some nascent momentum in vehicle miles driven. Are you seeing any benefit in your refinish business yet, related to that? Or would you expect any as the year progresses?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

I would expect -- it's a little early. If you looked at some of the winter activity last year, we ended up having a pretty good year even though the automotive refinish market started off quite slowly last year, as well. So I think we're going to see some improvement in automotive refinish as we go through the year. But the first quarter is a little too soon to get the benefit from what was a pretty sharply cold winter here in the early months.

We saw, obviously, some improvement in the second half of March, when things finally got a little better, but we won't see that yet in refinish. It will probably be as we go through the second quarter and into the second half of the year.

Kevin McCarthy - *Bank of America Merrill Lynch - Analyst*

Okay, great. And then the second question, if I may, on the glass business -- or a two-part question. Can you comment on how much of the cost relief there was fixed versus variable? Just trying to get a sense of how durable it could be through the year. And then second piece, does the improved profitability influence your thinking on potential monetization of that business?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

Well, I would say that there has been improvement in our flat glass business in a number of, let's call it, P&L areas. So fixed costs, obviously we got helped by the lack of a big cold repair that we had last year in our Wichita Falls, Texas, plant. We also completed the sale of that Mt. Zion facility in Illinois in the third quarter. So the absence of those two elements helped. So those were fixed cost improvements.

We also saw pricing and demand improvement, too. So I would say that the numbers that you are looking at are sustainable. These are not one-offs. And I think we have changed the direction of the business. We are at a little bit of an inflection point. As you know, this is a commercial construction business, and that market has improved.

Glass supply and demand is much more in balance. We've gotten some pricing. We've done well in the marketplace. Natural gas costs and others have been under control. So I think we have some elements here for a sustained performance at this level. And I think, for us, as always with this business, we will listen if there are opportunities to create value for the shareholders in any transactions.

At this point, I think we're just continuing to execute on the opportunities in front of us in the marketplace for the business, and we're optimistic that this can continue.

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Kevin McCarthy - *Bank of America Merrill Lynch - Analyst*

Fair enough. Thank you, Chuck.

Operator

Frank Mitsch, Wells Fargo.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Congrats on a nice start to the year. I wanted to come back on the raw material question. I know that one of your competitors was talking about seeing a roughly mid-single-digit type of improvement here in the middle of the year, and actually accelerating towards year-end. Are those the sort of figures that folks should think about with PPG, as well?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

I'm not sure. I haven't listened or seen any of the reports on any other industry or competitive activity. I would say, as I indicated, we do expect more help as we go through the year. And in the second half, I would say my comments would be that sounds a little on the aggressive side. We've seen the oil prices move back up a little bit here. And I would say that we expect some help, but not to the magnitude that you mentioned.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right. That's helpful. And I noticed that packaging was a nice mid-single-digit type of improvement there. What portion of that would you ascribe to BPA-NI? And what's your sense of the competitive balance there? And how should we think about that part of your portfolio?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

I think, for us, it is certainly a good sign. And some of those volume gains were in BPA Non-Intent, or BPA-free coatings. So I think it should give you some confidence as an investor that we are performing and delivering on the technology challenges for the BPA-free material.

We feel pretty confident that we are well positioned. And I think you're going to continue to see conversions in the food and beverage industry overall on this technology. So I think it bodes well for us. Although I would say we see other competitors active in this space as well, but I think we feel positive with the volume growths that you've seen. And I think it's an indication that our technology is going to deliver growth in the market.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Thank you so much.

Operator

Bob Koort, Goldman Sachs.

Bob Koort - *Goldman Sachs - Analyst*

I was wondering if you could talk on the North American architectural about -- do you have the confidence that there was no underlying issues around the big box distribution channel? And have you seen any changes in DIY versus contractors? That's my first.

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And then second, can you talk a little bit about how your PPG-owned stores and Akzo -- or Glidden stores, with the rebranding -- if there's any changes in what you've seen in dynamics there. Thanks.

Michael McGarry - *PPG Industries, Inc. - President and COO*

Bob, this is Michael. Starting with the Company-owned stores, we've merged the network together, so you can't really pull out legacy Akzo versus the old PPG. And as we said in our opening remarks, they were up mid-single digits, so we were happy with that.

And when we look at the big boxes, we had some pipeline fill last year, especially with the stain side. We have a nice stain position. That's an early win there. We did not have that pipeline fill this year. Overall, we think when we look at the sell-out from the big boxes, it is progressing at a normal rate. Obviously, a slow start to the paint season, given the weather, but we saw acceleration starting in mid-March.

Vince Morales - *PPG Industries, Inc. - VP of IR*

What was your second question, Bob? Did we cover it?

Bob Koort - *Goldman Sachs - Analyst*

It was just around whether or not you've seen any variation in DIY versus contractor trends. And then in your own big box business, whether there's any regional -- or of any underlying trends, or it was really just an inventory management and tough comp issue.

Michael McGarry - *PPG Industries, Inc. - President and COO*

No, I think it was all -- I think the inventory is a one-time, and we're seeing no material differences in how it goes out in the marketplace. So we're happy with what we're seeing. And the dealers and the contractors all are performing at what I would say is a reasonable market pace.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - *Jefferies - Analyst*

Can you give a little bit more detail on how much of a lift you should have next year from not having the pipeline adjustments in the North American architectural?

Vince Morales - *PPG Industries, Inc. - VP of IR*

Laurence, it's Vince. The pipeline adjustments were last year, so they just did not recur. So we actually have pipeline fills or a higher level of activity in the first quarter of 2014. And that's what created the difficult comp.

Laurence Alexander - *Jefferies - Analyst*

And then the price mix, can you give a little bit of regional flavor, how that was doing in Europe and Asia?

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Vince Morales - *PPG Industries, Inc. - VP of IR*

Prices generally for the Company, and in all regions, were basically flat. The only favorable mix I'd say we had from an overall perspective was in our flat glass business, where we moved up -- commercial construction glass is more a value-added product versus residential glass. So we're moving up the spectrum as we sell more commercial construction into the market, based on demand.

Laurence Alexander - *Jefferies - Analyst*

Thank you.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

Can you talk about the progress of your titanium dioxide chloride technology in China -- whether it's being well commercialized or well developed, or whether it isn't?

Michael McGarry - *PPG Industries, Inc. - President and COO*

Jeff, this is Michael. The plant is in the startup mode. We expect to get commercial quality product in the second half of the second quarter, and we'll be looking at that. So far what we've seen, we've been pleased with everything, and we're happy so far.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay. And as my follow-up question, when you think about the changes in suppliers at Lowe's, where they've gone from two paint suppliers to three, do you think that that's a one-off event at Lowe's? Or do you think it's part of -- or it could be part of a larger industry trend as the coatings industry consolidates?

Michael McGarry - *PPG Industries, Inc. - President and COO*

Jeff, I don't know that we want to get into specific customers on this. Certainly, Lowe's made a decision, and we would expect the other folks to drive their own business. So we'll wait and see how that works out.

Vince Morales - *PPG Industries, Inc. - VP of IR*

And just as a reminder, as we said on the first -- or in January -- with respect to our home center customers for calendar year 2015, we picked up a little bit more product.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay, great. Thanks so much.

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Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Just a question on Comex. Just looking at your comments on exceeding your net sales range from January, I guess that's in the face of probably some challenging FX there. Could you just talk about what the dynamics are that allowed you to exceed the range?

Michael McGarry - *PPG Industries, Inc. - President and COO*

This is Michael again. I think we have a strong market share down there. We have increased the number of concessionaires. And when we bought the business from 3,740, we're up at 3,900. We're adding a concessionaire every other day. And that gives us additional penetration in the marketplace.

We also have the strongest brand in Mexico. And the government -- there's some election spending -- or actually some elections later in the year. And the local governments are spending the money to help beautify their local areas, so that's also a positive. So I think there are a number of factors that are driving this.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Thanks very much. I'll leave it there.

Vince Morales - *PPG Industries, Inc. - VP of IR*

And let me just add to what Michael said. So, our anticipation in Comex is we're going to have a total opening of concessionaires this year, somewhere between 160 and 190 new locations. Again, as Michael said, one every other day.

Operator

Don Carson, Susquehanna Financial.

Don Carson - *Susquehanna Financial Group - Analyst*

Chuck, a question on the trade-off between FX and raws. You outlined that FX will be almost twice what you thought it would be on the January call. You are a little more optimistic on the raw material outlook, perhaps not as much as one of your competitors. But do those two largely balance each other off? That is, more raw material cost reductions offsetting that increased FX headwind?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

Well, if you look, we were down 7% in currency, at least at the top line. And we were down much less than that on the raw material side, although not all the currency impacts our bottom line. So, certainly I think they are offsetting to a certain extent. And we think that, unfortunately, currency is going to be more of a headwind here in the second quarter if these currency trends continue.

And in the second half, it's a little early to say what we're going to see on currency. But we think we'll get a little more help on raw materials. So we've got some, let's call them, countervailing trends here. They didn't offset indirectly the same ways in the first quarter. And it's going to be how we see this thing play out both on currencies -- very unpredictable. We think there's a broader trend in raw materials, but not in a relatively moderate way.

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Frank Sklarsky - *PPG Industries, Inc. - EVP and CFO*

And Don, just one other thing. This is Frank. Keep in mind that on the cost saving side, I think we do get in our cost structure -- including those savings we anticipate to get now through 2017 when we do the restructuring program -- that's a real economic benefit and structural benefit to our structure. Whereas on the currency side, only about 10% of that goes to the bottom line because of the natural hedge we have by making our product generally where we sell it. And that's not really an economic exposure, as much as it is just a translation exposure from the foreign currency into US dollars.

The transaction exposure, which would be the real economic impact, is very limited. And we do hedge a portion of that transaction exposure, where we buy in one currency and sell in another currency. But that's very, very limited. So we just wanted to clarify that.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay, thank you.

Operator

P.J. Juvekar, Citi.

P.J. Juvekar - *Citigroup - Analyst*

I have a question on automotive refinish. Can you talk about the dynamics there, as one of your new competitors seems to be gaining some share? So just talk about what the dynamics there, and what kind of organic growth are you seeing in refinish?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

P.J., automotive refinish in the developed markets is a relatively mature market. And we have, I would say, a very incomplete industry growth data in terms of the actual refinish market. But I would say that, for us, in terms of the market trends, this has always been a competitive market. There are a few large, global players. We feel that, as PPG, we are holding our own in the developed market regions. And we're continuing to grow in the developing markets like China and India, where these are the fastest-growing carparks and automotive refinish markets.

So yes, it's a competitive market where you've got a few large, global players. We don't see that competitive intensity decreasing. But we feel, as PPG, we are well positioned and certainly maintaining our leadership in the industry.

Vince Morales - *PPG Industries, Inc. - VP of IR*

And if I could add to Chuck's comments. If you look at the technology in the marketplace, everything is moving toward a water-based technology. I think from our observations, we are the leader in that technology, both in the US and in Europe. So I think we're well positioned from a technology perspective as well.

P.J. Juvekar - *Citigroup - Analyst*

Thank you. And then I want to go back to Lowe's. Lowe's introduced this new HGTV brand. And I know Olympic is at a lower price point. But what is the risk that a person who walks into a Lowe's store to buy Olympic paint could trade up to buy HGTV? Do you see any possible impact there?

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Michael McGarry - *PPG Industries, Inc. - President and COO*

P.J., I think it's too early to speculate. And I think Lowe's would like to be the one to comment on that.

P.J. Juvekar - *Citigroup - Analyst*

Thank you.

Operator

James Sheehan, SunTrust Robinson Humphrey.

James Sheehan - *SunTrust Robinson Humphrey - Analyst*

On your architectural coatings sales in the US, if you exclude the impact of the pipeline fills, what would sales have done in percentage terms in the first quarter?

Vince Morales - *PPG Industries, Inc. - VP of IR*

James, this is Vince. If you look, we had good volume growth, as Michael mentioned, in the Company-owned stores and comparable growth in the independent distribution market. That was just offset with the -- I will call it the negative year-over-year comps with respect to the pipeline fill. The store -- the sales in DIY were positive and out the door, and we feel good about that going forward.

The other thing that was impactful for that business from a sales perspective was currency in Canada was negative. We have a big Canadian business. Volumes in Canada were positive, but currency was negative. So again, we are pleased with our performance to date.

Early in the season, as Michael mentioned, and we did have a different weather pattern; weaker in February, stronger in March.

James Sheehan - *SunTrust Robinson Humphrey - Analyst*

Okay. And on your commercial construction comments on the glass business, you have often talked about that flowing through into the coatings business over time. Are you starting to see that pick up in coatings on the commercial construction side?

Michael McGarry - *PPG Industries, Inc. - President and COO*

Yes. James, this is Michael. We are starting to see that. It's a little early, because, as you know, glass goes in the buildings it's generally -- can be anywhere from 12 to 18 months before the paint goes in, depending upon the size of the building. So it's a little early, but we certainly expect that to flow through as well.

James Sheehan - *SunTrust Robinson Humphrey - Analyst*

Thank you very much.

Operator

John Roberts, UBS.

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John Roberts - *UBS - Analyst*

Frank, does free cash flow get as impacted by foreign exchange as earnings? Or are there things you can do with working capital and capital spending, some of the offsets in the free cash flow, to sort of dampen out the foreign exchange on free cash?

Frank Sklarsky - *PPG Industries, Inc. - EVP and CFO*

Yes, irrespective of FX, we are always working on ways to improve working capital. Obviously Q1 is usually the weakest, from a cash flow perspective, as you build a little bit of working capital, pay off some of the payables from the fourth quarter and build up a little bit of the working capital, inventory receivables, as things [fill] up for second quarter.

But we do have initiatives underway, and we have made a lot of progress in terms of reducing past-due receivables. We have aggressive targets to try to streamline our inventory levels and [our as well as] complexity in each of our businesses. During the year we'll see progress; more progress in the latter half of the year.

And then payables are in pretty good shape. But, yes, you do see some impact on the translation. But actually I think are going to have adequate initiatives to offset that, and make some progress on the working capital as we move through the year.

John Roberts - *UBS - Analyst*

Okay. And then just secondly, is your strength in automotive OEM new wins as strong as the strength that you're currently seeing in the existing business?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

I would say it's balanced between what you have in some markets where we did well, such as Europe. These are -- I think we're seeing a ramp-up of some of the customers that have been maybe most affected by of this long recession in Europe so that our customer base in Europe, you don't have as many new plants there. So these are your traditional customers that are now starting to do a little better as we see this pick-up in sales especially in some markets like Southern Europe, where Fiat is starting to grow faster; and in Asia and in China and India.

For example, that's a combination of new wins, but primarily these are new plants that are going in with global and domestic competitors, both there and in India. So I'd say that's more of a combination of new plants and existing market growth.

John Roberts - *UBS - Analyst*

Thank you.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

I guess I just wanted to clarify, first, if you can give us some guidance on what interest expense would look like for the rest of the year with the euro refinancing.

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Frank Sklarsky - *PPG Industries, Inc. - EVP and CFO*

Sure. The interest expense was down, and of course the number we gave was on a net basis. It went from $35 million to about $18 million in the first quarter. As we look out through the rest of the year, interest expense will be down in between the $20 million and $25 million per quarter. Our weighted average interest rate on our portfolio right now, we've got debt at about $4.6 million; weighted average interest rate of about 2.5%.

Vince Morales - *PPG Industries, Inc. - VP of IR*

Yes and Arun, so we did refinance, as we said on the press release and Chuck's comments, in the fourth quarter. We also did put in $1.3 billion of debt in March, so we had no interest cost for that in January, February. So there will be a step-up in Q2 of $4 million to $5 million versus Q1, partially related to that. So, mid- to low-20s would be a good number on a go-forward basis.

Frank Sklarsky - *PPG Industries, Inc. - EVP and CFO*

And that's net interest expense offset against interest income on the cash balances.

Vince Morales - *PPG Industries, Inc. - VP of IR*

Thanks. Exactly.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Great, thanks. And then just taking that a step further, you guys obviously have quite a bit of balance sheet flexibility here. Can you give us a little update on the M&A pipeline? I know you completed two in the first quarter. Anything else look interesting, maybe in industrial coatings in Europe, right now?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

We have an active M&A pipeline. We don't have any mega-deals out there. Those don't come along very often. But we have some good discussions going on. We announced the agreement -- although we have not closed yet on the French aerospace acquisition, Le Joint Francais or LJF, from Total. So that's one that we're continuing to work, and we hope to be able to close that in the second half of the year.

And we have some other deals that we are currently discussing, and we hope that we'll be able to announce some things as we go through the year. But it's an active pipeline. Still, we think, good opportunities.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Great, thanks. And if I may, just one more on the Comex opportunity. Is there any way you could quantify the revenue opportunity, now selling some of those legacy PPG products? Thanks.

Vince Morales - *PPG Industries, Inc. - VP of IR*

Arun, Vince again. We're certainly working closely with the concessionaires on what products they like, what products will actually sell into the market. We really need to go through a paint season to fully understand the acceptance of the products. And it's different obviously by geographic region in Mexico. So we do want to give some sight lines for you guys at some point. It's just too premature right now to do that.

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Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. Thanks.

Operator

Nils Wallin, CLSA.

Nils Wallin - *CLSA - Analyst*

Industrial coatings revenues were down, but profitability was up year-over-year. Would you help us understand what happened there? Did you take some low-margin business out, or did you take some costs out? Just curious as to how you achieved such a solid result.

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

This was productivity, and we continued to perform well in the businesses that are in industrial coatings. So a lot of cost-down restructuring benefits from prior years, and good growth of profitable business in our automotive OEM, industrial coatings segments.

Vince Morales - *PPG Industries, Inc. - VP of IR*

Nils, the 2% decline I think in sales revenue really was 7% negative currency, 5% positive volumes for the segment. So that 5% volume was dragging along a nice incremental margin, as we've talked about in the past, for the reason Chuck has just mentioned. So I think that really hastened our improvement.

Nils Wallin - *CLSA - Analyst*

Yes, understood. Understood. I guess last year, Europe saw something like a 20% earnings growth on volumes that were starting to improve. Now it sounds like, in general, you are becoming incrementally positive on the region, some recovery. Should we expect that type of -- or better type of earnings growth in Europe on a constant currency basis for 2015?

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

Well, I would say that -- remember, we should still see earnings growth improvement in Europe, primarily related to the industrial coatings segment. So we have not yet seen a strong improvement on the construction side of -- or the performance coatings side of the business. But we think there will be some modest growth there. And we're obviously working on these restructuring actions that should help us late in the year.

Frank Sklarsky - *PPG Industries, Inc. - EVP and CFO*

And keep in mind, too, that any incremental volume should accrete at a pretty nice margin, closer to the PC margin than the EBIT margin because of the fact that we're still 15 to 20 percentage points below peak volumes. So we don't have to add much of anything in terms of fixed supply chain costs to get that volume. And in fact, we continue to find streamlining opportunities on the administrative side. So any volume we do get, when we get it in the commercial space and so on, should accrete at a good margin.

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Nils Wallin - *CLSA - Analyst*

Understood. And just one more, if I may. I noticed in the commentary the $1.5 billion to $2.5 billion of potential cash deployment over the next 12 to 18 months was removed. Was that deliberate? Although you had obviously highlighted continued cash deployment issues or goals -- so was that deliberate? Have you changed your view about how much cash will be deployed?

Frank Sklarsky - *PPG Industries, Inc. - EVP and CFO*

The cash flow is still looking as it did when we made that disclosure, and that disclosure and guidance still does apply.

Nils Wallin - *CLSA - Analyst*

Great. Thanks so much.

Operator

(Operator Instructions). Kevin Hocevar, Northcoast Research.

Kevin Hocevar - *Northcoast Research - Analyst*

On the auto OEM side of things, you continue to really significantly outperform the industry, which seems to be the norm at this point. So I'm wondering if you could comment on what's driving that. I know technology has something to do with it. Is the gap not closing between the competitors? Do you continue to innovate, and they are not keeping up? Are you are aligned with the right customers? Wondered if you could just comment on that.

Chuck Bunch - *PPG Industries, Inc. - Chairman and CEO*

I think we've been -- it's a combination of both of those. I think technology and service, our performance with existing customers has gone extremely well with the new technologies. We are the largest automotive OEM competitor in the space. We have a broad geographic or global footprint. So we are able to, I think, deliver a value around the world, whether you're talking about North America or Europe or Asia or China, any of those markets.

So I think we've been very well positioned both from a technology service, and we have a very broad-based customer array. And in China, as an example, we've seen both the global OEMs as well as the Chinese domestic players growing, and we've been positioned on both sides of that. So I think it's a combination.

Kevin Hocevar - *Northcoast Research - Analyst*

Okay. And then just quickly on the US architectural paint business. I noticed the independent dealer channel was up to mid-single-digits, which is kind of strong for that channel. So just wondering if you had any new business wins, or it just happened to have a good quarter.

Michael McGarry - *PPG Industries, Inc. - President and COO*

No, we had no significant new business wins. But I do think we got a fast start to the year.

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Kevin Hocevar - *Northcoast Research - Analyst*

Okay. All right. Thank you very much.

Operator

I would now like to turn the conference over to Mr. Morales for closing remarks.

Vince Morales - *PPG Industries, Inc. - VP of IR*

Thank you. Once again, I would like to thank everybody for all their interest in PPG and their time and attention. If there's any further questions on our financials, please call me [on an] Investor Relations function. Thank you.

Operator

Thank you for joining today's conference. That concludes the presentation. You may now disconnect and have a great day.

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