THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PPG - Q1 2016 PPG Industries Inc Earnings Call

EVENT DATE/TIME: APRIL 21, 2016 / 6:00PM GMT

OVERVIEW:

Co. reported 1Q16 net sales of $3.7b and adjusted diluted EPS of $1.31.

©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. - IR*

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

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

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

CONFERENCE CALL PARTICIPANTS

Frank Mitsch *Wells Fargo Securities, LLC - Analyst*

Mahul Dalia *Robert W. Baird & Company, Inc. - Analyst*

Christopher Parkinson *Credit Suisse - Analyst*

David Begleiter *Deutsche Bank - Analyst*

Robert Koort *Goldman Sachs - Analyst*

Jeff Zekauskas *JPMorgan - Analyst*

Duffy Fischer *Barclays Capital - Analyst*

Vincent Andrews *Morgan Stanley - Analyst*

Don Carson *Susquehanna Financial Group - Analyst*

P.J. Juvekar *Citigroup - Analyst*

John Roberts *UBS - Analyst*

James Sheehan *SunTrust Robinson Humphrey - Analyst*

Arun Viswanathan *RBC Capital Markets - Analyst*

Mike Harrison *Seaport Global Securities - Analyst*

Nils Wallin *CLSA Americas, LLC - Analyst*

Laurence Alexander *Jefferies LLC - Analyst*

Ivan Marcuse *KeyBanc Capital Markets - Analyst*

PRESENTATION

Operator

Good afternoon and welcome to the PPG first-quarter 2016 earnings conference call. My name is Andrew and I will be your conference specialist today. (Operator Instructions) please note this event is being recorded. I would now like to turn the conference over to Scott Minder, Director Investor Relations. Please go ahead.

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

Thank you, Andrew. Good afternoon. This is Scott Minder, Director of Investor Relations. We appreciate your interest in PPG Industries and welcome you to this teleconference to review PPG's first quarter of 2016 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 of 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, April 21, 2016. I will remind everyone that we posted detailed commentary in accompanying presentation slides on the Investor 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, we will move to a Q&A session.

Both the prepared commentary and the discussion during this call may contain forward-looking statements reflecting the Company's current view of future events and their potential effect on PPG's operating and financial performance. These statements involve uncertainties and risks which may cause actual results to differ.

The Company is under no obligation to provide subsequent updates to these forward-looking statements. 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 Chief Executive Officer Michael McGarry.

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

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

Today we reported first quarter of 2016 financial results. We achieved first-quarter net sales of $3.7 billion and record adjusted earnings per diluted share of $1.31.

Overall, we continued to deliver strong financial results, as evidenced by our adjusted earnings per diluted share growth in the quarter, which increased 11% versus the record established in the prior year. We achieved these results despite ongoing unfavorable foreign currency translation and continued uneven global economic and market conditions.

Several factors contributed to the record first-quarter results, including earnings leverage on our organic sales volume growth, our continued heritage of cost management and acquisition-related sales and income. Additionally, we continued to utilize our strong balance sheet to deliver shareholder value including first-quarter 2016 share repurchases totaling $150 million.

For the quarter, our average diluted shares outstanding declined by 2% year over year. Our strong quarterly results were aided by our own operational and strategic actions, including aggressive efforts to drive higher organic growth despite a mixed economic environment. We continue to accelerate our work on developing and commercializing new customer-driven technologies. This includes packaging and coating's ongoing customer adoption of our new can coating technologies along with certainty technology adoptions in our protective coatings business.

In addition, we are continuing the rollout of our enhanced customer branding initiatives. As you would expect from PPG, we continue to maintain our discipline over costs, including finalizing the remaining actions from our previously announced business restructuring program.

Now I will discuss specific business trends for the first quarter. Our net sales in local currencies increased about 4% while reported net sales were consistent with the prior year. Local currency net sales growth was driven by acquisition-related sales of about 3% and sales volume growth of 1%. These gains were offset by unfavorable foreign currency translation of 4% or about $140 million in the first quarter.

Our first-quarter sales volumes increased 1%, consistent with the prior year's growth rate, reflecting a continuation of modest global economic trends led by broadening European demand growth.

©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

Sales volumes grew in emerging regions by 1%. Continued growth in Asia-Pacific including China was partially offset by persistent market weakness in South America. Most of our business units (technical difficulty) experienced sales volumes in Asia, led by increased market demand for PPG's new technologies in our packaging and automotive refinishing coatings businesses, along with growth in protective coatings.

Automotive OEM sales volumes in Asia were tempered primarily due to a strong prior-year comparable period where PPG experienced above-market double-digit percentage volume increases. We expect second-quarter emerging region sales volumes growth rates to improve, supported by increases in most businesses in Asia and modest overall improvements in Latin America.

Volumes in the US and Canada regions were slightly higher versus prior year and represented sequential improvements compared to the prior two quarters. Regional demands trends continue to be mixed by business and country with ongoing demand softness in certain markets within Canada.

In the region, sales volumes grew in our packaging and automotive refinished coatings business along with modest growth in our Architectural Coatings business. Aerospace sales volumes declined primarily due to lower commercial demand and continued customer inventory management actions.

Looking ahead, we anticipate further incremental improvements in regional growth rates in the second quarter, building upon the month of March, which had the strongest sales volume growth within the quarter. Regionally, our highest first-quarter sales volume growth rate was in Europe, Middle East and Africa, which delivered over 3% growth.

We continue to experience a broadening improvement in Europe demand with our fifth consecutive quarter of improving growth rates. PPG's volume growth rates were positive across Western Europe with most countries improving year over year. Despite overall growth this quarter, regional demand levels remain uneven.

Improved performance in our Architectural Coatings EMEA business added to continued strong performance in our packaging and automotive OEM coatings business in the region, primarily due to continued customer adoption of PPG's market-leading technologies and related world-class product, service and support.

Architectural growth was led by gains in the UK and Benelux countries with the year-over-year growth trend. We remain optimistic for future economic-driven demand expansion in the EMEA region. Despite recent improvements, regional demand remains well below pre-recession levels and we continue to see signs of ongoing modest improvements in various economic subsectors.

During the past several years we have completed significant actions to reduce our overall regional cost structure. Similar to our experience the past several quarters, we expect strong income leverage on any incremental sales volume growth.

I would like to provide a quick update on foreign currency translation. As I mentioned earlier, during the quarter, unfavorable foreign currency translation lowered sales by approximately $140 million and pretax income by about $15 million.

This was primarily related to the Mexican peso and the Canadian dollar but included other currencies as well, such as the euro. Based on current exchange rates, we anticipate full-year unfavorable foreign currency translation to lower net sales by $200 million to $260 million and income by $30 million to $40 million.

This is a decrease from the figures that we provided during our fourth-quarter 2015 earnings call in January. This change reflects the strengthening of several foreign currencies versus the US dollar during the first quarter.

Shifting to earnings, year-over-year adjusted earnings per diluted share increased 11% to a new first-quarter record of $1.31 including unfavorable foreign currency translation. This marks the 13th consecutive quarter of double-digit percentage earnings per diluted share growth and was achieved despite record performance in the first quarter of 2015.

©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

This trend of strong increases in quarterly earnings per diluted share is a reflection on the success of our business portfolio transformation actions taken over the past several years, including the successful integration and synergy achievement and several major acquisitions.

For the quarter, Performance Coatings segment sales declined by 1% and segment income was up more than 6%. Contributing to the results were higher acquisition-related sales and income, primarily from Le Joint Francais and Cummings Microwave, strong income leverage on higher sales volumes and benefits from business restructuring, partly offset by unfavorable foreign currency translation.

Segment income included approximately $15 million of incremental growth-related spending in Architecture US and Canada. I am pleased to report that we are currently launching several new products within many of our domestic national-account partners store networks. These launches include new premium products at some national accounts as well as improved product formulations and differentiated product labeling.

Industrial Coatings segment sales were up 2% and segment earnings increased 9%. Earnings leverage from organic sales volume growth, acquisition-related sales and income along with disciplined cost management were partially offset by unfavorable foreign currency translation. Acquisition-related growth was primarily from the REVOCOAT and IVC industrial businesses acquired in 2015. These businesses continue to deliver strong financial results and they provide an excellent platform for future global business growth.

Glass segment sales declined 2% and earnings declined by 7% versus the prior year. Higher selling prices and cost management actions were offset by lower sales volumes, $8 million in repair-related expenses due to a planned facility outage and lower equity earnings. Despite the lower sales volumes, underlying flatglass demand remains solid. Additional segment and regional details can be found in the presentation materials.

Overall, our business performed well in the first quarter as we continue to manage against the next global economic backdrop, continue to focus our efforts on improving organic growth rates through enhanced product innovation, customer branding strategies. We remain diligent over our costs and are on pace to achieve the previously announced savings from our ongoing business restructuring program.

Finally, our balance sheet remains strong and we are committed to deploying between $2 billion and $2.5 billion of cash in years 2015 and 2016 combined on acquisitions and share repurchases. In the first quarter, we repurchased $150 million of our stock bring the total to $900 million for the two-year period to date. Coupled with the approximately $400 million paid for acquisitions in 2015, PPG has deployed about $1.3 billion on earnings-accretive actions against this target to date. We have a strong global pipeline of acquisition candidates across various end-user markets.

In addition to share repurchases and acquisitions, PPG remains committed to sustainable dividend increases as part of our capital allocation strategy. Today our Board of Directors approved a dividend increase of $0.04 per share, bringing the quarterly dividend to $0.40 per share. This represents an 11% increase versus the prior quarterly dividend. Our last quarterly dividend increase was 7% in the second quarter of 2015.

As you can see by our actions and continued strong financial results, we remain focused on driving additional growth aimed at creating shareholder value.

This concludes our prepared remarks. Once again, we appreciate your interest in PPG. And now, Andrew, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Frank Mitsch, Wells Fargo.

©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 Mitsch - *Wells Fargo Securities, LLC - Analyst*

Michael, I was intrigued by your comment about March being the best volume month of the three in Q1. Can you give us an idea as to where that was and what does that suggest for Q2 and beyond? Are we looking at PPG getting higher than a 1% of volume growth in 2016?

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

Well, Frank, let's start with the obvious question. We are certainly not happy with the 1% growth. But we are in the very early stages of our growth program. So the BPA-NI for packaging encodings -- I'm sure we will get questions on that. But that's progressing well. The OEM compact process continues to do well -- refinish, waterborne. I'd say that's the first commentary.

The second one, which is March -- March, we had a nice start to the paint season. Clearly, we are anticipating that this is going to be a better paint season than we had last year. So, that was a manifestation of that. Also you had the uneven and uncertain return from the Chinese New Year. People were worried about that, so we were -- and we tried to tell you that we had a good order book coming into the Chinese New Year in our last call. We did see that coming out of Chinese New Year, so we did see good growth there.

And I think the other one is a broadening of the growth rate in Europe. That was a nice win there as well. So altogether I would say that we were closer to 2% to 3% growth in March versus the 1% that we reported in the overall quarter.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Okay, all right. And as I look at slide 9 and the auto forecast, obviously we have been spoiled in expecting PPG to outpace the overall industry. And in Q1, I guess partly due to a difficult comp, the Company matched the overall industry rather than exceeded the overall industry.

But as I look at that chart, it looks like Q2 China you are going to see a material ramp-up in activities. Am I reading this correctly?

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

I think the way I would think about this, Frank, is we have always said that we are not always going to outperform the industry. At some point, we would have some reversion to mean.

If you remember last year, first-quarter 2015, we were up 9% and Asia was up much higher than that. So, when I look at our automotive performance, we had two regions that outperformed, one region that underperformed and one region was at parity. So we were essentially at the 1.7% growth rate for the industry.

So I would say when I think back about the four years of consecutive outperformance, if our team took a one-quarter pause -- not happy but obviously, in the grand scheme of things, we were continuing to perform very well in the automotive business. And I would expect that we are going to continue to see growth.

In Europe, registrations were up 5%, so I would expect European builds to continue. Asia builds, India is really doing well -- I'm not going to call the bottom in Brazil because I don't know where that is. But certainly I think, overall, we are pleased with the performance.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

All right, that's very helpful. Thank you.

©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

Operator

Ghansham Panjabi, Robert W. Baird.

Mahul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

It's actually Mahul Dalia sitting in for Ghansham. Can you talk about pricing in auto OEM market globally? Are you seeing any price concessions, given the decline in raws and the bargaining power of customers in that business? And then just more broadly, how should we think about pricing for the Company as a whole in 2016?

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

Well, let's talk about pricing in general. At the end of the day we have consistently been able to price in this environment. Last year, we had marginally positive price in an obviously very challenging environment. We have forecasted at marginally -- flat to marginally up again this year.

In the automotive segment, it's not really a fair to look at it on a piece by piece basis because most of what we have is new product technology. So it's hard to compare the new technology versus the old.

So overall, we have very sophisticated automotive customers. They expect fair pricing. We have new technology. We expect to be paid appropriately for our new technology. And I would say both parties are very happy with the price and value and performance of the new product in the market.

Mahul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Thank you. And for my next question, can you parcel out growth in the various channels in North America [team] during the quarter? So I guess Company-owned stores, national accounts, independents in Canada and how your performance compared to the market.

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

We are having a little difficulty hearing you. Let me repeat the question. I think you asked if we could parse out the different volume growth by US architectural channel. Is that correct?

Mahul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Yes, exactly.

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

Okay. So US architectural channel -- so overall, we had the low to mid single digits in that channel. It depends by region. So obviously, the one that continues to go backwards, and no surprise, is the dealer, independent dealer channel. That's an area where -- that is a shrinking environment. You have the small owners of hardware stores and paint shops over time losing share to the big boxes and to the Company-owned stores. So no change in that environment.

I don't want to comment, per se, on how our retail customers are doing. I think it's up to them to comment on how their retail customers are doing. But I will tell you that we had new product launches with Diamond in the Glidden brand in Home Depot. The early signs -- it's just now getting in the market. The early signs are very positive. We have a superpremium price point of Paramount and Menards also off to a good start, Glidden Complete at Walmart.

©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 I think when we look at it from our perspective, and I certainly have to let customers talk about it from their perspective, but we are pleased with what we are seeing. The Company-owned stores -- it varies by region and varies whether it's US and Canada. But clearly, there's an opportunity for us to continue to deliver more growth going forward.

Mahul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Great, and just one last one -- can you give us some more details on the weakness in aerospace? Is it just small planes, large planes or both? And what gives you confidence on an improvement in 2Q?

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

Sure. So when you think about the aerospace business, you have several things to think about. So one of them is -- you know, a year ago customers were having significant launch programs. And as they ramped up, the last thing they want to do is stop their line with lack of product. And so they tended to overinventory.

Now they are more at a steady-state rate. And so there, it allows them to have more confidence in their build rate and their usage rate. So that's a short-term hurdle.

You do have some underlying softness, though. If you take the oil and gas market, they fly a lot of helicopters. Obviously, they are flying less helicopters in this kind of environment, so you have less aftermarket sales and you have less new helicopter builds. So that would be one.

And then, general aviation -- there's a lot of churn in the water, as you can tell, with one of our customers in Canada. So there's some things going on up there.

So I think overall, we are on a short-term one-quarter, two-quarter bump in the road. But I anticipate the second half of the year for aerospace to be much better. I would point out that the acquisitions that we made, the new aerospace acquisitions we made, are performing very well. And their growth rate is above the growth rate of the overall business.

So the outlook, I would say, is up. Solid.

Mahul Dalia - *Robert W. Baird & Company, Inc. - Analyst*

Great, thank you very much.

Operator

Christopher Parkinson, Credit Suisse.

Christopher Parkinson - *Credit Suisse - Analyst*

Can you just walk through a little more detail on what you are seeing in the Mexican market in Comex and potentially just parse out architectural stores versus industrial energy, government spending? And just overall, just what assumptions are going into your double Mexican GDP growth assumption? Thank you.

©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 and CEO*

Sure. We'll start with first quarter of last year; we were up 10% plus in Mexico. And this year we were up -- our sales were up 5% of Mexico. The GDP in Mexico is 2.2%.

Our growth is being driven by several factors. The first one is the new store growth rate. Last year we added 170 stores in Mexico. We are over 4,000 stores. We are now, today, as we speak, over 4,100 stores. And we will add another 170 stores there. So we have been gaining a lot of share in Mexico. The Comex team, when we bought them, had a very large concentration of their market share in what I would call central Mexico. They were underrepresented in southern Mexico and underrepresented in northern Mexico.

But we have a US retail partner that have stores in Mexico, so we recently introduced a store-in-store concept down there. That's allowing them to gain share as well. So from the store side it's about service and product availability, and that's doing very well.

Certainly, government spending has softened. And a lot of that is related to projects. The government is trying to reduce spending, given the price of oil. But there are elections coming up, so I would tell you that we are going to wait and see how it plays out. But historically in Mexico, when they have elections, the local politicians try to spruce things up to make things look a little bit better. And obviously, if they do that, we will be very happy to participate, as we have a very significant share in Mexico.

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

If I could add one item, Chris, one of the synergies we had earmarked when we did the acquisition was a revenue synergy. That's what we added subsequent to the acquisition. We are doing very well in our protective coating sales into Mexico, which was one of the synergies we targeted. So that is another adder to the growth rate.

Christopher Parkinson - *Credit Suisse - Analyst*

That's very helpful, thank you. And just a quick follow-up -- you obviously already had a few shipments from [Billions]. Can you just give us a quick update on the agreement, ramp outlook, etc., going forward? And just generally, how do you feel about the prospects versus, let's say, maybe a year ago? Thank you.

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

Well, I would tell you that we have tripled our purchases from Billions in Q1 versus 4Q. But we are not satisfied with the build rate, if you will. We think they can deliver more. Obviously, they are successful at selling other places besides PBG. But overall, the product quality continues to get better. The consistency gets better. And we are using it.

We recently started bringing it into other regions besides US and Central America and Latin America. So the usage broadens. Obviously, we started in Asia.

But I would tell you overall we have been pleased that we have certainly challenged the Henan Billions Group to continue to work harder to bring the production rate up to a higher level.

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

Their production rate has ramped significantly over the last six months. They are running very good yields and they just need to ramp up their pace a bit more.

©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

Christopher Parkinson - *Credit Suisse - Analyst*

That's helpful. Thank you very much.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank - Analyst*

Thank you. Mike, how do you expect the recent rise in oil prices to impact PPG? And when will it begin to impact PPG?

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

David, I would first start by saying that, as you know, we always tell you that we pull raw materials six to nine months -- it takes us six to nine months to collect through. So we are still pulling through the lower prices that we saw in 3Q, 4Q. So that's -- you know, if you are looking for that positive.

The second thing is oil bounced -- if you think about where it started Q1 and where it finished Q1, it bounced down, came back a little bit. But I'd say overall it's too early to see where that is going. There's a lot of uncertainty in the markets. Obviously, we are not oil traders. But you can read the same things we read as far as oil.

So we are not displeased with where we are in pulling through the raw materials statement.

David Begleiter - *Deutsche Bank - Analyst*

And Mike, overall, do you think your margins are near peak? Or can they go higher with the operating leverage offsetting maybe a little bit of cost inflation here?

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

Yes, we are certainly not at peak. Don't forget, we still have the savings for Europe. We said, for the full year, I think it was $70 million that we were going to pull through in Europe. So that's one.

Two, you have significant earnings leverage when we get volume recovery in Europe. Obviously, you saw the margin's expansion in this quarter. That was driven by several things: the leverage from Europe, restructuring savings, acquisition synergies, some modest raw material benefits.

But overall, I still think we can do better and certainly our team thinks we can do better.

David Begleiter - *Deutsche Bank - Analyst*

Thank you.

Operator

Robert Koort, Goldman Sachs.

©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

Robert Koort - *Goldman Sachs - Analyst*

Michael, how do you discern if the aerospace customer is inventory adjustments versus demand adjustments?

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

Well, one thing we do is we have significant insight because of our share with some of these customers. So we are able to -- I don't want to call it vendor managed inventory, but we have significant insight into what they are stocking. The growth rate for the large -- if you think Boeing and Airbus, obviously they have big backlogs. But their build rate is flat to marginally down. And that is obviously -- when you think about their inability to get production rates up, it's frustrating for us.

I can't imagine how frustrating it must be internally for them. But that's the two ways we look at that.

Robert Koort - *Goldman Sachs - Analyst*

Can you talk about the variation in price across the portfolio? I assume there are puts and takes, but are there any particular areas outside of non-BPA and BPA-NI where there has been some price improvement?

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

We have pluses and minuses, as you noted, throughout the portfolio. But there's no outliers on either side.

Robert Koort - *Goldman Sachs - Analyst*

And last one, very quickly: can we assume the same target level of acquisitions in 2016 that you completed last year?

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

I think that's a reasonable expectation. As we have always said, it's impossible to predict large ones. We have a pipeline that looks very similar to the pipeline we had last year. We had seven deals that had about $400 million in sales. I would expect to see a similar level of activity this year and I think you will have -- you will see that as we go through the year.

Robert Koort - *Goldman Sachs - Analyst*

Thank you.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

What are the net cash outflows from asbestos this year? And do you still think you will settle your asbestos liabilities?

©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-Finance and CFO*

We do expect we are going to settle up in the first half of the year, before the end of the first half of the year. And consistent with what we have said in the past and what you will see when we file our Q where we lay that out, we have got about $500 million of cash going out initially with the option to pay out an additional amount of cash which represents the present value of the future obligations discounted at 5.5%.

We will obviously evaluate economic additions at that time to determine whether we take advantage of that discount that could potentially be attractive for us to do so.

So the gross being something over $800 million, but then almost immediately we will start on a quarterly basis, the adjusting of our estimated taxes and will, over the ensuing few quarters, achieve a benefit that will bring the net cash outflow in total to about $500 million. That would assume, if you were to assume that we took advantage of the discounted annuity.

So that be the way we would look at it. And of course, we also have the donating of the PPG stock to the trust, in addition to that.

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

And Jeff, we have that stock hedged at about $22. So if you do the math, it's about 2.8 million shares that you are looking at somewhere in the $50 million range. That stock is in our share count already, it will remain in our share count going forward.

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

That $50 million is included in the amounts that I gave you.

Jeff Zekauskas - *JPMorgan - Analyst*

And for my follow-up, your gross margin last year expanded 110 basis points and this quarter it expanded 160, even though you had no sales growth. But last year your currency effects were negative 7 each quarter, and this quarter maybe it was a little less than negative 4.

Is there a link between smaller currency pressure and the widening of the gross margin? Or are they not linked? And if they are not linked, why did your gross margin qualitatively advance first what you were achieving last year?

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

Yes, it is a good observation despite the fact that we still -- even though the currency headwind was a little bit lower than we expected, it was still a headwind in Q1 versus prior. I think there was a combination of factors.

One, we did get some benefit, additional benefit this year, from restructuring that would not have taken place in last year's first quarter because the restructuring program was really just getting underway at that point in the first half of the year. So there's that piece of it. We had some manufacturing productivity. We have moved more aggressively, obviously, particularly in Europe, on rationalizing and moving against a more shared service environment from the administrative side.

Acquisitions with a nice pass-through of the margins from those acquisitions was also an uplift, as those acquisitions provided us a margin a little bit above the corporate average. So it was a combination of factors plus, admittedly, as we had said before, a modest amount of raw material savings in the first half of this year, continuing what we saw the back half of last. All of that contributed to the 110 basis points.

©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-Finance and CFO*

160.

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

160 basis points year over year.

Jeff Zekauskas - *JPMorgan - Analyst*

Right. But did the change, the smaller currency headwind, benefit your gross margin?

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

I would say on a relative basis it was still a headwind. And so from an absolute standpoint, I guess the answer would be no. And even when you go back to last year's first quarter, the headwind wasn't materially different than it was in this year's first quarter, even though this year's first quarter was a little less than we might have expected.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay, great. Thank you so much.

Operator

Duffy Fischer, Barclays.

Duffy Fischer - *Barclays Capital - Analyst*

The question just around Europe -- seeing some recovery there. Did you tease out where you are seeing that recovery? And then in architectural in Europe, are you growing with the market or faster than the market over there?

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

Well, let's take it by country just to add a little more color to it. So starting the UK, Ireland, it is growing faster than the Company average and taking share, clearly. Then you take France, growing slower than the Company average but taking share. Then you take Central Europe, I would say slightly below the Company average, maintaining share. That's the architectural landscape, if you will.

But then when you get into our other businesses, we have a broadening recovery. So Southern Europe, Spain, Italy, for example, significantly accelerating growth quarter over quarter in all our businesses. And that's a benefit. We don't have architectural. We do have a little bit in Spain but very little, and we have a little bit in Italy but, in the grand scheme of things, pretty small.

So overall, Spain and Southern Italy and Southern Europe is doing very well, that's a net positive for us.

The offset to that, of course, is Russia, although I would tell you that we are outperforming in Russia, especially in our industrial business. They have done a really good job there. They are trying to get more localization, and so that has benefited us.

©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

The Middle East -- the Middle East, I would say, slightly better than the Company average, and that encompasses all our business. And I would say our protected business is probably of the ones that are doing pretty well in the Middle East.

Duffy Fischer - *Barclays Capital - Analyst*

Great.

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

There's a slide in our presentation deck that shows the region, it's a heat map that shows the region by country year-over-year.

Duffy Fischer - *Barclays Capital - Analyst*

Okay, fair enough. And then just on BPA, you have been taking some nice market share there. How long should we think about that trend lasting? Is that something that's got another four or five quarters, or might it have another eight to 10 quarters?

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

Well, I would get it just like I look at automotive. We had four years of automotive outperformance. This is technology that we are leading in. There's been two plants converted in France. We have the vast majority of that business. Now, with the proposition 65 in California, there have been six plants converted in the US. And I would call our share at 5+ plus out of those six. So you still have the whole way of the rest of the US to come. The food guys just started to convert probably in the third quarter of last year. So you still have that coming on.

So I think, net-net, this is a long-term structural gain. We used to have only 3% share inside the can. You would think, over time, we would approach 25% or 30% share, at a minimum. I certainly have challenged the team to be better than that. But I would tell you this is a secular change. These guys take -- they don't change for 30 years and then, when they do change, it happens over time. And we should expect to see this ramp up over the next several years.

Duffy Fischer - *Barclays Capital - Analyst*

Great. Thanks, fellows.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

I wanted to revisit the M&A conversation. My thought is that there obviously was a large transaction announced between two of your larger peers, and the byproduct of that is that they are no longer competing with you for any M&A assets that might be out there.

So I'm just wondering if the dialogue between yourself and those on that target list of yours is accelerating or changing in any way. Has there been any impact on the discussions from the transaction multiple that was recently put up on the board?

©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 and CEO*

Well, I think you have to evaluate these independently. The transaction multiple that was announced in the first quarter was a unique property and came with a unique price. And we certainly -- if anybody tries to argue for that price for PPG to pay, that will be a very short discussion. So we will start there.

The second thing I would say is perhaps they could be out of the market for some period of time. But you know what? They have cash, debt is easy to get. And we are not going to assume that this is an open runway for us. W

We're going to look at what our competition is. We have multiple people that are competing with these properties, so we will continue to evaluate that.

But the bottom line is we have not seen any increase in the number of people coming to us. I would tell you that, overall, our mantra remains the same, that we are very disciplined buyers and that business teams have to make a justification and the synergies have to be there, and that's the focus any time we look at any acquisitions.

Vincent Andrews - *Morgan Stanley - Analyst*

Very clear, thank you very much.

Operator

Don Carson, Susquehanna Financial.

Don Carson - *Susquehanna Financial Group - Analyst*

Just a question on your architectural growth in the US and Canada -- so you talked about low to mid-single digit growth. Do you think you are underperforming the market there? How would you characterize your overall market growth? And what kind of snapback do you see this quarter and into third quarter, based on the weather?

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

Hey, Don. This is Vince. A little bit of an early read in the past season, and we don't have enough data points yet to determine by channel how we are performing versus some of the other folks. And March is a little bit of, typically, a murky month.

We feel that in the -- as Michael mentioned, we have got new products in some of the major home centers. We feel those products are good new products with good new branding. The independent dealer channel is a shrinking channel. We certainly feel we are holding our own there.

And as Michael mentioned at the beginning, we've got to do better in our US company-owned stores. And in Canada we think we are at parity, at minimum. But a little too early in the paint season to call it one way or the other.

Don Carson - *Susquehanna Financial Group - Analyst*

Then just a follow-up on your channel strategy -- you've talked about investing in branding. Is this designed more for your Company-owned stores? And what kind of investment should we expect in your Company-owned stores going forward? Are you looking to open a certain number every year to get that mix up above 50% of your overall architectural sales volume in US and Canada?

©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 and CEO*

Yes. So when you think about the [$50] million investment that we made, that is -- it was the first-quarter investment. That's a nonrecurring investment. We do have enhanced brand strategies that we are rolling out, but that's incorporated where we might be replacing dollar one or category A with category B. So there's no real step change there.

We do open up -- we expect to open up, we typically say, 25, 50 stores in the US and Canada. We will be opening up 200 stores in Mexico, 170 to 200 stores. We will be opening up stores in Europe as well, so that would also be in that 20 to 25 range. So we continue to evaluate opportunities to grow this business. But I'd say overall I'm pleased with the performance there.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you.

Operator

P.J. Juvekar, Citi.

P.J. Juvekar - *Citigroup - Analyst*

Michael, I want to go back to the refinish business. What kind of growth are you seeing there? And can you break it down between price and volume? And then are MSOs getting bigger and bigger volume discounts?

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

Let's start with the easy one. The MSOs -- it has been relatively constant. They'd like to have bigger, but everybody, every customer we have wants a bigger discount. It has been relatively flat.

When we think about our refinish business, it's not just the US. When we look at China, that is especially a good market for us. So they are shifting from solvents to water. There's a big tax in China on solvent-based products. So that's a positive for us.

Historically, we do have positive price in our refinish business. You would expect that this year we would have positive price as well.

Interestingly enough, volume in the US is actually up. That has -- miles driven is up 2%. Not only do you have miles driven up but you have distracted driving up immensely. I see it about every day on my way home. So that's positive.

The other thing is, when you look at what's happening with technology, our water-based product is outperforming in every region of the world. So even in Argentina right now, our business is growing in Argentina. One of our competitors vacated Brazil. We picked up a huge chunk of that business. One of our other competitors vacated Europe; we picked up the vast majority of that business. So we continue to perform in that regard. So when I think about what the shining stars in PPG, refinish is at the top of the list.

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

Just to add to what Michael said, and we talked about this a little bit in the past, with our strong position over in Asia, particularly in China, and the move from premium to the mid-line offerings, we have an opportunity to grow that business over the long term because as production, over 20 million units, goes mostly still to that market, that carpark continues to grow whereas the developed regions where we also have solid positions

©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

-- the carpark is relatively steady. So you are depending upon miles driven, distracted driving and things like that. But China has the additional benefit of adding a lot of units to the carpark, and so those growth rates over the long term bode well for the business overall.

P.J. Juvekar - *Citigroup - Analyst*

Great, thank you. And secondly, did the introduction of [GTV] at Lowe's have any impact on your sales at Lowe's?

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

Well, I think the way to think about that is which price points to we compete in. And so I think the way we look at it is our total sales to our retail partner were up year over year 2015 versus 2014. And I'm not unhappy with the first-quarter performance. And our relationship is very strong, and so I would tell you that is obviously a retail decision on how they split their brand and how they position them. But overall, we are happy with that relationship with Lowe's.

P.J. Juvekar - *Citigroup - Analyst*

All right, thank you.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

With the coming consolidation in the number of suppliers into the DIY retail channel, do you think we should expect some rebalancing among customers, some churn, to see share go up and down more than we have in the past, for example? And if there is a divestment, let's say, out of the Sherwin-Williams Valspar business, do you think we might end up with a new competitor in the space here that you might have to worry about?

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

Well, John, we don't speak for our customers. As Michael said earlier, their sourcing decisions are typically theirs. I think we've got, as exhibited by the new products we are placing into the channel, you are talking about this year. We also have good relationship with those customers, but we are not at liberty to make sourcing decisions for them.

With respect to the acquisition of Sherwin Valspar, we are not sure what the outcome of that will be. So that's not within our jurisdiction or our decision tree. So we will leave that to the parties to be.

John Roberts - *UBS - Analyst*

Okay, thank you.

Operator

James Sheehan, SunTrust Robinson Humphrey.

©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

James Sheehan - *SunTrust Robinson Humphrey - Analyst*

Can you talk about your expectations for TiO2 prices? It looks like they may be going up a little bit here in the short term. What's your outlook for the rest of the year on TiO2?

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

James, TiO2, we have always said, is the supply and demand-driven environment. When I think about what's going on in the overall global supply and demand environment, you have additional capacity in China. You are soon to have additional capacity in Mexico.

So from that regard, that's obviously more supply.

Demand -- if you look at Europe, European TiO2 consumption is down about 15% from its peak. So net-net, even though Europe volumes are recovering a little bit, they are still substantially down from where they were. Then, of course, you had the material weakness in Brazil, the material weakness in most of Latin America, Russia.

And so from a supply and demand standpoint, I think we still see it as a balanced market. And I know they are out there running around with price increases announced.

But if you remember, they have had price increase announcements for several quarters out of the past two or three years. And that -- just because they announced that we are paying. So overall, our goal -- as you know, we have taken out of PPG 10%, so our TiO2 consumption is down because of substitution strategy, replacement, alternative products and also with the bringing in Henan Billions.

So I know there's a lot of noise out there. But when we talk to our suppliers, we are trying to get them focused on supply and demand. And that's where we are going to stay on that topic. I know they are looking at they are not making any money. But they didn't write us a check the last time when they were at the top of the cycle.

James Sheehan - *SunTrust Robinson Humphrey - Analyst*

Great. And can you also comment on demand trends that you are seeing in various end markets in China?

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

Sure. So obviously, automotive was up. Everybody sees those numbers, so good performance there. Industrial is a mixed bag. It depends upon which segment, so anything to do with commodities is down, heavy-duty equipment down.

Packaging -- we are a little disappointed in the packaging output. It's relatively flat. With the consumer-driven economy we would have thought that would have been up a little bit more. But we are gaining share there with our VPA [non-intent] product. So we could be doing better.

If we look at refinish, refinish, what Frank explained earlier, the carpark is growing. When they made the nice move to the premium market we gained. Now we are introducing some mid tier product. So that should be a net positive. It hasn't happened yet, but there is Comac, which expects to build an airplane at some point in time. They rolled it out of the hangar, but they rolled it back in the hangar.

So everybody saw it. It didn't fly. So I don't know when that will start, but obviously we have a lot of content on that plane. So if it does get into production we will be a net beneficiary of that.

On the protective side, we are doing very well in protective in 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

Marine -- not bad, but you really have to balance that with the fact that the Korean Marine has just fallen off a cliff. In fact, to the largest Korean shipbuilders did not even get a major order in Q1. So you have to balance what you see in China with the fact that Korea, which is where the big market is, is off.

So I guess that would be my around the segment approach there.

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

I just want to reemphasize, James, that -- Michael talked earlier about India. We are seeing very good growth in India across all the markets in which we participate in.

It's a smaller market for us, but an important market, but it is a very good growth trend right now.

James Sheehan - *SunTrust Robinson Humphrey - Analyst*

Thank you very much.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Just maybe digging on the volume side a little bit more, the 1% volume growth you posted across the portfolio -- I know you guys weren't satisfied by that. And maybe can you help us understand what kind of visibility you have, maybe on a couple of the larger businesses, OEM, refinish, aero and architectural, why that would accelerate as it goes through the year? Are there specific projects or something else specific to you guys? Thanks.

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

I'll take a shot at that. If you look at our different businesses, we have the best visibility in both Marine new build and aerospace where we have a very long order cycle. We have fairly concrete order patterns by our customers.

In the middle you have some industrial customers, automotive customers where we are seeing, with confidence we will call it a month's worth of orders with fairly good confidence. And then on the other side of the equation would be architectural, including Company-owned stores and independent dealers where people are walking in on a daily basis. And the order patterns certainly has a cadence to it, but it's not as predictable. So there we have let's call it a few days of visibility.

If you aggregate all that, 50%, 60% of our business we can see out probably several weeks, if not a month or longer. And so that's what gives us our ability to forecast for you what we think.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay, thanks. And then also, as a follow-up, just curious. Are we still expecting that overall volume growth could approach mid-single digits for the year? And where would you see the greatest amount of volume growth?

©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*

Well, we definitely expect improvements as we go throughout the year. Again, I think in Q1 of this year we had some very difficult comps in some large businesses. Michael mentioned the almost 10% comp we had in automotive in Q1 year over year. That starts to wane as we go throughout the year. And again, we had -- as Michael mentioned earlier, we had some easier weather comps in some of our businesses in the US as we come up on Q2 and Q3. So our expectation certainly is to move the needle more positively than we did in Q1.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Okay. And then lastly, if I may, on the FX side I know that you had said that there was still a negative impact in Q1. Would that also wane as we go through the year? And do you expect ultimately to potentially even get a benefit if we stay where we are on the euro?

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

If we stay at current rates across the board, it will definitely wane as we go through the year. So Q2 impact will still be a headwind but a bit less than Q1, if you stay where they are. And it will continue to dwindle down as you go through the year.

Positive and negative, at some point in time -- well, it depends on the mix because whereas the last few quarters the biggest headwind was the euro, with a little bit stronger euro than anticipated but a little bit weaker peso, for instance, because of some of that oil-based factors there as well as the weakness in Latin America, some of that mix does change.

So could one of the currencies turn positive at some point in time? Sure. But overall, if you look at the whole bucket, yes, the $140 million on the topline, the $15 million you saw on the bottom line, in the first quarter that will be a little bit less. And the numbers that Michael gave for the year, that $200 million to $260 million on the topline and the $30 million to $40 million on the bottom line dictate that at current rates things will automatically come down. We will see how that plays out if [rates fall] throughout the year.

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

And I will remind everybody the guidance we gave in January was close to $600 million topline and $70 million, $80 million bottom line. So it's a significant improvement versus three months ago.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Right. Okay, thanks.

Operator

Mike Harrison, Seaport Global Securities.

Mike Harrison - *Seaport Global Securities - Analyst*

I was wondering if you could give us an update on exactly where you are with some of the display resets you are doing at Lowe's. How much of that is complete? And do you have any metrics that you can share with us in terms of the customer response, either Lowe's or what you are seeing from the actual DIY customers that are going through?

©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 and CEO*

Well, I won't talk about specifically Lowe's. I'll talk about the industry in general, when you look at the home centers. The typical way they do their resets is they start in the Southern and Western states and then work their way north. So if you think about that, we are probably less than 1/3 of the way through it. Typically, they are all done by the end of May. So that's the cadence that we would be working on.

Again, we don't want to talk for our customers. But the early indications that we saw, we were very pleased with the early turnover in the stores. But again, it's a small data set in Q1 because, if you think about it, most of that started getting set in mid-March. They only had two weeks in Q1, and then you will have probably 1/2 to 2/3 of the quarter in the second quarter.

Mike Harrison - *Seaport Global Securities - Analyst*

And the $15 million worth of expense was partially related to that. That spending is complete at this point, correct?

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

That is complete, and it was a one-time expense.

Mike Harrison - *Seaport Global Securities - Analyst*

And then the last question I had was just on the auto refinish business in Latin America. I know that you had been seeing some weakness there. Has that started to show any signs of improving or still pretty weak?

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

Well, I think you have to look at it by country. Right? So Mexico, still doing well in Mexico. Colombia, I would say more flat line. Argentina is getting better, so that was the one positive. And even though Brazil is going down, we are actually going up because one of our competitors pulled out of Brazil. So that has been a positive from a refinish side.

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

Yes, it's still a significant negative overall in Latin America for Q1.

Mike Harrison - *Seaport Global Securities - Analyst*

All right, thanks very much.

Operator

Nils Wallin, CLSA.

Nils Wallin - *CLSA Americas, LLC - Analyst*

Michael, with respect to the long-term outlook in the BPA non-intent, your four-year or five-year cycle, curious to know how much beverage can penetration is baked into that and where you see the bottlers and the can producers currently in terms of their BPA usage within the can.

©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 and CEO*

I would say this is inning -- bottom of the first, top of the second inning. So there's a lot of work to be done in this regard. You tend to have one customer on the beverage side as a leader and then most of the other guys tend to be followers. So we are out in front with the leader in that area. And you have a couple of the food guys that are more aggressive, so they moved at a faster rate than the beverage guys have.

And then I would say that on the beer side, it's even on a slower ramp. So there has been a lot of pack tests done, there has been a lot of taste tests done. There has been a lot of work in that area. But as far as actual production it is way, way early in the game for those guys.

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

Just to piggyback on what Michael was saying before, too, keep in mind that in businesses where we have typically outperformed in the recent past, we were already starting with a solid market share position. And those businesses were already at a mature level.

This has two advantages, this sector. Not only in its infancy in terms of adoption, we are also starting at a point in time where, as Michael said, we have very low share inside the can. So everything is incremental share for us, early points of adoption. That's what gives us the confidence that this is a multiyear trend and it has a lot of legs to it for some time to come.

Nils Wallin - *CLSA Americas, LLC - Analyst*

Got it. That's very helpful, thanks. And just as a follow-up, the independent network in North America -- and architectural obviously has been down -- do you have a sense what, first of all, over the last couple of years the average rate of decline has been? And do you think it's accelerating, decelerating? And where does it bottom out? Or does it just completely disappear?

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

First, let me say that this channel has been in a contraction mode for quite some time. I'd say, if you look over a longer period of time, call it five or seven years, the contraction has been more modest than the industry has expected. I'd definitely say the last couple years it has accelerated somewhat, but it's lumpy. So there's not a linear path here.

And right now, I think we're probably contracting somewhere between let's call it 1% to 2% per year, the last couple years, to the market.

Nils Wallin - *CLSA Americas, LLC - Analyst*

Where do you expect it actually to bottom out as a percent of the total market?

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

It's a long, long term play. Obviously, as our retail partners get bigger, as the Company-owned store networks get bigger, it's more challenge as these people that own these stores, as their children do not want to be in the hardware business or don't want to be in the paint store business, they tend to sell.

So over time, this is just the demographic play that will continue to play out. But you are talking about 30, 40, 50 years. This is something that's going to be gone in three weeks 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

Nils Wallin - *CLSA Americas, LLC - Analyst*

Understood, thanks very much.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - *Jefferies LLC - Analyst*

Two related questions -- first, as you look at your comments around the operating leverage to the recovery in Europe and also opportunities to improve your supply chain and productivity, is there any structural reason why your conversion of sales to free cash flow shouldn't improve on a two- to three-year kind of basis?

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

I think it's a very good point. Not only will we get the operating leverage, but we also have a multi-year, if we are going on, improvement in working capital. And that also will help us improve the cash flow conversion. So we still have the opportunity to improve inventory levels. We are looking at working on our complexity, which will improve days of inventory, still have some room to improve past due receivables. So that will help conversion.

The other factor is that we have said in the recent past that our capital spending is more at a peak level now and will decline over the next five years. That will also improve our cash conversion as a percent of net income and as a percentage of depreciation. So all those factors considered actually bode well for cash conversion percentage over the next three to five years.

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

And Lawrence, over (technical difficulty) we are still down volume wise in Europe let's call it midteens. So there's still a lot of recovery left. Not saying we will get back all that as a region, but there's still a lot of recovery left in the region.

Laurence Alexander - *Jefferies LLC - Analyst*

And then when you look at Industrial Coatings, the value proposition to the customer, the mix that you have between the protecting services as opposed to decorating them or beautifying them, do you have the right balance? Or is that balance going to shift over time? And does that shift, if there is one, have any implications for either margins or sales growth?

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

I think we do both. I think the coatings industry, not only PPG, but we protect and beautify. So it's a dual purpose that the coating provides. I don't like there's a mixed differential. On automobile it protects the surface and beautifies the vehicle itself. So most of our coatings do both.

Laurence Alexander - *Jefferies LLC - Analyst*

Thank you.

©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

Operator

Ivan Marcuse, KeyBanc.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Just a couple quick questions -- the first one was on to Laurence's question. What is your goal for working capital as a percent of sales? It continues to improve. What do you think you could get this down to?

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

It's going to vary by business. Businesses, some of which are largely transactional and require very, very quick response to customers, are actually going to carry some more on the high single digits. If you run the numbers based on our inventories right now, you can say we are around 80 days of inventory, if you run them off the financial statements.

We think that there's a good five to seven, five to 10 days of inventory opportunity there. We picked up five days last year, there's still several more days to get to our benchmark. And we are looking at 100 basis points a year, generally, to improve working capital. Combination of payables, where we've made a lot of progress recently, inventories, past-due receivables. And keep in mind that every day of inventory and payables is worth $25 million; every day of receivables is worth $43 million. There's a lot of leverage on cash flow by improving it just a little bit.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Great, and then my last question is -- you mentioned that March is your strongest month with 2% to 3% type of volume growth. Did Easter have any sort of impact on March? I know that from April to March -- or is that a negligible sort of event for your business?

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

For most of our businesses, Ivan, our B2B businesses, specifically, it has a negligible or no impact. Most of our B2B businesses run 24/7. Easter did move into Q1 this year. It was in Q2 last year. It might have had a small crimp impact on some of our B2C businesses, again, not what I would call noticeable in the numbers.

Ivan Marcuse - *KeyBanc Capital Markets - Analyst*

Great, thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Scott Minder for any closing remarks.

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

Once again, I would like to thank everyone for their time and interest in PPG. If you have any further questions, please contact Investor Relations. This concludes our first-quarter earnings call. Thank you.

©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

Operator

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

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