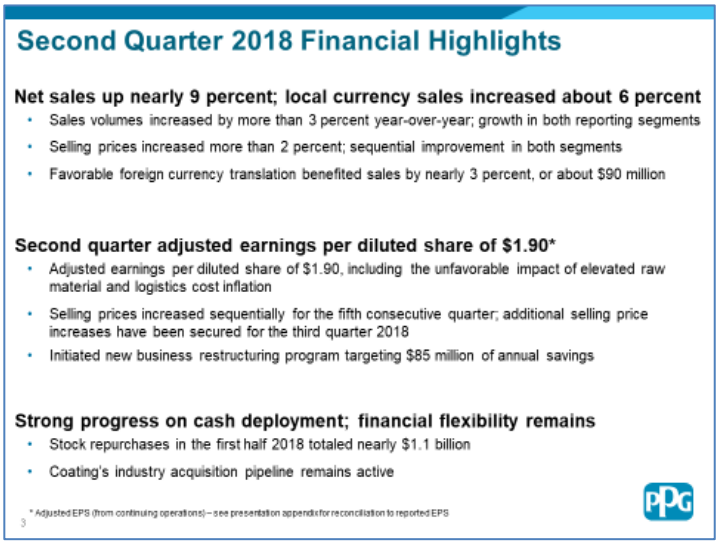
PPG Industries, Inc. Second Quarter 2018 Financial Results

Earnings Brief – July 19, 2018

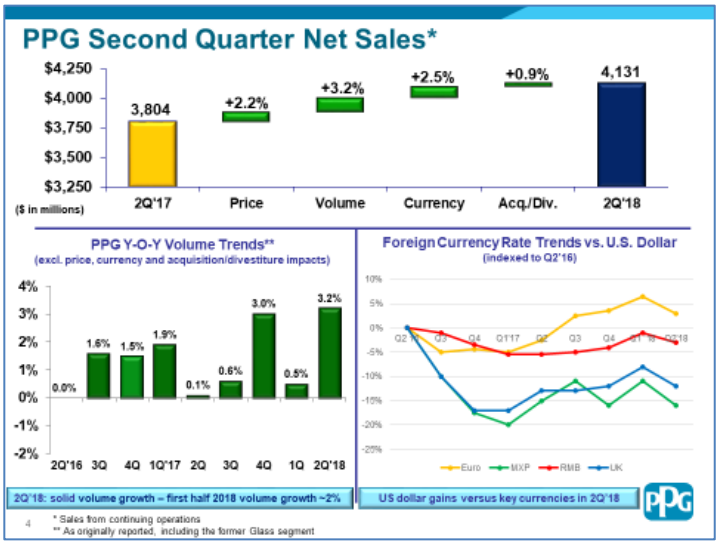


Second Quarter Financial Highlights

PPG second quarter net sales from continuing operations were approximately $4.1 billion, increasing nearly 9 percent versus the prior year. Net sales in local currencies grew by more than 6 percent year-over-year, aided by sales volume growth of more than 3 percent. Aggregate selling prices improved by greater than 2 percent, marking the fifth consecutive quarter of improvement over the previous sequential quarter. Additional detailed sales comparisons for each reporting segment are included on subsequent presentation slides.

Reported earnings per diluted share from continuing operations was $1.51. Adjusted earnings per diluted share from continuing operations was $1.90, an increase of nearly 6 percent versus the prior year. The earnings increase was achieved despite elevated raw material and logistics costs, including the impact of higher oil prices, tight supply conditions for certain input costs, and availability of transportation. Raw material costs were also elevated in certain emerging regions due to the strengthening of the U.S. dollar versus the respective local currencies during the quarter. These cost increases were partially offset by continued cost management, including lower manufacturing costs and savings driven by restructuring actions, which have resulted in more than $35 million of savings for the first half 2018.

Earnings accretive cash deployment continued in the second quarter, including share repurchases totaling about $460 million, which represented nearly 4.4 million shares or nearly 2 percent of total outstanding shares.

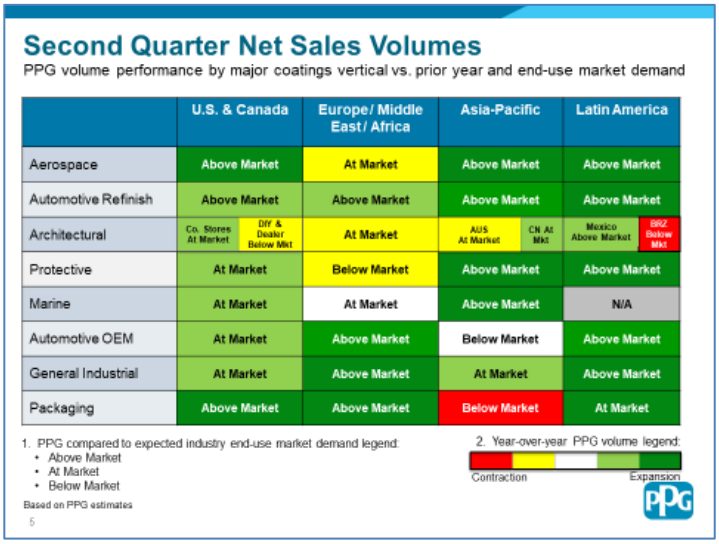


PPG Second Quarter Net Sales

PPG second quarter net sales of approximately $4.1 billion increased by nearly 9 percent, or about $325 million year-over-year. Local currency sales increased by about 6 percent driven by sales volume growth of more than 3 percent.

Aggregate selling prices increased by greater than 2 percent year-over-year, and improved sequentially versus the first quarter by 60 basis points, with both business segments realizing increases. Selling price initiatives continued with several businesses announcing additional increases in the second quarter that will be executed in succeeding quarters. Acquisition-related sales added less than 1 percent, or about $30 million, driven primarily from The Crown Group acquisition. The U.S. dollar was weaker compared to prior year second quarter, especially against the euro, Chinese yuan, U.K. pound, and Mexican peso, resulting a favorable foreign exchange translation

impact of nearly 3 percent, or more than $90 million. During the second quarter, the dollar strengthened versus these same key currencies, resulting in less favorable translation impacts than were realized in the first quarter. For the third quarter, an unfavorable translation impact on net sales of between $70 million to $90 million is expected based on current exchange rates. Additional details on the sales volume results by region and business unit are included later in the presentation materials.



Second 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	Above Market
Automotive Refinish	Above Market	Above Market	Above Market	Above Market
Architectural	Co. Stores At Market; DIY & Dealer Below Mkt	At Market	AUS At Market; CN At Mkt	Mexico Above Market; BRZ Below Mkt
Protective	At Market	Below Market	Above Market	Above Market
Marine	At Market	At Market	Above Market	N/A
Automotive OEM	At Market	Above Market	Below Market	Above Market
General Industrial	At Market	Above Market	At Market	Above Market
Packaging	Above Market	Above Market	Below Market	At Market

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

2. Year-over-year PPG volume legend: Contraction – Expansion

Based on PPG estimates

5

Second Quarter Net Sales Volume

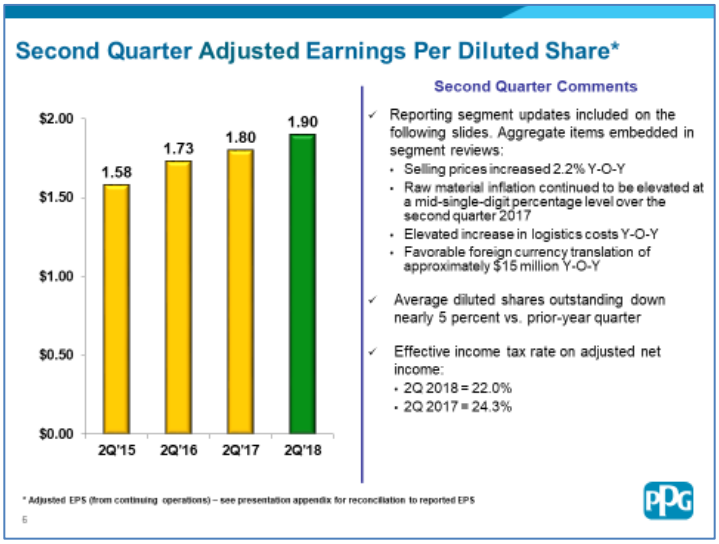
Aggregate global sales volumes grew by more than 3 percent in the second quarter of 2018. Sales volumes modestly benefited from an extra shipping day compared to the second quarter 2017, primarily impacting the distribution businesses in the U.S. and Mexico. For the first half of 2018, sales volumes have increased nearly 2 percent. The focus on raising selling prices resulted in some modest sales volume loss in certain businesses.

In the U.S. and Canada region, sales volumes were higher by a low-single-digit percentage. Aerospace coatings, automotive refinish coatings, and packaging coatings had above-market sales volume performance driven by customers' continuing adoption of PPG's technology advantaged products. Architectural company-owned stores same store sales increased by a high-single-digit percentage and national retails (DIY) sales were up modestly aided by the launch of PPG OLYMPIC® stain at The Home Depot®. Lower volumes in the architectural coatings independent dealer channel partially offset these gains. The automotive OEM, general industrial coatings and protective and marine coatings businesses had modest regional sales volume growth during the quarter.

Sales volumes were modestly higher in the Europe, Middle East, and Africa (EMEA) region. Strong sales volume growth in general industrial coatings, automotive OEM coatings, and packaging coatings was partially offset by a low-single-digit percentage decrease in architectural coatings as consumer sentiment remained subdued. Sales volumes in the protective and marine coatings business continued to be lower due to customer project delays, mostly in the Middle East.

In Asia Pacific, sales volumes grew by a mid-single-digit percentage with above market growth in aerospace coatings, automotive refinish coatings, and protective and marine coatings, partially offset by lower sales volumes in packaging coatings. From a country and sub-region perspective, the year-over-year rate of volume growth achieved in China accelerated versus the first quarter. Looking ahead, we expect economic activity in China to be more volatile due to greater uncertainties related to global trade policies and the possibility of further tariffs. Sales volumes in India increased by a high-teen-digit percentage with solid, broad-based growth, while Korea volumes continued to decline due to soft but moderating marine shipbuilding activity and lower automotive OEM coatings demand.

Sales volumes expanded in Latin America by a high-single-digit percentage versus the prior year for the second consecutive quarter, with expanded volumes in Mexico, Central America and South America. The regional volume growth was led by automotive OEM coatings, general industrial coatings, packaging coatings and automotive refinish coatings. The architectural coatings business in Mexico grew organic sales by a high-single-digit percentage driven by strong waterborne products and project sales. PPG automotive OEM coatings continued to perform at above-market levels driven by new business secured in 2017. The recent and broad trucker's strike in Brazil had a slightly negative impact on sales volumes and costs during the second quarter. Recent currency depreciation in various South American versus the U.S. dollar is resulting in further increases in the cost of raw materials, many of which are priced in U.S. dollars.



PPG Adjusted Earnings Per Diluted Share

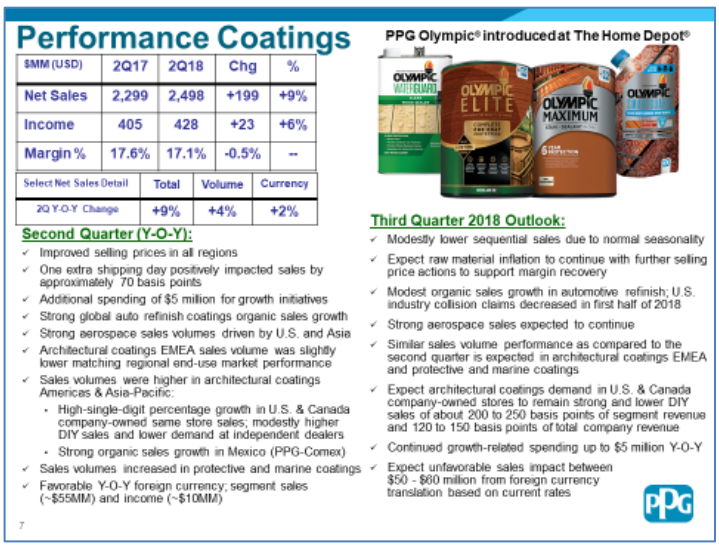
Second quarter 2018 adjusted earnings per diluted share from continuing operations of $1.90 was an increase of 10 cents, or nearly 6 percent, over the prior year. Financial results from each reportable business segment are provided below and in other presentation materials. Several key factors impacting earnings per diluted share growth were:

- Aggregate selling prices increased 2.2 percent partially offsetting intensified, mid-single-digit percentage raw material and rising logistics cost inflation. Additional selling price increases have been announced or implemented that are expected to benefit the third quarter 2018.
- A new business restructuring program was initiated, targeting about $85 million in annual savings. Aggregate second half 2018 restructuring savings are expected to be between $45 - $50 million, including carry-over savings from the company's December 2016 restructuring program.
- The strengthening of the U.S. dollar during the second quarter resulted in less favorable foreign currency translation compared to the first quarter primarily due to the depreciation of the euro, U.K. pound, Mexican peso and Chinese yuan during the second quarter.
- During the quarter, the company repurchased shares totaling about $460 million. The average number of diluted shares outstanding decreased approximately 5 percent year-over-year.

Second quarter corporate expenses were lower year-over-year driven primarily by lower pension and other post-retirement benefit costs as a result of actions taken in the past several years focused on structurally lowering these costs, lower incentive compensation costs, and gains realized on certain inter-company loan foreign exchange transactions. Corporate expenses are expected to total between $75 million and $90 million in the second half 2018.

The second quarter effective tax rate was 22 percent. The lower current quarter tax rate is primarily attributable to recognizing in the second quarter favorable discrete tax items, which are unpredictable in both magnitude and timing. The Company anticipates its full-year 2018 adjusted effective tax rate will be between 23 percent and 24 percent.

A detailed reconciliation of the adjusted second quarter earnings per diluted share and adjusted tax rate figures is included in the presentation materials appendix.



Performance Coatings

Second quarter net sales for the Performance Coatings segment were about $2.5 billion, up $199 million, or nearly 9 percent, versus the prior year. Sales in local currencies were up about 6 percent year-over-year, led by higher sales volume of nearly 4 percent and selling price increases of nearly 3 percent. Sales volume growth was led by the Asia Pacific region, which had sales volume growth of a low-teen-digit percentage driven by strong growth in

all businesses in the region. In addition, this segment benefited from favorable foreign currency translation of about $55 million, or more than 2 percent.

Segment income of $428 million increased by $23 million year-over-year, or about 6 percent, primarily due to strong sales volumes, higher selling prices, and restructuring savings, partly offset by inflation in raw material and logistics costs. In addition, segment income increased due to favorable foreign currency translation of about $10 million. Approximately $5 million was spent during the quarter to support additional growth initiatives.

From a business unit perspective, automotive refinish coatings organic sales grew by a mid-single-digit percentage year-over-year, led by above-market performance in all major regions. In addition, each key product segment delivered solid sales volume growth. We expect sales volumes to increase at a more modest pace in the third quarter, primarily driven by the U.S. and Canada where industry collision claims were down in the second quarter and miles driven have been flat.

Aerospace coatings sales volumes grew by a low-teen-digit percentage, including above-market volume growth in the U.S. and Asia supported by technology advantaged products. Consistent with the prior quarter, Aerospace sales grew across all major platforms. Similar trends are anticipated for the third quarter 2018.

Architectural coatings - EMEA sales volumes declined by a low-single-digit percentage year-over-year. While year-over-year sales volume performance improved versus the first quarter, volumes remain impacted by soft regional consumer demand. Looking ahead, we expect overall demand patterns to be consistent to those experienced in the first half of the year, with the potential for lower industry demand in the U.K. due to subdued consumer spending relating to apprehension surrounding the “BREXIT” process. Overall net sales are expected to be lower sequentially due to normal seasonal patterns.

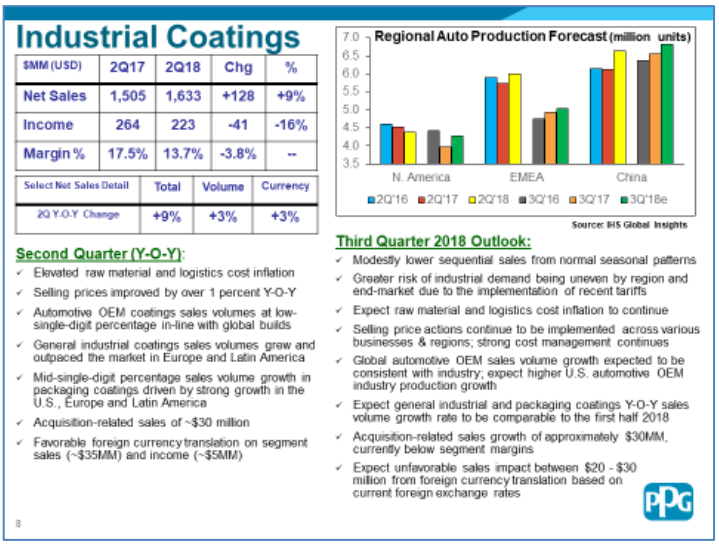
Architectural coatings Americas and Asia Pacific sales volumes were slightly higher versus the prior year. This business benefited from one additional shipping day compared to the prior year second quarter relating to a shift in the timing of the Easter holiday. Sales volumes were positive year-over-year in the U.S. and Canada company-owned store network, as well as in Mexico, Central America and China. The architectural coatings business in Mexico grew organic sales by a high-single-digit percentage driven by strong waterborne, roof coatings and project sales. The Mexico business opened about 100 new concessionaire locations during the first half of 2018, bringing the total location count to about 4,500.

Organic sales volumes increased by a high-single-digit percentage in the U.S. and Canada company-owned stores, marking the third consecutive quarter with at least a mid-single-digit percentage increase. This increase was partially offset by lower independent dealer network sales volumes. The DIY channel was slightly higher compared with the prior year quarter supported by the launch of Olympic® stain at THE HOME DEPOT® during the quarter. Lower sales volumes are expected in the DIY channel in the third quarter due to the previously communicated customer assortment change. Net of the new stain business at THE HOME DEPOT®, the Performance Coatings segment sales are expected to be lower by 200 to 250 basis points in the third and fourth quarters, or an approximate reduction to total company revenue of approximately 120 to 150 basis points.

Protective and marine coatings sales volumes increased by a low-single-digit percentage driven by strong protective coatings sales volumes in China. Marine coatings sales volumes were higher off a low base the previous year, and are expected to generally trend modestly positive in the third quarter.

Looking ahead, we expect modestly lower sequential sales due to seasonal patterns, no material benefit from acquisition-related sales in the segment and, based on current exchange rates, foreign currency translation is expected to have an unfavorable year-over-year impact on segment sales and income in

the third-quarter. In addition, we anticipate that raw material costs will remain elevated in the third-quarter 2018, at similar levels as experienced in the second quarter. We anticipate additional year-over-year growth-related spending of up to $5 million in the third quarter.



Industrial Coatings

Second quarter net sales for the Industrial Coatings segment were more than $1.6 billion, up about $130 million or nearly 9 percent year-over-year. Segment sales volumes grew by nearly 3 percent, and acquisition-related sales added less than 2 percent, or about $30 million. Selling prices increased by more than 1 percent versus the second quarter 2017. In addition, this segment benefited from favorable foreign currency translation of about $35 million, or nearly three percent.

Segment income of about $223 million was down $41 million, or about 16 percent year-over-year, including favorable foreign currency translation of approximately $5 million, primarily related to the Chinese yuan, the euro and the Mexican peso. Segment income benefited from improving selling prices, restructuring savings and lower manufacturing costs, which were more than offset by elevated raw material and logistics costs. The raw materials utilized by the businesses in this reporting segment include a variety of oil derivatives.

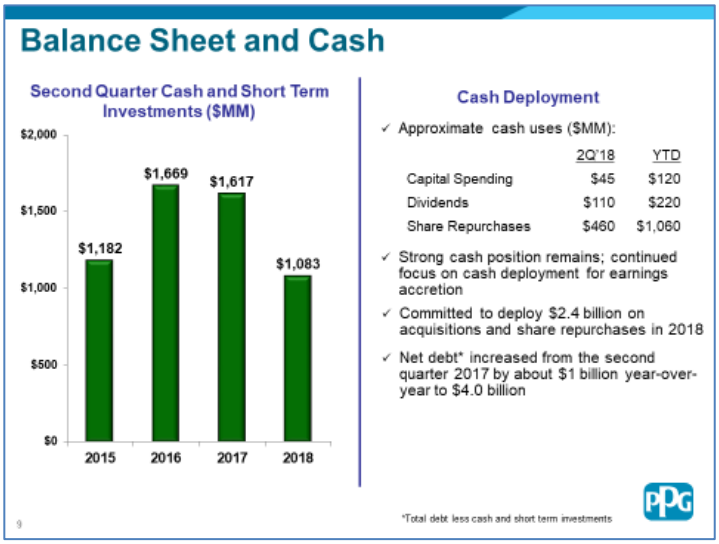
From a business unit perspective, sales volumes were up a low-single-digit percentage in the automotive OEM coatings business versus the prior year, consistent with the overall global industry build rate. PPG's sales volume growth was strongest in Latin America. Sales in the Asia Pacific region were flat compared to last year, primarily due to lower sales in Korea and the OEM industry production exit from Australia late last year. Sales volumes in China were consistent with industry builds. Global automotive industry growth is expected to be similar in the third quarter for most regions. In the U.S., industry production is projected to increase at a high-single-digit percentage reflecting an easier comparison to last year when natural disasters impacted regional auto builds.

Aggregate general industrial coatings and specialty coatings and materials businesses sales volumes continued to grow in the second quarter. Sales volumes were the strongest in Europe, Asia-Pacific, and Latin America driven by strong end-use market demand for coil, heavy-duty equipment and electronic materials. Selling prices continued to gain momentum. Acquisition-related sales from The Crown Group, acquired in October 2017, added approximately $30 million in sales at below segment margins but in-line with company expectations. Overall year-over-year growth in this business moderated reflecting comparisons to strong growth in the previous year. We anticipate continued favorable general industrial demand growth trends in the aggregate in the third quarter.

Packaging coatings sales volumes were up a mid-single-digit percentage versus the prior year due to ongoing adoption of PPG's new can coating technologies. Sales volumes increased by a high-single-digit percentage in the U.S., Europe, and Latin America. In the Asia Pacific region, volumes decreased stemming from prioritizing selling price increases over volume. We anticipate sales volume growth will continue due to the ongoing industry conversion to BPA-non-intent interior can coatings with PPG's year-over-year aggregate growth rates continuing at an above-market level for the remainder of 2018.

Looking ahead, we expect modestly lower sequential sales in the third quarter due to seasonal patterns, most notably in the automotive OEM coatings where normal annual production shutdowns are planned. There is greater risk of industrial demand being impacted due to uncertainties regarding global trade policies. We anticipate that the raw material and logistics cost inflationary environment will continue in the third quarter at similar levels as experienced in the second quarter. The company will continue to

prioritize selling price increases and operating margin recovery, both of which are expected to improve in the third quarter. Based on current exchange rates, foreign currency translation is expected to have a negative impact on segment sales and income in the third quarter 2018.



Balance Sheet and Cash

PPG ended the second quarter with about $1.1 billion in cash and short-term investments.

Approximate uses of cash for the second quarter were as follows:

- Capital expenditures were about $45 million in the quarter. We anticipate capital spending to be up to 3 percent of sales in 2018.

- Dividends paid were $110 million in the second quarter.

- PPG stock repurchases totaled approximately $460 million in the second quarter. The company has about $2.5 billion remaining under its current share repurchase authorizations, as of the end of the second quarter.

The company plans to continue its share repurchase program in the second half of 2018 and, as part of our previously communicated target to deploy $3.5 billion in 2017 and 2018 combined, is committed to deploying a minimum of $2.4 billion during 2018 on acquisitions and share repurchases. The coatings industry continues to have an active pipeline of acquisition candidates. The company continues to have excellent financial flexibility with cash and short-term investments of about $1.1 billion at the end of the second quarter.

Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.

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Adjusted EPS Reconciliation

2nd Quarter Reporting Period

$ in millions, except EPS

	Continuing Operations		Discontinued Operations		Total PPG	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
Second Quarter 2018						
Net Income Attributable to PPG as Reported	$ 371	$ 1.51	$ --	--	$ 371	$ 1.51
Costs related to a customer assortment change	8	0.03	--	--	8	0.03
Business restructuring charge	63	0.25	--	--	63	0.25
Accelerated depreciation from restructuring actions	4	0.02	--	--	4	0.02
Accounting investigation costs	7	0.03	--	--	7	0.03
Impairment of non-manufacturing asset	7	0.03	--	--	7	0.03
Legacy legal settlement	8	0.03	--	--	8	0.03
Adjusted Net Income Attributable to PPG	$ 468	$ 1.90	$ --	--	$ 468	$ 1.90
Second Quarter 2017						
Net Income Attributable to PPG as Reported	$ 497	$ 1.92	$ (1)	--	$ 496	$ 1.92
Transaction-related costs	3	0.01	--	--	3	0.01
Gain on sale of the Plaka business	(24)	(0.09)	--	--	(24)	(0.09)
Legacy legal settlement	(11)	(0.04)	--	--	(11)	(0.04)
Adjusted Net Income Attributable to PPG	$ 465	$ 1.80	$ (1)	--	$ 464	$ 1.80
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-downs	8	0.03	--	--	8	0.03
Gain on sale of 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	0.38	1	--	106	0.39
Adjusted Net Income Attributable to PPG	$ 431	$ 1.58	$ 27	$ 0.09	$ 458	$ 1.67

11

Regulation G Reconciliation

Three Months Ended June 30, 2018	Income Before Income Taxes	Tax Expense	Effective Tax Rate
Effective tax rate, continuing operations	**$479**	**$104**	**21.7%**
Costs related to a customer assortment change	10	2	24.3%
Business restructuring charge	83	20	24.2%
Accelerated depreciation from restructuring actions	5	1	23.8%
Accounting investigation costs	9	2	24.3%
Impairment of non-manufacturing asset	9	2	24.3%
Legacy legal settlement	10	2	24.3%
Adjusted effective tax rate, continuing operations	**$605**	**$133**	**22.0%**

Three Months Ended June 30, 2017	Income Before Income Taxes	Tax Expense	Effective Tax Rate
Effective tax rate, continuing operations	**$659**	**$157**	**23.8%**
Transaction-related costs	5	2	37.9%
Gain on sale of the Plaka business	(25)	(1)	3.2%
Legacy legal settlement	(18)	(7)	37.9%
Adjusted effective tax rate, continuing operations	**$621**	**$151**	**24.3%**

Amounts in Millions of USD

12

Forward-Looking Statements

Statements continued herein relating to matters that are not historical facts are forward-looking statements reflecting PPG's current view with respect to future events and financial performance. These matters within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, involve risks and uncertainties that may affect PPG Industries' operations, as discussed in the company's filings with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c) or 15(d) of the Exchange Act, and the rules and regulations promulgated thereunder. Accordingly, many factors could cause actual results to differ materially from the forward-looking statements contained herein. 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 achieve selling price increases, the ability to recover margins, the ability to maintain favorable supplier relationships and arrangements, the timing of realization of anticipated cost savings from restructuring initiatives, the ability to identify additional cost savings opportunities, 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, the unpredictability of existing and possible future litigation, including asbestos litigation, and governmental investigations. Such factors also include risks related to the impact of the restatement disclosed in our amended 2017 Annual Report on Form 10-K/A, including the impact on PPG's reputation and commercial contracts, our ability to successfully remediate the material weakness in our internal control over financial reporting disclosed in our amended Annual Report on Form 10-K/A within the time periods and in the manner currently anticipated, the effectiveness of our internal control over financial reporting, including the identification of additional control deficiencies and further expenditures related to our restatement. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here and in our amended Annual Report on Form 10-K/A are 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 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 and similar risks, any of which could have a material adverse effect on PPG's consolidated financial condition, results of operations or liquidity. All information in this release speaks only as of July 19, 2018, 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.