PPG Industries, Inc. Second Quarter 2017 Financial Results

Earnings Brief – July 20, 2017



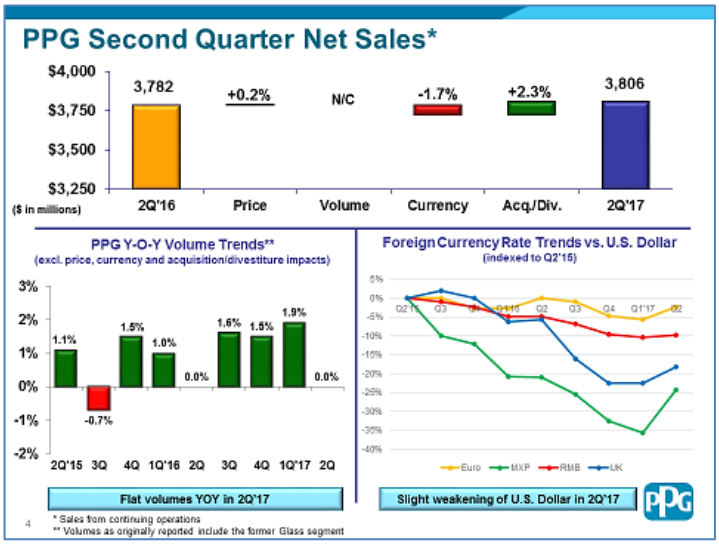
Second Quarter Financial Highlights

Net sales for the second quarter 2017 were $3.8 billion, increasing about 1 percent versus the prior year. Aggregate year-over-year net sales volumes were flat, with results differing by region and business unit. Selling prices improved slightly versus the prior year and in comparison to recent sequential quarters, reflecting initial efforts to offset raw material cost inflation. Additional sales price initiatives are underway for the second half of 2017. Acquisition-related sales contributed 2 percent to the year-over-year net sales growth, while unfavorable foreign currency translation reduced sales by less than 2 percent. More in-depth sales comparisons for the total company and each reportable business segment are included in the subsequent presentation materials.

Adjusted earnings per diluted share from continuing operations of $1.83 increased by 6 percent versus the prior year. This growth was achieved despite notable raw material cost inflation and continued unfavorable foreign currency translation. These headwinds were offset by aggressive manufacturing and overhead cost management, including further benefits from the Company's restructuring program announced in late 2016. The Company remains on pace to achieve targeted full year 2017 restructuring savings of $40 -to- $50 million. Acquisitions completed within the past 12 months, along with corresponding synergy achievement, also contributed to the year-over-year EPS growth.

The Company has maintained a strong balance sheet with cash and short-term investments at period end of approximately $1.6 billion. The Company announced today that it now expects its cash deployment for years 2017 and 2018 combined, to be a minimum of $3.5 billion. The Company indicated it is resuming its share repurchase program in the third quarter 2017.

All periods presented have been recast to present sales and the results of operations of PPG's former Glass segment as discontinued operations.



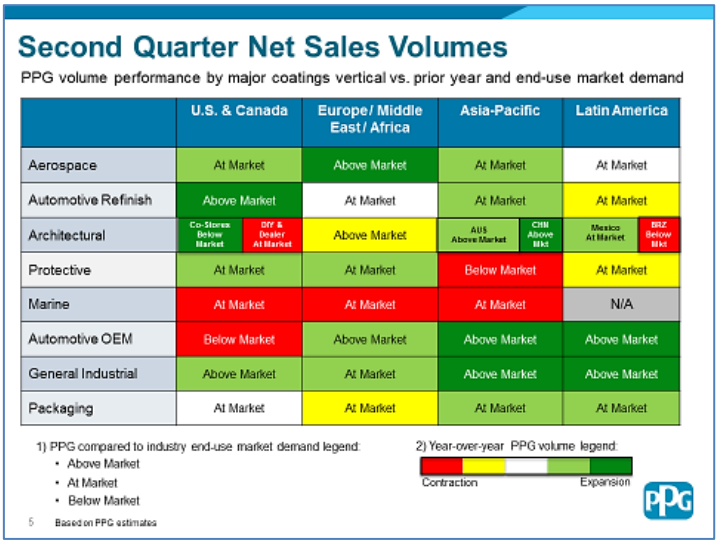
PPG Second Quarter Net Sales

Second quarter net sales were $3.8 billion, up about 1 percent versus the prior year, including unfavorable foreign currency translation of about $65 million, or nearly 2 percent. Sales volumes were flat year-over-year, while selling prices improved slightly. The increase in selling prices reflect efforts to offset significant raw material cost inflation, and the Company's year-over-year selling price trend has improved for two consecutive quarters. Additional pricing initiatives are underway for the second half of 2017.

Sales volumes were flat year-over-year, but results differed by region and business unit, as will be detailed later in the presentation materials. In 2017, the Easter holiday shifted into the second quarter, resulting in fewer selling days and adversely impacting second quarter year-over-year volume growth. The Company benefitted from additional selling days in the first quarter due to this shift. The fewer selling days primarily impacted coating end-use markets that are heavily retail or distribution dependent, with modest to no impact on industrial or original equipment manufacturer end-use markets.

In the quarter, sales from acquisitions added more than 2 percent to net sales year-over-year. The MetoKote acquisition reached its one year anniversary at the end of the second quarter; therefore, sales for this business will no longer be classified as acquisition-related beginning in the third quarter.

Foreign currency translation remained a significant headwind stemming from year-over-year weakness in several currencies versus the U.S. dollar. Most notably, and accounting for a majority of the unfavorable impact, were the Mexican peso, British pound, Chinese Yuan and the euro. These headwinds are expected to moderate in the third quarter based on current exchange rates.



Second Quarter Coatings Net Sales Volumes

In aggregate, year-over-year sales volumes were flat.

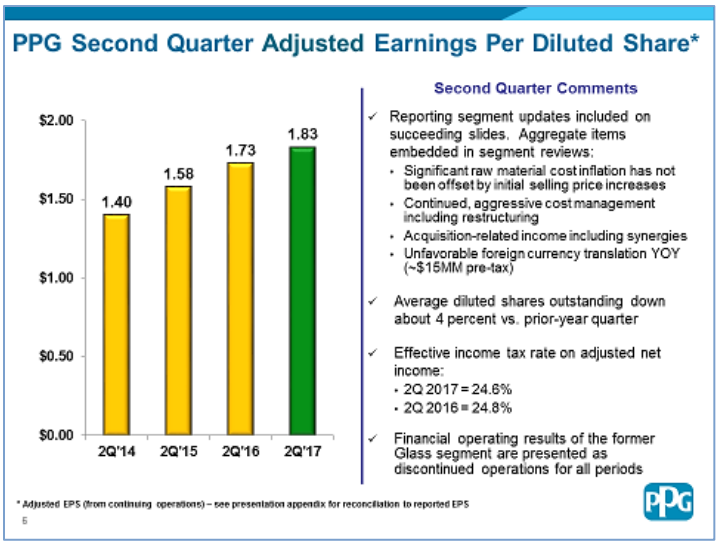
In the U.S. and Canada, PPG's sales volumes were down slightly versus the prior year, including the effects from the macro regional impacts of lower auto industry production along with fewer selling days due to the timing of the Easter holiday. In contrast to PPG's

estimates of projected coatings industry end-use market demand, the Company's regional volume performance was mixed. Strong above market outperformance continued in general industrial coatings due to customer adoption of key PPG technologies, coupled with above regional market growth in aerospace and automotive refinish. PPG sales volumes were below market in automotive original equipment manufacturer (OEM) coatings, although the Company outperformed the industry rates, on a global basis. PPG sales volumes were also below market in architectural coatings, including the unfavorable effects from the Company's channel mix where the national accounts (DIY) and independent dealer channels currently are not achieving the same growth trajectory as the professional/trade channel.

Overall sales volumes were flat in the Europe, Middle East and Africa (EMEA) region versus the prior year primarily due to the unfavorable impact of the Easter holiday shift. Automotive OEM, Aerospace and architectural coatings all delivered volumes above projected market demand in the region. Packaging coatings volumes were at market, including the effect of a difficult prior year comparison, when the business grew volumes by a high single-digit percentage based on customer adoption of new technologies.

In Asia-Pacific, sales volumes expanded by a mid-single-digit percentage year-over-year led by continued strong performance in automotive OEM and general industrial coatings along with solid growth in architectural coatings, partly offset by industry-related declines in marine coatings demand. From a country and sub-region perspective, and similar to the prior quarter, sales volumes grew in India, China and Southeast Asia versus the prior year. Korea remained in decline year-over-year primarily due to continued weakness in shipbuilding.

Latin America sales volumes expanded by a low-single-digit percentage versus the prior year primarily due to above-market year-over-year growth in automotive OEM and general industrial coatings, partly offset by declines in automotive refinish.



PPG Adjusted Earnings Per Diluted Share

Second quarter adjusted earnings per diluted share from continuing operations of $1.83 increased by 6 percent versus the prior year.

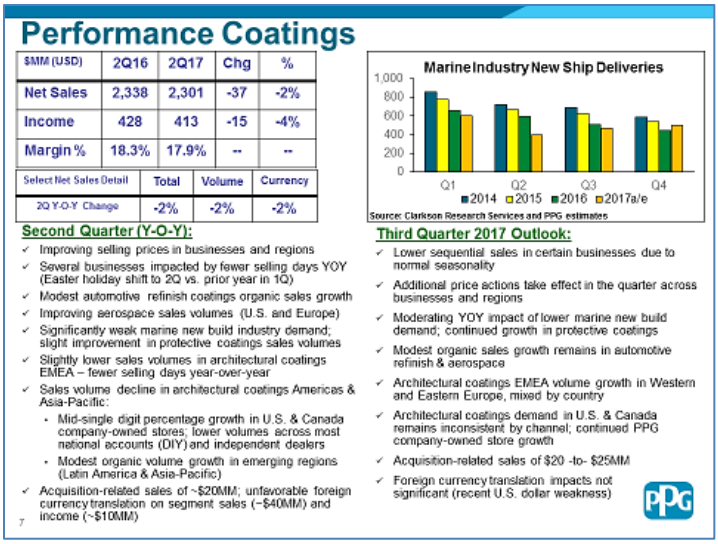
Financial results from each reportable business segment are provided in subsequent slides and other presentation materials. The key factors impacting earnings per diluted share growth were:

- Initial selling price increases were implemented in various businesses but didn't fully address raw material cost inflation. Further selling price actions are underway.

- The Company has continued to aggressively manage manufacturing and overhead costs, including benefits from restructuring
- Despite recent U.S. dollar weakness, foreign currency translation continued to unfavorably impact financial results
- Cash deployment continued to aid adjusted earnings-per-diluted-share growth, including income stemming from recent acquisitions. In addition, the average number of shares outstanding decreased approximately 4 percent year-over-year as a result of share repurchases.

As a reminder, all periods presented have been recast to present sales and the results of operations of PPG's former Glass segment as discontinued operations.

The second quarter adjusted effective tax rate was 24.6%, decreasing modestly from 24.8% in the prior year. Including the effect of the recast of the Glass segment results, the company anticipates its full year effective tax rate on ongoing earnings from continuing operations will be between 24.5 percent and 25.0 percent.



Performance Coatings

Second quarter Performance Coatings segment net sales were $2.3 billion, down $37 million versus prior year, or about 2 percent, primarily due to the unfavorable impact from foreign currency translation of about $40 million, or 2 percent. Sales from the DEUTEK and Univer acquisitions added approximately $20 million, and segment selling prices increased to reflect partial recovery of raw material cost inflation. Sales volumes were down 2 percent compared to the prior year.

Segment income of $413 million declined by $15 million year-over year, or about 4 percent, primarily due to significant raw material cost inflation and lower volumes, partly offset by disciplined cost management actions, including further benefits from the Company's 2016 restructuring program. Unfavorable foreign currency translation reduced segment income by approximately $10 million versus the prior year primarily due to the Mexican peso, British pound and euro.

From a business unit perspective, automotive refinish coatings organic sales growth continued year-over-year, led by above-market performance in the U.S. and Canada and solid performance in the EMEA regions. We expect these general trends to continue in the third quarter.

Aerospace sales volumes grew by a low single-digit percentage in the quarter. This growth is due to higher customer use of key PPG technologies and the absence of customer

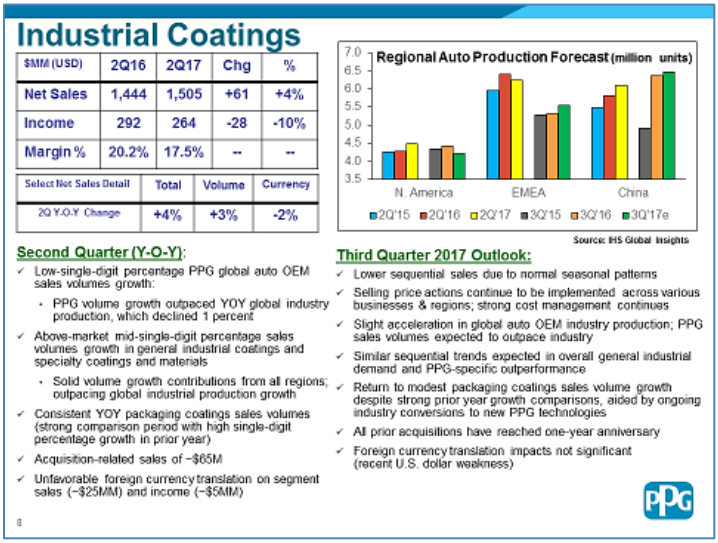
inventory management, which negatively impacted several previous sequential quarters. We anticipate similar industry demand patterns in the third quarter.

Architectural EMEA sales volumes declined by a low-single-digit percentage year-over-year primarily due to fewer selling days versus the prior year quarter. Average daily sales per available selling day improved by a low-single-digit percentage in the second quarter versus last year. In addition, selling prices improved based on various pricing initiatives implemented during the quarter. Looking ahead, we expect continued modest demand growth in Western Europe and a slight improvement in Eastern Europe, but lower sales sequentially due to normal business seasonality.

Architectural coatings Americas and Asia-Pacific sales volumes declined by a low single-digit percentage in the second quarter versus the prior year, including effects from fewer selling days in the quarter versus the prior year. In the U.S. and Canada we implemented initial selling price actions, and we plan further selling price initiatives in the third quarter. Sales volumes increased by a mid-single digit percentage in U.S. company-owned stores driven by higher professional/trade painting demand and marking the 6th consecutive quarterly improvement versus prior year. These gains were offset by sales volume declines in the U.S. and Canada independent dealer network and mixed results in national retail (DIY) accounts. Organic sales improved in Latin America and Asia-Pacific. We expect overall demand to remain generally consistent in each region in the third quarter, with lower sales seasonally in North America.

During the second quarter, sales volumes declined in protective and marine coatings versus the prior year, with low double-digit percentage declines in marine coatings partly offset by modest protective coatings sales volume expansion. Looking ahead, we anticipate a moderating unfavorable impact from the marine coatings sub-segment as we begin to reach the anniversary of the bottoming of industry demand in the marine new-build end-use market. Modestly positive protective coatings demand is expected to remain in the third quarter, with differences by region. Selling price actions are planned in protective coatings in the second half of 2017.

In the third quarter, acquisitions are expected to add $20 million to $25 million to segment sales and, based on current exchange rates, including recent U.S. dollar weakness, we expect that foreign currency translation will not have a significant impact on segment sales or income.



Industrial Coatings

Second quarter net sales for the Industrial Coatings segment were $1.5 billion, up $61 million, or 4 percent, versus the prior year. Segment sales

volumes increased by about 3 percent, and acquisition-related sales contributed an additional 4 percent, or about $65 million. Unfavorable foreign currency translation impacted net sales by approximately 2 percent, or about $25 million. Aggregate selling prices were lower for the segment in the second quarter, thus unfavorably impacting net sales.

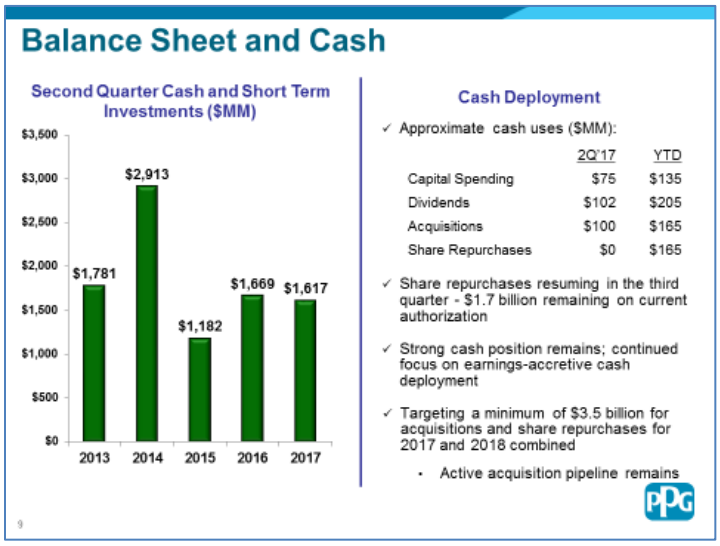
Segment income in the second quarter of $264 million was down $28 million, or about 10 percent year-over-year, including a $5 million unfavorable impact from foreign currency translation. Segment income was affected by raw material cost inflation and lower selling prices, partly offset by the favorable effects of higher sales volumes and lower manufacturing and overhead costs, including benefits from business restructuring. Additionally, segment income benefitted from acquisitions, including the realization of targeted synergies.

By business unit, sales volumes increased by a low single-digit percentage in automotive OEM coatings versus the prior year, despite global auto industry production declining by about 1 percent in the quarter. PPG's above-market performance was aided by customer pull of key technologies and our geographic mix of sales as we remain well positioned in higher growth regions. Industry production is anticipated to return to growth of about 1 percent globally in the third quarter, with declines in the U.S. and Canada and growth in other major regions.

In aggregate, industrial coatings and specialty coatings and materials sales volumes increased a mid-single-digit percentage year-over-year. These PPG gains were led by emerging region growth, but solid at -or- above industry growth also occurred in developed regions. Within the businesses, sales volumes grew across many sub-segments, including year-over-year increases in electronics materials, heavy duty equipment and organic light emitting diode (OLED) materials. Looking ahead, we expect continued moderate industrial end-use market demand growth trends, with ongoing variability by geography and sub-sector. We also expect PPG's market outperformance to continue.

Packaging coatings sales volumes were flat year-over-year, reflecting a comparison to strong high single-digit percentage growth in the prior year period. Prior to this quarter, PPG has delivered above-market growth in this business for 10 consecutive quarters, based on customer adoption of PPG's new can coatings technologies. Going forward, we expect incremental, above-market volume growth from further customer adoption of our technologies.

Acquisition-related sales from MetoKote added approximately $65 million in the second quarter. Going forward, these sales will no longer be classified as acquisition-related as the acquisition reached its one-year anniversary in July 2017. Also, based on current exchange rates, including recent U.S. dollar weakness, we expect that foreign currency translation is expected to only have a minor effect to segment sales and income.



Balance Sheet and Cash

PPG ended the second quarter with $1.6 billion in cash and short term investments.

Approximate cash uses in the second quarter and year-to-date are as follows:

- Capital expenditures totaled about $75 million for the second quarter and about $135 million year-to-date. The Company anticipates capital spending to be about 3.0 percent of sales for the full-year.
- Dividends paid were $102 million in the second quarter and $205 million year-to-date.
- Acquisition-related cash deployment was $100 million for the quarter and about $165 million year-to-date.
- No shares were repurchased in the second quarter, with year-to-date repurchases of about $165 million, or about 1.6 million shares. As of June 30, 2017, the Company had about $1.7 billion remaining under its current share repurchase authorization. The Company is resuming repurchases in the third quarter.

The Company provided an initial cash deployment target for years 2017 and 2018 combined in the range of $2.5 -to- $3.5 billion for acquisitions and share repurchases. The Company now anticipates spending a minimum of $3.5 billion over that same time frame.

Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.
Contact Information:

Investors:
John Bruno – +1.412.434.3466

Media:
Mark Silvey - +1.412.434.3046

Adjusted EPS Reconciliation

2nd Quarter Reporting Period

	Continuing Operations		Discontinued Operations		Total PPG	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
Second Quarter 2017						
Net Income Attributable to PPG as Reported	$ 504	$ 1.95	$ (3)	$ (0.01)	$ 501	$ 1.94
Transaction-related costs	3	0.01	–	–	3	0.01
Gain from the sale of the Mexican Plaka business	(24)	(0.09)	–	–	(24)	(0.09)
Income from a legal settlement	(11)	(0.04)	–	–	(11)	(0.04)
Adjusted Net Income Attributable to PPG	$ 472	$ 1.83	$ (3)	$ (0.01)	$ 469	$ 1.82
Second Quarter 2016						
Net Income Attributable to PPG as Reported	$ 339	$ 1.25	$ 31	$ 0.12	$ 370	$ 1.37
Transaction-related costs	4	0.02	1	–	5	0.02
Asset write-down	8	0.03	–	–	8	0.03
Gain from the sale of an equity affiliate	(13)	(0.05)	–	–	(13)	(0.05)
Net tax effect of asbestos settlement funding	128	0.48	–	–	128	0.48
Adjusted Net Income Attributable to PPG	$ 466	$ 1.73	$ 32	$ 0.12	$ 498	$ 1.85
Second Quarter 2015						
Net Income Attributable to PPG as Reported	$ 311	$ 1.14	$ 26	$ 0.09	$ 337	$ 1.23
Transaction-related costs	15	0.05	–	–	15	0.05
Business restructuring charge	105	0.39	1	–	106	0.39
Adjusted Net Income Attributable to PPG	$ 431	$ 1.58	$ 27	$ 0.09	$ 458	$ 1.67
Second Quarter 2014						
Net Income Attributable to PPG as Reported	$ 386	$ 1.38	$ –	–	$ 386	$ 1.38
Pension settlement charge	3	0.01	–	–	3	0.01
Transaction-related costs	2	0.01	–	–	2	0.01
Adjusted Net Income Attributable to PPG	$ 391	$ 1.40	$ –	–	$ 391	$ 1.40
Second Quarter 2013						
Net Income Attributable to PPG as Reported	$ 315	$ 1.08	$ 26	$ 0.09	$ 341	$ 1.17
Transaction-related costs	13	0.05	2	0.01	15	0.06
Adjusted Net Income Attributable to PPG	$ 328	$ 1.13	$ 28	$ 0.10	$ 356	$ 1.23

Amounts in Millions of USD except EPS

11

Regulation G Reconciliation

Three Months Ended June 30, 2017	Income Before Income Taxes	Tax Expense	Effective Tax Rate
Effective tax rate, continuing operations	**$671**	**$162**	**24.1%**
Transaction-related costs	5	2	37.9%
Gain from the sale of Mexican Plaka business	(25)	(1)	3.2%
Income from a legal settlement	(18)	(7)	37.9%
Adjusted effective tax rate, continuing operations	**$633**	**$156**	**24.6%**

Three Months Ended June 30, 2016	Income Before Income Taxes	Tax Expense	Effective Tax Rate
Effective tax rate, continuing operations	**$630**	**$285**	**45.2%**
Transaction-related costs	6	2	37.6%
Gain from the sale of an equity affiliate	(20)	(7)	37.6%
Net tax effect of asbestos settlement funding	-	(128)	N/A
Asset write-down	10	3	25.0%
Adjusted effective tax rate, continuing operations	**$626**	**$155**	**24.8%**

12

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. This presentation contains forward-looking statements that reflect the Company's current views with respect to future events and financial performance. You can identify forward-looking statements by the fact that they do not relate strictly to current or historic facts. Forward-looking statements are identified by the use of the words "aim," "believe," "expect," "anticipate," "intend," "estimate," "project," "outlook," "forecast" and other expressions that indicate future events and trends. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward looking statement, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also, note the following cautionary statements:
Many factors could cause actual results to differ materially from the Company's forward-looking statements. Such factors include global economic conditions, increasing price and product competition by foreign and domestic competitors, fluctuations in cost and availability of raw materials, the ability to maintain favorable supplier relationships and arrangements, the timing of and the realization of anticipated cost savings from restructuring initiatives, difficulties in integrating acquired businesses and achieving expected synergies therefrom, economic and political conditions in international markets, the ability to penetrate existing, developing and emerging foreign and domestic markets, foreign exchange rates and fluctuations in such rates, fluctuations in tax rates, the impact of future legislation, the impact of environmental regulations, unexpected business disruptions and the unpredictability of existing and possible future litigation. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here and under Item 1A of PPG's 2016 Form 10-K is considered representative, no such list should be considered to be a complete statement of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles to the realization of forward-looking statements. Consequences of material differences in the results compared with those anticipated in the forward-looking statements could include, among other things, lower sales or earnings, business disruption, operational problems, financial loss, legal liability to third parties, other factors set forth in Item 1A of PPG's 2016 Form 10-K and similar risks, any of which could have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.
All of this information speaks only as of July 20, 2017, and any distribution of this release after that date is not intended and will not be construed as updating or confirming such information. PPG undertakes no obligation to update any forward-looking statement, except as otherwise required by applicable law.