PPG Industries, Inc.

First Quarter 2017 Earnings

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CORPORATE PARTICIPANTS

Scott Minder - *Director, Investor Relations*

Michael McGarry - *Chairman and Chief Executive Officer*

Vincent Morales - *Senior Vice President and Chief Financial Officer*

Operator
Good afternoon and welcome to the PPG Industries First Quarter 2017 Earnings Conference Call. My name is Denise 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, sir.

Scott Minder
Good afternoon. This is Scott Minder, Director of Investor Relations. We appreciate your interest in PPG and welcome you to our First Quarter 2017 Financial Results teleconference.

Joining me on the call from PPG are Michael McGarry, Chairman and Chief Executive Officer, and Vince Morales, Senior Vice President and Chief Financial Officer.

Our comments relate to the financial information released on Thursday, April 20, 2017. I will remind everyone that we have 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 quarterly results, we will move to a Q&A session.

In this session, we request that you focus your questions on PPG's first quarter results. We do not intend to provide any additional or new information regarding our proposal to combine with Akzo Nobel at this time, other than what Michael will say in his opening comments.

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's Chairman and CEO, Michael McGarry.

Michael McGarry
Thank you Scott, and welcome. First and foremost, I still submit it is impossible to know what is best for your stakeholders until you fully evaluate all the options. We believe Akzo Nobel's new strategic plan will be more risky and create more uncertainty for Akzo's stakeholders, including employees and pensioneers. The facts are that Akzo's newly revised strategy would create two smaller, unproven companies and a detailed additional restructuring. The contemplated restructuring overall, and specifically the restructuring actions associated with the headquarter related stranded costs are very surprisingly inconsistent with Akzo's previously stated comments of safeguarding job security, especially in the Netherlands.

Separately, Akzo is also critical of PPG's proposal given the combination of the companies would involve an anti-trust review process. However, included under Akzo's dual track process is a clear option they articulated to sell their specialty chemical business, which would be subject to a detailed anti-trust regulatory process including associated regulatory review timing. In addition, decreases in free cash flow from de-merged companies is often underestimated, putting future and accelerated growth plans at risk.

Next, Akzo management was recently critical and raised credit ratings as a concern with the PPG proposal. However, Akzo detailed yesterday they are anticipating a resulting downgrade in credit ratings with their standalone strategy.

In conjunction, a downgraded credit rating may also have ramifications on pension funding requirements and we noted a great deal of discussion yesterday by Akzo about potential impacts of their standalone strategy on pensions and funding obligations.

We find it interesting that the revised €100 million 2017 EBIT target comes so soon after Akzo's 2017 target setting meeting on February 15th, and also that nearly half of the €100 million figure occurred in the first quarter, which is typically a seasonally slower quarter.

It is confusing as Akzo expressed concern over R&D spending in their response to the PPG proposal. Akzo says they want to invest €1 billion in coatings R&D through 2020, however this cumulative €1 billion sounds lower than their annual R&D spending in 2016 of €363 million. Are they still willing to commit to their overall combined R&D spending from last year?

More generally, we believe equity markets react swiftly, and typically appropriately, to any additional news and the market reaction is reflected in the stock prices.

Lastly, at PPG we continue to believe past performance is the best predictor of future performance.

As Scott mentioned earlier, we do not intend to provide any additional information regarding our proposal to acquire Akzo Nobel in the question and answer portion of this call.

Turning our attention to PPG, today we reported record first quarter 2017 financial results. We achieved net sales of $3.6 billion and adjusted earnings per diluted share from continuing operations of $1.35. We delivered solid financial results to start 2017, including a more than 6% year-over-year increase in adjusted earnings per diluted share and a 3% improvement in local currency sales, or an increase of 1% as reported. Our sales growth was driven in large part by higher aggregate coatings volumes at 2%, which is our strongest performance since the fourth quarter 2016, and the modest benefit from recent portfolio optimization actions where acquisition-related sales exceeded the absence of sales from divested businesses.

We achieved these improved results despite the ongoing unfavorable impact from currency translation, and moderate but uneven global demand. Our EPS growth rate improved versus the prior two quarters, primarily due to the benefits of ongoing cash deployment, including share repurchases of $165 million in the first quarter. For the quarter, our average diluted shares outstanding declined by nearly 4% versus the prior year.

Earnings leverage on our sales growth and continued operational and cost discipline resulted in lower manufacturing and overhead costs, including the initial benefit from our 2016 business

restructuring program.

Several factors served as offsets to these earnings improvements, including increased raw material costs which we partially offset with our initial pricing actions across several business regions and businesses; unfavorable foreign currency translation of approximately $15 million, and higher transitory global transportation and logistics costs to meet elevated customer demand in Asia.

To address our regional production capacity issue, we are nearing completion of expansion of one of our facilities in China. This expansion is expected to be fully operational late in the second quarter and will serve to greatly reduce and ultimately eliminate these additional costs, beginning in the third quarter.

In addition to our operational improvement efforts, we actively worked to strengthen our balance sheet. Increase in our cash and short-term investments by more than $350 million, and ending the quarter with approximately $1.4 billion on hand. This enhanced cash position provides us with increased financial flexibility to fund acquisitions of all sizes.

In support of our cash balance improvements, we continued our working capital discipline, achieving a 100 basis point year-over-year improvement in operating working capital as a percentage of sales.

Additionally, our focus on delivering shareholder value was highlighted again in the first quarter with the acquisition of Futian Xinshi, a China-based automotive refinish coatings company, and the previously mentioned share repurchases.

Despite these improved quarterly results, we aspire to a higher EPS growth rate and remain committed to further improving our financial results and deploying our strong balance sheet.

Now I'd like to discuss some of our first quarter business trends.

Our aggregate coatings sales volume growth was led by a continued strong performance in our technology-focused industrial coatings segment where each business unit grew by mid single-digit percentage versus the prior year and easily exceeding their respective industry growth comparisons.

Sales volumes in automotive OEM coatings have once again began to outpace global industry growth rates, led by above-market increases in the growing regions of Europe, Asia, Latin America, partially offset by a below market experience in the US and Canada where overall industry production volumes declined.

General industrial coatings sales volumes increased ahead of industrial production growth rates for the fifth consecutive quarter. The improvements were broad-based across subsegments and regions, particularly in Asia Pacific. Additionally, our sales volume growth rate improved sequentially in the US and Canada.

Sales volumes increased in packaging coatings, building on strong growth in the prior year as customers continue their adoption of PPG's interior canned coating products. We continue to see technology-based growth opportunities for this business.

Looking ahead, global automotive industry growth is expected to continue in the second quarter

and for the full year with clear differences by region. We believe that industry sales have plateaued in the US and Canada, with lower year-over-year industry production in second quarter and for the full year, with a continuing shift of industry production between the US and Mexico. We anticipate continued full year industry production growth in Europe despite a decline in the second quarter.

In Asia, we expect industry production to continue to expand in the region for both the second quarter and full year, building on the region's robust 2016 growth rates. In China we are closely monitoring expanding dealer inventories and the potential for slowing industry production as a result.

Finally, we see a gradual recovery of the automotive industry production levels in Brazil after a likely bottoming in that country.

We anticipate a continuation of current industry demand trends in industrial and packaging coatings with PPG outperformance expected to continue in the second quarter, primarily due to strong customer adoption of our new coatings technology and value-added services.

Turning to performance coatings, year-over-year sales volumes were in line with prior year, including moderate positive year-over-year impact from the Easter holiday shift between quarters in some of our businesses and regions. The shift in the holiday between the first and second quarter primarily impacted our B2C businesses, while it typically doesn't impact our B2B businesses. Based on this year's calendar, the holiday shift aided volumes in some of our B2C businesses while negatively impacting other businesses. We anticipate the net improvement on this timing shift to be about 1% of incremental volume in the first quarter of performance coating segment and negligible impact on our other reporting segments.

Looking at particular business unit performance in aggregate, ongoing and significant demand weakness in marine coatings offset growth in other business units. Automotive refinish coatings organic sales growth continue with improved customer demand in each region, led by above market gains in the US and Canada where we experienced record March sales results.

Aerospace volumes were consistent with the prior year as low industry build growth rates continued despite significant customer backlogs. Additionally, we were negatively impacted by our customers' inventory management actions primarily in the transparency subsegment, which offset the modest demand increases.

In architectural coatings, US and Canada, we achieved a solid mid-single-digit sales volume increase in our company-owned stores, which marked our best performance to date since the store revitalization efforts post the Akzo Nobel North American decorative coatings acquisition. This growth was more than offset by lower demand in the independent dealer network and mixed volume results within our national retail accounts or DIY channels, including the comparisons to prior year, new product inventory pipeline (inaudible) at multiple customers.

Sales volumes improved in Latin America, Asia Pacific and architectural coatings Europe, Middle East and Africa where we saw improvements in several western European countries, including UK, Ireland, Benelux countries, and building on growth in the prior year.

Sales volumes continued to decline in protective and marine coatings due to ongoing significant weakness in marine shipbuilding activity focused in Asia Pacific. These declines more than offset our broad-based regional growth in protective coatings.

Looking ahead, we anticipate higher segment sales sequentially in the second quarter as we truly kick off the heart of the architectural paint season in many parts of the world. We expect the continuation of the current industry trends in aerospace and automotive refinish coatings and modest growth to remain in architectural EMEA with continued expansion in western Europe and a slight improvement in eastern Europe demand levels, particularly in Poland.

We anticipate significant ongoing weakness in the marine subsegment to offset growth in protective coatings, but are encouraged by the recent ship order activity in Korea. Although this is a favorable longer-term industry sign, a related increase in coatings demand will be delayed as vessels are typically painted 12 to 18 months after orders are received.

Underlying demand trends in architectural US and Canada are expected to remain as we enter the peak portion of the annual paint season. We expect solid same-store sales growth to continue, building on our first quarter 2017 and second half 2016 momentum, and lower demand levels to persist within the independent dealer network. In our national retail outlets or DIY channel, we are optimistic about the sales prospects for our new products launched in 2016 and for our newest premium product, PPG Timeless Stain, currently in launch at the Home Depot. This is the first product to prominently carry the PPG name in a major US home center and is a continuation of our efforts to increase customer awareness of our corporate brand name.

In our PPG Comex business, we anticipate a continuation of local currency sales growth of at least two times the Mexican GDP levels.

In our glass segment, volumes declined by 2%, primarily due to lower North American fiberglass customer demand in the wind energy subsegment, partially offset by an improvement in oil and gas related end-use market demand. We expect these trends to continue in the second quarter.

Looking at demand from a regional perspective, sales volumes continue to expand in the emerging regions of Asia Pacific and Latin America, exceeding growth rates in the developed regions. Demand growth in Asia was led by PPG outperformance in the industrial coatings segment and tempered by significant declines in the marine shipbuilding activity. Volumes expanded in Latin America across most of our businesses, led by significant increases of automotive industry production in Mexico.

Volume growth accelerated modestly in Europe and was broad-based across the majority of our coatings business units, reflecting the moderate economic recovery in the region.

Sales volumes were flat in the US and Canada, indicative of the uneven end use market demand environment, which included declines in automotive industry production which were offset by demand improvements in other end use market segments.

We have included additional segment and regional details in our presentation materials.

Overall, we delivered solid business results in the first quarter despite uneven global market demand and ongoing foreign currency headwinds. We continue to focus on improving our organic growth rate by delivering innovative new products that satisfy our customers' needs and by further developing our consumer brands around the world.

As is the hallmark of PPG, we remain disciplined in our operations and diligent in over our costs,

and are on pace to achieve $40 million to $50 million in 2017 savings from our current restructuring program. We implemented price increases in the first quarter and announced additional price actions effective in the second quarter to address our increasing raw material costs. We will continue to look for ways to beneficially deploy our cash to enhance shareholder value and remain committed to deploy at least $2.5 billion to $3.5 billion on acquisitions and share repurchases in 2017 and '18 combined.

We currently have an active pipeline of bolt-on acquisitions and remain willing to engage with Akzo Nobel to discuss a combination of our companies.

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

QUESTIONS AND ANSWERS

Operator
Yes, sir. We will now begin the question and answer session. To ask a question you may press star then one on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. If your question has been addressed, you may withdraw from the queue by pressing star then two.

The first question will come from Robert Koort of Goldman Sachs. Please go ahead.

Robert Koort
Thank you. Michael, I was wondering if you could talk about something you touched on at the end there about the efforts to invigorate the organic growth. Obviously you had a little pick up in the first quarter. Can you talk maybe about through the quarter trends and then what do you attribute the commentary about there feeling to be a better economic tone in the US but not really showing up in any business activity yet.

Michael McGarry
As you know, Bob, all the surveys on economic optimism have continued to go up since the election. We have not seen the order book reflect anywhere near the spike that the optimism shows; we do see solid demand though, just not increasing at that rate.

We saw March was a good month and that's always encouraging for March to be a good month as that's usually start of the paint season. I would tell you overall, our organic growth efforts are taking hold. As you know, we started on this about two years ago and our industrial businesses, that's automotive, industrial and packaging, all really understand this and doing a really, really fine job. The refinish is also doing a good job. I think being held back a little bit aerospace, not because we don't know how to do it but because a couple of our customers haven't figured out how to build planes even though they have a huge backlog.

I would say the most encouraging one though was our same-store sales and our architectural business in the US and Canada. They performed very well and the fact that we revitalized the store network, those dividends are starting to play out.

Overall, we know how to do it. The teams are getting better at it and I think it's starting to take hold. It's being masked, though, by the significant weakness in the marine segment which is taking a fair amount off the top line, but on the protective side all good. Thanks.

Robert Koort
You mentioned the stores can sustain that good growth after the investment effort. Is there something wrong with the DIY channel? Because it seems like that market is not as robust, or is there just something seasonal or temporary going on there? I appreciate your time.

Michael McGarry
Bob, I guess the way I would describe that is there is more money in the pockets of the consumers and there does seem to be more of a trend to do it for me, if you will, as opposed to do it yourself. We have talked to our customers about the need to get more aggressive in what I would call the good category, that people have come in the stores wanting to buy the good level paint and sometimes walk out when they're trying too hard to upsell them. We think that this is an opportunity for them to refocus on some of the people that haven't bought paint in that category.

For us, we think the continuation of same-store sales looked good. Our April start is solid as well, so that's why we put in the commentary that we're looking forward to a good second quarter.

Robert Koort
Terrific. Thank you.

Operator
The next question will be from Duffy Fischer of Barclays. Please go ahead.

Mike Leithead
Hey guys, it's actually Mike Leithead on for Duffy this afternoon. I guess first can you just walk through the changes you're seeing in your raw materials basket. I know TiO2 catches most of the headlines but we've also seen some inflation on the organic side. Just trying to get a sense of where we are today versus maybe your expectations heading into this year.

Michael McGarry
Sure. Clearly, TiO2 has upward pressure, more that there's a combination of supply/demand but more because of some of the outages that they have in Europe. I would also say propylene is up significantly more. This tends to be a first quarter, second quarter event every year. We certainly hope the propylene by dehydrogenation trend to help that but this year that hasn't been the case. So, propylene adds up.

Certainly emulsions are up, epoxies are up in Asia, so there's a few more. Then when you look at it on a year-over-year basis, this time last year oil was in the 30s, now we're in the low 50s, so solvents on a year-over-year basis is up.

Now, sequentially going forward it's not going to be up and that's why we think the second quarter is probably the peak for raw materials, but that's kind of the flavor we see.

Mike Leithead
Great. Then in Mexico, it looks like Comex growth remains pretty strong there, even if fx clouds it a bit in your reported results. Can you just update us on how the PPG initiatives are progressing down there? I guess cost synergies and I think you had a longer-term revenue target you were also looking at there, kind of how those programs were going.

Michael McGarry

Yes. Overall, the PPG Comex team continues to perform at an exceptionally high level. We continue to far exceed our target which is two times GDP. The team has opened up 45 new stores in the first quarter this year. Last year we opened up about 212 if I remember right. So, we're ahead of our pace, what we had anticipated in Q1. Our store relocations have also been ahead of pace. We had price increases in Mexico that have been successful as well.

The revenue increases that you talked about, the synergies, our protective and marine team has done a good job down there in Mexico. We brought new industrial products that they're selling down there; that's been a benefit. When you look at Central America, that has been a significant win. Originally we said $40 million to $50 million in new sales synergies in years 3 through 5. We upped that to $60 million to $70 million. We're ahead of that pace right now. Sales actually in Central America last year were up nearly 40%. In the first quarter they were up more than 20%, so on top of a huge comp number we were up again. So, we feel very good about our Comex team.

Vincent Morales
Mike, one last comment. We have captured fully the cost synergies announced when we did the transaction.

Mike Leithead
Great. Thanks guys.

Operator
The next question will be from Steve Byrne of Bank of America Merrill Lynch. Please go ahead.

Steve Byrne
Yes, thank you. this chart you put together that shows your outlook, in the first quarter demand by market and region suggests you saw the US architectural market actually contract in the first quarter slightly year-over-year. Why would that have been? What would you see as driving contraction in that market?

Michael McGarry
The growth comes from the same-store sales. The contraction comes from the independent dealer network along with the big box retail DIY channel. That's it. But we are projecting 2% to 3% growth for the full year for architectural in the US and Canada.

Steve Byrne
But was something holding back the overall market in the first quarter?

Vincent Morales
Steve, the colors on the chart, I think you're looking at the yellow on the chart, were reflecting our below market.

Steve Byrne
Yes but isn't that also suggesting.

Vincent Morales
Because of our independent dealer channel, as Michael mentioned.

Steve Byrne
So you're below market but aren't you also saying that the overall market is slowed year-over-

year in the quarter?

Vincent Morales
We think the market's growing at 2% to 3% a year. We do think the market expanded in the—I don't have the slide in front of me, I apologize. We do think the market expanded in the first quarter.

Steve Byrne
Okay. All right, then switching gears here, while you're pursuing this Akzo bid, should we assume other M&A should be either modest or tabled in the interim? For example, were you not interested in that Valspar wood coatings business?

Michael McGarry
What I would tell you is we are not slowing down our M&A efforts. The pipeline remains actively engaged and as far as a specific one, I will not comment on that but what you should generally think about is that we look at most everything in our space.

Steve Byrne
Okay. Thank you.

Operator
The next question will come from Christopher Parkinson of Credit Suisse. Please go ahead.

Christopher Parkinson
Thank you. You mentioned that you expect consistent industry demand trends in the US and Canadian architectural business in your 2Q outlook, but can you just parse out some additional trends based on the specific channels? I think you already said you expect (inaudible) to continue to outperform. More importantly, just any key puts and takes in terms of differentials and gross spend by channel? I think you had some of that in 2016. Also, just any broad thoughts on expectations for new product lines and stains, or even Glidden Diamond because I think you launched that a little bit into the season last year. Thank you.

Vincent Morales
Chris, this is Vince. I'll try to answer all your questions. Again, our view is the market continues to remain—the US architectural market continues to remain solid. It's led, as Michael mentioned, by professional, the professional channel. Where we were up mid single digits I think that was our fifth or sixth quarter in a row where we expanded our growth rate in that channel and Michael commented briefly on the investments we've made in past years leading up to our growth rate, and we do expect that channel to continue to outperform.

As I just mentioned, the independent dealer channel is a modest shrinking channel and that trend is not expected to change.

The home center channel is expected to grow slightly below the overall industry. We do have some noise in Q1 and Q2 year-over-year because we did have product launches last year in both Q1 and Q2. You mentioned Glidden Diamond, which we split between Q1 and Q2 last year as a product launch. We also had our Paramount product at Menard's. Again, we split that between Q1 and Q2. We have the PPG Stain Timeless launch, which is a smaller category. That's going in to the Home Depot right now, but we do expect that channel, as it did last year, to slightly underperform the overall industry.

Hopefully I answered your questions fully.

Christopher Parkinson
One by one, great. Just a quick follow-up. On the industrial side, you indicate you've seen some solid trends in APAC, LatAm. It seems like the US is okay in that regard, but EMEA is still sluggish. On the latter, can you just comment on any key trends you're seeing, whether it's by country or just by vertical, and whether or not you're seeing any decrementals in some of those markets in the business? Then if it improves, let's say later on in the year or even past key elections in the region, if you expect any improvement in op leverage there. Thank you.

Michael McGarry
This is Michael. What I would tell you is that the same countries continue to have the same strengths. UK/Ireland continues to do well. The Benelux continues to do well. Germany continues to do well. France remains sluggish. Obviously they have an election coming up so there's not a lot of spending going on at that level right now.

The recovery in southern Europe continues but I would say has moderated. The disappointment has been more in eastern Europe. That has probably been the bigger challenge in that regard, and of course the Middle East, which we report as part of Europe, Middle East and Africa, that has been challenged and then Africa is significantly challenged as a number of those countries are oil based economies, and as you know the oil based economies have been challenged.

When you look at overall Europe, I'd say western Europe doing pretty well; Eastern Europe a little bit less, and then the other ones are the ones that are holding it back.

I might add the other one positive, it would be Russia. Like in the first quarter Russian car sales were up 4%. I can't remember the last time they were up. They were 50% down since their peak, so that's one positive sign.

Vincent Morales
In Asia we're seeing generally good, solid growth across the region. I think there was some valid concern coming into the year in China on the car incentive that was being partially repealed, but we did see good automotive sales. Again, a little bit of a tick up in inventory in Q1, but we didn't see a significant decline. That tells us there's good solid underpinnings of growth there. India is good. Southeast Asia is good as well.

Christopher Parkinson
Great. Thank you.

Operator
The next question will be from Jeff Zekauskas of JPMorgan. Please go ahead.

Jeff Zekauskas
Hi. Good afternoon. I saw that you bought $165 million worth of shares in the first quarter. Was that share repurchase completed before you thought hard about buying Akzo? Or were you already aware that you were intending to purchase Akzo? Have you purchased any shares this quarter?

Vincent Morales
Jeff, this is Vince again. We did, as you know and as we reported in January, purchased

roughly $650 million of stock in the fourth quarter. We did that under a program which we occasionally do. That program ran through our first quarter earnings call, and so we won't comment on what we've done subsequent to the end of the first quarter, but that program did run through our first quarter earnings call.

Jeff Zekauskas
Okay, great. Then secondly, I think your cost of goods sold was up 2.6% and your volumes were roughly up 2%. So it seems that you had a very low rate of cost of goods sold inflation. Is that because you had a way of managing your inventories or was it that your raw material costs were up at a higher rate but you offset that with lowering overhead costs? Can you talk about why your cost of goods sold was so low in the context of rising raw material costs?

Vincent Morales
Jeff, it's Vince again, Jeff. It was the latter. We did see an increase in raw material costs, as Michael touched upon earlier. We did have in response to that a very good cost management of our manufacturing costs, and that was supplemented by higher volumes which allowed us to capitalize on those higher volumes and the throughput at our facilities.

Jeff Zekauskas
Okay, great. Thank you so much.

Operator
The next question will come from Ghansham Panjabi of Robert. W. Baird. Please go ahead.

Mehul Dalia
Hi. Good afternoon. It's actually Mehul Dalia sitting in for Ghansham. How are you doing?

Michael McGarry
Hi Mehul.

Mehul Dalia
Hi. Going back to the question on inflation, given your activity on the pricing side do you think you'll be able to be at least price cost neutral or even positive for the full year 2017? Just based on the current raw material backdrop as we see it right now.

Michael McGarry
Our guidance earlier in the year was that we would be negative price minus raw materials for Q1, Q2, and positive Q3, Q4. You know, in order to make that happen we're going to have to work harder and collaboratively with our customers to achieve our previously announced price increases, but at this point in time we're still positive that we're going to have a net positive. So, we haven't given up on that and we don't plan on it.

Mehul Dalia
Okay, great. Then in terms of the capital deployment of $2.5 billion to $3.5 billion for 2017 and 2018, and in the context of your pending Akzo Nobel offer, how should we think about layering in the proceeds towards share buybacks, etc., from a timeline standpoint for the remainder of the year?

Vincent Morales
Well, again, regardless of the year we typically don't provide publicly and cadence or pace for share buybacks. We have conviction around the $2.5 billion to $3.5 billion over the two year

period but we typically wouldn't pace that out for public consumption.

Mehul Dalia
All right, thanks.

Operator
The next question will come from David Begleiter of Deutsche Bank. Please go ahead.

David Begleiter
Thank you. Michael, just on margins and performance coatings, they were actually up Q1 year-over-year, but given the peak of raws in Q2 should we expect margins and performance to be down year-over-year in Q2?

Michael McGarry
I think they'll be down marginally, but obviously we're working collaboratively with our customers on price increases. It's always difficult to forecast when you can start to get those price increases in your pocket, but we have good relationships with our customers and we'll continue to work with them in a very straightforward manner.

Vincent Morales
Just, David, if I could add, again, as Michael said earlier, I just want to remind everybody we do expect Q2 to be the most difficult comparable from a raw material perspective.

David Begleiter
Very good. Michael, just on marine, when does that business bottom and can you actually size what the impact has been from peak to trough?

Michael McGarry
Well, the bottom is probably either this quarter or next quarter is my guess. We saw a slight uptick in ship orders for the first time in a long time in Q1, so I always say that one data point doesn't make a trend, so it's too early to call that, but last quarter, the fourth quarter, Korean ship orders were off 75% and China ship orders were off 60%. So, that's not indicative of the world market because obviously they do more of it than anybody else, but the downturn in some of the other countries would have been less, but it's still a very significant peak to trough number.

Vincent Morales
David, in terms of context for size, for 2016 we said it shaved about half of a turn off of our growth rate, somewhere in the neighborhood of half a turn.

David Begleiter
Thank you very much.

Operator
The next question will come from Frank Mitsch of Wells Fargo. Please go ahead.

Frank Mitsch
Hey, good afternoon and good luck to the home team at the Paint Can tonight.

Michael McGarry
Thank you.

Frank Mitsch
Michael, you were talking about the Easter impact and I think you said that that was a benefit of about 1% volumes in performance coatings. Are we to expect that that's a pull forward from Q2 into Q1 and so therefore whatever volumes we see—we're going to see a decrement in Q2, is that what you're kind of signaling there?

Michael McGarry
Yes. What we had is extra shipped days in Q1 and we have less shipped days in Q2, and it's not a straightforward calculation because PPG Comex actually they're two biggest selling parts of the year are Christmas and Easter. So for PPG Comex it's obviously a benefit in the second quarter with a negative in the first quarter. So it's not a straightforward calculation but we're probably trying to tell you is it's somewhere in that 1% to 2% range.

Frank Mitsch
All right, terrific. Then, you were—you've talked before about the $100 million productivity program and I was wondering if you could provide some color around that, where you stand there and what's the expectations for the balance of the year.

Michael McGarry
My friend Vince will help you.

Vincent Morales
Thanks, Michael. Frank, we gave, as you know, we announced the restructuring last year. We're targeting $40 million to $50 million of savings in 2017 from those restructuring actions. We captured a little less than 25, let's call it 20% of that in the first quarter. We expect that to gradually grow throughout the year and we'll be hopefully at the middle to upper end of that $40 million to $50 million target.

Frank Mitsch
All right. That's also partly baked into the expectation for the back half of the year to hopefully see acceleration in EPS growth relative to what you've performed in Q1, correct?

Vincent Morales
That would be correct.

Frank Mitsch
Thank you.

Michael McGarry
Thanks, Frank.

Operator
The next question will come from John Roberts of UBS. Please go ahead.

John Roberts
Good afternoon guys.

Vincent Morales
Hi, John.

Michael McGarry
Hi, John.

John Roberts
Mike, I'll remind you this is Wall Street so if you give us one data point we'll draw a line and if you give us two we'll draw a curve.

Michael McGarry
Okay, John. Thanks for the education.

John Roberts
You talked about more visibility for the PPG brand. Are you talking about using the PPG brand to expand some shelf space and gain share, or are you talking more about a super umbrella brand on top of your other brands?

Michael McGarry
Well, I don't know that it's right for me to lay out our brand strategy as it's evolving, but let try to get to part of what you're talking about.

We are going to have more shelf space at the Home Depot, okay? So that's a positive. We are, if you're in any of our retail partner stores, you will see the PPG logo on our products and of course we're growing the PPG Paints brand in our own store, and as you know, as Mr. Mitsch just said, it's not the Paint Can but it's PPG Paints Arena and we're thrilled to be with the NHL and now we're the NHL partner official paint. These are all our efforts to do that.

What I would tell you is that long term we will have to put and we will put more branding into the PPG name to support our retail customers. So, this will be gradual and over time but it is something that we are working on and we talk continuously to our retail partners on how important this is to us.

Vincent Morales
And these investments, to date we've been—John, I'm sorry to interrupt you. These investments to date we've seen hopefully gain some traction along with our PPG Paints stores growth.

John Roberts
Do you use the PPG brand in European architectural at all yet?

Michael McGarry
No, we do not use it anywhere. The only place outside the US that we're using it as the PPG brand is actually New Zealand. That's because of the way we bought the business in Australia and New Zealand. And actually, it's doing quite well down there so maybe it should have been a learning to us.

John Roberts
Got it. Thanks.

Operator
The next question will come from Kevin McCarthy of Vertical Research Partners. Please go ahead.

Kevin McCarthy
Yes, good afternoon. You've had a number of different price increase announcements in various product lines and geographies in recent months. If we look at the second quarter, how would you characterize the potential for sequential improvement in price in each of your coatings segments compared to the first quarter? Perhaps you can give us a sense of what you've achieved and what's on to come still there.

Michael McGarry
Well, I think, Kevin, naturally we always get better traction and quicker traction in our performance coatings segment and it's harder but we do get it eventually in our industrial coatings segment. As you know, our industrial coatings segment has a number of very large, very sophisticated customers. That makes it more difficult to get it but they do understand in all cases that about 70% of our costs are raw materials so it's impossible for us to sit here and absorb that kind of cost. So, we will get it but what I would say is we get it typically quicker in the performance coatings area. Sequentially, we will see both go up but we will see better on the performance coatings side.

Kevin McCarthy
Very good. Then as a follow-up on industrial, Michael, you had good sales growth and I thought the commentary sounded constructive yet your margins were down 70 basis points year-over-year. I suspect the issue is what you just alluded to. I think you had -1 on price as I understand it. Perhaps you could just elaborate more on whether and when you might be able to get above the water line there and get it to zero or +1.

Michael McGarry
Kevin, I always give the guidance that it takes six to nine months for the Company, so you probably should assume 9 to 12 months in that segment because it's a little harder to get it, but we will get it. I just think it takes a little bit longer. But it is being offset significantly by manufacturing performance and good cost control across the Company, so when you look at it that has helped us a lot.

Kevin McCarthy
Okay. Thank you very much.

Operator
The next question will be from Michael Sison of KeyBanc. Please go ahead.

Michael Sison
Hey guys, nice quarter.

Michael McGarry
Thank you.

Michael Sison
In terms of performance coatings, when you think about the positives you've seen thus far and some of the negatives, when do you think some of the growth can outweigh sort of the negatives in marine and generate some volume and growth this year?

Michael McGarry
Well, if you assume that marine touches bottom and starts not having any further negatives, that puts you one or two quarters out on marine. I would tell you that the rest of the segment is in

pretty good shape. Aerospace may be flat to slightly up, but refinish is continuing to do well. The distracted driving has helped. The miles driven has helped. Employment being up helps. All that leads to congestion on the roads, so the rest of the segment is in pretty good shape.

Michael Sison
Great. Then for industrial coatings, you've had a couple of quarters now of solid volume growth and industrial production generally has been kind of sluggish and it sounds like we're kind of seeing things pick up a little bit. Could you expect that volume growth maybe even get better in the next couple of quarters?

Michael McGarry
I'm not putting a big bulls-eye on that. Again, we see a lot of optimism but we haven't seen the order book do that. Our outperformance in that segment has really been driven by technology and also because of sheer growth due to good performance of the teams. I guess I'll temper your optimism for now and let's hope that you're right.

Vincent Morales
Globally, Mike, we do—we have, as Michael mentioned in his prepared remarks some very hard comps coming up. We had mid single digit growth in a lot of these businesses; now we're starting to lap some of that, so again, for our numbers in particular the comps are a little bit harder but we still feel good about where we sit technology-wise.

Michael Sison
Great. Thank you.

Operator
The next question will be from Dmitry Silversteyn of Longbow Research. Please go ahead.

Dmitry Silversteyn
Good afternoon. Thanks a lot for taking my call. A lot of my questions have been answered but I'd just like to follow-up on Mike's last question on general industrial. Can you talk a little bit more, provide a little bit more detail either by product types like coil coatings or powder coatings or regions or end markets where sort of what are the good guys and what are the bad guys? Where do you see growth in market share gains and where things are still so sluggish even with your technology driving market share gains you're still a little but under water year-over-year?

Michael McGarry
Dmitry, the segments, the subsegments that are doing well, automotive parts doing well, electronic materials doing well; transportation, general finishes, appliances. The encouraging one for us is heavy duty equipment. It's up. Now, that's a combination of share gain plus that's coming off the floor. So I think that's all good.

The segments that are kind of not doing as well, the extrusion market, the wood market, the coil market, those are some of the segments that are not as robust.

But, globally, we had a really outstanding performance across all the world. I mean whether it's Asia, Latin America, Europe, our industrial coatings segment team has been doing an outstanding job and I want to compliment them on that.

Dmitry Silversteyn
Okay, Mike. Thank you. Then my second question, just sort of in the context of a strong

contract to market, and you guys saw very strong growth in your stores and your competitor—we had a conference call earlier this morning—also mentioned very strong growth. Why is that not being reflected in the dealer channel? I mean is the share of losses for them so great that they just can't offset even a mid-single-digit improvement in what looks like a 'do it for me' market in the first quarter?

Michael McGarry
Well, I think our friends in Cleveland and us provide more value, more locations, more service and so when there is an opportunity for another incremental sale, the two of us are probably getting more than our fair share in that segment because of what we both offer to the marketplace.

Dmitry Silversteyn
Okay. All right, so it sounds like it's as much execution as it is the market that's driving these stronger sales for company-owned stores for you and the Cleveland company.

Michael McGarry
Correct.

Dmitry Silversteyn
Okay. Thank you very much. That's all the questions I had.

Michael McGarry
Thank you, Dmitry.

Operator
The next question will come from Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander
Good morning. Sorry, good afternoon. Do you have, with the strengths that you're seeing in orders and the number of your markets that are now running in expansionary mode and you're coming in above the market trends, do you think if raw materials roll over you'll be able to retain more of that rather than pass it through to the customers?

Michael McGarry
Well, we always work collaboratively with our customers so we don't try to over-recover. We try to be exactly what the market's going on, but what I would tell you is that we have expectations for productivity, we have expectations for manufacturing efficiency, we have expectations on our sustainability initiatives where we're less energy consumed, less waste, so there's opportunities to continue to improve the margins. But from the raw materials side, typically we ask for what we're having to absorb.

Vincent Morales
Laurence, if I could add, we are working on reformulation as we typically do in an inflationary environment, so not only are we working with our customers on price, we're trying to engineer some of this out as well so we wont' have to go as forcefully to our customers, so we're working on the technology side as well.

Laurence Alexander
Can you give a bit more granularity around the strength in automotive refinish volumes in US/Canada and Latin America? Particularly any sense as to whether that—how sustainable that

should be.

Michael McGarry
Yes. So the market in the US is the strongest globally. Latin America would be next followed by Europe and Asia Pacific. We do think these are sustainable trends. They expanding car park is a reality and expanding miles driven is a reality, so some of the other things I talked about earlier. I think that's going to continue. Plus, in that segment you also have commercial transport. So the fact that the economy is trending up, you're going to have more big trucks built so that's a positive for us as well.

Laurence Alexander
Okay. Thank you.

Vincent Morales
Thank you, Laurence.

Operator
The next question will come from PJ Juvekar of Citi. Please go ahead.

PJ Juvekar
Yes, good afternoon.

Vincent Morales
How are you doing, PJ?

PJ Juvekar
In 2011 when TiO2 prices spiked last, I think (inaudible) was most aggressive in sort of sourcing TiO2 from China and also reformulating your paint. Given that you've already done that, what can you do now as TiO2 prices begin to go up again?

Michael McGarry
PJ, I would tell you that that is a never ending quest for us now. We are constantly looking at how do you reformulate that? How do you use other extenders? How do you work with your customers on formulations that reduce the need for TiO2? So, we're certainly not going to have—we've taken about 10% since 2011, so it's harder but it's not impossible.

Vincent Morales
PJ, we don't think that we're on the same, anywhere near the same trajectory in the TiO2 market. We are seeing inflation there. That inflation, the years you mentioned, was 100% inflation. Again, we're seeing inflation. We need to price but it's not of that same level.

Michael McGarry
And I would tell you, I would add, PJ, that the TiO2 companies I think regret what happened because that took so much demand out of the marketplace and my guess is they won't make that mistake again.

PJ Juvekar
Thank you. That's clear. Michael, when you took the job, organic growth was your priority, but reality is that the economies are not growing and I would say your organic growth has been between 1% to 2%. Is that what's really driving PPG towards big M&A?

Michael McGarry
No, I would not say that's the case at all. What I would say is acquisitions have historically always made a better return than buying back shares. As you know, this coatings franchise continues to throw off a lot of consistent cash flow and we consistently integrate companies very well and we can capture those synergies very well. We have a proven track record of more than 50 acquisitions in the last 10 years. We have a playbook that is well understood within the Company, and for us, this just makes perfect sense so we're going to continue down this path.

PJ Juvekar
Thank you.

Michael McGarry
Thank you, PJ.

Operator
The next question will be from Jim Sheehan of SunTrust Robinson Humphrey. Please go ahead.

Jim Sheehan
Thank you. A question on your comments on national retail accounts. You described that qualitatively as mixed but it does sound like that may be a little bit better than your competitor did, and I'm just wondering are your brand initiatives gaining traction there or are you seeing some type of inventory adjustments that would cause you to be outperforming peers in that category?

Michael McGarry
Well, I can't comment on what my friends said because I had our Annual Shareholder Meetings the exact same time as they were making their comments. But what I would tell you is our commentary is pretty specific and we would just stay with that.

Vincent Morales
Jim, we don't feel there's a performance gap, us versus market. Again, we recognized last year as an industry this was a slower growing channel and this first quarter was a continuation of that. Albeit again it is the very beginning of the paint season, we certainly hope and are working with our national customers to help and perk that channel up as much as possible, hopefully at or above market. We just haven't seen that at this point.

Michael McGarry
Maybe I'll add to that, Jim. What I said earlier was the average median income of the person walking into the big boxes, let's call it $45,000. They can't all be sold premium paint, and every time you let somebody walk out of those big boxes without a can of paint when you could have sold them the $20 or $25 can of paint, that's a loss, and I think that's where we're trying to encourage all our retail partners is don't let people walk out. Anybody who walks in, walks up to that chip rack, make sure they walk out with somebody's can of paint.

Jim Sheehan
Great. Then on the aerospace subsegment, you talked about the airplane makers not getting their act together. Can you talk a little bit about how you see trends shaping up there? That's obviously not going to persist forever. Do you see any kind of modest acceleration happening in the next couple of quarters in aerospace?

Michael McGarry
No, we don't see any change. If you look at it, Boeing's orders—deliveries, excuse me—were actually down seven quarter-over-quarter; Airbus's were up 11, so a net change of four. Backlog for both of them are in excess of seven or eight years so we haven't seen that acceleration.

I would tell you that the business jet market though is getting—got to get near the bottom. It was the lowest—in 2016 was the lowest since 2004. So I would say that there's probably likely recovery coming in that market. That's probably—plus we know military is definitely coming back.

So you've got military probably going to get better, you've got general aviation. You've got a lot of miles being flown by the major carriers, so that's a positive. There's actually more positive trends than negative. It just hasn't manifested itself in new planes being built.

Jim Sheehan
Thank you.

Vincent Morales
Thanks, Jim.

Operator
The next question will come from Vincent Andrews of Morgan Stanley. Please go ahead.

Male Speaker
Hi guys. This is (inaudible) on for Vincent. I was wondering if it's possible to quantify the headwind in industrial from the higher transportation and logistics costs?

Vincent Morales
Just as a reminder, last year it was well north of—last year for fourth quarter it was well north of $5 million. This year it was just south of $5 million, and as Michael said in his opening comments, we expect that to dissipate in Q2 so it'll be very low single digits in Q2.

Male Speaker
Then on the margin profile of the acquisitions in industrial, there was a comment in your slide deck there just saying they underperformed the segment average. I was wondering if you expect you that going forward or if this is more of a one-time dynamic.

Michael McGarry
No. Virtually every company we acquire has margins lower than the PPG margins. Virtually every company we buy within a year or two or three we get it up to PPG margins. We have a strong track record in doing that. So this is no different. We bought coating—MetoKote. We're bringing their margins up. They had a very nice first quarter but still below the company average. We bought Univer, the 50% of Univer we didn't own in Italy for architectural coatings. We're bringing that up. We bought the Romanian DEUTEK architectural company; a significant improvement. They have a great management team. We're very thrilled to have them join us. In fact, they have a long runway with those folks because they're talented people. So this is no different than we've seen anywhere else.

Acquire, improve, get to company average or exceed.

Vincent Morales
For those acquisitions, if I could add, again, the management team at MetoKote remains in play, because Michael mentioned the management team at DEUTEK remains in place, so we're very pleased to have these people as part of our organization.

Male Speaker
Great. So, gradual improvement but still lagging segment average through the balance of the year, likely?

Vincent Morales
Certainly for the balance of this year, yes.

Male Speaker
Great. Thanks guys.

Operator
The next question will come from Don Carson of Susquehanna Financial. Please go ahead.

Don Carson
Yes, thanks. A question on your heat map on Slide 5. You've got very divergent trends in automotive. In refinish you're growing above an expanding market; in OEM you're growing below a declining market. I'm just wondering about sustainability of those trends, and specifically what's happening in automotive OEM. Then, the refinish growth, is that sort of distribution driven, that you're getting share at MSOs and sort of taking share from second tier producers, or is it more product driven?

Michael McGarry
Well, in refinish we are definitely gaining share. There's two of us that are consistently gaining share in that market. As far as the dichotomy between the growth rates, they're two different markets really, so let's start with automotive. In the automotive market we said globally demand builds would be up 1% to 2%, probably closer to 2%, but it varies by area. So US sales we said plateaued, but builds are going to be down marginally. In Europe, we see Western Europe builds are growing; that's continuing, but I would say in the other parts of Eastern Europe probably not as robust. Latin America, getting better, and China, people always are nervous about China. We remain constructive on China. January sales were down, February was up, March was up. We think people are going to get used to this tax not being—tax abatement not being there. It's the most important thing for people that you want a status symbol to own a car in China, so we think demand will continue to grow. India is going to grow more than 7%.

Overall, it's going to be a solid market. Not as good as last year; last year grew more than 3%, but overall still a good market.

Vincent Morales
Don, if you summarize what's happening our positions versus the market, generally in the highest growth markets we're outperforming the industry. In the markets that are shrinking, they're the ones where we're not performing; we're performing at or below industry.

So, again, we positioned ourselves well in the growing markets.

Don Carson
Okay. Thank you.

Operator
The next question will be from Mike Harrison of Seaport Global Securities. Please go ahead.

Mike Harrison
Hi and good afternoon. Just to continue on the auto OEM question, you've discussed the reasons in past that are driving your below market growth in North America and talking about some of the reallocation of resources to drive growth in other regions, in other faster growing regions. Can you talk though about when you would expect to see US and Canada get to at-market growth, and is there any point in the near future where you could see allocating resources to gain new wins with auto OEM customers in North America?

Michael McGarry
Sure, Mike. This is Michael. The way I would think about that is we should start to lap some of these loss of market share in the US late in the third quarter, early in the fourth quarter, and then so first quarter of next year we should start outperforming industry in the US and Canada, and given the fact that we already outperform the other three regions, and globally we outperformed, this will put us back on a very, very solid track on the automotive market globally.

Mike Harrison
Then wanted to also ask just on the MetoKote business, you referenced that as a business that was below average margin but starting to improving. Can you just talk about how that integration process is going? I know that that coatings services business is a little bit of a step-out for you guys. How is that business model working for you and for your customers?

Michael McGarry
Well, it's a very small business when you look at it versus all the PPG. Their sales in the first quarter were up 11% year-over-year, so I would say it's performing well. Margins were up year-over-year.

I would tell you that they have had two significant wins. They had a nice win with somebody in the electric vehicle market. That was a very good win. They also had some nice equipment sales. The beauty about the equipment sales is that they were able to bring our industrial coatings team along with them and provide a total services solution to this customer. We have another large customer in the industrial space that wants to get out of the painting of parts business and they asked us if we would combine our traditional paint business with the coating services. So, I think there's more opportunities to integrate this and become a seamless part of our product offering to our customers.

Mike Harrison
Thank you very much.

Vincent Morales
Thanks, Mike.

Operator
The next question will come from Arun Viswanathan of RBC Capital Markets. Please go ahead.

Arun Viswanathan
Great. Thanks guys. So I just had a question on general industrial. Are you guys seeing—you know, trends, you talk about heavy duty improving and some of the other markets. Are you

guys seeing a noticeable uptick incrementally, sequentially from Q4 to Q1? Do you expect that to continue through the year? Maybe if you just parse it out by region?

Vincent Morales
Arun, as Michael mentioned, this sector is coming really off the floor, so we're seeing a gradual recovery. We would hope at some point if the—we talk a lot about infrastructure politically. If there's benefits there that will come slowly. By region, we didn't see the same significant drop in Asia that we did see in the US and European region a couple of years ago, so that has been a little more steady. Again, in Europe, we're mirroring the US but not in the same volatile pattern of a couple of years ago.

Arun Viswanathan
All right, thanks. Just on the M&A front, you talked about still pursuing other potential targets in your pipeline. Could you characterize how large those are and if there's any benefits to doing small bolt-ons versus continuing to pursue a large acquisition like Akzo? Thanks.

Vincent Morales
Yes. I'll take that. We remain interested in consolidating the space. We've had and continue to have active discussions. The pipeline, I think as people realized the past 18 months remains active, and we're certainly interested in continuing dialogue with all the parties. As we did last year with MetoKote, DEUTEK, as Michael mentioned, et cetera, have room in our portfolio when these enhance shareholder value.

Arun Viswanathan
Just one more if I may. Would you be able to characterize how much of your portfolio you think is market dependent, improving? In the past you said that Europe recovery would be very beneficial to you guys. Is that still the case? Any other comments around what you guys are looking for to really start to see your organic volume growth improve? Thanks.

Michael McGarry
Yes, I would say the European performance, any time we have new sales or higher sales in Europe, we drop 30% to 40% of that incrementally to the bottom line. That's our best place. If we're going to choose a place to have growth that would be it. The US would be next and then Asia, you know, because we are sold out in Asia, that's the place that we continue to add capacity.

So, preferentially we're very strong in Europe but we're not ashamed to take growth anywhere and the teams are expected to grow everywhere and around the world.

Arun Viswanathan
Thank you.

CONCLUSION

Operator
Ladies and gentlemen, that concludes our question and answer session. I would like to hand the conference back over to Scott Minder for his closing comments.

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 our Investor Relations Department. This concludes our First Quarter

2017 Earnings Call.

Operator
Thank you. Ladies and gentlemen, at this time the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.