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EDITED TRANSCRIPT

PPG - Q3 2015 PPG Industries Inc Earnings Call

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OVERVIEW:

Co. reported 3Q15 net sales of $3.8b and adjusted diluted EPS from continuing operations of $1.61.

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third-quarter PPG Industries earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today Mr. Vince Morales. Please proceed.

Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

Thank you, Jasmine, and welcome everybody. This is Vince Morales, PPG's Vice President of Investor Relations and Treasurer. We appreciate your continued interest in PPG and welcome you to this teleconference to review our third-quarter 2015 financial results.

Joining me on the call today from PPG is Michael McGarry, President and Chief Executive Officer, and Frank Sklarsky, Executive Vice President and Chief Financial Officer.

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Our comments relate to the financial information released on Thursday, October 15, 2015. I will remind everybody that we posted detailed commentary and accompanying presentation slides on our investor center at ppg.com. The slides are also available on the webcast site for this call and they provide additional support to the opening comments Michael will make momentarily.

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

Both the prepared commentary and the discussion on the Q&A 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 may 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.

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

And now let me introduce PPG's President and Chief Executive Officer Michael McGarry.

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Thank you, Vince, and good afternoon everyone. I want to thank you for your continued interest in PPG.

Today we reported our third-quarter 2015 financial results. Our results included third-quarter net sales of $3.8 billion and third-quarter record adjusted earnings per diluted share from continuing operations of $1.61.

Our adjusted earnings per share in the third quarter were up $0.20, or 14% versus the prior record quarter. Our continued strong performance was achieved despite unfavorable foreign currency translation impacts which were larger than originally anticipated due to further weakening of emerging region currencies during the quarter.

We more than offset the currency headwind with continued benefits from our acquisitions including consistently strong performance of Comex, ongoing and aggressive actions to further reduce our overall cost and continued cash deployment. Overall we performed well this quarter against a more dynamic and uneven economic backdrop. We have continued to deliver solid compounded adjusted EPS growth as a Company including over 20% in the last three years.

This consistent performance is a tangible measurement of our global coatings business platform, our ability to innovate and commercialize customer driven products and technologies and our continued aggressive cost management. Additionally we continue to benefit from disciplined earnings accretive cash deployment.

Our third-quarter sales volume declined by less than 1% year over year down slightly versus our second-quarter performance. The lower results reflect overall moderation of global economic growth during the quarter and transitory customer inventory management.

Our Industrial Coatings segment grew volume supported by continued automotive OEM volume growth in all major regions. We delivered higher volumes in Asia despite lower industry production in China. Also growth continued in Europe and North America supported by growing demand in these regions.

Additionally we continue to benefit from initial industry adoption of our new can coating technologies and our packaging coatings business. We are in early stages of an industry-wide technology conversion and we have demonstrated excellent progress in securing an initial leadership position during this once in a multi-decade industry conversion.

Within the Industrial segment growth was partially offset by slight volume declines in our Industrial Coatings and specialty coating and materials business, a result similar to prior sequential quarter as overall general industrial demand remains tepid in all major regions. Performance Coatings

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sales declined, volumes declined due to lower architectural coatings demand stemming from a weaker Canadian economy coupled with inventory management by most of our US and Canadian national retail customers approaching the tail end of a modest painting season. Overall architectural coatings industry demand was modest in the third quarter following a weaker than anticipated second quarter due to poor painting weather conditions.

Essentially we did not experience a large-scale snapback in the quarter. This left most of our large national retail customers and independent distributors with high inventories as we began to wind down the paint season. So their late third-quarter order patterns were reduced commensurately.

Volumes in our other Performance Coatings businesses were up slightly. Regionally for the Company, higher volumes were achieved in Europe with growth trend slightly ahead of the previous quarter as we continue to see broader but still modestly incremental improvement in the region.

Year-over-year volumes grew IN Asia as well. China volumes were soft early in the quarter, including customer inventory management but stabilized with demand improvement later in the quarter. Volumes in the US and Canadian markets were lower year over year primarily due to architectural coatings customer inventory management.

Mexican volumes excluding acquisition-related benefits remained very solid while South American demand weakened in comparison to previous sequential quarter and year over year.

As I mentioned we incurred notable unfavorable currency translation impacts to sales and earnings stemming from weakened foreign currencies. These currencies, primarily the euro, unfavorably impacted our sales by about $310 million or about 8% and reduced our pretax earnings by about $45 million or $0.12 per share. Absent the foreign currency impacts our adjusted earnings per share would have been up over 20% year over year.

Based on current foreign currency exchange rates we expect the unfavorable foreign currency translation impacts to moderate somewhat in the fourth quarter as foreign currencies began to weaken in the second half of 2014 and due to the seasonality of our businesses. Given these factors we now expect currency translation to reduce our full-year sales by about $1.1 billion and pretax earnings by about $120 million to $130 million. This range is slightly unfavorable to the forecast that we provided during our second-quarter earnings conference call with most of the change already recognized in our third-quarter results.

As you would expect from PPG we have maintained our aggressive operational and cost focus as we achieved lower manufacturing and SG&A costs in comparison to last year. Our year-over-year SG&A costs as a percentage of sales were down about 100 basis points during the third quarter.

We continued to execute on our previously announced restructuring plan and anticipate full-year savings from this program of $100 million to $105 million when fully implemented in 2017 with $15 million to $20 million of these savings expected in 2015. Cast employment was also a significant factor of segment income growth in the third quarter. This included sales and earnings from our recent acquisitions including Comex and several smaller companies.

Since the end of the second quarter we closed on Cuming Microwave, Chemfil Canada, IVC Industrial Coatings and Le Joint Francais or abbreviated LJF. We will benefit from these transactions in the fourth quarter.

In addition to acquisition spending we deployed $150 million cash in the quarter for the purchase of 1.5 million shares of PPG stock and our repurchase pace year to date is ahead of last year. We remain committed to accretive, earnings accretive cash deployment and year to date we have spent $900 million in this regard, including six business acquisitions with an aggregate purchase price of over $400 million coupled with $500 million of stock repurchases.

We had previously announced a cash deployment target of $1.5 billion to $2.5 billion focused on acquisitions and share repurchases for the combined calendar years of 2015 and 2016. We have now narrowed the range and are targeting at least $2 billion to $2.5 billion over that time period.

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Looking ahead we anticipate a resumption of PPG volume growth in the fourth quarter supported by global economic growth, the absence of customer inventory management and the benefit of including Comex in our organic figures following the acquisition's anniversary in November.

Lastly we continue to have a variety of PPG's specific earnings drivers that are not directly tied to the pace of the economy, most of which I've already spoken about. In summary, these include the benefits of completing our restructuring actions, attainment of remaining synergies from the ongoing integration of our acquisitions, the ongoing effects of continued cash deployment and our proactive cost management.

Before we conclude our prepared remarks I want to provide some context around a few of the key initiatives I will be working on in my new role as CEO. These initiatives are summarized on the slide titled PPG path forward in the presentation materials supporting today's teleconference.

First and foremost we are committed to maintaining an unwavering focus on our customers. To do so we will continue to invest in customer-driven innovation and technology. Technology development has been the backbone of PPG for many, many years and we've been able to gain valuable share of our customers' wallet as technology in our industry has continued to shift and supported changing customer and environmental demands.

Recent examples include our compact process and automotive OEM, a new array of coatings and sealant technologies we developed to serve today's composite aerospace market, our industry-leading water-based refinish coatings and new coatings for the inside of food and beverage cans just to name a few. We aim to use these technology shifts to expand our innovation leadership in markets in which we participate. Also we intend to maximize the transfer of these technologies across all of PPG's businesses faster.

Additionally we need to increase our customer intimacy and service capabilities so that we are able to deliver higher organic growth. This requires us to make it easier for customers to do business with PPG. This includes from the time they or we develop a potential concept involving either coatings technology or application all the way through the purchase order to our final product shipment and providing technical support to service our customers and launch the new technology and their facilities flawlessly.

This is an end-to-end customer approach that is focused on building long-lasting mutual beneficial relationships and is aimed at driving a higher organic growth rate.

PPG has been very good operationally. As a 34-year veteran of the Company this is one of the disciplines that was instilled in me and continues to be imparted with all associates from day one on the job and it remains with us today. No stone goes unturned in looking for ways to reduce cost and we'll maintain this aggressive cost management approach.

In addition we'll make it even more dynamic so that we will continue to rapidly adjust our cost structure to constantly match regional and end-use market demand by further variablizing our cost structure. This will include more shared service cost centers of excellence that will centralize costs allowing us to take advantage of efficiencies in technologies and is possible due to our global scale. This will improve our cost structure in the various regions and field locations around the world.

Strategically we have made significant strides in transforming our portfolio in the past several years. We are now in a position to optimize and extract the full scale advantages of our global coatings platform. This includes improvements in nearly every facet of our business including further distribution and supply chain advantages due to our breadth and depth of products and services we buy, make and sell.

Naturally given all the effort we've put into transforming our business portfolio we will maintain our rigor on our business portfolio to ensure continued shareholder value creation. Also we will remain fiscally prudent and shareholder friendly, two other traits that have long been embedded in PPG's DNA.

From a balance sheet perspective we want to remain investment-grade and maintain adequate financial flexibility which has served us so well over the years. We will certainly invest organically to keep our existing businesses healthy and keep our discipline with respect to acquisition valuation.

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Additionally we intend to reward our shareholders and will recommend sustainable dividend increases to our Board of Directors. We intend to be efficient with all our assets including cash and we'll return excess cash to our shareholders. Lastly, I'm honored and excited to be CEO and I look forward to the coming weeks and months of spending more time with our shareholders and continuing this dialogue on the path forward.

Thank you for your time and once again we appreciate your interest in PPG. Now Jasmine would you please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank - Analyst*

Thank you. Michael, you highlight in the release moderating global economic growth. Can you talk to what regions and what end markets you're seeing that moderating growth?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Sure. We can start with automotive as you know, you saw that in China. The good news is in September you saw a little bit of an improvement there and the order book for August continues to look modestly better.

You would also see some heavy duty equipment being another area that continues to be a little bit weak. From a regionals perspective we see a little bit of uptick in Europe and obviously Latin America particularly Brazil seems to be getting weaker instead of better. So overall I think those would be some of my initial comments, David.

David Begleiter - *Deutsche Bank - Analyst*

Very good. Michael, just on raws in your gross margin, nice expansion in Q3. Where do we stand on the realization of some of the lower raw material costs through your COGS?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

David, we've been very consistent. We told you throughout the year that about a third of our raw materials are tied to oil. We get savings quicker on items closer to the oil well like solvents.

We get those in 30 to 60 days. Transportation typically 60 to 90 days. We typically work with our suppliers to pull through the propylene and ethylene derivative savings, and those lag a little bit more six to nine months.

We've seen more raw material deflation in 3Q than in 2Q. And we will continue to work with our suppliers to get further savings in 4Q and going forward.

David Begleiter - *Deutsche Bank - Analyst*

Thank you very much.

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Operator

Bob Koort, Goldman Sachs.

Chris Evans - *Goldman Sachs - Analyst*

Good afternoon, gentlemen this is Chris Evans on for Bob. I was hoping you could provide some additional granularity on the North American architectural volume decline. Are you guys seeing any trends outside of the destocking there?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Chris, what I would tell you is that we had a wet June and people were anticipating a stronger paint season. We've been very consistent in saying that we expected the paint season to be in that low single-digit range. I think our assessment has been relatively on target.

So we saw the major retail folks both in the US and Canada start to destock late in the third quarter. The good news is I will tell you we think it's transitory because as I look at our sales for the first 14 days of October, the sales are very consistent with what we saw in the fourth quarter of last year. So that leads me to believe that this is a transitory effect.

Operator

Duffy Fischer, Barclays.

Duffy Fischer - *Barclays Capital - Analyst*

Yes, good afternoon folks. Question just if you take a step back on your volumes, the chart that you provide optically obviously doesn't look good, the whole industry is struggling a little bit. But when you look across your businesses, would you say you're my gaining or losing market share, so the question is are your volumes worse than the market or in line with the market, would you guess?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Well I guess, Duffy, I would first say that it's a difficult question to answer given that there's not a lot of industry data that you can rely on. So I would say it's conceivable that in the US stores business we might have ticked down a fraction but certainly I don't feel that way in Canada and we're gaining share in other places like Mexico. We're gaining share in Europe, we're gaining share, so I would tell you that since we run a global architectural business overall net-net we're doing pretty well.

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

And Duffy if you go to some other markets outside of architectural you'll see auto is up versus the industry. Packaging we believe is up versus the industry and we think our protective business is up versus the industry although the other side of that point is marine. And marine for the industry is down and we're matching the declines with the industry.

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Duffy Fischer - *Barclays Capital - Analyst*

Okay. And then one area that looks like you have a exciting new product, you call it compact, I think the industry will call it wet on wet, but it seems like you've gotten two big wins in that space recently. One, how big does that market become over the next two or three years and then is it conceivable that this could be like E-Coat where you would get a stronger majority of the wins going forward?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Duffy, I would tell you that this hasn't been a recent trend. We've been outperforming the industry for quite some period of time now. So the industry was up 1% in Q3, we were up 5% in Q3.

So again we have significantly outpaced. We have told people that it's not probable that we would outpace the industry for an extended period of time. At some point you have to revert to the mean but our technology we think is the best.

Our technical service has certainly been outstanding. And we've been winning more than our fair share of new plants, so that's good.

And then ultimately when they start to refurbish some of these older facilities and they want to save money and reduce the footprint size this compact process will also be another winner. So we think this is a long-term sustainable win for us going forward thanks to the outstanding work of our R&D team.

Duffy Fischer - *Barclays Capital - Analyst*

Great. Thanks, fellas.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Good afternoon. Was Comex up high single digits in the quarter? I know it was up high single through the first half, so I'm just wondering whether it slowed down and still maintained high single for the nine months but was decelerating in the quarter maybe?

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

No, John, Comex has performed very well all year, very consistent at market sales. What we do see with Comex is the peso devalued 20%-plus and so that's been taking away some of the top line. We've made up for that with growth in both at market as well as new concessionaire store openings.

John Roberts - *UBS - Analyst*

Okay. Could you comment a little bit about the M&A pipeline and whether valuation expectations have come down with multiples on the publicly traded paint companies?

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Michael McGarry - *PPG Industries, Inc. - President & CEO*

Yes, John, the way I would answer that is it's too early for the multiples have come down because the last 30, 60 days we saw the stock market come down. Our pipeline it still continues to look very good. We're active looking at a number of properties and I see no difference in that regard versus what we've had in the past.

John Roberts - *UBS - Analyst*

Thank you.

Operator

P.J. Juvekar, Citi.

P.J. Juvekar - *Citigroup - Analyst*

Yes, hi Michael. I have a question on this inventory management by retailers. You saw that in third quarter.

What's your confidence level that you think it's behind us? You said the first couple of weeks it looks good.

And then secondly on that was it a particular retailer or was it across the board for everyone that destocking took place? Was there any impact on pricing because of that?

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

P.J., we had a little hard time hearing you. Let me try to repeat the question. You asked I think what's our confidence about Q4, no carryover into Q4 the destock, and how broad was the destocking, is that correct, P.J.?

P.J. Juvekar - *Citigroup - Analyst*

Yes, that's correct. Was there any impact on pricing of paint because of the destocking?

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

The third part would be okay.

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Right. So we'll take the pricing one first. As you know we've been telling you consistently that pricing, our model shows pricing flat for the year.

We still see that happening and if you are thinking about next year we see pricing flat to pretty much into next year as well. As far as why we think it's a transitory effect on inventory not only have we looked at our own inventories but we have also obviously talked to our customers and they are also of that same opinion. So I think that's a way to think about it besides just the back that we're looking at our order book.

And it was broad. I won't say all but I will say it was very broad.

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

And P.J. you may have missed earlier but Michael mentioned that the first two weeks of October our order patterns are consistent with that same time period last year.

P.J. Juvekar - *Citigroup - Analyst*

Okay, thank you. Then just on Canada you mentioned that volumes were down. Can you just give some order of magnitude how much were volumes down in Canada? Thank you.

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

So for us just to frame this for everybody we purchased, when we purchased the AkzoNobel North American business in 2013 we acquired the number one position in the country of Canada. At that time we said the business was roughly $500 million and very concentrated paint season just from a weather perspective and that business was down similar to what you're seeing the total segment or total architectural business be down so high single-, low double-digit range.

And that's more structural, P.J. We do see weakening in the Canadian economy.

Michael McGarry - *PPG Industries, Inc. - President & CEO*

We've had two quarters in a row of GDP down in Canada.

P.J. Juvekar - *Citigroup - Analyst*

Thank you.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

Thanks very much. In your commentary you said that your cost-cutting program is lowering costs annually by about $20 million. So let's call it $5 million a quarter.

But your SG&A and R&D costs in the quarter were down $52 million. So I assume that, I don't know, $47 million of that is currency but your overall -- that is you had a $47 million currency benefit in SG&A, but you said that your currency net hit was $40 million. So does that mean that the gross margin was penalized by about $87 million or $90 million in the quarter due to currencies?

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

First of all let's take a various categories. And if you look at corporate cost it's correct to say corporate costs went down by about $20 million.

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And the majority of that was stock-based compensation obviously reflecting the equity markets and that will include both the Q3 effect and a catch-up from the first half. That won't really repeat in the fourth quarter and I would suspect that that corporate cost line would be back up in the $50 million to $55 million range versus the low of $35 million that you saw in the quarter.

What you are correct in saying that there is a currency benefit to our constructs are in total. That applies to both COGS and SG&A around the world.

So what we said was currency impacted the top line by $310 million in the quarter and impacted the bottom line by about, the operating income like by about $45 million in the quarter, we expect that overall currency impact in the fourth quarter will be less than that but at today's rates about $250 million in the top line and about 10% of that on the operating income like. But in terms of we can't really give you detail right now on the specific currency impact on every portion of the income statement but that's how I would frame it for Q3 and what we expect for Q4 as well as the corporate details.

Jeff Zekauskas - *JPMorgan - Analyst*

And then secondly, many companies when they report earnings provide a full balance sheet and a full funds plus statement. Are there reasons why you in the gathering of your information that is difficult for you to put that together and what was operating cash flow for the quarter?

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

So, Jeff, as you know we are a very early reporter. We do think that provides very quick transparency to our shareholders.

We do file our Q within a week or so where we have all those details. So I think the reason why is we'd like to get all the EBIT information, sales and EBIT information out as quick as possible.

Michael McGarry - *PPG Industries, Inc. - President & CEO*

And all I would add to that is the fact that if you look at where we started the quarter and where we ended the quarter we have obviously picked up a couple hundred million dollars, over $200 million in cash balance. And that's a combination of the earnings and then take off of that obviously CapEx, our acquisition spending but also a good performance on working capital as we continue to work on collecting past-due receivables as well as some initiatives we have around bringing inventories down. So still very diligent over the managing the cash flow and as a result we had a pretty decent Q3 in that respect.

Jeff Zekauskas - *JPMorgan - Analyst*

So what was the operating cash flow number in the quarter?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Well, you'll see that when we file our Q very shortly you'll see all the details around that. We'd rather wait until you get the whole statement before we dissect that.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay, great. Thank you very much.

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Operator

Frank Mitsch, Wells Fargo.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Hey, good afternoon gentlemen and congrats on a record quarter. I was thinking maybe I should wait until I see the Q to get super excited but I'll take your word for it.

Michael, I think you mentioned that North American order patterns or maybe Vince for the first couple of weeks of October were similar to what you were seeing last year, so that gives you confidence that we're not seeing a destock. And obviously Asia was a big concern for folks and you said that it started out soft in Q3 but then got better. Can you talk about the pace of business so far in October in that part of the world?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

So Frank, let me give you a couple of things to think about here. And I'll start with the automotive side because there seems to be a lot of concern about the automotive pieces.

You know they've reduced the tax on small engines in China and they announced that tax late in September and that took effect October 1. And so it would not be inconceivable that people deferred purchases of small cars because you know that the tax rate was going to drop from 10% to 5% on October 1.

So we saw September sales in China were actually up about I think 3% if I remember right and in October we have a pretty good view of what's happening with our customers. Our order book we're pretty much just in time delivery and we're seeing moderately improved deliveries to our customers.

Of course we're performing better than the industry so we are still expecting automotive sales in China to be up modestly in that 1% to 3% range. If you look at our other businesses there was some initial destocking after the Tianjin explosion port explosion.

Most of that has worked its way through the system now because of what happened people were concerned about holding inventory for things like marine coatings, some of our refinish coatings. All that has been moderated and we see those order books continuing to get better.

So I would tell you that starting mid-September we started to see that improvement. And it has continued in the early part of October.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right. That's very helpful. And I do appreciate the raising of the amount that you are going to spend on either M&A or share buyback.

You raised the lower end there and I think in response to Mr. Roberts' question you said that you're not really seeing the multiples come down on the M&A front. So would that suggest that we might preferentially go towards the share buyback route? And having said that and in asking the question obviously the stock is materially below the 52-week high or even the last yearly average, how are your thoughts about splitting between those two uses of cash?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Well, Frank, let me clarify. I said yet the day the acquisitions hadn't yet reflected that. So let's be clear on that.

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Secondly we've always said that acquisitions are always preferred. They are more accretive than buying back our stock so that's always our first preference.

But we're going to protect the shareholders' value and if we don't see the acquisitions coming through then we will take that money and buy back the stock. So we want to continue to do both and our first preference is always acquisitions.

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

And Frank I think it's it safe to assume that as we go through the fourth quarter you can expect that we will continue to deploy cash in the quarter to either one or both of those initiatives as we did 900 through the third quarter. So we're already on pace to exceed half the midpoint by the end of this year. So all the more reason to raise that range but we will continue to deploy cash in the quarter.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Thank you very much.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks guys. So I guess I just wanted to ask you your confidence level on a couple of things.

So going forward Q4 and 2016 you have a lot of organic growth initiatives. Do you expect that that would potentially drive a positive volume growth picture in general industrial or auto OEM or are those kind of more dependent on market development?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

I would tell you that we're expecting continued organic growth. Let me give you some reasons why we believe that.

First of all as you know we sold our one glass facility and that was in the end of the third quarter last year, so you'll start to see that as a positive. Comex will then flip from an acquisition to organic growth in the fourth quarter.

We close on that in November. We continue to see positive growth in our automotive business. Packaging continues to do well.

Our refinish business with the water-based technology continues to grow. That's a slower growth given the fact that it's a volume challenged market with the new technology out there.

But we're continuing to grow in that regard. And the one area that I would say is still a question mark is where we are in the cycle is heavy-duty equipment. It's been down.

I would expect that to at some point reach a bottom. And then that will start to turn. And we talked about packaging be very good as well.

So I think overall you're going to see a return to more organic growth.

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

And the other thing going in our favor quite honestly is the fact that inventories in the system are at very reasonable levels, whether it's the US automotive business well under 60 days at current sales rates, packaging as Michael said we continue to pick up new business from our technology-based offerings there. And then in China because the recent production rates have been below recent sales rates those inventories are coming back in line in the field too. So we don't really have to go through any more rationalization of inventories if things stay reasonably healthy in the end markets and that includes US architectural.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay great. And yes, just looking at the slides it looks like obviously North America was challenged in Q4, a lot of destocking there but you sounded slightly more positive on Europe. Can you just hope us understand a little bit more detail on what you're seeing in Europe?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Yes, so we'll start first of all with the automotive business. As you know sales have been better than builds and that's obviously a good thing going forward. We're also seeing a pickup in a number of the countries.

Southern Europe is obviously coming off a very low base but it's getting better as well. And then we saw a pickup in our architectural business in the Benelux. And of course we've always seen good growth in Germany as well as the UK and although the Eastern European region has been a little choppy mostly up, that's been good.

The only one that's really down of course is Russia. Russia continues to be down nearly 30% in a number of segments, so that economy is clearly challenged and then we have been gaining share in the protected market in Europe as well. So that's been a positive force all along.

And then the last thing I would say is that we're building a new silica plant in Europe. And that facility will be starting up and we have a very good demand for the new products industry leading new technology coming out of that facility.

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

And the one area we haven't talked about previously on the call is South America. For us it's about 3% of our sales.

We do see challenges in South America as Michael alluded to in his prepared remarks. We don't see that returning to growth certainly in the near term.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. And just to clarify you said in the past recently that around 10% or so of your businesses are the ones that are in that challenged area. Is that still a fair characterization or is there any kind of sensitivity around that?

Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

Again I'd say South America about 3% of our sales. We've framed architectural Canada for you at about $500 million.

Those would be the two very sensitive. If you combined Russia, Ukraine, Africa you maybe get another 2% or 3% max.

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

And of course the Comex business is doing extremely well and that will all translate into organic growth for 2016. They continue to open stores at a very healthy pace, so that will also help us out in the organic growth rate.

Michael McGarry - *PPG Industries, Inc. - President & CEO*

And I guess, Arun this is Michael, the one thing I'd add at the end is France. France is still a challenged market for us. But at some point we do feel confident that's going to have to turn around and so I would tell you that's probably why we're more optimistic when you put all these things together.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay, thanks.

Operator

Nils Wallin, CLSA.

Nils Wallin - *CLSA - Analyst*

Good afternoon and thanks for taking my question. Back on North American architectural you didn't mention performance at the stores so what did volume do in your company-owned stores?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Yes, same-store sales were modestly negative. We've come off of I don't know seven or eight positive comps in a row including Q1 and Q2 of this year. Most of that was Canada.

We talked about the modest paint season. And then I would remind you that our PMC, most of our PMC in North America runs through our stores. As you know the oil business has been certainly under a lot of pressure and so that's the way I would characterize that.

Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

And PMC, just for everybody, is protective memory and coatings.

Nils Wallin - *CLSA - Analyst*

So if we remove the store numbers from the other channels in North America and architectural does that mean that those other channels were actually down more than high single digits?

Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

Slightly more because the stores were just slightly negative.

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Nils Wallin - *CLSA - Analyst*

Okay. Thanks. And then on Canada I mean obviously we understand GDP issues there but housing still continues to be strong, so what is it some other channel that's affecting the demand for architectural paint?

Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

No, we've said for many, many years that architectural typically tracks closer to GDP than anything and there is a house build market and a house repaint market. The repaint market is typically five to six times larger than the house build markets, so the repaint market is not tracked I guess in new home sales and that's the one that drives the volume at the end of the day.

Michael McGarry - *PPG Industries, Inc. - President & CEO*

We would say the paint in Canada is 80% repaint.

Nils Wallin - *CLSA - Analyst*

Understood. That's helpful. And then just finally, Michael, you did speak about leveraging your asset base.

Obviously you've got some pretty significant size in your assets across the globe and doing that through distribution and supply chain. What would that translate in terms of margin accretion over a three- to five-year period?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

I think it's a little early to answer that question. I think the way to think about it is we have major shared service facility in Europe and Asia, now with the Comex one we will be able to add additional one in Latin America.

We are starting up we've put in a new present facility in Brazil. We have a new facility that we expanded actually in China.

So that will drive the lower cost in our automotive and industrial businesses there. And then we are also moving more of our production in Europe from west to east, so that will add additional benefits. So I think that's the way I would get you to frame your question.

Nils Wallin - *CLSA - Analyst*

Thanks very much.

Operator

Ghansham Panjabi, Baird.

Ghansham Panjabi - *Robert W. Baird - Analyst*

Hey guys, good afternoon. Michael I know it's early but looking out to 2016 can you just give us some of the various puts and takes related to some of the bigger businesses in your portfolio just from a fundamental standpoint, maybe starting with North American architectural and then also auto OEM?

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Michael McGarry - *PPG Industries, Inc. - President & CEO*

Okay. North American architectural I would say that we're probably going to have the same opinion we had this year which is low single-digits growth for that business. So we're going to continue to stay there.

Automotive, it continues to be a very strong market for us. That's been a good one. Our refinish business in North America we're gaining share with our water-based technology.

That's a positive. Aerospace has been moderating growth but continues -- we continue to get new content on the planes and with the acquisitions that we've added, that Cumings Microwave would be one. That would be another positive.

When you move to Europe I would tell you that again I would say that it's probably going to be modest in that low single-digits range. We continue to do well in our automotive space there. Our packaging space continues to pick up business, so that's good for us.

When you look at some of the other businesses probably the bright spot is our protective business. We have a new industry-leading technology on fire protection that has really done very well.

On the negative side obviously you are still going to have the challenges in Russia. We don't see that going away moving to South America.

As Vince mentioned earlier, we see that probably bottoming out. So we're not real excited about what we see down in Brazil but we are aggressively taking cost out in Brazil, so it's not going to be a negative from that kind of standpoint.

And then moving over to Asia, Southeast Asia has performed okay. India has been really solid. I would say they are in that 6%, so if you ask what has the highest growth in Asia right now it's India.

And we still remain because our business in China is predominantly for consumer-oriented stuff what we make in China stays in China. It's not for the export market. So we're optimistic that China will continue to resume its growth.

We know the Chinese government is very interested in the economy growing. They are taking a lot of right moves to have the economy grow. And we have benefited, that has been one of our best markets and we expect that to continue to do well going forward.

Ghansham Panjabi - *Robert W. Baird - Analyst*

That's helpful. Then specific to packaging, can you just parse out the strong growth that you're seeing there geographically? It seems like you've seen a fair amount of success with BPA non-intent. Is that spreading globally and did that start to materialize and 3Q?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Well, the BPA non-intent win started in Europe. They've continued into the US. As you know or you may know California has this Proposition 65 out there.

They've not taken a firm position yet. But our guess is that our folks in the US will be much more interested in the BPA non-intent coatings going forward so that trend will accelerate.

And as you know we only had 3% marketshare inside the can. And so since this is a once in a generation or multi-generation for some of these things opportunity we're going to be at a higher presence inside the can than we've ever been in the past. So that will be a positive for us overall.

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Ghansham Panjabi - *Robert W. Baird - Analyst*

Okay, then just one final one for Frank if I could. Just on working capital, Frank for 2015 just given how dynamic the raw material impairment has been how should we think about that for 2015? Thanks so much.

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

Our goal on working capital obviously is to bring that down by 100 basis points a year. We've seen a little bit of slow pay recently but we'll get that back down by the end of the year and we do have some relatively aggressive inventory goals for the teams.

We're making great progress on that. But that would be our overall goal is to keep bringing that down by about 100 basis points and probably the largest opportunity in inventory followed by people working on the receivables. Payables are in pretty decent shape.

I was just going to add one more thing to what Michael was saying on the growth prospects for 2016. Remember a lot of the acquisitions that we have done this year, that $400 million worth of cash deployed acquisitions, the revenue associated with that is only a small portion of what the full-year impact is or will be for 2016. So between $400 million and $500 million of revenue associated with acquisitions excluding the base Comex business.

That's over and above the base Comex business will hit in full stride next year. And you can make any estimates you'd like in terms of the profitability of those businesses but that's also going to be accretive to our top line along with the EBITDA that goes with that.

Ghansham Panjabi - *Robert W. Baird - Analyst*

Okay, terrific. Thanks so much.

Operator

Vincent Andrews, Morgan Stanley.

Matt Gingrich - *Morgan Stanley - Analyst*

Hey guys this is Matt Gingrich on for Vincent. I was wondering if you could speak to the phasing of sellthrough in US architectural through the quarter on a month-by-month basis?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

On a month-by-month basis I would tell you that we started to see the destocking start in August and by the middle to the end of September it was over. So that's the way I would think about that.

Matt Gingrich - *Morgan Stanley - Analyst*

Okay, great. And then in terms of how sales trended in your dedicated paint stores, what did you see there?

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Michael McGarry - *PPG Industries, Inc. - President & CEO*

Actually in the dedicated paint stores it was pretty I would say consistent through the quarter, although near the end of September our comps were marginally better than what they were early in the quarter. And then they have started to be in October as I mentioned virtually identical to what we had in 4Q of last year.

Matt Gingrich - *Morgan Stanley - Analyst*

Would that be mid single digits?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

No, it's low single digits positive.

Matt Gingrich - *Morgan Stanley - Analyst*

Okay, thanks guys.

Operator

Don Carson, Susquehanna.

Don Carson - *Susquehanna Financial Group - Analyst*

Yes, a question going into next year, what kind of gross margin momentum do you think you have from raws? Because obviously in the first half of the year you're going to have some relatively easy comps. Are you still expecting some good gross margin expansion in the first half of the year?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Don, I would tell you that we're going to continue to work with our suppliers and pull through the savings and so I would say it's going to be modest. Our goal here is to continue to pull those through.

We still see weakness in the TiO2 market. We still think it's oversupplied.

And then clearly we haven't talked about Henan Billions yet. Surprisingly we've made it 55 minutes in the call and not one question about it. So I'll go ahead since everybody's interested and tell you that the first set of samples we got from them the particle size was too large.

The second set of samples we got from them were too small, so now they are dialing it in. We expect to be buying the commercial quantities of TiO2 from Henan Billions sometime late in the fourth quarter.

So overall I would tell you we're still feeling like there's more savings to come. Plus as you know we will have incremental restructuring savings in predominantly Europe but also Brazil and Australia from our restructuring program. That incrementally throughout the year will add up to about $60 million to $75 million.

Obviously it accelerates as it goes throughout the year of 2016. But that will be another positive.

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Operator

Jim Sheehan, SunTrust.

Jim Sheehan - *SunTrust Robinson Humphrey - Analyst*

Thank you. Could you talk about your exposure to commercial construction and what you're seeing in both your coatings and your glass businesses in that market?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Yes commercial construction is obviously more important to our glass business than it is to our coatings business. Commercial construction has been steady and getting slightly better but the challenge there is actually the fabricators who make the fabricated glass window units are I would call them full.

Their backlog on fabricated units continues to be six, eight, 10 weeks so that's been a challenge for the market. I would tell you that our glass business as you can see has done pretty well.

We've gotten price. We've already had two price increases in that business this year, so that's been a positive. And we continue to expect improvement again next year.

Jim Sheehan - *SunTrust Robinson Humphrey - Analyst*

Thank you. And in EMEA you had some positive volumes there.

I think auto OEM was particularly strong. Could you just comment on what your volume growth was in architectural coatings in Europe?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Architectural coatings were flat in Europe and of course that varied, so up in the UK, up in the Benelux, down in France. Mostly up in Eastern Europe but not every Eastern European country was up. So net-net flat because France is our largest architectural coatings market.

Jim Sheehan - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Kevin Hocevar, Northcoast Research.

Kevin Hocevar - *Northcoast Research - Analyst*

Hey, good afternoon everybody. The question on going back to the cash deployment bumped up the low end of the range and $2 billion to $2.5 billion and you say at least $2 billion to $2.5 billion so implying it could go about that.

I guess what would it take for you to go above that range? Would it necessitate M&A or if the stock price was attractive enough would you consider repurchasing above that level?

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

As Michael said the pace of share repurchase obviously depends upon not only the pipeline of M&A but also the timing at which you deploy and close the deals. I guess what we're saying is that we're confident enough in the cash-generating capability of the business that we're very comfortable upping the midpoint of that range so that we're now at $2 billion to $2.5 billion, and the fact that we've already exceeded the pace of the prior range by the end of the third quarter and expect to continue to deploy cash in the fourth quarter.

But as we look out in 2016 we've got a good pipeline of M&A, so chances are we'll be doing more deals next year and be supplementing it with share repurchases because we're starting out the year where we ended the third quarter with $1.4 billion of cash. Q4 is generally a good quarter for cash generation, so we have the confidence that we'll continue to deploy and earn value for the shareholders and we'll just continue that into next year and see where it goes.

But we could do more share repurchase. Our preference is to do M&A, that will be the first priority. But you'll see both of that as we go through the fourth quarter and more primarily M&A in the 2016 timeframe.

Kevin Hocevar - *Northcoast Research - Analyst*

Okay great. And just also you mentioned an expectation to resume organic growth in the fourth quarter and FX impacts to mitigate a little bit and also you closed LJF after the end of the second quarter. So do you think that the top-line decline that we saw in the third quarter is it will stop there and will resume top-line growth in the fourth quarter?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Kevin, I do believe that's going to happen. We closed LJF on October 1.

We have four acquisitions that basically closed in the third quarter, plus we'll have Comex that flips into the organic side. So I think that's all positive.

Kevin Hocevar - *Northcoast Research - Analyst*

Okay good. Thanks, guys.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good afternoon. Thanks for fitting me in here. Couple of questions, a lot of them have already been addressed, but just want to understand on the China impact from the automotive, how long do you typically lead the sales number in China? In other words we've seen sales decline in Chinese auto, I'm assuming production is declining this quarter to adjust for that.

So is the fact that you didn't see much of a decline in the third quarter, is that just a delay and you'll see some of it in the fourth? Or are you more real-time with the sales number at the retail level?

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Michael McGarry - *PPG Industries, Inc. - President & CEO*

Well the sales to the customer declined in June, July, August and then turned back positive in September. They were 3%.

Builds inventories were coming down in that same period. Right now inventory is basically at the same level it was last year, so they're in very good shape from that standpoint. We think they're a little bit over 40 days which is typical for them.

And then right now as I mentioned earlier on the call the October sales are trending up. We basically supply in real time. We get orders let's call them 28 days in advance of what I'd call a pre-look and then they are firmed up 14 days in advance.

So right now we have a pretty good feel for how October is going to turn out. And I think overall we would tell you that it should be marginally up.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. So what you've describe in terms of your sales cadence in June, July, August and September was pretty much what we saw at the retail level in China. So is that just a coincidence or are you or there is no lag between demand for your coating products for automotive and the sale of automotive to a retailer?

Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

No, Dmitry, we're very closely aligned because they did take inventory down. Had they not taken inventory down I think you would see that lag effect but the industry took inventory down commensurate with the sales decline in real time.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got you. Okay, so that's good to know. Second question on the raw material benefit you talked about taking six to nine months to get some of these propylene ethylene derivatives which I'm assuming you're mainly talking about resins here down in price.

It's been about that long since oil really started to sell off and since propylene and ethylene pricing started to tumble. So are you starting to see lower prices in resins on a year-over-year basis that's going to help you with the declines in TiO2 to really drive your margin certainly into the first half of next year?

Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

Well as we said we expected modest benefit with the benefit to grow throughout the year. We are seeing that in our numbers.

As we said in the past the benefit is muted in non-US region simply because oil is traded in dollars around the world. So when you go to Europe or you go to some of these emerging markets the currency deltas have eaten into most of the raw material impacts. So again we're pulling this through our value chain.

We feel we're doing a good job at it. We do have another quarter here to go and we're certainly talking to our suppliers on a daily basis.

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

So as Vince is saying here as you see the raw material benefits come through the pace of that may not change significantly going from Q3 to Q4 to Q1 but it will be more evident to the bottom line because there will not be so much offset from the currency headwind as that mitigates starting in Q4 versus what we've seen at very high levels recently.

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Dmitry Silversteyn - *Longbow Research - Analyst*

So you're not so much looking at acceleration of benefits as diminishment of the headwinds that will make those benefits more apparent?

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

The other thing that we would mention though is that where you see a bit of a headwind on raw materials because of the exchange rate in places like Brazil or really a small percentage of our revenue in Canada because the exchange does cause some of those US dollar-based inputs to be a little bit higher.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay and then one final question on pricing. Architectural market in North America you talked about pricing being essentially flat and similar expectations for 2016 which makes sense.

In terms of the coating side of the business as opposed to the architectural side of the business both in North America and globally which tends to be dealing with customers that are looking for some passthrough of raw material prices, what's the pricing environment like in some of the general industrial coatings and perhaps some of the automotive aftermarket and some of these areas let's say outside of high value proposition like automotive OEM coatings? Are you starting to see either lower prices or more customer insistence on price passthrough or are they still happy with getting the product from you at the price they got it last year?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Dmitry I really don't want to get into parsing each of the different businesses because we roll out new products and we have older products. What we've been consistent in saying is that the pricing environment is flat and we expect that to continue.

Dmitry Silversteyn - *Longbow Research - Analyst*

Not just in paints but encodings as well?

Michael McGarry - *PPG Industries, Inc. - President & CEO*

Correct.

Dmitry Silversteyn - *Longbow Research - Analyst*

Thank you very much.

Operator

That concludes questions. I would now like to turn the call over to Mr. Vince Morales for closing remarks.

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Vince Morales - *PPG Industries, Inc. - VP IR & Treasurer*

I want to just once again thank everybody for their time and interest in PPG. Both Scott Minder and myself will be available to take questions after the call. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation.

You may now disconnect. So you all have a great day.

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