PPG Industries, Inc.

Second Quarter 2016 Results

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CORPORATE PARTICIPANTS

Michael McGarry - *President and Chief Executive Officer*

Frank Sklarsky - *Executive Vice President and Chief Financial Officer*

Vincent Morales - *Vice President, Finance*

Scott Minder - *Director, Investor Relations*

PRESENTATION

Operator
Good afternoon and welcome to the PPG Second Quarter 2016 Earnings Conference Call. My name is Andrea and I will be your conference specialist today. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Mr. Scott Minder, Director of Investor Relations. Please go ahead.

Scott Minder
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 second quarter 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 Finance.

Our comments relate to the financial information released on Thursday, July 21, 2016. I will remind everyone that we posted detailed commentary and 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 CEO, Michael McGarry.

Michael McGarry
Thank you Scott and good afternoon everyone. I want to thank you for your continued interest in PPG. Today we reported our second quarter 2016 financial results. We achieved first quarter net sales of $4.1 billion and achieved adjusted earnings per diluted share of $1.85. Overall, we continue to deliver strong financial results as evidenced by the 11% growth in our adjusted earnings per diluted share versus the prior year. This markets our 14th consecutive quarter of double-digit percentage increases and adjusted earnings per diluted share. This level of sustained financial growth despite uneven global economic conditions demonstrates PPG's

ability to consistently and successfully commercialize new and innovative products as recently discussed during our Innovation Deep Dive event: acquire and integrate new businesses; maintain strict discipline over our cost structure; and successfully deploy cash to continually create shareholder value.

Our adjusted earnings per share growth in the second quarter benefited from earnings leverage on solid regional volume growth in Europe and Asia. In addition, we benefited from acquisition-related income driven by the IVC Industrial Coatings and Le Joint Francois, now called Sealants Europe, and Cummings Microwave acquisitions completed in 2015, and lower total costs including increasing our cost structure improvement from business restructuring related to the program we announced in the second quarter 2015.

Also, we continue to execute on our strategic initiatives. These include the sale of our flat glass business that we announced today, the sale of our European Fiberglass business that was announced during the second quarter, the completion of the sale of our minority interest in Pittsburgh Glass Works, and the acquisition of MetoKote Corporation, a global leader in coatings services with locations on three continents and over $200 million in annual revenues. The MetoKote acquisition closed July 1 and we expect the business divestitures to be completed by year end.

In addition to these portfolio enhancements, we continue to work on other important actions. During the quarter we fully funded our Pittsburgh Corning Asbestos Trust obligations, including the prepayment of all future obligations for about $270 million at a 5.5% discount rate. This payment finalizes our long-term settlement efforts and concludes our involvement with all Pittsburgh Corning-related asbestos litigation.

Also, we announced annuitization of a sizeable portion of our U.S. pension obligation, allowing us to reduce volatility of future earnings and mitigate financial risk associated with these pension plans.

We continue to have excellent financial flexibility with and short-term investments at $1.7 billion at the end of the quarter. As part of our multi-year goal to reduce working capital, we improved our operating working capital levels by 180 basis points in the second quarter on top of prior year improvements. Operating working capital results improved year-over-year in all three business segments.

In 2015 and 2016 combined, we have deployed $1.6 billion for acquisitions and share repurchases, including the recent purchase of MetoKote. The Company did not repurchase shares in the second quarter as we fully funded our portion of the asbestos trust. We plan to accelerate our pace of cash deployment in the second half of 2016, targeting the upper end of the previously announced cash deployment range of $2 billion to $2.5 billion for the years 2015 and 2016 combined.

Now I'll discuss some specific business trends for the second quarter. Second quarter sales increased by more than 1% in local currency versus prior year. Reported net sales were down less than 1%; acquisition related sales were up more than 1% year-over-year; foreign currency translation negatively impacted the second quarter, reducing sales by $95 million or more than 2%, including a 15% decrease in the Mexican peso versus the U.S. dollar, as well as declines in the Chinese yuan, Canadian dollar, British pound and others.

In the second quarter, the euro reversed a multi-quarter trend of year-over-year weakness versus the U.S. dollar, improving by almost 2%. As a result of currency movements, our 2016 year-to-date negative impact from foreign currency is approximately $235 million in sales, and about $30 million on pre-tax income. Based on the current exchange rates, we expect full-year 2016 unfavorable foreign currency translation to lower net sales by $320 million to $350 million, and pre-tax income by $50 million to $60 million.

In aggregate, our sales volumes were consistent with prior year, reflecting the modest growth rates in many major economies worldwide. Volumes expanded in Europe for the sixth consecutive quarter, reflecting a continued broad-based recovery by country and end-use market. Sales volume accelerated in Asia-Pacific sequentially versus the first quarter 2016 with continued growth in China and India, partially offset by weakness in Korea primarily due to a slowdown in marine new build activity. Sales volumes declined in U.S. and Canada but were mixed by end-use markets.

While our overall volumes were flat, we grew at or above market rates in many of our regional businesses around the world. We've included in our prepared materials for this quarterly call a heat map that provides our volume performance versus estimated industry growth rates for each of our businesses by region. As illustrated in the heat map, our investments in technology and global expansion are paying dividends, given our above-market performance in various coatings end-use markets. We have and will continue to put significant effort into driving additional organic growth in the areas where we are performing at or below market.

Near term, we anticipate an acceleration of our volume growth in the third quarter, reflecting various actions and growth investments in the past year or so that will begin providing tangible benefits.

By segment, for the second quarter, industrial coatings led our volume results, increasing by 3% year-over-year led by above-market gains in general industrial and packaging coatings. General industrial coatings volume benefited from above market growth in Europe and Asia. Packaging coatings continues to benefit at an above-market rate from industry conversions to new PPG can coating technologies around the world. This is being driven by increase in environmental regulations, including (inaudible) propositions by the state of California and growing action by global food and beverage companies to eliminate BPA or bisphenol A containing materials.

Volumes in automotive OEM coatings were consistent with industry growth rates with higher PPG performance in Asia and Europe, two regions where we expect higher industry growth in 2016 and 2017 as well.

Volumes declined by 2% in the performance coatings segment with varied results by business. Automotive refinish coatings continue to outperform the market with mid single-digit organic sales growth led by continued conversions to PPG's market-leading waterborne products and favorable industry trends including increased vehicle miles driven in the U.S. and Canada, and total fleet expansion in China.

Aerospace coatings returned to volume growth following the prior two quarters where we experienced volume declines related to customer inventory management. Volumes in protective and marine coatings declined primarily due to continued and significant weakness in global marine new-build demand, along with sluggish protective coating demand in the oil and gas sector.

After improving for three consecutive quarters, volumes declined very modestly in the architectural EMEA, primarily due to unfavorable weather patterns and flooding across portions of western Europe during the second quarter. Architectural coatings declined by more than 20% in both Brazil and China, reflecting slowing end-use market conditions in those countries. Countering these declines was above-market architectural coatings growth in Mexico and Australia.

Sales volumes also declined in architecture in U.S. and Canada in aggregate with varied results by channel. Company-owned stores increased in volume by low single-digit percentage as we begin to see initial benefit from prior year investments to improve our store network and expanded penetration in certain end-use submarkets. Volume sales in the independent dealer network consistent with prior quarters due to overall modest but continued structural decline within the channel. Despite the volume declines, this channel continues to create shareholder value for PPG as we are able to effectively manage our costs and maintain good returns.

Volumes were lower in the national retail accounts or DIY channel. This was due in part to comparison to solid volume growth in last year's second quarter coupled with current year customer initiatives to structurally lower their inventory levels. However, our product sales to the DIY end customers, also known as point-of-sale or out-the-door sales, were higher year-over-year benefiting from sales of some of our new and recently launched products.

Local currency architectural coatings sales increased in Mexico at more than the expected rate at double Mexican GDP as we have further market penetration and the addition of over 100 new store locations year-to-date in 2016. Architectural volumes continue to expand rapidly in Central America, particularly in Panama and Costa Rica, due to the Company's efforts to establish a presence in the region, leveraging our prior-year acquisitions of Comex and Consorcio LatinAmericano.

Overall, sales were up modestly in the glass segment as higher average selling prices offset unfavorable foreign currency translation and flat volumes. Volumes declined modestly in our flat glass segment primarily due to the negative impact stemming from reduced manufacturing capability early in the quarter when our Fresno, California facility was restarting after a planned maintenance outage in the first quarter 2016. Underlying flat glass end-use market demand remains solid. Fiberglass volumes increased slightly in the second quarter.

Looking ahead, we continue to expect varied business conditions globally due to the uneven pace of regional economic growth. We expect an acceleration of our volume growth in the third quarter as we continue to deliver above market growth in many of our businesses. We expect this growth will be supplemented by benefits from several growth initiatives in our regional businesses. This includes our architectural U.S. and Canada business with continued improvement in our company-owned store network following our rebranding and sales force investment in the past year, and growing demand for recently launched new products with many of our DIY customers.

In addition, protective coatings volumes are expected to improve, driven by continued customer adoption of leading protective products and additional acquisition-related sales synergies including higher adoption of our legacy PPG products in Latin America.

Lastly, as we have said on prior calls, in the second half of 2016 we will begin to anniversary the prior year decline in global commodity prices and anticipate general stability in this cost bucket as we approach the seasonal end of the bulk of the paint production season.

I'd like to take a moment to comment on the historic Brexit vote that recently occurred in the U.K. PPG has a successful and growing business in both the U.K. and continental Europe. While the businesses share non-customer facing resources, coatings, by and large, is a local business, therefore we buy, make and sell our products within a small radius and do not anticipate any material change or impact to our production costs or fixed costs stemming from the vote and subsequent financial market impacts.

It is too early to tell the long-term regional economic impact of the vote, if any, but we haven't seen any notable short-term impacts and don't expect any material impacts to our business in the second half of the year. We continue to believe that the ongoing broad-based recovery in Europe is sustainable, supported by underlying modest but continued improvement in customer demand across the region. We believe that mid-term that regional growth from business investment could be marginally reduced without a clear path and timeline for the U.K. exit. We believe the respective leaders are fully aware of this and will be working to minimize or avoid this impact. We also believe that if there is a slowdown in regional economic activity, it will be accompanied by a reduction in regional commodity costs. Naturally, as you've come to expect from PPG, we will remain proactive in preserving our level of earnings and cash generation in the region.

Let me reiterate that our base case assumption is for little to no impact in the coming quarters from the Brexit vote.

Now, let me summarize our second quarter. Our businesses continue to perform well. We increased earnings by a double-digit percentage for the 14th consecutive quarter. We took tangible actions to further achieve our strategic portfolio objectives, and we continue to generate and deploy cash to benefit our shareholders, including the acquisition of MetoKote Corporation and the payment of our dividend which increased by 11% year-over-year.

Looking ahead, we are strengthening our commitment to return cash to our shareholders via acquisitions and share repurchases. We have already successfully taken actions to aggressively manage our business for growth in earnings in an uneven global economy and expect to continue these efforts in the third quarter as we anticipate an acceleration in the level of volume growth.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question you may press star, then one on your touch-tone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble the roster.

Our first question comes from David Begleiter from Deutsche Bank.

David Begleiter
Good afternoon. Michael, just on U.S. architectural in terms of the national retail accounts, is inventory reduction done? Why do they wait until now to do this? Wasn't this something they should have been doing overall over a longer period of time?

Michael McGarry
Well, David, first of all, I would say the vast majority of it was done by one national major retailer who put in a new system. The new system has different settings. They're trying to drive down their inventory. They're trying to take an additional 30 days out is what they've told us is the goal. So, we think it's done but obviously we're not in control of that. Our anticipation is that it's done. We're more focused on the POS and the point-of-sales going out the door right now are positive. In that aspect, I'm pleased with what I'm seeing.

David Begleiter
Understood. Just last thing on the cash deployment in the back half of the year, I guess up to $900 million. Talk about how the M&A pipeline is and how might the balance be between M&A and buybacks of that $900 million.

Michael McGarry
Sure, David. You know, our pipeline remains solid. We are always going to look at everything in our space, but we're going to remain disciplined; that's the key. You expect that of PPG. Our preference continues to be acquisitions over share buybacks and we're going to continue to look. Right now I think our pipeline is consistent with what we've seen in prior years.

David Begleiter
Thank you very much.

Scott Minder
Thanks David.

Operator
Our next call comes from Christopher Parkinson from Credit Suisse. Go ahead.

Christopher Parkinson
Perfect. Thank you very much. Can you comment a little on your initiatives across the DIY channel? Specifically, new price points as well as some of the rebranding and reformulation efforts. I imagine it will take some time to close some of the performance gap but anything on a preliminary basis would be appreciated. Also, you seem a little more constructive on 3Q. Is that mostly comp related or is there a consideration for any of these initiatives gaining a little momentum on a sequential basis? Thank you.

Michael McGarry
Let's start with the 3Q question. We're constructive for both. We see momentum plus we are going to be coming off a slightly easier comp, so both of those are a positive.

When you look at the DIY space, if you've been in a Home Depot store, they've recently launched two new Glidden products, Glidden Diamond and Glidden Essentials. Both of those products are performing quite well. In Walmart they also have a Glidden Complete that's going. Then if you look at Menard's, we have a super premium price point, Paramount, and that has been performing as well. I think as these new products get a deeper foothold in the minds of our DIY customers we expect that to continue to be a positive for the business. Overall, I would tell you that we're coming off of a good spot in the second quarter and we're looking forward.

Frank Sklarsky
Chris, if I could just add one point, some of those products that Michael mentioned were just being set to order in the second quarter and so we're exiting the quarter with good momentum on those particular products.

Christopher Parkinson
That's helpful. Thank you. Just very quickly, you mentioned you expect some uneven regional growth trends in auto OEM as we head into the back half of the year. Can you just parse out a few of those trends? Maybe some geographic expectations, particularly in the U.S. and China, please. Thank you.

Michael McGarry
Yes, I'd be happy to do that. What we said in the prepared remarks is that we had outperformed in Europe and outperformed in Asia. Those trends will continue. We underperformed in the U.S. Preferentially, obviously when you go into the bid season, if you were going to lose a piece of business and gain a piece of business, we wanted to gain it in the higher growth regions and so we underperformed in the U.S. We do think that's a short-term phenomenon, but that's two quarters in a row where we've underperformed. In Latin America, we were at market in Latin America. Of course that's a smaller market but overall we outperformed in the automotive market probably for four years in a row so this is just a short-term bump.

When you look forward to the third quarter, if you remember in China last year they had some pretty significant build reductions, especially in August, and the government came out with a reduction in the tax on the small 1.6-liter engines and so that obviously won't happen again. China's build rates continue to be robust. We expect them to continue to be robust. There's a lot of new automotive plants coming on in the second half of the year. We won more than our fair share of those new plants, so we actually expect some nice momentum in China.

Frank Sklarsky
The only thing I'd add to that, Christopher—this is Frank—is that in Europe, as Michael said, we continue to see good growth rates but we're also represented at some automakers there that are doing particularly well so our mix of customers in Europe is also helping us. We expect to outperform there in the third quarter versus the market.

Michael McGarry
And registrations in Europe were up 6%, so I mean registrations continue to outpace builds.

Christopher Parkinson
That's all very helpful. Thank you.

Vince Morales
Thank you, Chris.

Operator
Our next question is from Ghansham Panjabi from Robert W. Baird and Company. Go ahead.

Mehul Dalia
Good afternoon. This is actually Mehul Dalia sitting in for Ghansham. How are you guys doing?

Michael McGarry
Good.

Mehul Dalia
Great. Pricing overall was flat during the first half of '16. Should we expect something similar for the remainder of the year?

Michael McGarry
This is exactly what we forecasted coming into the year and I don't think you should anticipate anything different in the second half of the year.

Mehul Dalia
Great. In aerospace, what's your outlook for the second half? Are you still expecting growth in that business?

Michael McGarry
We are indeed. The things that are helping us in aerospace is as the adoption of our base coat / clear coat for our coatings business, so we're winning share there. Our technology in our sealants business, we have very lightweight sealants that is gaining share, so that's also a positive. The transparency segment is down a little bit. Obviously general aviation remains weak. If you think about the rotorcraft or the helicopter market for the oil and gas business remains difficult, but when you put it all together we were up in the second quarter. We expect to be up in the third quarter. F35 build rate is coming up so that's going to be a positive, and if you look at Boeing and Airbus, they have only delivered two more planes in the second quarter versus what they delivered last year and they're only up—actually, they're down, excuse me, six planes each from their build rate in the first half of the year versus last half, and so they have a very full backlog. Ideally, you would expect them to continue to work hard to build up their sales rate in the second half of the year, so we're actually anticipating good aerospace performance in the second half of the year.

Mehul Dalia
Great. Thanks for that perspective. One last one. With your auto finish outperformance in EMEA and Asia Pac, is this due to continued waterborne technology shift? What's driving that outperformance?

Michael McGarry
Yes, there's two reasons. One is the waterborne, continuous adoption of that, plus we're also picking up share in what we call the commercial transport area and light industrial coatings, so these are very smaller pieces of that refinish business, but overall, those markets continue to do well and our customers value the productivity that we bring to their shops when we bring in our products.

Mehul Dalia
Great. Thank you so much.

Operator
Our next question comes from Jeff Zekauskas from JP Morgan. Go ahead.

Jeff Zekauskas
Hi. Good afternoon. You're in the process of selling your glass businesses or big pieces of it. Order of magnitude, I think it will be about $0.25 a share dilutive next year, that is if you don't do

anything extraordinary, either in acquisitions or in share repurchase. Do you have a plan to address the dilution or do you just shoulder it?

Frank Sklarsky
Hey Jeff, this is Frank. In terms of the amount of the dilution, if you take the gross proceeds from the flat glass business. We said—we disclosed this morning it was about 750. If you take adjustments and since that's a U.S. business you'll have a full federal and state tax rate on the gain, which is significant. The basis was not that significant. That, combined with adjustments, and then add that to the net proceeds of the European fiberglass business which is a relatively modest double-digit net returns after taxes and adjustments, you could say the dilution is in the range of what you're talking about but if you're doing your own calculation, please keep in mind that the flat glass business had more than the glass average margins. So when computing a potential dilution, you have to take that into effect, and of course both those businesses will be in Disc Ops for Q3. But in terms of what we do about that dilution, we have continued to demonstrate that we will take excess cash and given the back half of the year is our cash-generating half, we will have proceeds from these businesses. We will continue, as Michael said, continue to deploy that in a manner that generates value for the shareholders.

We have ample liquidity. We have cash on the balance sheet. We will continue to generate cash. We will get cash from these divestitures. So, we are fully committed to that upper end of the previously communicated range by the end of this year.

Jeff Zekauskas
But the upper end of the previously communicated range doesn't help you with your dilution for next year; that is you have to take steps over and above that if you mean to offset it, no?

Frank Sklarsky
We have ample opportunity to continue to go back to our board to obtain additional authorizations for share repurchase as appropriate. They've been supportive in the past. We continue to have a robust acquisition pipeline, as Michael pointed out, so we will continue to take the kinds of actions we need to including actions in our cost structure to make we eliminate any stranded cost situations so that we eliminate the dilution.

Jeff Zekauskas
Okay, great.

Michael McGarry
I agree with you, Jeff, that something—we have a void going into next year due to the sale of these businesses. It's not dissimilar to the void that we had when we sold Commodity Chemicals and we filled that in a constructive manner. The same void we had when we sold the Transitions Optical business, and again, in a short period of time we were able to fill that. So, we're aware of it. I think your numbers are reasonable.

Frank Sklarsky
Yes.

Michael McGarry
And we're working in a fashion to fill the void.

Jeff Zekauskas
Then just lastly, what's the timing of the tax benefits you get from paying down your asbestos liabilities? Do you get that this year or do you get it next year?

Frank Sklarsky
That's going to come over a few different quarters. What I would say is if you take a look at what we paid in cash taxes in 2015, it would be about $480 million we paid last year. That included an amount that was applied from the previous year's tax return, so we actually wrote a check for about $380 million, and then we had some credits applied from the previous year, so about $480 million total of cash due last year. Our cash taxes this year all-in will be less than that by about a high double-digit amount. We'll be less than that for all of 2016, assuming we get the closing of the flat glass sale by the end of the fourth quarter.

So, in very good shape in terms of tax benefits even though we had some tax charges associated as a special item this quarter as you saw associated with moving money around in funding the asbestos liability. On a net basis, including all taxes paid on gains, our cash taxes will be less this year.

Jeff Zekauskas
Okay, great. Thank you so much.

Frank Sklarsky
Thanks.

Operator
Our next question comes from Duffy Fischer from Barclays. Go ahead.

Duffy Fischer
Good afternoon, fellas. A question on the heat map. If you go—again, most of them are positive but for one of the areas it's below market, the architectural in the U.S. and Canada. How much of that is because of your channel skew versus how much of that is you're actually below market in the channels, if you looked at it on an equal-weighted basis?

Michael McGarry
Duffy, this is Michael. What I would tell you first of all is that you have our share of the dealer market, so we're a little overweighted in that area and that continues to be a decline. Then, don't forget, we bought a broken Axiall business and we're radically fixing that at a good clip. That's been a good acquisition. It should turn a lot of value. We've outperformed in the synergies and now our goal is to get that growth rate up to match the industry average a little better. Then finally would be the DIY segment and as I mentioned earlier on the call, we have worked with our channel partners to bring out some additional products in that regard. So, I think we have a multi-pronged approach to improve in this area, but clearly we're not satisfied and this is an area of high focus for not just me but the Leadership Team all across the Company.

Duffy Fischer
With the structural disadvantage of being outsized in the independent channel, is it possible that you guys can grow with the market in this, or is this just something structural that even if you do better you'll still be below market?

Michael McGarry
Well, I'd say we'll be a little bit below market just because of that. I mean if you take some of our competitors, where they might have zero in the independent dealer market, it will be hard to match that.

Duffy Fischer
Fair point.

Frank Sklarsky
Duffy, just let me reiterate what Michael said in his prepared remarks. We know the pace of decline in the independent dealer channel. If we're able to match that or actually exceed that with cost-outs, so this remains a good return channel for us, shareholder value creation channel. It's going to be a long time before that channel evaporates. We're pleased with the cash flow. It's a low investment channel, and again, a channel we're not displeased to be a part of.

Duffy Fischer
Fair points. Then, Frank, one for you. On the asbestos, is it fair to say going forward, kind of Q3 on, we should not see any asbestos impact in either the P&L or the cash flow statement?

Frank Sklarsky
That's correct. As it relates to Pittsburgh Corning, the specific entities that the trust addresses, there will be no further impact or exposure for PPG either on the P&L or the cash side. The whole liability was discharged. There'll be a reference you'll see in the Q next week as you've seen in the past where there are other potential cases that could arise. We have reserves for those which we believe are adequate at the present time. But as it relates to Pittsburgh Corning, no further exposure.

Duffy Fischer
Perfect. Thanks fellas.

Frank Sklarsky
Thanks.

Operator
Our next question is from Dmitry Silverstein from Longbow Research. Go ahead.

Dmitry Silverstein
Good afternoon guys and thank you for taking my question. Just to clarify, after you sell the fiberglass business in Europe and the flat glass business, what's going to be left in the glass division? Just a little bit of fiberglass in the U.S., or are there some other pieces?

Michael McGarry
Just fiberglass in the U.S., Dmitry.

Dmitry Silverstein
Roughly, what would be the size of that business?

Michael McGarry
We don't normally disclose that but if you take our commentary previously we said glass was more than the average. We said that Fiberglass Europe was $150 million, so you ought to be able to come up with a relatively close answer.

Dmitry Silverstein
Got it. Thank you. Thanks for that. Secondly, looking at your performance of your paint business in Europe, it was down a little bit after, I think you put together two or three quarters of positive growth. You cited weather and some flooding. How has that changed, if at all, as you head into the third quarter? I understand you only have a couple of weeks then, but any particular region, whether it's Poland or U.K. or France that are doing better or worse versus what you saw in the second quarter from those considerations? Sort of weather considerations.

Michael McGarry
Sure. The easiest one to look at was the U.K. We had about four days right after the vote where it seemed like people were glued to their TVs instead of putting a paintbrush in their hand, but I'm pleased to say that in the first 20 days—because I have data through yesterday—our sales rate is in July better than our sales rate in June 2016, so the prior month, and it's better than July 2015 for the same 20-day period.

France, I looked at France this morning and it's on a relatively similar trend line. We're always a little bit hesitant in France. We didn't call out the periodic strikes that they have over there, because it seems like an everyday occurrence, but I would say that we should do better in the third quarter than we did in the second, and we continue to have good momentum in our other businesses in Europe so when you take Poland and Czech and Slovak and Hungary, those are all doing fairly well.

Dmitry Silverstein
Okay, thanks. Staying on Page 1 for one more question, you had a 28% decline or more than that in China and Brazil. Brazil I sort of understand; their construction industry is really, really suffering right now. But, what was the decline of that magnitude in China attributed to?

Michael McGarry
Two reasons. One, obviously, the slowdown in the construction market in China. Two, because of the slowdown we've been very tight on credit and obviously as you tighten up credit with your customers they look for other places to place their orders and that compounds the situation. What's interesting is that we really play in three segments over there and our premium product was up in our second quarter. So, you know, it's a smaller piece of the pie so it really, like I said, you've got to be close on your customers, what they're doing and what part of the market they're in, and so the fact that we're managing credit tightly had some impact there.

Dmitry Silverstein
Got it. Then final question on protective and marine. Marine new builds have been bad since really the 2008/2009 recession and they continue to be down year-over-year it seems like every quarter. At some point, does it start to feel like it's a bottom or whenever it feels like a bottom it turns out not to be a bottom? Sort of how would we be thinking about new builds and how long can this industry underinvest, if you will, in new hulls?

Michael McGarry
Well, Dmitry, new builds were down 40% in 2015. They're down an additional 30% in 2016. The big three in Korea haven't taken very many orders this year. There is a lag of course

between an order to a paint, so call it 18 to 24 months, but Korea has recently rolled out a $17 billion stimulus package aimed at getting their shipping business back on its feet. It's a big segment for Korea, employs a lot of people. You know, names that you know: Hyundai, heavy industry; Samsung, heavy industry; Daewoo. These are all people that are closely tied to the government and they can't continue to go backwards forever, but I'm not smart enough to tell you when it's going to turn but it is something that we're going to spend a lot of time looking at.

Vince Morales
Dmitry, this is Vince. We've been able to, in most quarters, compensate for the marine decline with protective growth around the world as we've rolled out different products. We weren't able to match that exactly this quarter for the first quarter in quite some time, but we do think in Q3 we'll go back to at least matching the decline in marine with growth in protective.

Dmitry Silverstein
Okay. So that was you actually pre-empted my second question on the protective side of the business. It sounded like that was at least clearing the water a little bit for you in that segment and now that's doubled in the second quarter. You talked about oil and gas being an impact here. Sort of a similar question there but perhaps a little bit nearer term; people can't continue to underinvest in oil and gas for very much longer, so are we sort of—was this a one-off or are we bottoming out there as well? How would we think about that?

Michael McGarry
I think that our protective business continues to gain share, so that's the first thing what I would say. We had a very positive growth number in our protective segment and we're rolling out new technologies that are winning share, especially in our fire protective region. That has been a real winner for us. So, you know, I'm anticipating that protective will continue to overcome the weakness in marine. I view this as maybe a one-off; obviously time will tell. Our protective and marine teams continue to perform well and I would tell you we're aggressively managing costs in that. When you look at just the earnings side of that business, part of the reason why earnings continue to go up overall is because we're managing that very tightly.

Dmitry Silverstein
Got it. Thank you very much.

Michael McGarry
Thank you Dmitry.

Operator
Our next question comes from Frank Mitsch from Wells Fargo Securities. Go ahead.

Frank Mitsch
Good afternoon gentlemen, and congratulations Michael on the pending chairmanship and Chuck, if you're listening, congrats on your pending retirement. Michael, I noticed that obviously margins up again nicely, over 100 bps per segment. How should we think about that in the back half of the year? On the topic of margins, can you talk about what you're seeing on the raw materials side and if you want to offer a comment or two regarding your TiO_2 pricing in Q2 and any expectations in Q3.

Michael McGarry
I'm sorry Frank. We have a two-question limit. You'll have to re- … Let's start with margins.

Frank Mitsch
That's going to cost you five strokes, Michael.

Michael McGarry
So, margins were up 180 basis points. That was driven by four primary factors, maybe five if I'm generous. Volume improvement in Europe, that's significant leverage. Any time we drop any volume in Europe that comes 30 to 40% margin. The benefits of restructuring; we're going to continue to focus on that. The acquisition related synergies; that one continues to do well. We certainly had some modest raw material benefits. Then as you know, when you look at it from a currency standpoint, the fact that the dollar is so much stronger, you actually get absolute lower COGS and lower overhead numbers. That all contributed to the margin.

Now, the pace, I think I mentioned in my opening comments the pace of raw material deflation is slowing. When you go back and look at what oil was in the second quarter of last year and the second quarter this year and you look at it third quarter versus third quarter, that's a slowing but we're not letting our purchasing and global supply management team off the hook here, right? When I parse our raw materials, we put them in about nine buckets. So whether its epoxies or solvents or additives, emulsions, you name it, I would say at least five of those still have downward pressure; the rest of them flat, and we do have one that has some upward pressure. I don't regard the TiO2 price increase in the second quarter as a trend line; one point doesn't make a trend line. When you look at overall volumes across the globe in coatings, it is a modest number. More importantly, when you look at their input costs, their input costs are ore. Ore volumes are down so when I couple their input costs and our view of what's going on in the coatings segment, we're still having discussions. Not to mention, we still have Billions out there. We have favorable pricing with Billions. We used three times as much Billions in the first quarter than we did fourth quarter last year. We increased that again in the second quarter, and we sequentially expect to increase the amount of product used by Billions in the third quarter from the chloride plant and their performance continues to improve.

So, I would tell you overall we're pretty—we're going to have to continue to fight hard for what we have but raw material deflation is slowing but not over.

Frank Mitsch
Okay. That's helpful. Then lastly, just following up with the volume side of things. Obviously you were expressing disappointment with Q1 only having a 1% volume growth; Q2 slowed down to 0% volume. Obviously you explained a lot of the reasons why but also offered that it would reaccelerate in the back half of the year, Q3. Are we looking at a 2% type of volume growth? What sort of volume growth do you have in your mind that this portfolio can generate in either Q3 or the back half of the year?

Michael McGarry
Well, Frank, I don't think I want to give you a number just yet. What I will tell you is that this is a primary focus. Organic growth is not easy, as you know, but our focus on technology is key. Our global footprint able to ship these new technologies around the businesses around the world is key. Leveraging Comex and bringing the Revocoat new products out, that's helped.

We put together that heat map to try to give you an idea of how we're doing in this regard. We're growing in most of our businesses but not all of them, but we certainly expect that our efforts will bear fruit going forward. If you talk to anybody on our leadership team, they can describe this heat map in intricate detail; everybody is totally focused on it.

Frank Mitsch
I did find the heat map extremely helpful, especially since it contained a lot more Jets green than it did Steeler yellow, but thanks for that. Much appreciated.

Michael McGarry
Thanks Frank.

Operator
Our next question is from PJ Juvekar from Citigroup. Go ahead.

PJ Juvekar
Hi. Good afternoon.

Male Speaker
Hey PJ.

PJ Juvekar
Michael, if you look at the coatings sector, the multiples of publicly cleared companies have gone up over the last couple of years. I would imagine that that's also reflected in the private M&A market, so what kind of multiples are being paid and can you talk about your recent acquisition of MetoKote in that context? Thank you.

Michael McGarry
In fact, if you look at our last six acquisitions, they've all—we've paid less than 10 times EBITDA for all of them. The only one that's been above that has actually been Comex where we paid, if I remember, 11.2 or something like that.

Vince Morales
Pre-synergy.

Michael McGarry
So, you know, clearly the most two large ones in our space that were done at a significantly higher level, I'd regard those as unique properties at unique times in the cycle. Everybody I've talked to that I want to buy, they point to those two and I'm sure they would like to have that, but it's not realistic for the sellers to do that. Obviously when we bought MetoKote, at least one of those numbers was in the space and we're negotiating with others right now, so I would tell you we're going to continue to remain disciplined and we're going to continue to do the best that we can to make sure we increase the value for our shareholders.

Frank Sklarsky
PJ, the only thing I'd add to that—and I want to pick up on something that Vince said too—is that there's pre-synergy and there's post-synergy multiple and as Michael said, there's a very disciplined process here but when we evaluate each acquisition on its own merits there's the headline price but then there's a lot of sensitivity analysis that goes around the revenue CAGR as well as the synergies and I think one of the reasons that PPG has been kind of more successful than the average Fortune company in integrating acquisitions is the diligence around both revenue and cost synergies. If you look at the properties that we've acquired in the last few years, they've had an element of either a unique technology, unique customer base, but all

had some kind of additional leverage that we could get either by expanding the customer base globally or putting the technology as part of our overall portfolio. So it's not just the initial multiple; we look at the whole resultant set of factors including synergies and the multiple pre and post.

PJ Juvekar
Thank you. Thank you for that. I want to go back to the volume question. In one of your charts you show volumes over the last two years and it's kind of slowed down over the two years and it's now close to zero. So, given that, what pieces do you need to fall in place to continue the double-digit EPS growth?

Vince Morales
PJ, first of all, as Michael mentioned, we've got to get the organic volumes up which we intend to do so in Q3. That, we have a latent capacity as we've talked about in terms of ability to leverage our cost structure. I think Frank has given you a number in the past of 30% to 40% in Europe, 20% to 25% incremental margins elsewhere in the world. We continue to work on self-help activities. That's been a hallmark of ours and we have more coming in the back half of the year based on our previous restructuring. As we talked several times on the call today, we're going to redeploy or deploy cash, accelerate our deployment of cash in the back half of the year.

So those are the three pillars that I would tell you that we're going to rely to maintain good growth in our EPS.

PJ Juvekar
All right. Thank you.

Operator
Our next question is from Jim Sheehan from SunTrust Robinson Humphrey. Go ahead.

Jim Sheehan
Hi. On the glass segment, could you talk about approximately what are the stranded costs associated with the two divestitures and how do you plan to address those? Also, with respect to the remaining fiberglass business in the U.S., are you in any active discussions to dispose of that as well?

Frank Sklarsky
I'll just take the first section on the stranded costs. The stranded costs are relatively modest because the business, obviously separate from the coatings part of the portfolio, ran pretty much on its own. Of course there were certain allocations that come out of the corporate group, but we've been obviously cognizant of this for some time and we have plans and we'll plan to execute plans so that the stranded costs do not become an overhang for the Company. As Vince alluded to, as we get into 2017, it won't happen immediately but as we go through the next several quarters we have active plans we'll be putting in place and specific initiatives to eliminate that relative modest stranded cost situation.

Michael McGarry
In regards to your question about fiberglass, we always evaluate all our businesses and in this regard fiberglass is a non-core business and should anybody come to us and make us an offer that's worth more than we think its worth then we have a shareholder responsibility. We're not in any active engagement right now though.

Jim Sheehan
Thanks. Then your coating business, your architectural coatings business in EMEA, you talked about weather impacts and flooding and strikes. I was wondering if you could just talk about what you think second quarter volume growth would have been excluding those factors.

Michael McGarry
Jim, if you look prior quarters, we were up 1% to 2% fairly consistently. I do have to remind folks we had in Europe last year, so second quarter 2015, extremely favorable weather and this year we had the exact opposite. So if you said what's the base growth rate for our business there it'd be low single digits, and we expect it to return there in the back half of the year.

Jim Sheehan
Thank you.

Frank Sklarsky
The only thing I would say too on our organic growth— and Michael mentioned this before—it's okay, it is fair to focus on things that we're doing in the architectural portfolio because we would have liked the top line to be a little bit more robust in the quarter, but there was significant momentum generated in the industrial and packaging business as well as really nice momentum in refinish, aerospace and automotive OEM doing well in the vast majority the globe. That momentum should continue. If you look at the heat map, there are a few selected parts of the portfolio where whether it's a macro issue where we get a little bit of help, and obviously a little bit of help from the weather in Europe going forward, as well as some activities we've got going in architectural (inaudible), with those churning, you'll have the vast majority of the portfolio on a pretty good path and that's why we have confidence for the back half of the year into '17 that we'll get improvement in the organic growth rate overall.

Jim Sheehan
Appreciate it, Frank.

Frank Sklarsky
Thanks.

Operator
Our next question is from Arun Viswanathan from RBC. Go ahead.

Arun Viswanathan
Thanks guys. Just make this quick. Just to ask it slightly differently, volume growth, it's kind of flat here, hopefully growing in the back half of the year. Maybe you can just give us a range. How much of your volume growth do you think is dependent on market and how much is dependent on internal initiatives? Then maybe if there's any other factors or another bucket that you'd put any other kind of volume growth in.

Michael McGarry
Let me maybe take this by business, right? So, automotive, the vast majority of that growth is coming from technology and market, right? So the market is growing between 3% and 4%; we're outperforming that, so that's all due our new compact process.

If you take our industrial business, our industrial business grew mid-single digits in the quarter. That is really a variety—some of it's automotive, some of its coil. Our coil business had a good one. Our electronic materials had a pretty good quarter. So, all good from that standpoint.

When you look at packaging, that's all technology. I mean we are just—our new technology is helping us grow. It grew high single digits. One of our regions grew low double digits; we're just taking share in that regard.

When you bring it over to architectural, there's not as much technology in the architectural and we're not getting that. The market space we think is growing about 3%, maybe 4% max. Then you shift on over to protective and marine, that's a declining market with a huge overhang in the marine. We are taking share due to technology so that's another area. Refinish is all driven by the waterborne, so good performance there. And aerospace, driven by technology. So, I'd say even those segments where technology is a real key, it's both the market and our ability to drive a share gain through technology.

Arun Viswanathan
Thanks.

Operator
Our next question is from Vincent Andrews from Morgan Stanley. Please go ahead.

Vincent Andrews
Thanks. Just wanted to follow-up on the big box or the destocking. First, is it uniform across all of your SKUs and price points or are certain things being favored versus the other, in terms of the inventory deload? Then secondly, I believe you said it was principally at one of the large big boxes and so my question then would be, does the other one already have the same software system or should we have to be concerned that one will fall after the other and then there will be another destocking coming in the future?

Michael McGarry
These are proprietary systems, so I wouldn't be able to answer the question about whether or not the other ones have a similar type plan, but it is across all SKUs so it is a uniform initiative on that part.

Vincent Andrews
Thank you very much.

Scott Minder
Thanks Vincent

Operator
Our next question is from Robert Koort from Goldman Sachs. Go ahead.

Chris Evans
Thanks for the question. This is Chris Evans on for Bob. Can we talk a little bit more about the independent dealer channel and the secular decline going on? Can you just kind of describe what your expectations are for that moving forward and what's being done specifically to its offset?

Michael McGarry
I think, Chris, we've been consistent in saying that it's in a slow secular decline. Low single digits as the big boxes as well as the Company owned store network takes share in that regard. I do not envision that that trend line is going to change and so the other issue you have is that for some of these independent dealers they have no succession plans and so sometimes as

they get older, they decide to either sell out or they decide to close their doors, so it's something that we're managing very closely like Vince mentioned. We're able to adjust our cost structure to match this decline rate, it's a very profitable segment for us. So we're very happy to have these customers but it is a drag, if you will, on the overall growth rate of the business.

Chris Evans
Got you, and I think you described sort of the sell-in was challenged into the big box but how was the sell-through?

Frank Sklarsky
As we said—I think Michael said in his prepared remarks, the point-of-sale sales were positive for our DIY customers.

Chris Evans
Got you, thanks, and then just last real quick. You mentioned that the Axiall acquisition particularly is particularly struggling under the market. What about this current environment causes it to struggle or underperform, specifically?

Frank Sklarsky
When we bought the business, if you remember, we bought the business at a very favorable purchase price in reflection of the state of the business. We have made significant improvement. We've reversed trend, growth trend. We now have a positive growth trend in that business. That positive growth trend is not at market but it's closing the gap, slowly, as Michael mentioned. We've got a lot of time and attention put into that. We continue to make strides and we expect to fully close that gap over time but the purchase we did with the synergies we've been able to capture has been very accretive to our shareholders, so, optically while the growth rates not there, it's certainly been a shareholder enhancing transaction.

Michael McGarry
We had to rebrand all the stores. We had to take the Glidden products out of their stores, put the PPG products in. So it's not something that transforms itself over night. So, it's not like a light switch but it has gotten better every quarter sequentially.

Frank Sklarsky
I think it's a great point Michael was just making in terms of the that a lot of the capital deployment that was required to get things in the shape we wanted to be in is behind us and so the incremental profitability on the incremental investment is going to very attractive.

Chris Evans
Thank you.

Frank Sklarsky
Thank you.

Operator
Our next question is from John Roberts from USB. Go ahead.

John Roberts
Thank you. Will the glass business, after the end of this year, after the divestments completed, be small enough that you might discontinue the segment and just move the remaining activities into corporate?

Frank Sklarsky
Yes. John, we haven't made that decision yet. That's one of the scenarios we'd certainly look at.

John Roberts
Then in the European heat map down at the bottom there, packaging actually grew less than general and industrial. You know packaging was stronger than other areas in other parts of the world. Why in Europe were they flipped? I would have thought general industrial would be weaker than packaging.

Vince Morales
Year-over-year—that's a comment on year-over-year, John, and we had exceptional growth last year in packaging Europe. So we're starting to anniversary that growth, so we still have very good growth rates but we are coming up against some harder comps. If you remember Europe's the first region that converted to the newer technology.

Frank Sklarsky
Some of that is actually good news in the fact that we've got some really good momentum in the industrial business in EMEA, so it looks very, very good in comparison particularly as compared to last year's comps.

John Roberts
Thank you.

Operator
Our next question is from Mike Harrison from Seaport Global Securities. Go ahead.

Mike Harrison
Hi. Good afternoon. Michael it looks like you're still seeing some nice leverage on the Comex acquisition into Central America. Could you just talk about how much runway you still have in both Mexico and Central America and would the acquisition pipeline looks like to bolt on any additional Central American architectural business there?

Michael McGarry
So if you start with Central America, I would say we're in inning two. We're very early. You know we just rolled out our own Glidden products under the PPG brand; previously, it was a licensee, we started that about 15 months ago. The momentum is very significant so we're very pleased with that. Clearly as we gain more momentum, we've gotten phone calls from people down there. We anticipate continuing to get phone calls. Obviously we're making our own phone calls. There's a potential for that. It's too early to talk about what that might shake out to be, but clearly, the model that we have in Comex, the concessionaire networking model, plays very well into Central America where you have entrepreneurial people that are looking to put extra TVs in their house, go out and buy a car. This model works very well down there and we're exporting the Comex model into Central America.

That's a real positive force. We're bringing the PPG products into Comex. That has continued the acceleration of Comex sales. That's why we're more than two times GDP. The Comex Team continues to perform at a very high level. We've been pleased—we've added over a hundred stores in the first half of the year, so we're adding a store every other day. Basically we anticipate having over 170 stores by the end of the year. So we continue to get more geographic diversity. If you remember when we bought it, we said that we had higher share than normal in the central part and we were under represented in the north and the south. We're taking care of that and so we're growing additional share and presence in both the north and the south. So overall I couldn't be more pleased with our Comex Team.

Mike Harrison
Thanks and then I think I was surprised to see the general industrial strength this quarter and if you look at the heat map, green in all regions there but yet you guided to continued mixed performance even as you acknowledged that we should be seeing some easier comps there. Can you give us just maybe a little more color on that general industrial business and the volume growth expectations? Is there any—and I guess also, is there any chance we see some pricing increase in pockets of general industrial where demand is actually firming?

Michael McGarry
At this point the cycle I don't anticipate much pricing except for the new products. So anytime we roll out a new product, so we've said that we're going to have flat pricing across PPG and that would also pertain to general industrial. The reason we're not accelerating that is that we still don't see any recovery in heavy duty equipment. Heavy duty equipment remains a large part of that portfolio. Wood also is a little bit of a challenge but I would tell you that the momentum in our industrial business is quite good and then if you term up the industrial segment, I would say overall all three businesses packaging, industrial and automotive—you saw a good growth in those businesses and strong performance.

Mike Harrison
Thanks very much.

Operator
Our next question is from Nils Wallin from CLSA. Go ahead.

Nils Wallin
Good afternoon and thanks for taking my question. One on M&A. It seems like most of the targets you guys have acquired in the last two or three years haven't been pure play coatings companies other than obviously Comex and Axiall, so they've been in the adjacent space. Is there anything structural about that in terms of what's available, what people are looking for and then are those businesses, the adjacent coatings and coatings services business, have a structurally different margin than your pure play coatings?

Michael McGarry
Well first of all I would bring to your attention that we did buy IVC. This is a powder and liquid coatings, mostly U.S. based although they also had operations in Asia. So we have done others besides Comex and Consorcio LatinAmericano. In regards to your original question for the other ones, you know, Sealants Europe has better than a company average return. I would tell you that when we bought Revocoat it had less than the company average but it has probably closed at least 50% of the gap and we continue to work. Our customers are really excited in the fact that we have Revocoat. It revived another opportunity to have more content in the paint shop in our automotive customers and they really like that. So that's been a nice win for us as well.

Nils Wallin
Great. Then just to follow-up also on M&A. Some of your larger competitors or folks that could be potential competitors in M&A are in geographies that certainly have a much different or lower

debt cost. Are you seeing any type of incremental or increased competition from competitors in—when it comes to bids on M&A that might be motivated by better debt costs?

Michael McGarry
Well I guess that would answer your question this way. There have only been two acquisitions in the past five years from a European competitor of any substance and so I would not necessarily say anything that the current advantage interest rate environment in Europe is going to have any impact. We're going to continue to drive the consolidation in the coating space. Clearly, one of our major competitors is actively engaged and so their activity level in acquisitions might be reduced. I would tell you we're going to still be the leader in driving consolidation.

Frank Sklarsky
The other thing I would add too, Nils, is that while it may be true that certain competitors are domiciled in jurisdictions that have very attractive debt rates. We have access to capital worldwide as evidenced by the fact we raised €1.2 billion last year at an average interest rate of 1.1%, so we have ample fire power. We've got a good credit rating. We have a solid balance sheet. Access to all kinds of capital worldwide. Our primary consideration is getting a good return, good long-term return for our shareholders with high quality assets at both pre and post synergy. That will be our primary consideration and criteria for when we do acquisitions. We don't want to just look at what might be opportunistic short term, although we'll look at any asset in our space along with the close adjacencies but it's that long-term value creation that we're going to remain disciplined about.

Nils Wallin
Thanks very much. That was helpful.

Scott Minder
Thanks Nils

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.

CONCLUSION

Scott Minder
Once again, I'd like to thank everyone for their time and interest in PPG. If you have any further questions, please contact Investor Relations. This concludes our second quarter earnings call.

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