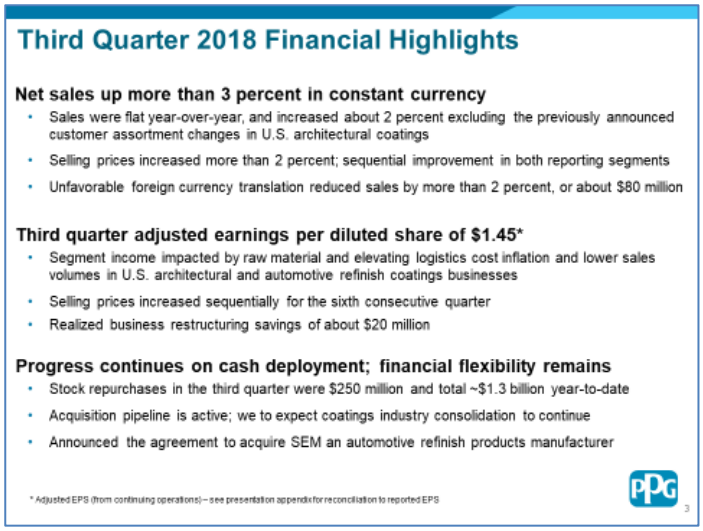
PPG Industries, Inc. Third Quarter 2018 Financial Results

Earnings Brief – October 18, 2018

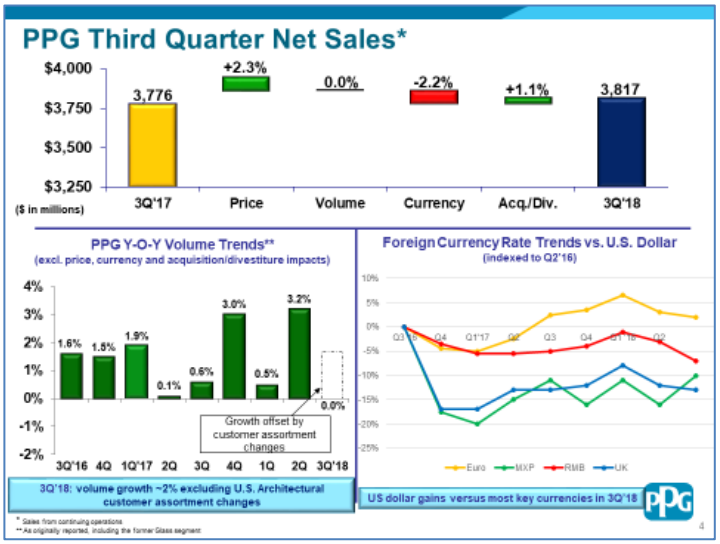


Third Quarter Financial Highlights

PPG third quarter net sales from continuing operations were approximately $3.8 billion, increasing more than 1 percent versus the prior year. Net sales in local currencies grew by more than 3 percent year-over-year, aided by improved selling prices of greater than 2 percent. 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 $1.45. Earnings continued to be impacted by elevated raw material and logistics costs, including the impact of higher oil prices, tighter input products supply conditions, and the availability of transportation. Raw material costs were also elevated in certain emerging regions due to the strengthening of the U.S. dollar versus these local currencies during the quarter. These cost increases were partially offset by about $20 million of savings from previously announced restructuring actions in the third quarter.

Earnings accretive cash deployment continued in the third quarter, including share repurchases totaling about $250 million, which represented about 2.2 million shares or nearly 1 percent of total outstanding shares.

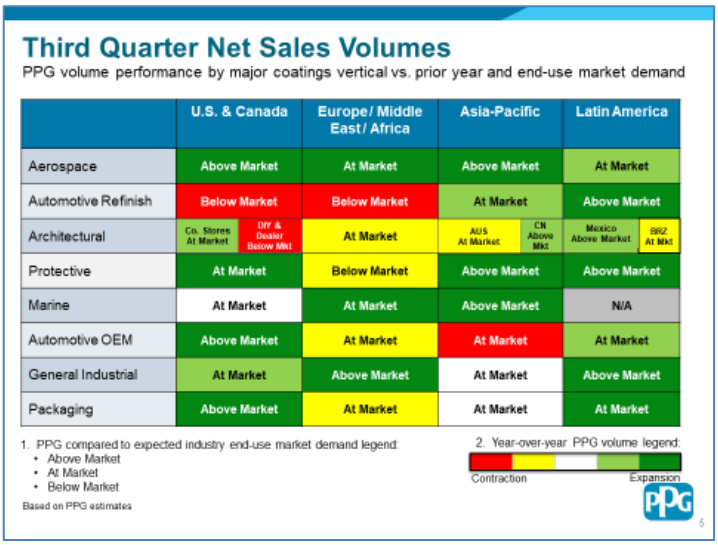


PPG Third Quarter Net Sales

PPG third quarter net sales of approximately $3.8 billion increased by approximately $40 million year-over-year. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural coatings business, sales growth was nearly 5 percent in constant currency.

Aggregate selling prices increased by more than 2 percent year-over-year, with both reporting segments realizing increases in each major region and marking the sixth consecutive quarter of improvement over the previous sequential quarter. Selling price initiatives continued with several businesses announcing additional increases in the third quarter that will be executed in succeeding quarters. Acquisition-related sales added about 1 percent, or about $40 million, driven primarily by The Crown Group acquisition. This will be the last quarter that The Crown Group will be recorded as acquisition sales. The U.S. dollar was

stronger compared to the prior year third quarter, especially against the euro, Chinese yuan, and U.K. pound, resulting in a unfavorable foreign exchange translation impact of more than 2 percent, or about $80 million. Additional details on the sales volume results by region and business unit are included later in the presentation materials.



Third Quarter Net Sales Volume

Aggregate global sales volumes were flat with third quarter 2017. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural business, sales volume growth was about 2 percent.

In the U.S. and Canada region, sales volumes declined by a low-single-digit percentage. Aerospace coatings, automotive original equipment manufacturer (OEM) coatings, and packaging coatings had above-market sales volume performance driven by customers' continued adoption of PPG's technology advantaged products. Same store sales for architectural coatings company-owned stores increased by a high-single-digit percentage. Lower volumes in the U.S. and Canada architectural coatings national retail, or do-it-for-yourself (DIY), and independent dealer channels and the automotive refinish coatings business more than offset these gains. The general industrial coatings and protective and marine coatings businesses had modest regional sales volume growth during the quarter.

Sales volumes were flat in the Europe, Middle East, and Africa (EMEA) region. Strong sales volume growth in general industrial, aerospace and marine coatings was offset by lower sales volumes in the automotive refinish, architectural, protective, packaging and automotive OEM coatings businesses.

In Asia Pacific, sales volumes grew by a low-single-digit percentage with above-market growth in aerospace coatings and protective and marine coatings, partially offset by lower sales volumes in automotive OEM coatings. From a country and sub-region perspective, the rate of volume growth in China decelerated as the quarter progressed compared with the second quarter, driven by lower industry automotive builds and more modest industrial manufacturing activity. The manufacturing PMI in China dropped to 50.8 in September, which represents the second lowest reading in the past twelve months

Looking ahead, we expect sales volumes in automotive OEM and general industrial coatings businesses to be negative in the fourth quarter as industrial activity in China is anticipated to be more volatile including the impact from global trade policies. Sales volumes in India increased by a high-single-digit percentage with solid, broad-based growth, while Korean 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 mid-single-digit percentage versus the prior year continuing solid growth performance from this region, with sales volumes in Mexico, Central America and South America continuing to expand. All businesses had aggregate growth in this region in the third quarter with strong performance coming from the general industrial, packaging and automotive refinish coatings businesses. The architectural coatings business in Mexico grew organic sales by a high-single-digit percentage driven by strong performance in waterborne, roof coatings and business-to-business sales. Various South American currencies depreciated versus the U.S. dollar resulting in further increases in the cost of raw materials. The sharp decline in currencies in this region resulted in transactional foreign currency expense of about $5 million on top of currency translation effects.

PPG Adjusted Earnings Per Diluted Share

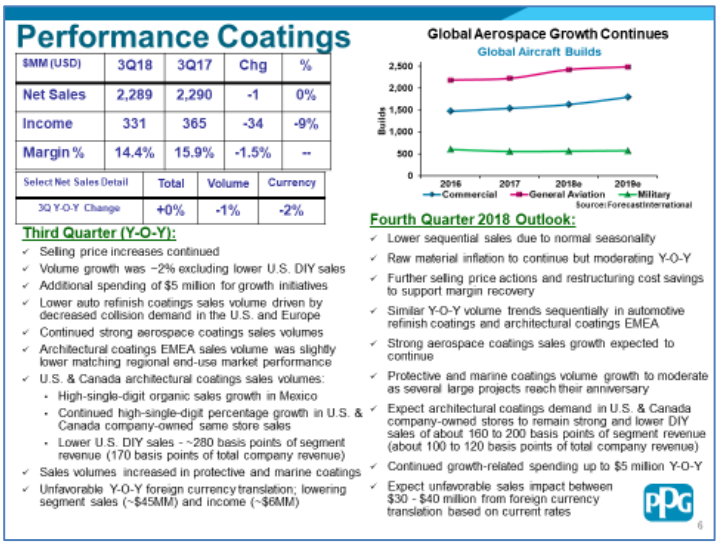
Third quarter 2018 adjusted earnings per diluted share from continuing operations of $1.45 was lower than the prior year. Financial results from each reportable business segment are provided below and in other presentation materials. Several key factors impacting earnings per diluted share growth were:

- Aggregate selling prices increased 2.3 percent, partially offsetting mid-to-high single-digit percentage raw material, rising logistics cost inflation and lower sales volumes. Additional selling price increases have been announced or are being implemented. These increases are expected to benefit the fourth quarter 2018 and continuing into 2019.
- Fourth quarter 2018 restructuring savings are expected to be between $20 to $25 million, including carry-over savings from the company's December 2016 restructuring program. Third quarter earnings were impacted by about $5 million of associated costs that were related to restructuring activities. We expect an additional $5 million of associated cost to be incurred in the fourth quarter.
- The strengthening of the U.S. dollar during the third quarter resulted in unfavorable foreign currency expense of approximately $15 million primarily due to the depreciation of the euro, U.K. pound, Chinese yuan and several other emerging region currencies in the third quarter.
- During the quarter, the company repurchased shares totaling about $250 million. The average number of diluted shares outstanding decreased by approximately 6 percent year-over-year.

Third quarter corporate expenses were lower year-over-year primarily due to 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, and lower incentive compensation costs. Corporate expenses are expected to total between $30 million and $40 million in the fourth quarter 2018.

The third quarter effective tax rate was about 20.5 percent. The lower current quarter tax rate is primarily attributable to the timing of recognizing 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 third quarter earnings per diluted share and adjusted tax rate figures is included in the presentation materials appendix.



Performance Coatings

Third quarter net sales for the Performance Coatings segment were about $2.3 billion, flat versus the prior year. Segment volumes were unfavorable by about one percent versus the prior year. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural business segment sales volumes grew about 3 percent. Selling prices increased by about 3 percent. Sales volume growth was achieved in emerging regions which in aggregate grew by a mid-single-digit percentage. In addition, this segment was negatively impacted by unfavorable foreign currency translation of about $45 million, or nearly 2 percent.

Segment income of $331 million was lower by $34 million year-over-year, or about 9 percent, primarily due to lower sales volumes, raw material and logistics cost inflation, and unfavorable foreign exchange rates. Higher selling prices and restructuring savings partially offset these negative factors.

Approximately $5 million was spent during the quarter to support additional growth initiatives.

From a business unit perspective, automotive refinish coatings organic sales were lower by a low-single-digit percentage year-over-year. Sales volumes were impacted by lower sales in the U.S. and Europe stemming from a change in customer order patterns, as several customers have high inventory levels due to lower end-use market demand. We expect these trends to continue into the fourth quarter. The automotive refinish business continues to grow market representation as evidenced by an approximate net addition of 3,000 body shops in 2018.

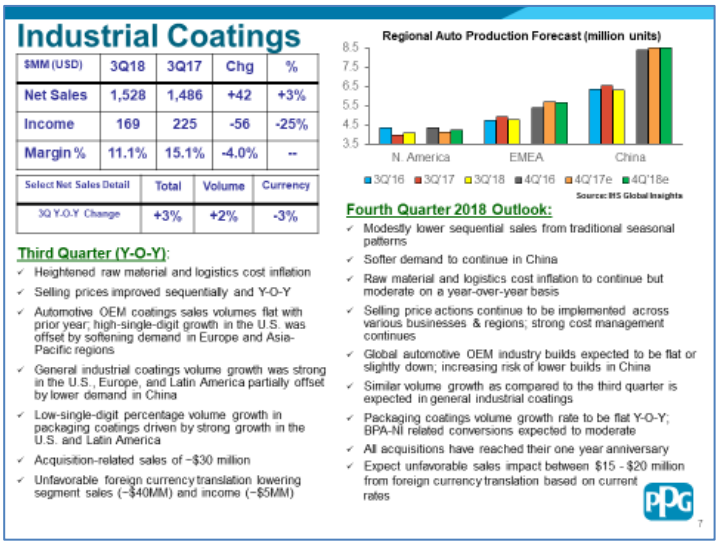
Aerospace coatings sales volumes grew by a low-teen-digit percentage, including above-market volume growth in the U.S. and Asia, supported by technology-advantaged products. Consistent with the prior quarter, aerospace sales grew across all major platforms. We expect continued strong performance in the fourth quarter albeit with more moderate growth rates as year-over-year comparisons become more challenging due to strong growth in the prior year, and customers more closely control inventory levels at the end of the year.

Year-over-year organic sales volumes improved by a low-single-digit percentage in EMEA architectural coatings. Modest sales volumes declines were more than offset by higher selling prices. Solid volume growth in Northern Europe was offset by lower volumes in Southern Europe. Overall, fourth quarter net sales are expected to be lower sequentially due to normal seasonal patterns. We expect demand patterns to be consistent with those experienced in the first three quarters of the year, although the potential for lower industry demand in the U.K. due to subdued consumer spending due to apprehension surrounding the “BREXIT” process still exists.

Architectural coatings Americas and Asia Pacific sales volumes were lower by a mid-single-digit percentage primarily driven by the customer assortment changes in the U.S. DIY channel. The U.S. and Canada company-owned store network as well the Mexico-Comex architectural coatings businesses grew organic sales by a high-single-digit percentage as positive demand trends continued. The Mexico business has opened about 130 new concessionaire locations in 2018 bringing the total location count to about 4,600.

Aggregate protective and marine coatings sales volumes increased by a mid-single-digit percentage driven by strong protective coatings sales volumes in China. Marine coatings year-over-year sales volumes were higher off a low base and are expected to continue this trend in the fourth quarter.

Looking ahead, we expect modestly lower sequential sales due to normal seasonal patterns, most notably in the U.S., Canada, and European architectural coatings businesses. Several previous acquisitions in the segment have reached their one year anniversary, so they will no longer be categorized as acquisition-related sales 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 fourth quarter. In addition, we anticipate that raw material costs will remain elevated but at lower inflationary levels in the fourth-quarter 2018, and that logistics cost inflation will remain elevated. We are planning additional year-over-year growth-related spending of up to $5 million in the fourth quarter compared to the prior year.



Industrial Coatings

Third quarter net sales for the Industrial Coatings segment were more than $1.5 billion, up about $40 million or nearly 3 percent year-over-year. Segment sales volumes grew by nearly 2 percent, and acquisition-related sales added about 2 percent, or about $30 million. Selling prices increased sequentially versus the second quarter 2018. This segment was impacted by unfavorable foreign currency translation of about $40 million, or nearly three percent.

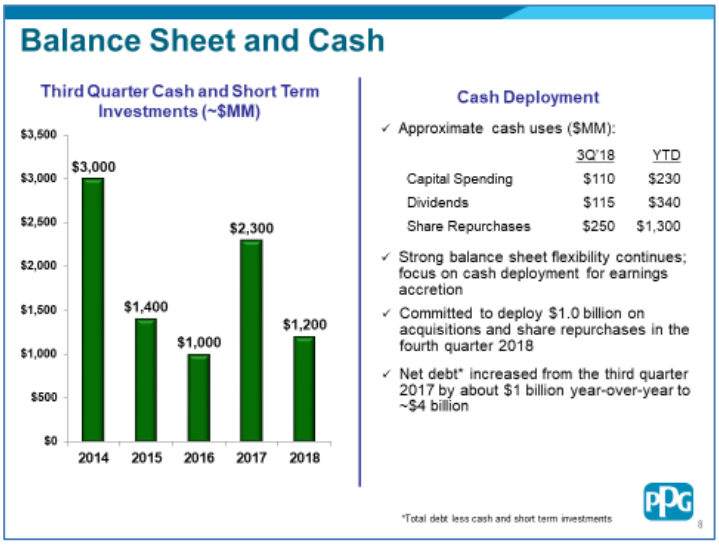
Segment income of about $169 million was down $56 million, or about 25 percent year-over-year, including unfavorable foreign currency translation of approximately $5 million, primarily related to the Chinese yuan, the euro, and several emerging region currencies. Segment income benefited from improving selling prices and restructuring savings, which were more than offset by elevated raw material and logistics costs.

From a business unit perspective, sales volumes were flat in the automotive OEM coatings business versus the prior year, which was modestly better than the overall global industry build rate. PPG's sales volume growth was strongest in Latin America. Sales in the Asia Pacific region were lower compared to last year, primarily due to lower sales in Korea and the OEM industry production exit from Australia late last year, as well as softer industry demand in China. Global automotive industry growth is expected to be similar in the fourth quarter for most regions with greater volatility expected in China.

Aggregate general industrial coatings and specialty coatings and materials sales volumes were up a mid-single-digit percentage in the third quarter. Sales volumes growth was the strongest in Europe and Latin America due to strong end-use market demand for coil and heavy-duty equipment 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 fourth 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. and Latin America. In the Asia Pacific region, sales volumes were flat. We anticipate sales volume growth will begin to moderate due to more modest customer adoption rates for new technologies.

Looking ahead, we expect to see greater volatility in global industrial demand including inconsistencies by region and increased uncertainties regarding trade policies. We anticipate that the rate of raw material inflation will remain elevated but moderate year-over-year given the spike in inflation in the prior year fourth quarter, and that logistics cost inflation will continue. The company is continuing to prioritize selling price increases and operating margin recovery, both of which are expected to improve in the fourth quarter. Based on current exchange rates, foreign currency translation is expected to have a negative impact on segment sales and income in the fourth quarter 2018.



Balance Sheet and Cash

PPG ended the third quarter with about $1.2 billion in cash and short-term investments.

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

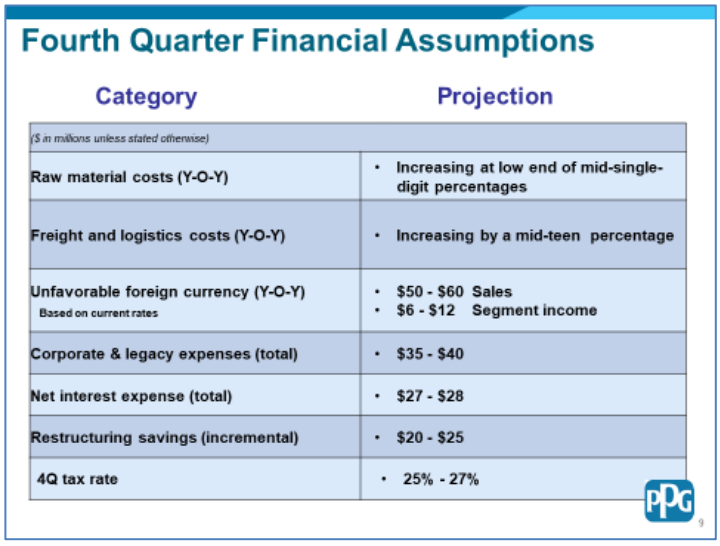
- Pension contributions were about $50 million in the quarter and about $90 million year-to-date. We expect remaining contributions in 2018 to be between $5 and $15 million.

- Capital expenditures were about $110 million in the quarter. We anticipate capital spending to be up to 3 percent of sales in 2018.

- Dividends paid were $115 million in the second quarter.

- PPG stock repurchases totaled approximately $250 million in the third quarter. The company has about $2.2 billion remaining under its current share repurchase authorizations as of the end of the third quarter.

The company plans to continue its share repurchase program in the fourth quarter of 2018 and expects to deploy about $1 billion on acquisitions and share repurchases. The $1 billion includes funds for the announced acquisition of SEM Products, Inc., a U.S.-based manufacturer of specialized automotive refinish products.



Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.

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Adjusted EPS Reconciliation

3rd Quarter Reporting Period

$ in millions, except EPS

	Continuing Operations		Discontinued Operations		Total PPG	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
Third Quarter 2018						
Net Income Attributable to PPG as Reported	$ 368	$ 1.51	$ 10	$ 0.04	$ 378	$ 1.55
Costs related to a customer assortment change	3	0.01	--	--	3	0.01
Release of business restructuring reserves	(10)	(0.04)	--	--	(10)	(0.04)
Accelerated depreciation from restructuring actions	3	0.01	--	--	3	0.01
Accounting investigation costs	2	0.01	--	--	2	0.01
Tax benefit related to U.S. Tax Cuts and Jobs Act	(13)	(0.05)	--	--	(13)	(0.05)
Adjusted Net Income Attributable to PPG	$ 353	$ 1.45	$ 10	$ 0.04	$ 363	$ 1.49
Third Quarter 2017						
Net Income Attributable to PPG as Reported	$ 393	$ 1.52	$ 217	$ 0.84	$ 610	$ 2.36

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, customer inventory levels, 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 October 18, 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.