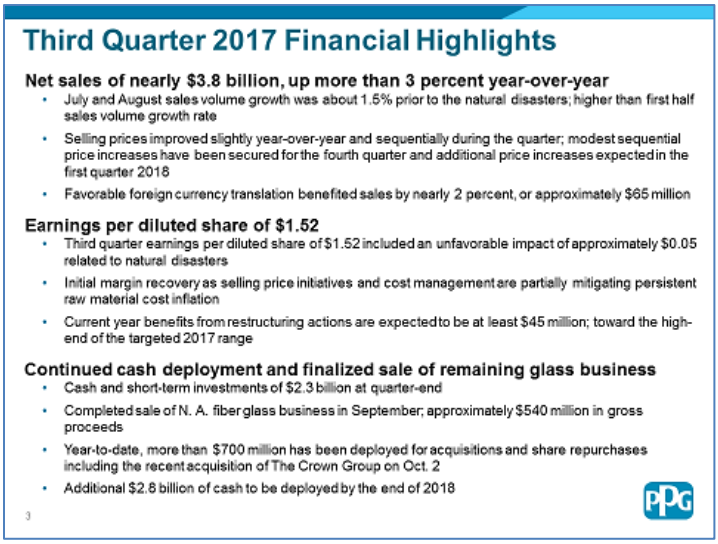
# PPG Industries, Inc. Third Quarter 2017 Financial Results

Earnings Brief – October 19, 2017



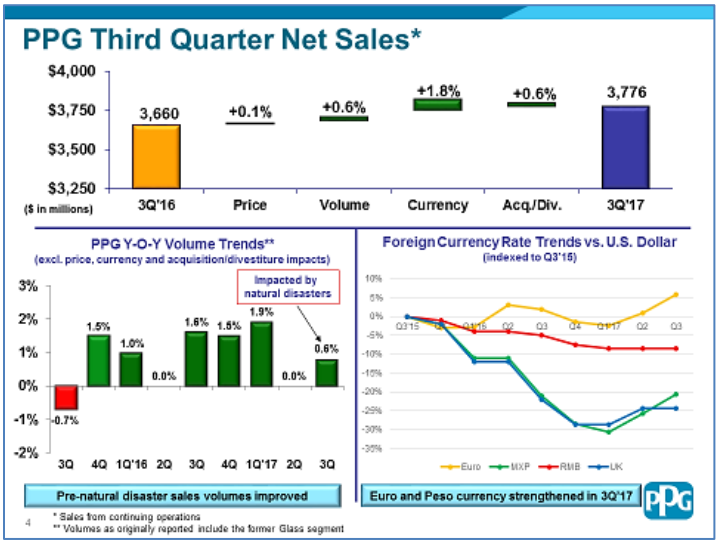

## Third Quarter Financial Highlights

Net sales for the third quarter 2017 were approximately $3.8 billion, increasing more than 3 percent versus the prior year. Sales volumes, including the unfavorable impact of natural disasters, grew about 1 percent. Prior to the natural disasters, PPG's quarterly volume growth was tracking ahead of the growth rate for the first six months of the year. Overall selling prices improved slightly versus the prior year, with all businesses in the Performance Coatings segment realizing increased selling price. Additional pricing initiatives are underway. The weakening of the U.S. dollar, especially to the euro and Mexican peso, resulted in favorable foreign currency translation which increased sales by about 2 percent. More in-depth sales comparisons for the entire company and each reportable business segment are included in the subsequent presentation materials.

Reported earnings per diluted share from continuing operations of $1.52 was up from the prior year reported loss, and was flat versus prior year adjusted earnings per diluted share from continuing operations, which excluded non-recurring pension settlement charges. Natural disasters unfavorably impacted third quarter 2017 earnings per diluted share by approximately 5 cents. Profit contribution margins as a percentage of sales declined 160 basis points year-over-year, or approximately 130 basis points excluding the impact of natural disasters. The third quarter margin compression was an improvement from the second quarter 2017 when the company's profit contribution margin compressed 210 basis points versus prior year quarter. Raw material cost inflation persisted as additional Chinese regulatory production curtailments took effect and multiple suppliers declared force majeure in Europe. These headwinds were partly offset by aggressive manufacturing and overhead cost management, including further benefits from the Company's restructuring program announced in late 2016. The Company completed additional restructuring actions and now expects to finish the year toward the upper end of the targeted full year 2017 restructuring savings of $40 -to- $50 million. Selling, general, and administrative expenses as a percentage of sales declined by more than 100 basis points year to date. Favorable foreign currency translation improved segment income by approximately $10 million.

The Company has maintained a strong balance sheet with cash and short-term investments of approximately $2.3 billion at quarter end. During the quarter, the company repurchased

$250 million of company stock and completed the purchase of The Crown Group on October 2. The Company plans to continue its share repurchase program in the fourth quarter 2017 and expects to deploy an additional $2.8 billion by the end of 2018.

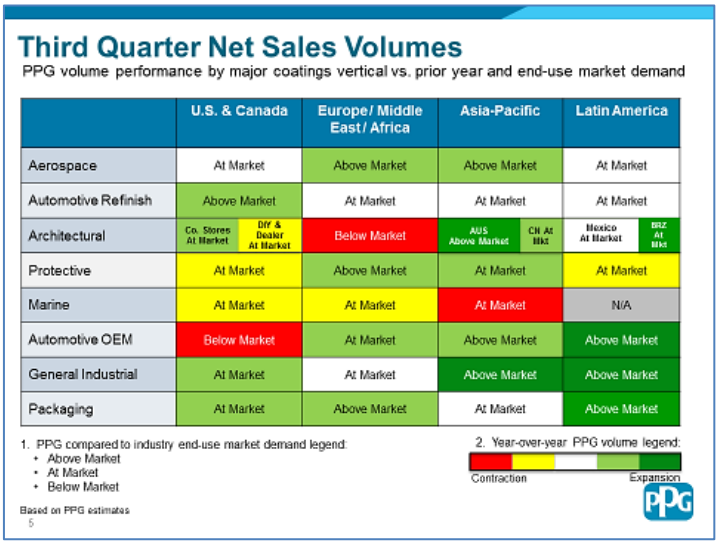



## PPG Third Quarter Net Sales

Third quarter net sales were approximately $3.8 billion, up more than 3 percent versus the prior year, including favorable foreign currency translation of about $65 million, or nearly 2 percent. Sales volumes grew almost one percent inclusive of the unfavorable impacts from the natural disasters. Sales volume growth was tracking sequentially higher in the third quarter compared to the first six months of 2017 prior to the natural disasters. Selling prices improved slightly which reflects efforts to offset significant raw material cost inflation. Pricing initiatives have continued to gain traction with modest increases in the third quarter and further improvement expected in the fourth quarter.

While the overall sales volumes exclusive of the natural disasters improved, the results differed by region and business unit, as will be detailed later in the presentation materials. PPG has a strong presence in all impacted areas, including more than 100 architectural coatings company-owned stores and approximately 1,600 concessionaire stores in Mexico. All impacted U.S. operations have re-opened; however, in Puerto Rico most company-owned stores remain closed.

In the third-quarter, the company had approximately $25 million of acquisition-related sales. Foreign currency translation was favorable year-over-year as several currencies strengthened against the U.S. dollar, most notably, was the euro and Mexican peso. The favorability is expected to continue into the fourth-quarter based on current exchange rates.




## Third Quarter Net Sales Volumes

In aggregate, year-over-year sales volumes were nearly 1 percent inclusive of the unfavorable impact from the natural disasters.

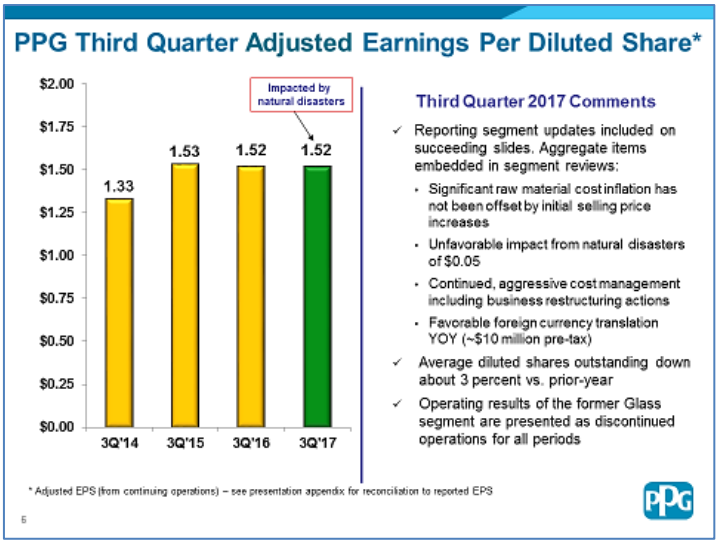
In the U.S. and Canada, PPG's sales volumes were slightly down versus the prior year, including the effects from the natural disasters and lower automotive OEM industry production. General industrial coatings sales volumes grew

a low-single-digit percentage year-over-year. Company-owned architectural coatings stores continued to perform well with mid-single-digit percentage sales growth inclusive of the unfavorable impact from the natural disasters, but was offset by continuing weak demand in the national retail (DIY) customers and independent dealer networks. Packaging coatings sales volumes were up a mid-single-digit percentage, reflecting continued adoption of PPG technology. Protective coatings sales volumes were lower year-over-year primarily due to disruption caused by the hurricanes.

Overall sales volumes were flat in the Europe, Middle East and Africa (EMEA) region versus the prior year primarily due to lower volumes in architectural coatings offset by modestly higher sales volume from the automotive OEM, packaging, aerospace, and protective coatings businesses. Automotive refinish, marine and general industrial coatings sales volumes were flat and in line with market.

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 growth in architectural coatings. From a country and sub-region perspective, and similar to the prior quarter, sales volumes versus the prior year grew in India, China and Southeast Asia and continued to decline in Korea.

Latin America sales volumes grew by a mid-single-digit percentage versus the prior year primarily due to low double-digit percentage sales volume growth in the Industrial Coatings segment businesses. Sales volumes in the Performance Coating segment businesses were level with the prior year.




## PPG Earnings Per Diluted Share

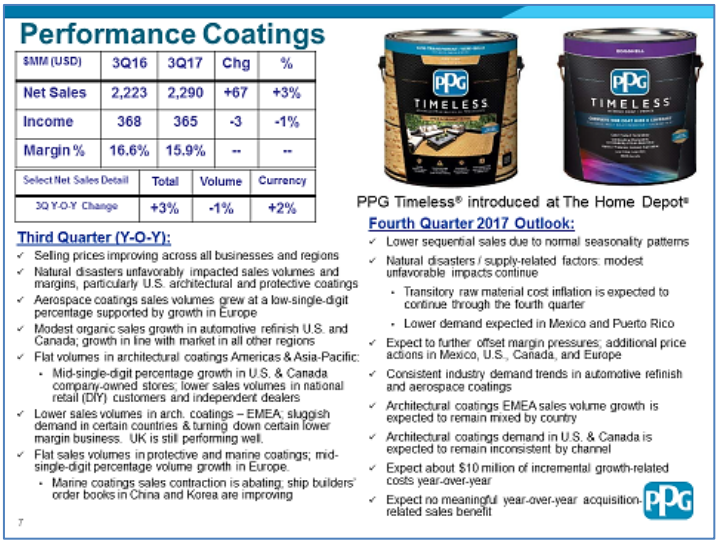
Third quarter earnings per diluted share from continuing operations was $1.52.

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

- Initial selling price increases were implemented in various businesses to partly offset mid-single-digit percentage raw material cost inflation. Additional selling price actions are underway.
- The Company has continued to aggressively manage manufacturing and overhead costs, including benefits from business restructuring actions. Year-to-date, the Company has lowered selling, general, and administrative costs by more than 100 basis points as a percentage of sales.
- U.S. dollar weakness resulted in favorable foreign currency translation primarily due to the euro and Mexican peso.

- Cash deployment contributed to earnings per share, including income stemming from recent acquisitions. The average number of diluted shares outstanding decreased approximately 3 percent year-over-year as a result of share repurchases.

The reported third quarter effective tax rate was 23.6%, decreasing from 24.4% in the prior year reflecting the year-to-date effect of a modestly lower expected annual tax rate than previously targeted. The Company anticipates its full year adjusted effective tax rate on ongoing earnings from continuing operations will be approximately 24.5 percent.




## Performance Coatings

Third quarter Performance Coatings segment net sales were approximately $2.3 billion, up $67 million, or 3 percent year-over-year, primarily due to higher selling prices and the favorable impact from foreign currency translation of more than $45 million, or 2 percent. Acquisition-related sales from the DEUTEK, Futian, and Univer transactions added approximately $25 million of sales. Natural disasters unfavorably impacted sales volumes by about 1 percent.

Segment income of $365 million declined by $3 million or about 1 percent year-over-year, primarily due to significant raw material cost inflation, partly offset by higher selling prices, disciplined cost management actions, including further cost savings from the Company's restructuring program, and favorable foreign currency translation primarily due to the euro and Mexican peso.

From a business unit perspective, automotive refinish coatings organic sales grew by a low-single-digit percentage year-over-year, led by above-market performance in U.S. and Canada, despite the impact of the natural disasters. Organic sales across the other regions were consistent with the market. We expect these general trends to continue in the fourth quarter.

Architectural coatings - Americas and Asia-Pacific sales volumes were flat versus the prior year, including the unfavorable impact from the natural disasters. In the U.S. and Canada, selling price actions were implemented, and further initiatives are planned in the fourth quarter. Sales volumes increased by a mid-single-digit percentage in U.S. and Canada company-owned stores, including the unfavorable impact from the hurricanes, and marked the 7th consecutive quarterly improvement. The increase in sales volumes were more than offset by sales volume declines in the U.S. and Canada independent dealer networks and mixed volume results in national retail (DIY) customer accounts, as both of these distribution channels continue to experience sluggish demand. Organic sales improved in both the Latin America and Asia-Pacific regions. Overall demand patterns are expected to remain

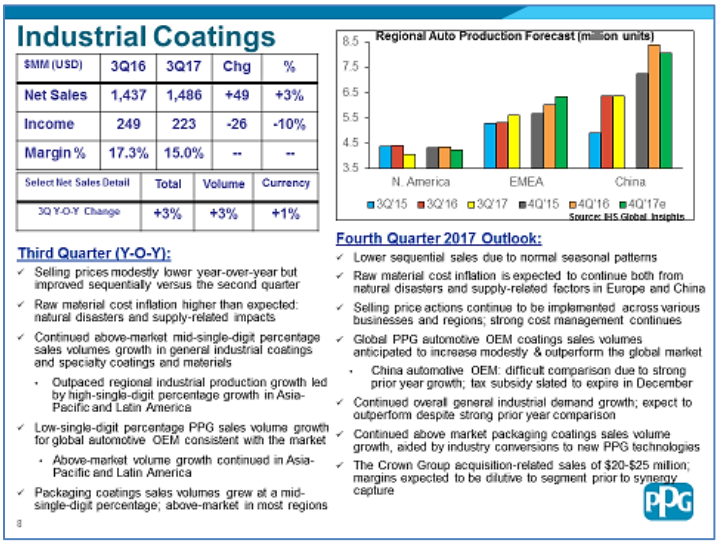
generally consistent in the fourth quarter, with lower sales seasonally in the U.S. and Canada, and minimal sales in Puerto Rico due to continued store closures. PPG-Comex architectural sales volumes in Mexico are expected to remain somewhat tempered due to demand uncertainty stemming from the recent earthquakes.

Aerospace coatings sales volumes grew by a low single-digit percentage in the quarter aided by higher demand in Europe. We anticipate similar growth for the fourth quarter.

Architectural EMEA sales volumes declined by mid-single-digit percentage year-over-year. While certain parts of this business remain solid, like in the U.K. where we continue to outperform the market, demand in certain other important countries to PPG, such as France, remains weak. Also, certain business was turned away due to either low profitability or lack of customer acceptance of selling prices. Overall selling prices improved based on various pricing initiatives implemented during the quarter. Looking ahead, this business expects to track market demand growth in Europe; mixed by country, but with lower sales sequentially due to normal business seasonality.

Protective and marine coatings sales volumes were flat year-over-year and improved sequentially versus the prior quarter, despite lower U.S. protective coatings sales volumes caused by the hurricanes. In the fourth quarter, we anticipate continuing unfavorable impacts on sales and segment income from the marine coatings sub-segment and flat to modestly positive protective coatings demand, with differences by region.

Additionally, raw material costs are expected to remain at current levels for the remainder of the year and with no significant benefit to segment sales and income from acquisition-related sales, as previous acquisitions reach their one year anniversary. Based on current exchange rates, foreign currency translation is expected to have a favorable impact on segment sales and income in the fourth quarter.




## Industrial Coatings

Third quarter net sales for the Industrial Coatings segment were approximately $1.5 billion, up $49 million, or more than 3 percent, versus the prior year. Segment sales volumes increased by more than about 3 percent while favorable foreign currency translation impacted net sales by approximately 1 percent, or about $20 million year-over year. The natural disasters did not have a significant impact on segment sales. Aggregate segment selling prices were modestly lower year-over-year in the third quarter but improved sequentially. Selling price initiatives are expected to provide modest benefits in the fourth quarter and more meaningful benefits in the first half of 2018.

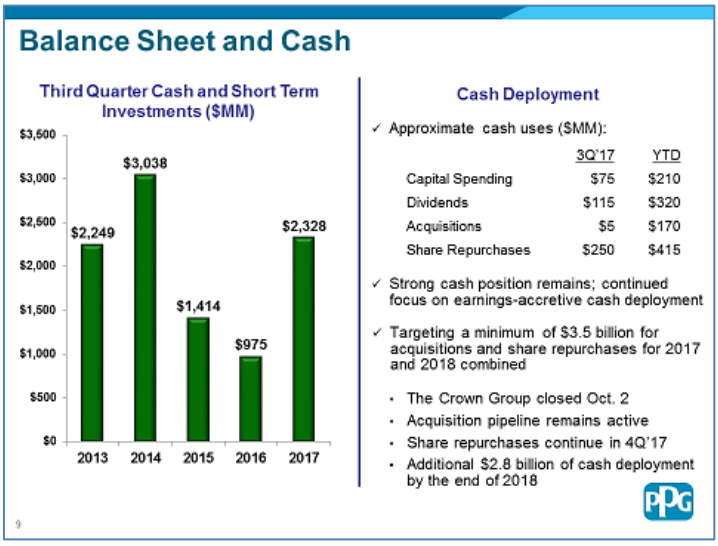
Segment income in the third quarter was $223 million down $26 million, or about 10 percent year-over-year, including a $3 million favorable impact from foreign currency translation. The decrease in segment income was driven by higher raw material and logistics costs, some of which was related to the natural disasters, and lower selling prices partially offset by higher sales volumes and strong cost management, including the benefit from business restructuring actions.

By business unit, sales volumes increased by a low single-digit percentage in automotive OEM coatings versus the prior year, consistent with the global automotive industry production increase. The Company remains well positioned in higher growth regions. Global industry automotive OEM production is anticipated to be flat in the fourth quarter, with declines in the U.S. and also in China where the small engine tax subsidy is scheduled to expire in December. Last year, the delay in communicating the extension of a reduced subsidy caused a surge in fourth quarter demand. Automotive OEM production in Europe is expected to grow a mid-single-digit percentage in the fourth quarter.

General industrial coatings and specialty coatings and materials sales volumes, in aggregate, grew by a mid-single-digit percentage year-over-year led by above market growth in the emerging regions, outpacing regional industrial production growth rates for the seventh consecutive quarter. Higher sales volumes were achieved across all regions and in many end-use markets including year-over-year increases in electronics materials, heavy duty equipment and organic light emitting diode (OLED) materials. Looking ahead, the Company expects continued moderate industrial end-use market demand growth trends, ongoing variability by geography and sub-sector, and for company-specific market outperformance to continue. The industrial coatings business in Asia has a difficult fourth quarter sales comparison, as sales volumes grew at a low double-digit percentage in the prior year quarter.

Packaging coatings sales volumes were up a mid-single-digit percentage year-over-year, led by customer adoption of new PPG technologies with above industry growth rates in several regions.

On Oct. 2, the company completed the acquisition of The Crown Group, a U.S.-based coatings application services business, with annual sales of approximately $125 million. Similar to the MetoKote acquisition, Crown’s margins will be dilutive to the segment prior to synergy achievement.




## Balance Sheet and Cash

PPG ended the third quarter with $2.3 billion in cash and short-term investments.

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

- Capital expenditures totaled about $75 million for the third quarter and about $210 million year-to-date. The Company anticipates capital spending to be approximately 2.5 percent of sales for the full-year.
- Dividends paid were $115 million in the third quarter and $320 million year-to-date. PPG increased the per share dividend by 13 percent in July.
- The full year spend on acquisitions has been $170 million year-to-date, excluding the Crown acquisition which closed on Oct. 2.
- A total of $250 million of shares were repurchased in the third quarter, with year-to-date repurchases of about $415 million, or about 4.0 million shares.

The Company is still targeting a minimum earnings-accretive cash deployment of $3.5 billion for years 2017 and 2018 combined for acquisitions and share repurchases. Having deployed more than $700 million to date toward our $3.5 billion target, we have $2.8 billion to be deployed by the end of 2018.

## 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 ongoing impacts of the natural disasters and their length and severity, any currently unanticipated future impacts from the natural disasters, 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 October 19, 2017, and any distribution of this presentation 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.