THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PPG - Q4 2015 PPG Industries Inc Earnings Call

EVENT DATE/TIME: JANUARY 21, 2016 / 7:00PM GMT

OVERVIEW:

PPG reported 2015 net sales of $15.3b and adjusted diluted EPS from continuing operations of $5.69. 4Q15 net sales were $3.7b and adjusted diluted EPS from continuing operations was $1.23.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

CORPORATE PARTICIPANTS

Scott Minder *PPG Industries, Inc. - Director, IR*

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

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

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

CONFERENCE CALL PARTICIPANTS

John Roberts *UBS - Analyst*

Bob Koort *Goldman Sachs - Analyst*

David Begleiter *Deutsche Bank - Analyst*

Duffy Fischer *Barclays Capital - Analyst*

Frank Mitsch *Wells Fargo Securities - Analyst*

Jeff Zekauskas *JPMorgan - Analyst*

P.J. Juvekar *Citigroup - Analyst*

Arun Viswanathan *RBC Capital Markets - Analyst*

Don Carson *Susquehanna Financial Group - Analyst*

Mike Harrison *Seaport Global Securities - Analyst*

Vincent Andrews *Morgan Stanley - Analyst*

Ghansham Panjabi *Baird - Analyst*

Nils Wallin *CLSA - Analyst*

Dan Rizzo *Jefferies - Analyst*

Dmitry Silversteyn *Longbow Research - Analyst*

PRESENTATION

Operator

Good afternoon and welcome to the PPG Industries fourth-quarter and full-year 2015 earnings conference call.

(Operator Instructions)

Please note this event is being recorded. I would now like to turn the conference over to Mr. Scott Minder, Director, Investor Relations. Please go ahead.

Scott Minder - *PPG Industries, Inc. - Director, IR*

Good afternoon. This is Scott Minder, Director of Investor Relations. We appreciate in PPG Industries and welcome you to this teleconference to review PPG's fourth-quarter and full-year 2015 financial results.

Joining me on the call from PPG are Michael McGarry, President and Chief Executive Officer; Frank Sklarsky, Executive Vice President and Chief Financial Officer; and Vince Morales, Vice President, Investor Relations and Treasurer.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Our comments relate to the financial information released on Thursday, January 21, 2016. I will remind everyone that we posted detailed commentary and accompanying presentation slides on the investors center of our website PPG.com. The slides are also available on the webcast site for this call and provide additional support to the opening comments Michael will make momentarily.

Following Michael's perspective on the Company's results for the quarter and for the full-year, a brief financial update from Frank we will move to Q&A session.

Both the prepared commentary and discussion during this call may contain forward-looking statements reflecting the Company's current view of future events and their potential effects on PPG's operating and financial performance. These statements involved 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 are available 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 President and CEO Michael McGarry.

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

Thank you, Scott, and good afternoon everyone. Today we reported fourth-quarter and full-year 2015 financial results. For the fourth quarter our net sales were $3.7 billion and our adjusted earnings per diluted share from continuing operations were $1.23.

While our net sales were flat with prior year, our sales in local currencies increased about 7% with higher sales volumes year over year and continued benefit from acquisition-related sales. These sales increases were offset by persistent unfavorable foreign currency translation impacts. For the quarter the unfavorable currency translation impact totaled about $250 million on sales and approximately $25 million on pretax income.

Our sales volume growth in the quarter of nearly 2% represented our highest growth rate of the year. This solid volume growth stemmed from our ability to gain larger share of our customer's wallets through their adoption of new or leading PPG technologies.

In addition, we benefited from broadening improvement in European demand as our volumes in this region steadily improved in each quarter of 2015. We grew coatings volumes 1% in Europe in the first quarter and steadily improved to 3% in the fourth quarter. We also returned to solid mid-single-digit percentage growth rate in Asia as demand in that region improved markedly in comparison with a weaker third quarter.

Volume trends in the Americas were mixed with country but consistent with the prior-year levels. We achieved organic growth in the US and Mexico that was offset by lower year-over-year sales volumes in Canada and several South American countries.

Our sales volume growth was broad-based across our business portfolio led by Industrial Coatings segment which grew by mid-single-digit percentage. We delivered sales volume gains in all our business units within the segment including our general industrial business where we reversed a negative sales volume trend experienced in the second and third quarters.

Also the automotive OEM industry growth rate improved sequentially and year over year and our automotive OEM coatings business continued to grow at a rate above the industry average. Rounding out this segment our packaging coatings business continues to benefit from industry move to new interior can coatings.

Customer adoption of Innovel, our new interior can coating technology, remained strong supporting our mid-single-digit percentage growth in that business.

In the Performance Coatings segment automotive refinish, protective and marine coatings and architectural coatings EMEA grew sales volumes. Growth in architectural coatings in Mexico and the US was offset by weaker demand in Canada, Brazil and China.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Aerospace coating sales volume declined in relation to a strong growth in the prior year and due to year-over-year differences in certain customer order patterns. This was the first decline in aerospace volumes in quite some time and we expect the business to return to growth in 2016.

Finally, Glass segment sales volumes grew slightly, principally due to higher flat glass demand. Supplementing the Company's volume growth in the quarter were acquisition-related sales gains of about 5% stemming primarily from the Comex acquisition which we completed in November 2014.

For the fourth quarter we generally experience normal seasonal sales trends in all our businesses and regions. Lastly, overall selling prices were flat which was consistent with our expectations communicated at the beginning of the year.

From an earnings perspective our fourth-quarter adjusted earnings per share of $1.23 improved 17% versus the prior year. We accomplished this despite the unfavorable impact of foreign currency translation.

We delivered higher year-over-year income in each reporting segment due to our improving sales volumes and an unwavering focus on cost supplemented by earnings accretive acquisitions. With respect to costs, in addition to achieving our acquisition-related cost synergies we also realized additional benefits from our previously announced business restructuring. We will continue to recognize additional restructuring-related savings in 2016 as we implement these actions.

In addition to cash deployed on acquisitions we also repurchased $250 million of PPG stock in the fourth quarter. This brings our full share repurchase total to $750 million or about 7 million shares. In the quarter our average diluted shares outstanding were 2.3% lower versus the previous year's fourth quarter.

Let me comment quickly on our full-year results. On a full-year basis, our sales were $15.3 billion consistent with the prior year despite $1.1 million of negative foreign currency headwinds. Our full-year sales volumes grew about 1% led by modest but broadening growth throughout the region or throughout the year in Europe.

Our adjusted earnings per diluted share was a record $5.69, up 17% versus our prior record and consistent with the adjusted EPS growth rates we achieved each quarter this year. For the quarter and full-year we are pleased with our strong financial performance and overall operational execution in which was a modest year from a global economic growth perspective.

Over the year we continued to execute on our strategic objectives. First and foremost was the successful integration of Comex acquisition. Now that we have lapped the acquisition's one year anniversary, let me say the Comex performance has been excellent on virtually every measure.

Specifically the business grew organically by high single-digit percentage in the first year of acquisition. We were successful during the year in capturing our targeted cost synergies. In addition, during 2015 we added revenue synergy targets and began to work toward achievement of those increased objectives.

These additions include the sale of PPG legacy products through the Comex concessionaire network plus incremental sales synergies in Central America. Lastly, Comex has maintained a pace of opening up a new concessionaire store location about every two days. They've added almost 190 locations in total for the year and I'm proud to note that we recently reached a milestone of 4,000 store locations in Mexico.

While this is a great accomplishment, we have still considerable organic growth opportunities ahead of us. In addition to the Comex results we also completed six smaller acquisitions throughout 2015 with a purchase price of over $400 million. During the year we continued our legacy of strong cash generation with about $1.8 billion of cash generated from continuing operations.

We also maintained our heritage of returning cash to shareholders, delivering about 60% of the cash generated for the year or about $1.1 billion through dividends and share repurchases. I will remind everyone that we have paid a dividend for 116 consecutive years and have raised our annual per share dividend payout for 44 consecutive years, including a 7% per share dividend increase in April 2015. Again, a very strong full-year performance for our Company.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

As we enter 2016 we anticipate global economic growth will continue but at a varied pace and mixed by major economy. In the Asia-Pacific region, growth will most likely remain varied throughout the year but solid on a full-year basis.

Some of the 2016 year-over-year variation will be due to uneven 2015 regional volume patterns. A primary driver for growth in Asia is increased consumer spending which is beneficial to PPG as this affects the majority of our products sold in the region. We ended the year on a strong note in Asia and our order book for the first month of 2016 looks solid.

Economic expansion in North America is likely to continue at a modest space comparable to 2015 supported by multiple sectors. We anticipate continued improvement in construction markets in the US and for Canada to stabilize at lower activity level realized in the second half of 2015.

Overall industrial activity is expected to remain modest but positive in comparison to the lower than anticipated 2015 level. We continue to expect solid organic growth in Mexico supplemented by our revenue-related acquisition synergies.

One item specific to PPG in 2016 is that we will continue with a multiyear US architectural coatings branding initiatives. During 2016 we will be working with our major national retail or DIY customers on various modified branding initiatives. As a reminder, in 2015 we rebranded our US company-owned store network to PPG paints.

Moving to South America where our business is relatively small at about 3% of total sales, demand in that region is expected to remain erratic and subdued. In Europe we expect the economy to build on the broadening growth rates achieved in 2015 which would be beneficial to PPG as nearly 30% of our total sales are in that region. Favorable end-use market trends are expected to continue in 2016 particularly in automotive OEM coatings as industry builds growth rates in Europe and in aggregate globally are expected to be positive for the year.

Given that we have substantially reduced our cost structure in Europe we expect incremental margin in the region to be in the 35% to 40% range. From an overall PPG perspective we remain focused on delivering higher organic growth including continued commercialization of our innovative industry-leading coatings technologies. Over the past several years we have deployed many new or leading technologies for our end use markets.

These include our compact process technology in automotive OEM coatings which has been widely adopted by customers as it reduces their facility construction cost and ongoing operating cost, our water-based automotive refinish coatings which are now the leading water-based products in the industry, we've converted more auto body repair shops to waterborne coatings than the rest of the entire coatings industry combined, our new Innovel interior can coatings realized growing customer adoption of the past year. This allowed us to deliver mid-single-digit percentage growth which is well above the packaging coatings industry growth rates with more to come in 2016.

And several new products in our aerospace business, an end-use market that is driven by new technologies that fit our technical strength and capabilities. This is the primary reason why we have a leading position globally.

In addition to organic growth we will continue to be aggressive on cost and productivity initiatives. As those of you who know us and followed us over the years this is a never ending quest for PPG. We are always looking for better ways to improve our cost structure.

Finally, our balance sheet remains strong as we ended the year with cash and short-term investments of $1.5 billion. We intend to continue creating shareholder value through earnings accretive cash deployment. We remain on pace with our prior commitment to deploy between $2 billion and $2.5 billion of cash in the years 2015 and 2016 combined, including the $1.15 billion we deployed in 2015.

We expect coatings industry consolidation to continue in 2016. Our pipeline remains strong as we continue to vet potential acquisitions around the world. Share repurchases will also remain an integral part of our capital allocation strategy.

Let me conclude by saying 2015 was an excellent year for PPG. We delivered 17% adjusted earnings per share growth despite stiff currency headwinds and an uneven regional economic growth. We are looking forward to another successful year in 2016.

And now I'd like to turn it over to Frank to review a few 2016 financial assumptions.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Thank you Michael and good afternoon everyone. I'm going to cover several items that will assist in modeling PPG's 2016 sales and earnings. We have included in today's presentation materials a summary of these financial assumptions on slide number 12.

First is the carryover impact from the six acquisitions we completed throughout 2015. As we've discussed in the past, these acquisitions are expected to achieve full-year sales of about $400 million in 2016. We realized about $150 million of sales in 2015 for these acquisitions and expect an incremental $250 million in 2016.

This incremental revenue will be classified in the acquisition category until each acquired entity reaches its respective acquisition anniversary date after which time the entity's performance will be included in normal operating organic results. These acquisitions will typically achieve at or below the segment average margins as they become fully integrated into PPG.

Next, we will continue to experience the impact of foreign currency translation headwinds as measured against the US dollar. As a result the Company expects that year-over-year currency translation will unfavorably impact sales by $550 million to $600 million and approximately two-thirds of this impact will be in the first half of the year. Pretax earnings will be impacted by about $70 million to $80 million with similar phasing over the year.

These figures represent our current assumptions based on current exchange rates as of this week. Again, these impacts are currency translation-related given the nature of our business and typically do not incur significant transaction-related currency impacts.

The next item relates to the Company's pension and other post-retirement benefits or OPEB expenses. Following an increase in 2015 we are expecting these expenses to decrease by about $20 million to $25 million in 2016. This decrease stems from our adoption of the split discount rate methodology for measurement of pension cost components currently offset by slightly lower expected return on assets.

We expect slightly higher interest cost in 2016 including the impact of our placement of long-term debt at the end of the first-quarter 2015 along with changes in the cash balances. As a result, we expect a total of about $20 million of higher net interest expense year over year and we provided our quarterly net interest estimates on the presentation slide.

Next we anticipate that the Company's 2016 tax rate on ongoing earnings from continuing operations will be in the range of 24.5% to 25.5%. The comparable rate for 2015 was 24.5%. This increase relates primarily to our regional earnings mix.

Finally, as Michael mentioned the Company still anticipates cash deployment of $2 billion to $2.5 billion for the years 2015 and 2016 combined for acquisitions and share repurchase. Once again, a summary of these financial assumptions is contained in the presentation materials provided for today's call.

This now 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 Roberts, UBS.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

John Roberts - *UBS - Analyst*

Good afternoon, guys. Nice quarter.

Mike, normally M&A multiples decline when high-yield debt market rates rise, the private buyers kind of get backed out of the market. Are you seeing anything yet, you indicated you're still engaged with a number of potential acquisition targets. Are you seeing any drop in the valuation multiples finally?

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

John, I think the way I would answer that is we don't see it as much competition from the private equity side but we have not seen any reduction in interest level from the strategics. So at this point in time I think it's a little early. Now we'd be happy if it moved that direction as you know, but right now we'll just wait and see.

John Roberts - *UBS - Analyst*

And then there's very little commentary here on raw materials given the massive drop that we've had in the base petroleum raw materials for your suppliers.

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

Yes, John, consistent with what we've said previously, we saw modest benefits in 3Q and 4Q. We've not lapped those benefits yet. We've always said it takes six to nine months for us to pull through any savings and yes, before you ask, we expect our selling prices to be flat for 2016 similar to 2015.

So you know we work with our suppliers on a regular basis. We expect to be priced fairly and we have a whole purchasing team down there that knows that's top of my mind.

John Roberts - *UBS - Analyst*

Thank you.

Operator

Bob Koort, Goldman Sachs.

Bob Koort - *Goldman Sachs - Analyst*

Thank you, good afternoon. Michael, you've mentioned some rebranding through the DIY channel. Is that going to be at both your major partners and what are you going to do exactly there?

Is there -- you mentioned you had already rebranded a store base. Is there some savings that offsets that $15 million of incremental spend?

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

Well, Bob, as you know we started the rebranding of our stores in 2015. That was very successful. That work has been completed, so there's no carryover cost if you will for that.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We do have an agreement with our retail partners to begin some newer branding. I don't want to get into specifics because you have to wait until you see it on the shelves. But we also have some new wins for 2016 that will require replacing some products on the shelves.

So all those costs are frontloaded into Q1 prior to the paint season. And so it's a one-time cost we want to make sure you were aware of.

Bob Koort - *Goldman Sachs - Analyst*

And if I could follow up, I know you've talked about reinvigorating the organic growth of the Company following a lot of M&A work. Can you give us any updates on what you're doing or some specifics, maybe some anecdotes of successes and what's on the horizon?

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

Well I think you've started to see some of this. This is work that's been underway for quite some period of time. We have a lot of leading technologies that we were focused on but maybe there are some additional regional opportunities for us in the emerging regions.

That's one. You've seen the significant adoption pickup rate at our packaging business. That's been a good one.

You've seen in our refinish business more water-based sales there. And of course in our automotive business you've seen the most recent acquisitions that we've done in Revocoat where those products are applied in the paint shop.

They had limited customers, limited geographic scope and we are going to take that out globally and get some shares there as well. So we've worked hard on trying to commercialize all this faster. And I think that's what the focus has been.

We also had some new wins that we'll be rolling out later in 2016 in commercial transport. So that's all good as well. So altogether I would say probably the most recent one that you probably haven't seen in the past that are popping up would be our protective segment.

In protective we've had significant wins in drydocking, significant wins in the LNG sector, significant wins in some of what we call our advantage products, tank linings and things like that. So those are ones that we're rolling out globally as well. So I'd say all positive.

Bob Koort - *Goldman Sachs - Analyst*

Good stuff. Thanks very much.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank - Analyst*

Thank you, good afternoon. Mike, in Performance Coatings volume fell 1% in 2015. I know you are expecting growth this year but what would you expect volume growth to be in Performance Coatings in 2016?

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

In Performance Coatings? I would say that we should break that down into the various segments. So the aerospace we would say that would be low single digits.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So that is a reasonable number. If you look into PMC given our last quarter I would say that it should continue to be low single digits. Obviously the marine side is a problem.

The order book for the big guys in Korea were 50% of what their expectations were. So marine newbuilds will continue to be a challenge but the protective side should be really solid.

If you looked at our refinish business miles driven continue to go up. Gas prices are down. Distracted driving is up, insurance claims are up.

So refinish has done quite well. So I would call that, historically that would be a zero business but I'd say that's going to be a low single-digit kind of year.

And then that leaves architectural and I think again that's going to vary considerably by the region. We were pleased, the UK, Ireland, Benelux, Scandinavia, all had good 3-plus kind of numbers, that was good for us.

France actually stabilized and so we saw a couple of months in the fourth quarter that were marginally up. It's a little too early to tell yet what we expect there but I would say France I'm more optimistic now than I've been the last say nine to 15 months. So that's all good.

The Eastern European countries are they've had a lot of promotional challenges but I would tell you overall it should come back around. When you look at the US you know we've obviously had some good growth in the US except for the dealer market. The dealer market continues to be challenged.

Canada I think is probably going to stabilize so I don't expect a lot in there. Mexico we've had tremendous growth there, we're going to continue to expect to grow two times GDP. The one negative in Mexico is the fact that government spending has started to slow down with the price of oil dropping.

I think Brazil is going to be a challenge. I think China is going to be a challenge. Australia should be good at least I would say low to mid single digits in Australia.

So that's a good market for us. So all in all I would say we should be at or above GDP for the Performance Coatings segment.

David Begleiter - *Deutsche Bank - Analyst*

Very good. And Mike, the same also on Performance Coatings, would you expect margins to be up in 2016 versus 2015 given lower raws? And if so would 50 basis points be a low bar to clear?

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

David, I think it's a little early to answer that question. In my opening commentary you saw that we said pricing would be flat. We expect to continue to see modest raw material deflation, so I think putting a number on it is way too early.

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

Hey David, this is Vince, the one thing we do have is restructuring benefits. We announced the restructuring plan for everybody's recollection in April of 2015.

We saw very modest benefits but targeted for all of 2015 and we expect incremental benefits in 2016. That will be partially offset by changes in the corporate costs which will get back to historical levels. But overall our goal would be to gradually accrete the return on sales percentage overall for the Company.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

David Begleiter - *Deutsche Bank - Analyst*

Very good. Thank you.

Operator

Duffy Fischer, Barclays.

Duffy Fischer - *Barclays Capital - Analyst*

Good afternoon fellows. First question, just there's been a lot talked about and written with the MROs in the refinished side of things and how they are rolling that up. As you look back at 2015, how has that played out for you guys and what would you look at going forward?

Will there be a lot more of that consolidation? And does that favor you, disfavor you, how would you think about that?

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

Duffy, this is Michael. I think you're referring to the MSOs, multi-shop operators. That trend line for the big guys to continue to buy the little guys is obviously a positive for us. Some of these smaller shops lack the same productivity as the bigger shops do.

That's where we bring tremendous amount of value to our multi-shop operators. We're able to improve their business. Instead of getting nine cars out of the shop they can get 10 cars out in a day.

So that's been a positive for us. I'd tell you that our share in the US continues to increase. I don't know how much more the MSOs will aggregate this year because when I think about it from a debt market I'm not sure how aggressive they are going to be in trying to raise more debt given this environment, but regardless we are totally supportive and it has been a good trend for PPG.

Duffy Fischer - *Barclays Capital - Analyst*

And then it's a little bit nitpicky but it might be $20 million or so. Last year currency hit you $250 million on revenue, $25 million on income which was about a 10% margin.

This year at the midpoint you've kind of moved that up to a 13% or 14% margin. What's the difference in how the currency is impacting earnings relative to sales this year versus last year?

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

Duffy, this is Frank. It really has to do with some of the mix of where the currency translation impacts are. So for instance, we have a much larger component of Comex this year and given the margin structures and given the relative proportion of that business to the total PPG, that's really where the difference is.

And so last year the largest impact for instance was the euro. It's a little more balanced in terms of the currency impacts this year with a little bit maybe more higher proportion of Latin America. So that would really be the difference.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Duffy Fischer - *Barclays Capital - Analyst*

Great, thanks fellas.

Operator

Rory Blake, Wells Fargo.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Good afternoon gentlemen, this is Frank Mitsch sitting in for Rory. Michael, in early September we met with you and you were talking about how you were concerned about 10% or just under 10% of the PPG portfolio mentioning Brazil, Russia, heavy duty equipment, etc. As we sit here today mid-to-late January, what percent of the portfolio would you say you'd put in that concerning category?

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

Well, I think Frank it probably hasn't changed too much. Russia we still see that as a challenged market. Brazil is probably more challenged today than it used to be.

Heavy duty equipment, though, is I would say stabilized at a lower level but it is down but the negativeness of those numbers have significantly reduced. Besides that I would tell you that the rest of our businesses are pretty good. So I don't know that I would change what you've got as a concern level.

Frank Mitsch - *Wells Fargo Securities - Analyst*

That's very interesting. Obviously you see the broader market melting down, expecting that the global economy is going to tank here. But based on the guidance that you've put forth it doesn't appear that that is the case.

And I'll take your response to reiterate that. That's terrific.

If I could follow up and add some granularity to the productivity progress, I think you had talked about or PPG talked about us realizing about $70 million of benefits in 2016 and exiting the year at a run rate of $100 million. Is that still the target or is it higher or lower? How can you help us there?

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

Frank, that's still about right. We said that the program would get us between $15 million and $20 million accumulated by the end of 2015. And that was accurate.

And the incremental $60 million to $70 million for 2016 bringing us a total of just under $100 million by the end of 2016 and then a little bit of trailing into 2017. Those assumptions are still good.

Nevertheless, we continue based on the macro environment. We're always looking for additional rationalization opportunities. And that will be a very strong focus for us.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right, thank you. And Frank, you mentioned, though, that corporate expenses are expected to tick higher in 2016. Is that correct?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

I'd say that because of the fact that the Q4 number was a little bit more based on stock-based compensation. So it will probably revert back to something closer to what we've seen historically in prior years as you get back into Q1 and for the remainder of the year.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right. So it's based on stock-based compensation, that's the delta.

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

That was one of the primary drivers really going down from the Q4 of the prior year, yes.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right, thank you so much.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

Thanks very much. I think your pension funding this year was about $300 million. What do you expect your pension funding to be next year?

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

Yes, the numbers will come down substantially. But the number for this year really, they included that large $250 million that we put in the first quarter to really shore up the funding of the US plants.

Those numbers will come down into the I would say kind of the low double digits in terms of cash funding for 2016. We have very little in terms of mandatory funding for the year so and those really relate to some of the international plans. So that cash funding will not be what I would call on in a material way.

We may have some wind ups that we do in various parts of the world and we will be very transparent about those when those happen. But on a trend basis that $250 million was probably an anomaly.

Jeff Zekauskas - *JPMorgan - Analyst*

Right. In thinking about your overall volume growth for 2015, the geographic area that you had your difficulties in was North America. That is Europe and Asia grew 2% or 3% and the US and Canada was down 1%.

Can you diagnose what went wrong in the US and Canada in 2015 and how you expect to be different in 2016?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Yes, sure. Let's start with Canada first. I mean clearly the oil business had the first material impact on that and that was a challenge for us.

I would tell you that the slowing Canadian economy was also a challenge for us. When you ship into the US clearly we told you that the biggest challenge we had in the third quarter was the destocking that we saw due to the weather challenges we had in May and June. We have a very large stain business if you will in our architectural business so that was one.

Then you had heavy duty equipment in industrial was a challenge. So those were all kind of the negatives.

You also had the slowing in the industrial production. So when you factor that in and look at what we're looking at for 2016, I'm not nearly as pessimistic.

I think industrial production will be more steady. You certainly see the housing market continuing to progress.

I would tell you that are rebranding initiatives in our architectural business is a positive. The line reviews that we had with the major retail DIY chains were also positive, so I'm coming in the year feeling better about the US. So that would be my explanation.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay good. Thank you so much.

Operator

P.J. Juvekar, Citi.

P.J. Juvekar - *Citigroup - Analyst*

Yes, hi, good afternoon. Michael, I want to go back to some of your broader comments that you made as you talked about broadening out of the recovery in Europe which is not something we've heard a lot about.

You talked about auto sales growing from sort of the mid-17 million unit level. Do you think that's sustainable given some cautious commentary from auto companies and auto parts companies so far?

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

Well, one of the leading indicators we look at of course is registrations and the various countries. And if you look at registrations they have been ahead of builds and sales in the fourth quarter were substantially ahead of builds. So inventory wise even though Europe historically doesn't keep much inventory we still think that's a positive.

If you look in the southern countries in Europe they all had very high growth rates, albeit coming off an extremely low base. But those are positives.

So you know I'd say unlike in the US where we're in the late innings in the US for automotive, I'd say in Europe we're more like the middle innings there. So I think we're that's just our viewpoint. Obviously we could be wrong P.J. but I think that's our take on it.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

P.J. Juvekar - *Citigroup - Analyst*

Thank you. And my second question is on TiO2.

Can you just give us an update on where does the Henan Billions [plan] stand on chloride TiO2? And would you be willing to license that technology to other companies in China?

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

So, P.J. you probably saw our press release. We qualified the material, let's call it in October we had shipments on the water. We started commercially using the material in early December.

More product is on the water going to other locations outside the US. So it's going to get qualified in Mexico, it's getting qualified in Europe. The bottom line is they are making good product, their consistency is getting better and we're pleased with what we're seeing.

We have a most-favored nations with them. So that's a positive for us as well.

As far as licensing, no one else has approached us. but clearly as we've demonstrated and people I think were a little bit concerned about but we've demonstrated that we were able to support them with our technology and it's running well.

And the biggest thing we're working with them on now is consistency. And so far so good. And we're open, so if you know somebody we should be talking to let us know but right now Henan Billions is our partner.

P.J. Juvekar - *Citigroup - Analyst*

Okay, thank you very much.

Operator

Arun Viswanathan, RBC.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Thanks, good afternoon. I guess I just had a question on the volume trends.

It looks like you for Q4 you saw 2% growth and most of 2015 was about 1%. And then just looking at the slide commentary it looks like most of the commentary is for continued improvement in Q1 outside of seasonality. So would you characterize what you're seeing right now as any kind of positive inflection point, then maybe you can talk about by end market especially automotive OEM and architectural?

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

So far in Q1 our order book looks very similar to what we saw early in Q4. As we told people in Q4 everybody thought the world was falling down in China. We tried to reassure people that we did not see that.

I think people saw that car builds in China were up substantially in 4Q. We have good visibility all the way through Chinese new year, so we see the Chinese auto builds continuing to be up low single digits. Overall we see the US car market being up low single digits as well but as we described in an earlier comment we see that in the later innings of the ballgame.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So those are our commentary. As far as the other markets, Industrial has been an up-and-down market for us. We talked about heavy duty equipment, the automotive parts business has been good.

We had positive trends in coil in the fourth quarter. General finishes was up. Our electronics materials business was also up.

That is not really due to the electronic materials growth as much as the new product introductions we have. And electronic materials were pretty significant and our customers are adopting these new technologies. So it's more like a win in the marketplace.

I think I've covered architectural quite substantially. But if there's a market I missed I'd be happy to cover it.

Arun Viswanathan - *RBC Capital Markets - Analyst*

No, that's fair enough.

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

Just adding to what Michael said referring to his comments before, too, we've seen some good wins on the protective side. That should continue.

Specialty coatings and materials and packaging, and that also applies to the packaging and industrial businesses in Europe where we continue to see a recovery and then see some nice wins there. So that's also going to add to the organic growth as we go forward.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Great. And just as a follow-up I mean have you seen any change in behavior amongst your customers? As you said a lot of us, a lot of investors and observers are just kind of skittish on what's going on in the first weeks of the year.

But has there been any change amongst your customers? And is that to be expected or are your businesses much longer cycle and we shouldn't expect that?

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

Well we haven't got anybody calling us up all nervous. I would tell you the one packaging comment I'd throw out there that Frank didn't mention was that in California with Proposition 65 concerns we see more of our customers actually converting to the newer technologies faster and sooner than we originally expected. So that's a positive for us.

So I think we read more about the nervousness than we see about the nervousness. So maybe if people would turn off their TVs it might be a little better.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Great, thanks.

Operator

Don Carson, Susquehanna Financial.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you. Mike, I want to go back to architectural. Just both US, Canada and Mexico, kind of the North America outlook, last year in the US obviously growth was below trend due to weather.

Do you see that snapping back this year or do you see that being offset by weakness in some of the energy-related states? And more importantly what was your growth in US architectural last year versus the market and how would you expect it to compare to the market this year and then just any general comments on Canada and Mexico market growth outlook?

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

Okay. So Don, let me start with the US. We saw the market between 2% and 3%.

That's been consistent, you've seen that with retailers as well. I would say that we were a tick below that, so from that standpoint we were disappointed with our performance. But I would tell you that given what we've seen moving forward that that will be a better year this year.

We opened 25, essentially 25 new stores between US and Canada. We opened 190 new store locations in Mexico. We've opened to new locations in France as well.

So I would say overall our global store network will be bigger and better in 2016 than 2015. So that's kind of my summation of that.

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

And Don, we said earlier, I don't know if you caught it, this is Vince, that we expected the Canadian market to remain soft in the first part of the year. But then we'd lap that softness in the back half of the year. So that I think you had a question on Canada as well.

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

And on the protective side I guess you also made a commentary about that. Protective on the oil side has certainly been a challenge but our overall protective market we're winning share both in the US and Canada. So we have built into our plan continued growth in 2016.

Don Carson - *Susquehanna Financial Group - Analyst*

And then just to follow-up on raws, not so much coatings raws but just hydrocarbons. Just Vince you (inaudible) how much gas you consume in your Glass business.

And I would imagine just things like diesel fuel coming down given how substantial your truck fleet are have to be a benefit as well. So what kind of hydrocarbon benefit do you going into 2016 versus 2015?

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

As you know once we divested the commodity chemical business our gas consumption dropped materially $1 change in natural gas for us is $15 million to $20 million a year on the cost side. We do have some customer price indexing that mutes that whether it be up or down. So it really gas price changes are not material impact for us in any individual quarter.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We don't buy a lot of hydrocarbon materials for coatings production. We do have logistics costs, so diesel cost is important to us in our distribution businesses. We do see some benefit there as oil moves down.

It takes a while to pass through. We are seeing some inflation in trucker salaries. So right now those probably are moving equal and opposite directions.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you.

Operator

Mike Harrison, Seaport Global Securities.

Mike Harrison - *Seaport Global Securities - Analyst*

Hi, good afternoon. Michael, I was wondering if you could talk about competitive dynamics you're seeing in the auto refinish business? As you look to expand share, what does that mean in terms of what's going on with pricing?

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

Well, the refinished business is a beautiful model from the standpoint that we have thousands and thousands and thousands of little customers. And what that means is that we always have a price-up opportunity for this year.

In 2015 we had a price increase in August. We would expect to have another price increase sometime in the third quarter of 2016. This has been an industry trend for quite some period of time.

I don't know that I can never remember a time that our refinished business hasn't had a price increase. So that's a positive, but it's not just PPG. That's an industry event as well.

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

And really remember too the pricing is just only one element in terms of winning on new business. PPG is known obviously for the color matching and the service capabilities, things that we do really well. And as the technologies change and go more to waterborne and so on that plays to PPG's advantages.

Mike Harrison - *Seaport Global Securities - Analyst*

All right. And then looking over to the packaging coatings side, you noted last quarter that you were going to be lapping the introduction of interior can coatings in that business. But it sounds like you saw strength despite what sounded like was going to be a challenging comp in that business.

Can you talk about the uptick that you're seeing in the non-intent BPA coatings? How much additional runway does that have, and are you capturing any additional exterior coating business as a result of the interior product?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Hey, Mike, this is Vince. We did see a difficult comparable in Europe in the fourth quarter this year as they were prepping last year in the fourth quarter for the legislative change in France. So that was actually our lowest growth region this year, due to the tough comp. It still grew year over year, but we had mid-single digit or higher in the other regions as customers continue to roll this out around the world. And we still see very good runway.

We're still in the infancy of this product introduction and this has no impact on the outside of the can. So that's still being competed based on the similar metrics it was in the past, similar customer metrics it was in the past.

Mike Harrison - *Seaport Global Securities - Analyst*

All right, thanks very much.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks and good afternoon, everyone. Just a question on pricing.

You said for 2015 you expected to be flat, looks like you were up 20 basis points. But if I'm remembering the trend through the year it seemed to decelerate a bit in the second, third and fourth quarter and you're anticipating being flat again next year.

So could you just give us a sense of maybe on an end market basis or if you are having to pass through some costs just sort of what the dynamics are that sort of caused the deceleration through the year? And how we should be thinking about the cadence in 2016 as well?

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

You described the situation accurately. We did have call it less than 1% in Q1 and we ended the year at just very modestly over zero. We do reprice with new product introductions. We do have some customers where we talk about price annually and again our situation as we look at it today is base case of flat price all-in for the year.

There are certain markets where we do get price as Michael mentioned. There are other markets that are more competitive but we're expecting flat price. We don't go into individual customers, individual businesses, that's been our customary pattern not to talk about those.

Vincent Andrews - *Morgan Stanley - Analyst*

Sure, okay, and then just a quick one there was a comment on challenges in the independent dealer channel in the US. Could you just speak to those a little bit more and what you're doing to change that?

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

Sure, Vince, this is Michael again. Independent dealer channel has been a declining channel for quite some period of time.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

These are -- a lot of them are small business owners. As they retire they would rather sell out to the large paint companies. Plus as you know large retail partners continue to win share from that segment.

So it has been under pressure for a long time. We do not expect that trend to change. And so I think you can expect to see that going forward.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay, so there was nothing incrementally different about what you saw in the quarter versus the past? Okay, thanks very much.

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

No, no. Very similar, and the contraction rate remains minor but continuous.

Operator

Ghansham Panjabi, Baird.

Ghansham Panjabi - *Baird - Analyst*

Hey guys, good afternoon. First off on Comex, Michael, you gave us a nice update on the integration.

What about market conditions in Mexico and Central America as a whole? Has there been any sort of deviation in the trendline there?

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

Yes, we will start with Mexico. The one slowing trend has been the government spending. The spending from the consumer has been very solid.

We saw good gains all across our network whether it was in the north or the south. We added 190 stores. It was a very good year for the Comex team, up high single digits for the year.

So that was really a job well done by them. In Central America we're in seven small countries there. Of those seven all seven had positive year-over-year growth.

In two of them we had particularly high growth rates but that was the introduction of our new Glidden product down there and that was specifically Panama and Costa Rica. We would expect to grow faster in those two particular countries than we would the others.

The others should be at a GDP kind of run rate. But overall I would say that both Mexico and Central America continue to be good markets for us overall.

Ghansham Panjabi - *Baird - Analyst*

Okay and then on US architectural, and I'm sorry if I missed this, but can you give us a sense as to how that business performed in the big box channel, also retail stores? Also any benefit from the warmer weather in the country during the fourth quarter and also how would you characterize the pricing environment by channel at current? Thanks so much.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Yes, I think we covered a lot of this originally but the combined US, Canada stores network was slightly flat. It was obviously held back by Canada. So that was our challenge there.

We've had positive growth with our DIY partners in the quarter. There was probably some material improvement due to weather but not as much as you would think because obviously they were destocking in that period of time, so they probably took that opportunity to continue to move down.

But all in all we do think weather was a positive in the fourth quarter and then we talked about the dealers just recently. So I think overall we've been performing slightly under the market. If you say the market was 2% to 3%, we were one tick below that.

Ghansham Panjabi - *Baird - Analyst*

Okay, thanks.

Operator

Nils Wallin, CLSA.

Nils Wallin - *CLSA - Analyst*

Yes, good morning and thanks for taking my questions. First, would you remind us where you are in achieving all the various Comex cost revenue and Central America synergies?

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

Yes, sure this is Michael again. The cost synergies we laid out were $45 million to $50 million and we are on our pace to beat that number. So that's good.

On the sales synergies in the Mexican market we said that number was going to be $40 million to $50 million. Those are PPG products through the Comex concessionaire network. We are solidly on pace to achieve those numbers.

And then the Central America number was $60 million to $70 million and basis the most recent quarter I'm very comfortable with that number that we put out there. It's obviously early. We just closed on that acquisition in July but the fourth quarter is the busy season down there and we had a very good fourth quarter in the Central American market.

Nils Wallin - *CLSA - Analyst*

Got it. And then just in terms of the cash deployment guidance, obviously quarter you moved it up at the bottom end and then reiterated it this quarter.

I'm curious as to how you're thinking about in 2016 what would be the factors that would allow it or cause it to be below what you've done in 2015 or above what you've done in 2015 and then what you think the mix will be? Is it likely to be more repurchases or more repurchases than M&A or is it the mix likely to change?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

This is Frank. So if you look at what we did in 2015 and we basically came in at half of what the midpoint of the range we reiterated. So $1.15 billion as compared with $2 billion to $2.5 billion for the two-year period.

And as always the mix between the share repurchases and the acquisitions will depend on what we have in the pipeline and the timing of any closing of any particular acquisition. We've continually said we have a really nice, robust pipeline of things that we continue to look at around the various regions and the various businesses from an acquisition standpoint.

And that would be our preference to do accretive acquisitions. But as always in any given quarter that mix will change and I think it's safe to assume that while we like to focus on the acquisitions that share repurchases will continue to be an integral part of our capital deployment strategy. And no reason to believe that will not continue including this quarter.

Nils Wallin - *CLSA - Analyst*

Got it. And just also what would -- would it just be the acquisition timing that would cause it to be above or below that midpoint or is there something else?

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

Well we look at the whole landscape between what we have available and the acquisition pipeline and also in the deployment. And really it starts with what our cash from operations that we generate is going to be and what we've said is we came up with that range because we know how much cash we will have to deploy and we fully intend to be at the midpoint of that range. And the only thing would change the mix is the timing of the acquisitions but the absolute dollars we intend to bring in within that $2 billion to $2.5 billion range.

Nils Wallin - *CLSA - Analyst*

Understood. Thanks very much.

Operator

Laurence Alexander, Jefferies.

Dan Rizzo - *Jefferies - Analyst*

Hi, this is Dan Rizzo on for Laurence. Just one question, so some of your competitors have talked about going from sole sourcing to dual sourcing as a means to reduce raw materials cost.

Is that something you guys are looking into or would it be suitable for you? How much of your raw materials are currently sole sourced?

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

Well, I wouldn't want to get into the percentages at either one of those. But I would tell you that we are consistently working with our suppliers to have maximum flexibility on how we formulate and how we work with our suppliers. I would tell you we're very comfortable with where we are.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Dan Rizzo - *Jefferies - Analyst*

Okay, and then one more quick one. I think you indicated that you opened 190 new stores in Mexico through Comex in 2015.

Is that going to be the pace going forward? Is that going to moderate at all or is it accelerating?

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

We're expecting to open up 150 to 170 stores in 2016. So we had originally thought we would do 170 this year.

We actually did 190. So we might have pulled forward one or two. But I still think we're going to be in a similar type of a range.

Dan Rizzo - *Jefferies - Analyst*

Thank you very much.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good afternoon and thank you for taking my call. A lot of my questions have been answered but I'd like to follow-up on a couple of points.

First of all, in fourth-quarter aerospace weakness that you mentioned was that related to newbuilds or was that on the rebate part of the business? I know they are usually 50-50 for you but I was just wondering where the weakness in the quarter came from.

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

The weakness was really one part of it divided into two parts. One part of it was because in the fourth quarter of 2014 we had a government entity double order. Whether they tried to use up all their budget or not we are not able to predict but we do know they double ordered.

And then the other half of the slowdown was due to our sealants business. We have a customer that had a large new plane that they were working on and they had gotten more consistent in ordering and their work practices have gotten slightly better. So their, what I would call their waste has declined marginally.

So now that that's more stable we see them returning back to a year-over-year growth. The only thing about aerospace is the general aviation market is very strong for the big planes and slightly weak for the little planes.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So it sounds like it was more on newbuilds rather than maintenance. So it would imply that the overall industry is still in pretty good shape?

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

Yes, Boeing is expected, I think you probably listen to their commentary, both those guys are trying to increase production rates. They both have eight-year backlogs so it's not like they don't have the business.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Thank you.

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

We do expect aerospace to return to growth as Michael mentioned earlier. And again just to give you the Q4 2014 comp we were up high single digits in airspace last year and that's the comp Michael is comparing against.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Thank you Vince.

On the Comex store openings, are these being opened by existing concessionaires? Are you signing new concessionaires or are these sort of company-owned stores I guess for lack of a better word? And just trying to understand the where the source of growth is and how it's being supported by corporate versus concessionaires.

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

There are no company-owned stores in Mexico. We have a dedicated concessionaire network. We do not ever plan to be in the company store business in Mexico.

It is a combination of both some of our long-term concessionaire partners as well as some new ones. So we have a lot of people that would like to have a store and so we are very, very selective about finding those entrepreneurs that are going to live, eat, sleep selling Comex paint. And that's our desire is to make sure we find the right people and it is a combination of both existing and new.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, so it sounds like sort of the hopper is being filled by people on the ground in Mexico and then it's sort of up to you to figure out who gets it and who doesn't. Is that how the business model works?

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

This is definitely owned by Marcos Achar and his leadership team. All I do is bless it. Trust me, they are way better at this than anybody else.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it, got it. Good to hear. Speaking of packaging and the shares that you picked up there inside of the can, I'm assuming you talked about sort of gaining shares in Europe last year and I guess in 2015 it was more the turn of the US if I understand your commentary correctly.

So what I know that back a couple of years ago when you had your special day on packaging you talked about zero percentage inside the can market share in the US. What is your market share in the US currently with this nine in 10 BPA transition taking place?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Well, what we told you is that we had 3% global market share. I don't know that I want to get into what our market share is now. But I would call 3% not material and what we have to now is definitely material.

But it is a substantial double-digit kind of increase and our customers are excited about what we bring to the table from a technology standpoint. More importantly they are excited about our ability to launch flawlessly these new products and that gives them a lot of comfort in giving us the business.

Dmitry Silversteyn - *Longbow Research - Analyst*

All right, thank you. On the Performance Coatings and fourth-quarter margins they were a little bit lighter than I would have expected and the year-over-year improvement wasn't what you saw in the previous three quarters. Was that just a matter of mix and the aerospace business being not as strong in Performance Coatings or was there something else going on with margins there?

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

Dmitry, the sole factor there was the fact that we lapped Comex. So for the other three quarters this year Comex, which comes in above segment margin, was a true adder. We only have one month of that benefit in Q4 because we closed the Comex acquisition in November last year.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, so that was entirely Comex related. Fine. And on the Glass side of the business I'm assuming it's the lower energy costs that are driving these mid-teens margins that you haven't seen as far back as my model goes to 2001?

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

No, the energy, most of the energy in Glass is on an index. And so this is coming from true pricing in the marketplace. As you know supply and demand is relatively tight.

One of our competitors closed a furnace in California. We sold our facility in the Midwest. And so with the reduction in industry capacity pricing has been attractive in that segment.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Okay, that's very helpful.

And then finally as sort of a longer-term as I think about your cash flow, your working capital as a percentage of sales really has come down meaningfully over the last five years. I think it's almost half of what it used to be as a percentage of sales at just over 6% here in 2015.

Do you have a longer-term goal or is this the level that you're happy with? Or is there an expectation that maybe given all the growth you have that working capital will go up as a percentage of sales in two or three years?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Well, our goal is still to bring working capital down as a percentage of sales. And you're correct, over the last two years we've brought it down by about $300 million. About half of it was payables including supplier financing programs and about half was inventory where we took out about five days of operational inventories this year.

We have also improved the quality of the receivables by working down the percentage of past-dues. So we're pleased with that but we still have several days to go. We can get out of inventories and keep working on past-due receivables.

So the goal would be continue to bring down working capital by kind on average 100 basis points a year for the next couple of years. And then we think we'll be kind of in-line with the peer group.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it okay, that's very helpful. What would your CapEx guidance be for 2016? One final question.

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

We couldn't hear you Dmitry. Could you --

Dmitry Silversteyn - *Longbow Research - Analyst*

What would the CapEx guidance be for 2016? What do you expect to spend on capital expenditures?

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

As we put in our presentation 3% to 3.5% of sales would be --

---

Dmitry Silversteyn - *Longbow Research - Analyst*

3% to 3.5%. Okay. Fair enough. Thank you guys.

Operator

As we are out of time I would like to turn the conference back over to Mr. Scott Minder for any closing remarks.

Scott Minder - *PPG Industries, Inc. - Director, IR*

Thank you, Andrew. I'd like to thank everyone for their time today and their interest in PPG. You may now disconnect the call.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may disconnect.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS