# PPG – Fourth Quarter and Full Year 2017 Financial Results

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Information current as of January 18, 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 achieve selling price increases, the ability to recover margins, 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.

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# Fourth Quarter 2017 Financial Highlights

## Net sales up nearly 8 percent; local currency sales increased over 4 percent

- Sales volumes increased 3 percent year-over-year; balanced across all regions
- Aggregate selling prices improved sequentially for the third consecutive quarter
- Favorable foreign currency translation benefited sales by over 3 percent, or about $115 million

## Adjusted earnings per diluted share up about 3%*

- Adjusted earnings per diluted share of $1.19; up about 3 percent, including the unfavorable impact of 5 cents per diluted share impact from the natural disasters that occurred in the third quarter
- Raw material inflation was elevated and logistics costs increased primarily due to heightened environmental enforcement in China
- Modest segment margin recovery achieved sequentially in the fourth quarter; further selling price increases have been secured for the first quarter 2018
- Restructuring actions continued and related savings met the upper-end of the targeted savings range

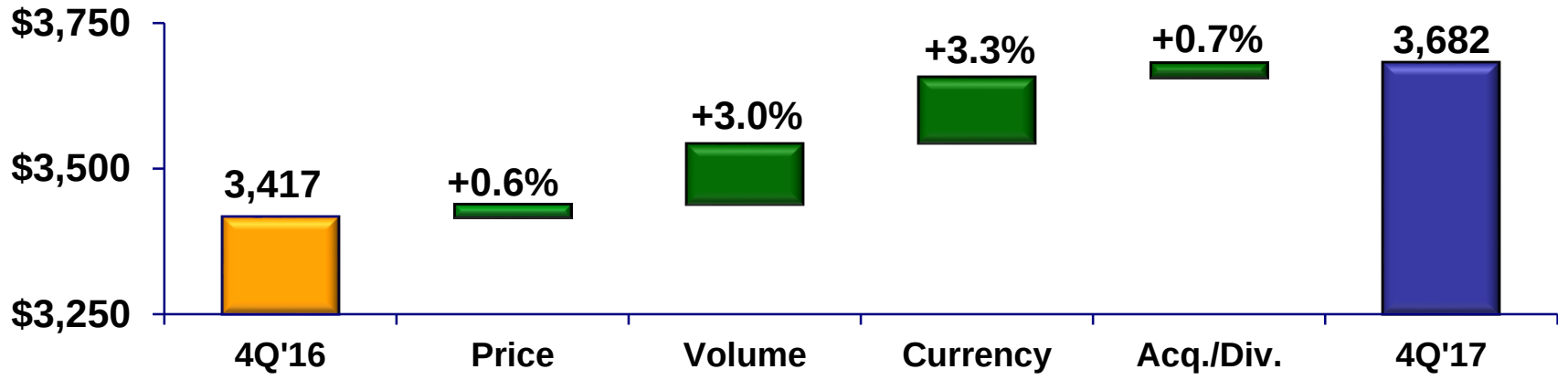
## Cash deployment continues, minimum of $2.4 billion targeted for in 2018

- Cash deployment of over $550 million in the fourth quarter on stock repurchases and acquisitions
- Active acquisition pipeline remains

* Adjusted EPS (from continuing operations) – see presentation appendix for reconciliation to reported EPS

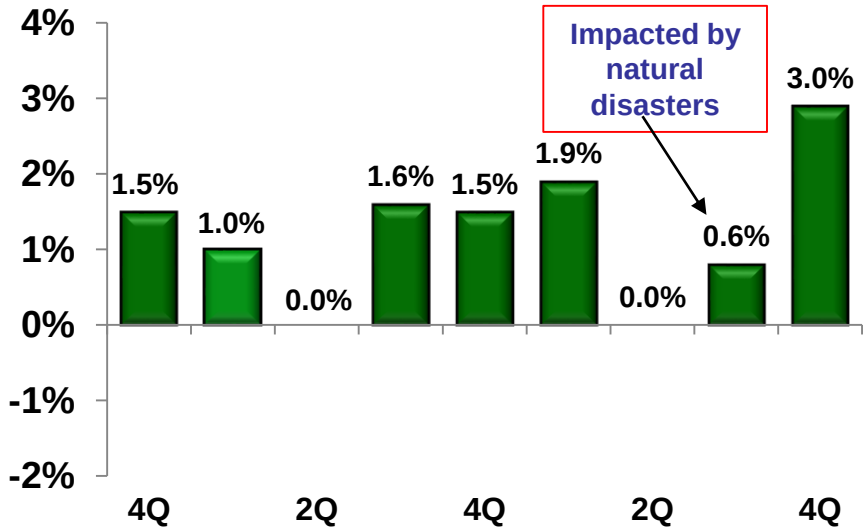
# PPG Fourth Quarter Net Sales*

($ in millions)




## PPG Y-O-Y Volume Trends**

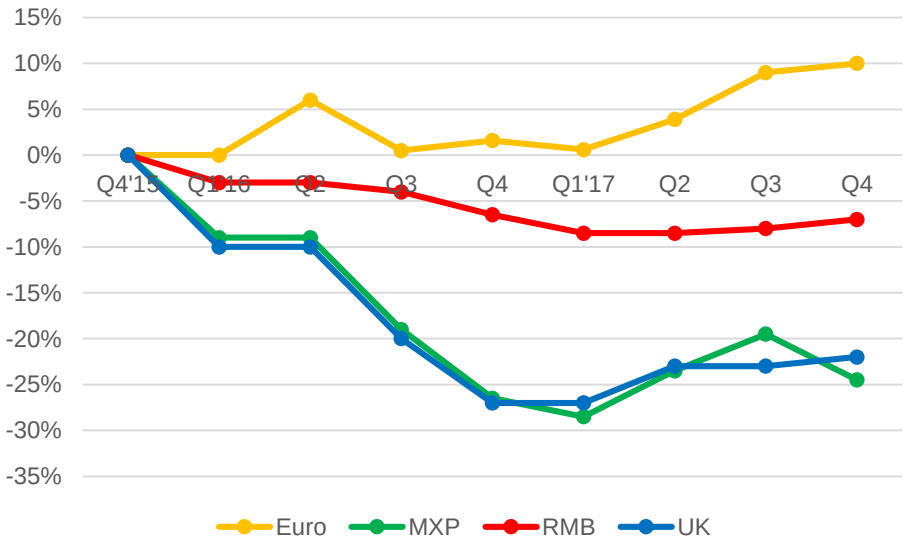
(excl. price, currency and acquisition/divestiture impacts)




**4Q'17 sales volumes up 3% with broad contribution**

## Foreign Currency Rate Trends vs. U.S. Dollar

(indexed to Q4'15)




**U.S. dollar weakened versus key currencies in 4Q'17**

* Sales from continuing operations

** Volumes as originally reported include the former Glass segment

# Fourth Quarter Net Sales Volumes

PPG volume performance by major coatings vertical vs. prior year and end-use market demand

| | U.S. & Canada | Europe / Middle East / Africa | Asia-Pacific | Latin America |
|---|---|---|---|---|
| Aerospace | Above Market | At Market | Above Market | At Market |
| Automotive Refinish | Above Market | Above Market | At Market | At Market |
| Architectural | Co. Stores At Market; DIY & Dealer At Market | At Market | AUS Above Market; CN Above Mkt | Mexico At Market; BRZ Below Mkt |
| Protective | At Market | At Market | At Market | At Market |
| Marine | At Market | At Market | At Market | N/A |
| Automotive OEM | At Market | At Market | At Market | Above Market |
| General Industrial | Above Market | At Market | Above Market | Above Market |
| Packaging | Above Market | Above Market | At Market | Above Market |

1. PPG compared to industry end-use market demand legend:
   - Above Market
   - At Market
   - Below Market

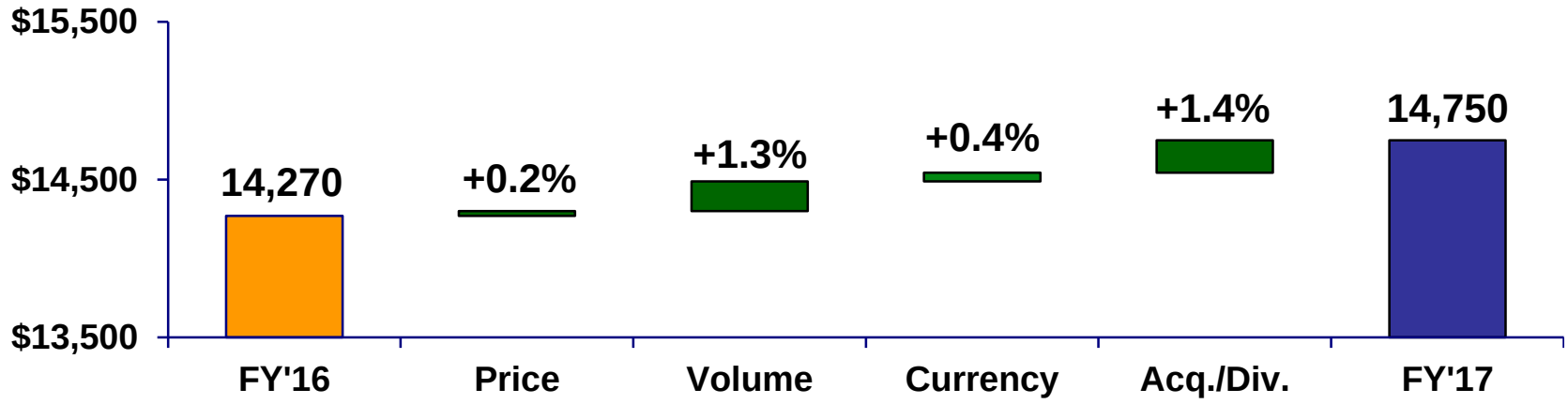
2. Year-over-year PPG volume legend:



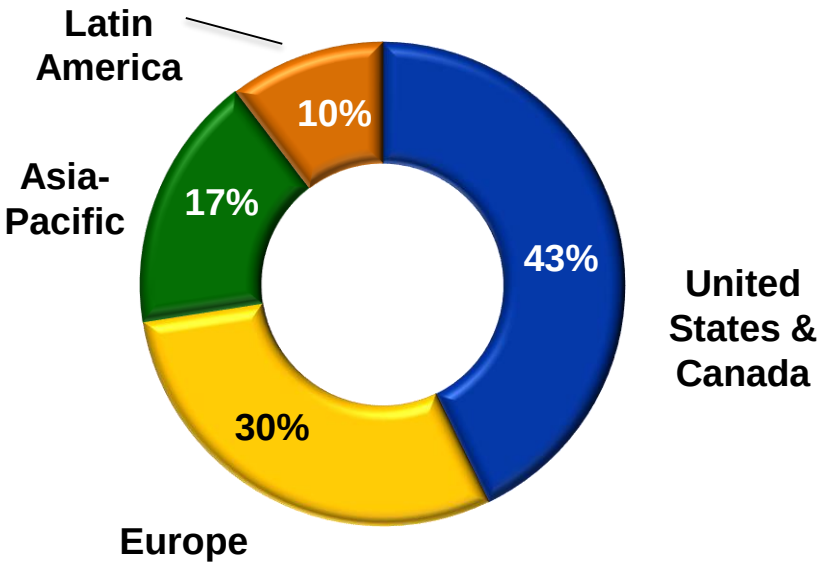

Based on PPG estimates

# PPG Full Year Net Sales (continuing operations)

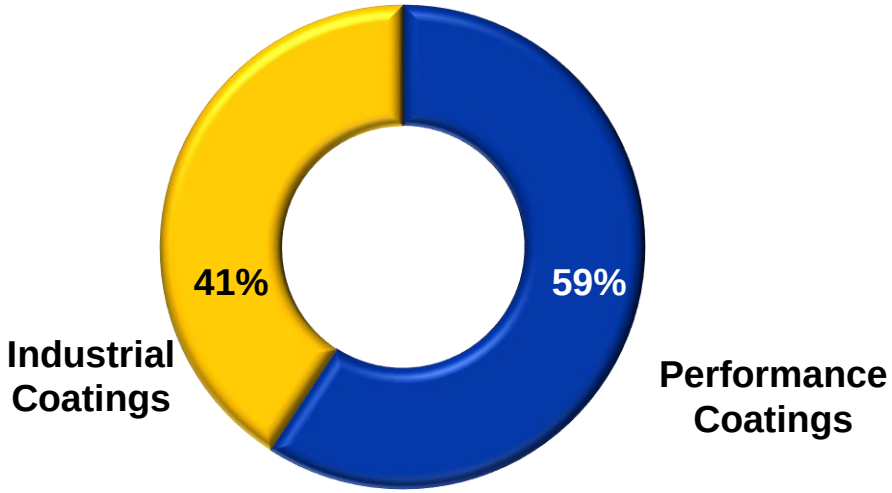
($ in millions)




## 2017 Net Sales by Major Region



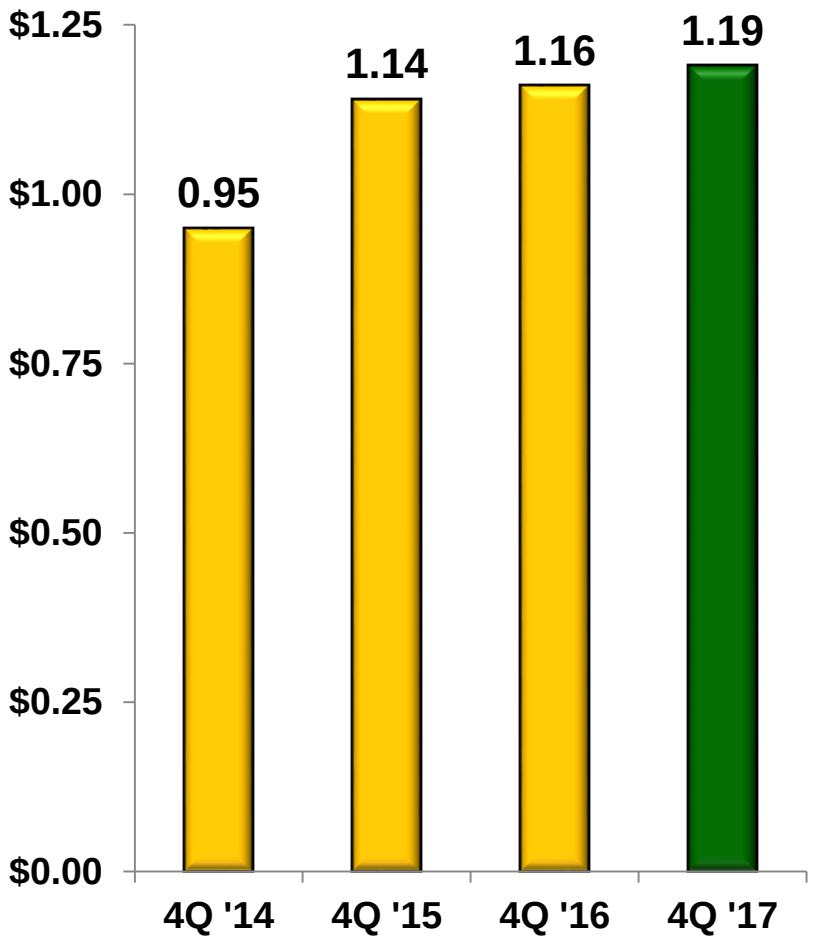

## 2017 Net Sales by Business Segment




**Growth exceeded 3 percent driven by sales volume and acquisitions**

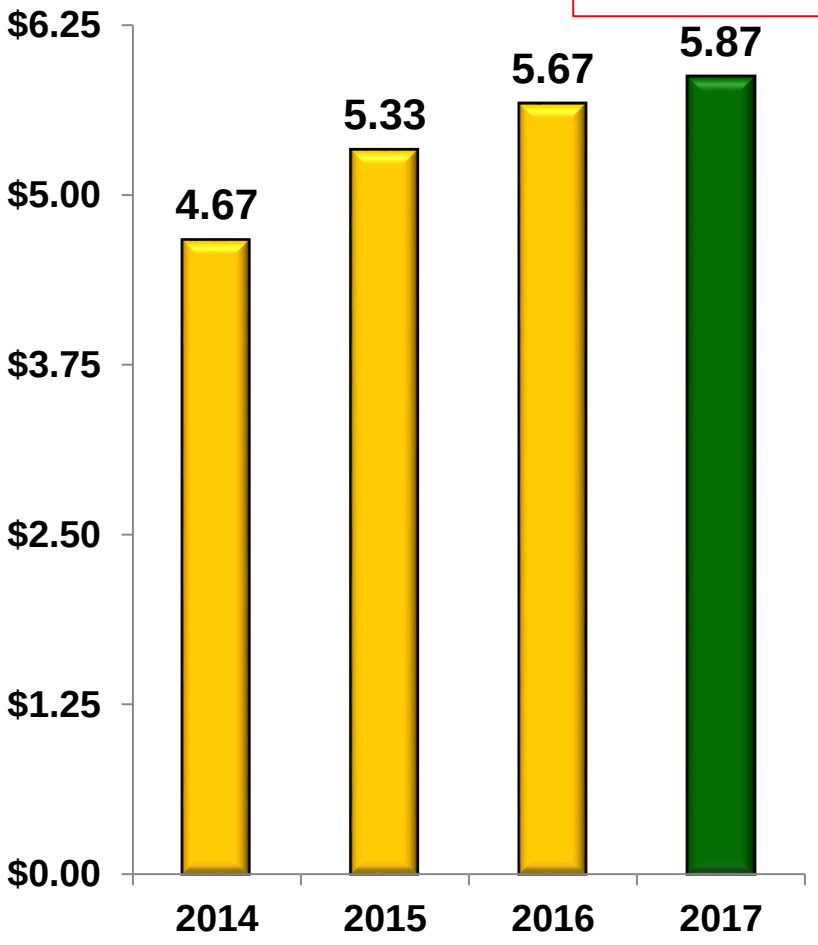
# PPG Earnings Per Diluted Share (continuing operations)*

## Fourth Quarter




## Full Year

-10 cents impact from natural disasters




* Adjusted EPS – see presentation appendix for reconciliation to reported EPS

# Performance Coatings

| $MM (USD) | 4Q16 | 4Q17 | Chg | % | Year 2016 | Year 2017 | Chg | % |
|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,980 | 2,124 | 144 | +7% | 8,580 | 8,732 | 152 | +2% |
| Income | 239 | 260 | 21 | +9% | 1,314 | 1,323 | 9 | +1% |
| Margin % | 12.1% | 12.2% | -- | -- | 15.3% | 15.2% | -- | -- |

| Select Net Sales Detail | Total | Volume | Currency |
|---|---|---|---|
| 4Q Y-O-Y Change | +7% | +2% | +3% |

| Select Net Sales Detail | Total | Volume | Currency |
|---|---|---|---|
| 2017 Y-O-Y Change | 2% | 0% | 0% |

## Fourth Quarter (YOY):

- ✓ Increase in selling prices aided in margin recovery efforts
- ✓ Sales volume growth of 2%; highest of any quarter in 2017
- ✓ Mid-single-digit percentage organic sales growth in automotive refinish coatings with above-market growth in U.S. and Europe
- ✓ Aerospace coatings sales volume grew at a mid-single-digit percentage supported by growing demand in U.S. and Asia
- ✓ Architectural coatings EMEA sales volumes in-line with prior year and market
- ✓ Low single-digit percentage sales volume growth in architectural coatings Americas & Asia Pacific:
  - Continued solid mid-single-digit percentage volume growth in U.S. company owned stores and flat volumes in independent dealers and national retail (DIY) channels
  - Latin America sales volumes were flat; impacted by third quarter natural disasters; above market growth in Australia
- ✓ Strong China protective sales volumes offset lower marine coatings volumes in Asia-Pacific region
- ✓ Favorable foreign currency; segment sales (~$67MM) and income (~$6MM)

## First Quarter 2018 Outlook:

- ✓ Expect raw material inflation to continue at elevated levels and further selling price initiatives to support margin recovery
- ✓ Consistent industry demand trends in automotive refinish coatings and aerospace coatings
- ✓ One fewer ship day in first-quarter 2018 due to timing of Easter holiday; expect sales to be lower by between $20 - $25 million, primarily architectural coatings
- ✓ Anticipate in-line market performance for architectural coatings EMEA
- ✓ Architectural coatings U.S. and Canada end-use market demand consistent with recent quarter and expected to remain mixed by end-market
  - Anticipate additional growth-related spending of up to $5 million
- ✓ Architectural coatings Latin America sales volume growth resumes
- ✓ Expect favorable YOY foreign currency translation impact as seen in the fourth quarter

# Industrial Coatings

| $MM (USD) | 4Q16 | 4Q17 | Chg | % |
|---|---|---|---|---|
| Net Sales | 1,437 | 1,558 | 121 | +8% |
| Income | 236 | 212 | -24 | -10% |
| Margin % | 16.4% | 13.6% | -- | -- |

| Select Net Sales Detail | Total | Volume | Currency |
|---|---|---|---|
| 4Q Y-O-Y Change | +8% | +4% | +3% |

| $MM (USD) | Year 2016 | Year 2017 | Chg | % |
|---|---|---|---|---|
| Net Sales | 5,690 | 6,018 | 328 | +6% |
| Income | 1,042 | 972 | -70 | -7% |
| Margin % | 18.3% | 16.2% | -- | -- |

| Select Net Sales Detail | Total | Volume | Currency |
|---|---|---|---|
| 2017 Y-O-Y Change | +6% | +4% | 0% |

## Fourth Quarter (YOY):

- ✓ Persistent raw material inflation driven by lingering impacts from the hurricanes and further production curtailments in China led to higher raw material inflation
- ✓ Selling prices modestly improved sequentially but still lower year-over-year
- ✓ Automotive OEM sales volume gains consistent with global industry growth rates
  - Above-market growth in Latin America and Europe
  - China sales volumes slightly lower versus robust prior year
- ✓ Continued above-market, mid-single-digit percentage sales volume growth in general industrial; growth across all regions led by the U.S. and emerging regions
- ✓ High single-digit percentage sales volume growth in packaging coatings driven by continued adoption of PPG's BPA-NI can coatings technologies
- ✓ Acquisition-related sales of ~$27MM, currently below segment average margins
- ✓ Favorable foreign currency translation; segment sales (~$46MM) and income (~$6MM)

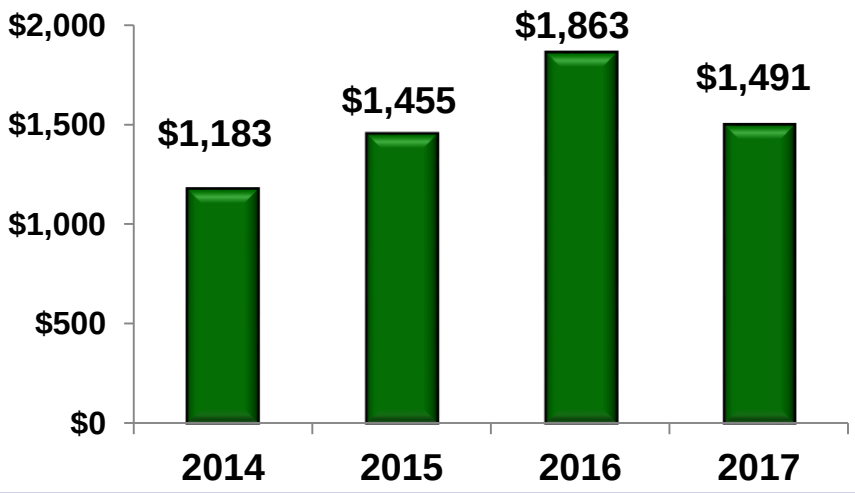
## First Quarter 2018 Outlook:

- ✓ Raw material inflation expected to continue at elevated levels
- ✓ Expect year-over-year selling prices to modestly improve but not fully offset raw material inflation
- ✓ Global automotive OEM sales volumes expected to be consistent with market. China automotive coatings demand forecasted to be modestly lower as the small engine subsidy has expired
- ✓ Continued overall general industrial demand growth; expect general industrial coatings and packaging coatings YOY sales volume growth rate to moderate due to strong prior year comparisons
- ✓ Acquisition-related sales growth of approximately $30MM
- ✓ Expect favorable YOY foreign currency translation impact as seen in the fourth quarter

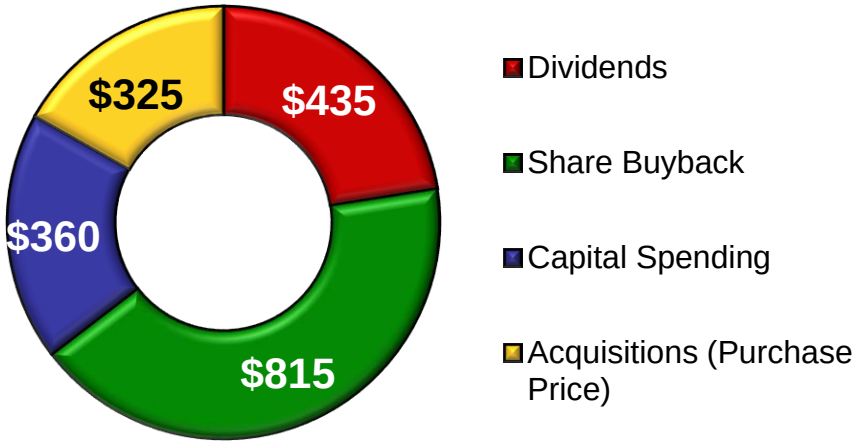
# Cash

($ in millions)

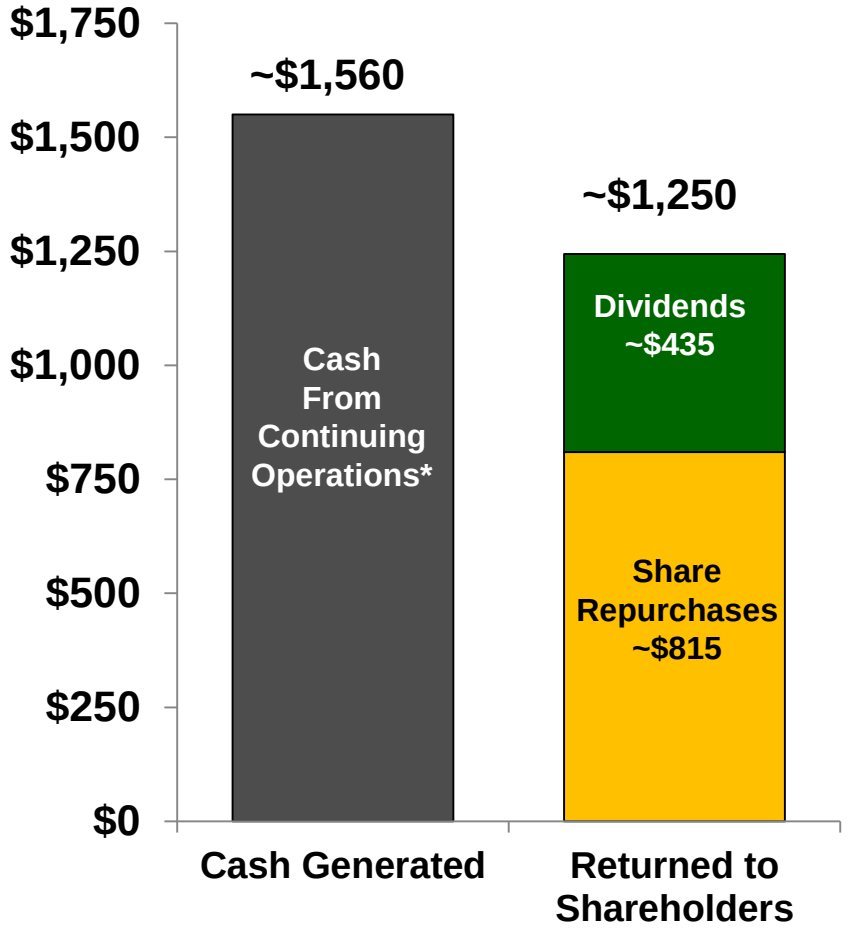
## Cash and Short Term Investments




## Approximate 2017 Cash Uses




## 2017 Cash Returned to Shareholders




More than $1.2 billion returned to shareholders via dividends and share repurchases

# 2018 Financial Assumptions

| Category | Full Year Sales | Full Year Pre-Tax Income | Comments: |
|---|---|---|---|
| *($ in millions unless stated otherwise)* | | | |
| 2017 - 2018 Acquisitions (acquired or announced) | ~$125 | At or below segment average earnings margins | Phasing of incremental sales follows 2017 and 2018 acquisition closure timeline |
| Favorable Foreign Currency Translation | $250- $300 (Higher Sales)<br>Memo: 2017 ~$55MM | $25 - $35 (Higher Income)<br>Memo: 2017 ~$7MM expense | Based on recent exchange rates. Impact more prevalent in Q1 and Q2 due to prior year exchange rate trends |
| Restructuring Savings | N/A | $45 - $50 (Higher Income) | Continuance of program initiated in December 2016 |
| Full Year Adjusted Effective Tax Rate | Estimated range of 23.0% -to- 24.0%. Adjusted effective tax rate is lower vs. 2017 comparable rate of 24.4% primarily due to the new U.S. tax legislation | | |
| Cash Deployment | A minimum of $2.4 billion cash deployment in 2018 on acquisitions and share repurchases | | |
| New Revenue Recognition Accounting Standard | Expect no material impact to net income or segment margins; some reclassifications are required between gross profit and selling, general and administrative (SG&A) costs which will cause PPG's gross profit percentage and SG&A as a percentage of sales to go down between 50-100 basis points | | |
| Corporate and Legacy Costs | Expect full year expense to be between $220 -to- $240 million | | |
| Pension and OPEB | Expected to be similar to 2017 | | |

# 2017 Full Year Summary

## Financial and operational performance

- Net sales up 3 percent in local currencies; sales volume growth of over 1 percent and acquisition-related growth of over 1 percent
- Adjusted earnings per diluted share of $5.87*, up nearly 4 percent versus prior year
- Operating working capital as a percent of sales reduced by 50 basis points versus prior year continuing multi-year favorable trend; down 260 basis points over three years
- Cost savings from restructuring actions totaled $50 million at the high-end of the targeted 2017 range; overhead costs as a percent of sales were about 90 basis points lower

## Progressed strategic objectives and continued significant cash deployment

- Deployed over $1.1 billion of cash on acquisitions ($325MM) and share repurchases ($815MM)
- Quarterly per share dividend increased 13 percent (in July); 46th consecutive year of annual increases
- Finalized the sale of North American fiber glass business in September representing the culmination of multi-year transformation to Company's business portfolio
- Completed 4 acquisitions, increasing geographic reach and product scope

## Financial flexibility remains

- Generated more than $1.5 billion of cash from continuing operations
- Cash and short term investments totaling approximately $1.5 billion at year-end
- Commitment to deploy $2.4 billion of cash on acquisitions and share repurchases in 2018



* Adjusted EPS (from continuing operations) – see presentation appendix for reconciliation to reported EPS

# Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.

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# Adjusted EPS Reconciliation

## 4th Quarter Reporting Period

$ in millions, except EPS

| | Continued Operations | | Discontinued Operations | | Total PPG | |
|---|---|---|---|---|---|---|
| | Net Income | EPS | Net Income | EPS | Net Income | EPS |
| **Fourth Quarter 2017** | | | | | | |
| **Net Income Attributable to PPG as Reported** | $ 184 | $ 0.72 | $ -- | $ -- | $ 184 | $ 0.72 |
| Net tax charge for Tax Cuts and Job Act legislation | 97 | 0.38 | -- | -- | 97 | 0.38 |
| Pension settlement charges | 24 | 0.09 | -- | -- | 24 | 0.09 |
| Gain on sale of non-operating asset | (8) | (0.03 | | | (8) | (0.03 |
| Asset write-downs | 7 | 0.03 | -- | -- | 7 | 0.03 |
| **Adjusted Net Income Attributable to PPG** | $ 304 | $ 1.19 | $ -- | $ -- | $ 304 | $ 1.19 |
| | | | | | | |
| **Fourth Quarter 2016** | | | | | | |
| **Net Income Attributable to PPG as Reported** | $ 91 | $ 0.34 | $ 253 | $ 0.96 | $ 344 | $ 1.30 |
| Business restructuring charge | 144 | 0.55 | 2 | -- | 146 | 0.55 |
| Environmental remediation charge | 51 | 0.20 | -- | -- | 51 | 0.20 |
| Loss on divestiture of European fiber glass business | -- | -- | 44 | 0.17 | 44 | 0.17 |
| Net gain on disposals of ownership interests in business affiliates | (8) | (0.04) | (25) | (0.09) | (33) | (0.13) |
| Net tax effect of asbestos settlement trust funding | 23 | 0.09 | -- | -- | 23 | 0.09 |
| Premium on early retirement of debt | 5 | 0.02 | -- | -- | 5 | 0.02 |
| **Adjusted Net Income Attributable to PPG** | $ 306 | $ 1.16 | $ 274 | $ 1.04 | $ 580 | $ 2.20 |
| | | | | | | |
| **Fourth Quarter 2015** | | | | | | |
| **Net Income Attributable to PPG as Reported** | $ 290 | $ 1.07 | $ 24 | $ 0.09 | $ 314 | $ 1.16 |
| Transaction-related costs | 11 | 0.04 | -- | -- | 11 | 0.04 |
| Equity affiliate debt refinancing charge | 7 | 0.03 | -- | -- | 7 | 0.03 |
| **Adjusted Net Income Attributable to PPG** | $ 308 | $ 1.14 | $ 24 | $ 0.09 | $ 332 | $ 1.23 |
| | | | | | | |
| **Fourth Quarter 2014** | | | | | | |
| **Net Income Attributable to PPG as Reported** | $ 66 | $ 0.24 | $ 17 | $ 0.06 | $ 83 | $ 0.30 |
| Debt refinancing charge | 200 | 0.72 | -- | -- | 200 | 0.72 |
| Transaction-related costs | 30 | 0.10 | 6 | 0.03 | 36 | 0.13 |
| Favorable foreign tax ruling | (29) | (0.11) | -- | -- | (29) | (0.11) |
| **Adjusted Net Income Attributable to PPG** | $ 267 | $ 0.95 | $ 23 | $ 0.09 | $ 290 | $ 1.04 |

# PPG Adjusted Earnings Per Share Trend Reconciliation

| | | Adjusted EPS from Continuing Operations | | | |
|---|---|---|---|---|---|
| **Period** | | **2014** | **2015** | **2016** | **2017** |
| **1Q** | | $0.98 | $1.10 | $1.23 | $1.33 |
| **2Q** | | 1.40 | 1.58 | 1.73 | 1.83 |
| **3Q** | | 1.33 | 1.53 | 1.52 | 1.52 |
| **4Q** | | 0.95 | 1.14 | 1.16 | 1.19 |
| **Full Year*** | | $4.67 | $5.33 | $5.67 | $5.87 |
| **Year over year percentage increase in EPS** | | | | | |

*Full year diluted EPS was calculated using the full year weighted average shares outstanding. As such, the sum of the quarters may not equal the total EPS for the year.