PPG Industries, Inc.

PPG Industries, Inc. Third Quarter 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Michael H. McGarry - *Chairman and Chief Executive Officer*

Vincent J. Morales - *Senior Vice President and Chief Financial Officer*

John Bruno - *Investor Relations*

PRESENTATION

Operator
Good afternoon, and welcome to the PPG Industries Third Quarter 2019 Earnings Conference Call. My name is Carrie, and I will be your conference specialist today. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0". After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad. To withdraw your question, please press "*" then "2". Please note, this event is being recorded.

I would now like to turn the conference over to John Bruno, Director, Investor Relations. Please go ahead,

John Bruno
Thank you, Carrie, and good afternoon, everyone. Once again, this is John Bruno. We appreciate your continued interest in PPG and welcome you to our Third Quarter 2019 Financial Results Conference Call. Joining me on the call from PPG are Michael McGarry, Chairman and Chief Executive Officer, and Vince Morales, Senior Vice President and Chief Financial Officer.

Our comments relate to the financial information released on Thursday, October 17, 2019. I will remind everyone that we have posted detailed commentary and accompanying presentation slides on the Investor Center of our website, ppg.com. The slides are also available on the webcast site for this call and provide additional support to the opening comments Michael will make shortly.

Following Michael's perspective on the company's results for the quarter, we will move to a Q&A session. Both the prepared commentary and discussion during this call may contain forward-looking statements, reflecting the company's current view of future events and their potential effect on PPG's operating and financial performance.

These statements involve uncertainties and risks which may cause actual results to differ. The company is under no obligation to provide subsequent updates to these forward-looking statements.

This presentation also contains certain non-GAAP financial measures. The company has provided in the appendix of the presentation materials, which are available on our website, reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. For additional information, please refer to PPG's filings with the SEC.

Now, let me introduce PPG Chairman and CEO, Michael McGarry.

Michael McGarry
Thank you, John, and good afternoon, everyone. We appreciate you joining our Third Quarter Earnings Call. Today, we reported third quarter 2019 financial results. For the quarter, our net sales were about $3.8 billion, and our adjusted earnings per diluted share from continuing operations were $1.67. Earnings were a record for any third quarter.

Consistent with our improvement targets, we delivered strong year-over-year adjusted earnings per growth--per share growth--of 15 percent. Our earnings growth was driven by continued

selling price realization and strong cost management. This quarter, we accelerated our momentum in margin recovery with segment margins up about 220 basis points versus last year.

As we stated in the past, our overall objective is to return to the aggregated segment margins that we maintained prior to this recent inflationary cycle, and we believe this objective is achievable in 2020.

Now, let me provide some additional color on our third quarter results. Our net sales in constant currency were higher than the prior year by about 2 percent. Sales volumes were down nearly 3 percent and were notably impacted by weak global industrial production that continued to affect global automotive production and most of our general industrial end-use markets. This weakness was also broad-based geographically.

Aggregate selling prices were 2.6 percent higher, marking the tenth consecutive quarter of improved year-over-year selling prices and our sixth consecutive quarter with selling price increases of at least 2 percent.

We are continuing to work with our customers to ensure that we are receiving fair value for our products and services and expect price gains of about 2 percent in the fourth quarter, despite a more difficult pricing comparison in the prior year fourth quarter.

Finally, our net sales were affected by significant unfavorable currency translation of about 2 percent, or nearly $80 million. We expect unfavorable currency translation to continue at a similar rate in the fourth quarter.

Moving to some business trends in the third quarter, in our performance coatings reporting segment, aerospace coatings continued to deliver very strong volume growth, outpacing industry performance in most major regions.

In automotive refinish, sales were higher as strong selling price gains and acquisition sales from SEM outpaced lower sales volumes, reflecting lower demand in most regions as many of our customers focused on inventory management.

Year-over-year organic sales were again higher in our architectural coatings EMEA business, driven by higher selling prices. Aggregate sales volumes were slightly lower as we saw mixed demand trends by country during the quarter.

In Mexico, our PPG Comex business increased organic sales, aided by higher selling prices. Sales volumes remained soft as consumer demand reflected the overall lower economic activity in Mexico’s economy. The PPG Comex business continued its growth by adding nearly 100 concessionaire stores through September of 2019.

Organic sales volumes in Architectural Coatings Americas and Asia Pacific modestly increased during the quarter as sales volume growth in the DIY and independent dealer channels offset lower sales volumes at our company-owned stores, including a difficult comparison period last year, where we delivered strong, high-single-digit percentage growth.

Led by a strong growth in the Asia region, our protective and marine coatings business continued to deliver above industry sales volume growth, a mid-single-digit percentage during

the quarter. We expect sales to remain at elevated levels in the fourth quarter, albeit with lower year-over-year growth due to the significant growth we have experienced in the past year.

In our industrial coatings reporting segment, sales volumes continued to be adversely impacted by weak industrial demand in most major regions of the world. Global automotive OEM industry builds declined, including the impact of unexpected or unintended and extended customer shutdowns in multiple regions during the quarter.

In aggregate, PPG's automotive sales volumes were lower by a mid-to-high-single-digit percentage, consistent with the reduction of global builds. As a partial sales offset, our automotive OEM business realized higher selling prices in each major region for the third consecutive quarter.

Weak global industrial production activity impacted most of our general industrial coatings business subsegments, including wood, general finishes, and transportation end markets. Also, our packaging coating sales volumes decreased modestly as solid beverage can demand was offset by weakness in other packaging end-market segments. We expect this business to return to growth in 2020.

From an earnings perspective, as I mentioned earlier, our third quarter adjusted earnings per diluted share was $1.67. Our earnings were negatively impacted by about $10 million of unfavorable foreign currency translation, or about $0.04 per share.

Our effective tax rate was about 23 percent in the third quarter, which is higher than the approximate 21 percent rate in the third quarter of 2018. The increase relates to realizing lower, non-recurring, favorable discrete tax items in the third quarter of 2019. We are anticipating a tax rate of about 24 percent for the full-year 2019.

Our EPS results were supported by increases in our selling prices, improved manufacturing performance, and excellent progress on our cost savings programs--which delivered about $20 million in cost savings during the quarter and remained in line with our objectives.

In addition, as we targeted, we benefited from achieving comparable margins in our U.S. and Canadian architectural business to the third quarter 2017 before our customer assortment changes. The four acquisitions that we have made in the past year also contributed positively to earnings, although at overall lower than company average margins.

As we look ahead, we expect global economic activity to remain weak in the fourth quarter. We expect global general industrial demand to remain unfavorable year-over-year and roughly comparable to what we experienced in the third quarter.

Year-over-year sales comparisons will ease in the automotive OEM business, but we still forecast aggregate global automotive builds to decline in the fourth quarter compared to the prior year. Positive developments around regional and country trade disputes could provide a spark to industrial's demand as inventory levels in many of our end-use markets remain low.

Specific to our businesses, we believe that lower U.S. interest rates could add growth in the U.S. housing market and also favorably impact automotive OEM and U.S. architectural sales. It will be a continuing impact to our sales related to customer shutdowns in the automotive OEM business in the U.S.

In Latin America, we anticipate economic activity to be similar to that experienced in the third quarter, and we'll continue to add new PPG Comex concessionaire locations to expand our customer reach.

In Asia, demand rates are expected to remain consistent in comparison to the third quarter. In the fourth quarter, sales comparisons to last year will be easier, given the weakness in Asian demand that occurred late last year. We expect demand growth will return in China next year.

Economic demand in Europe is expected to remain soft as industrial production is forecasted to remain at low levels. And our automotive OEM business comps are also easing year-over-year, and we should experience a lower sales volume detriment in the fourth quarter. We expect our architectural business to continue to grow, driven by higher selling prices and strong cost management.

Brexit remains an overhang and is beginning to modestly impact our business trends. We continue to closely monitor the situation and have prepared contingency plans to the best of our ability to prepare for unknown impacts.

As we said last quarter, we continue to work with our supplier base to ensure that our input costs reflect current industry demand conditions, including the ongoing uncertainty and weak global industrial production. We will continue to focus on reducing our cost structure, and we target to reduce $20 million of costs in the fourth quarter related to our cost-savings program, including the newest program we announced in the second quarter, which will have a full-year run rate savings of about $125 million upon completion of the program.

Earlier today, we provided EPS guidance specific to the full year of 2019. The guidance is $6.17 to $6.27, which includes an unfavorable impact from foreign currency translation of $0.18 to $0.20 per share. This puts us at the low-to-mid range of our original full-year 2019 adjusted earnings-per-share growth of 7 to 10 percent, excluding currency translation impacts. While we would like to be closer to the upper end of the range, our earnings performance has been very solid when considering the severity of the downturn in the global industrial activity.

We have generated strong cash flow through the first nine months of 2019, with cash generation of nearly $1.3 billion. This is an increase of about $600 million, when compared to the same period last year, and has been driven by strong working capital management. Our focus on cash flow generation will continue, and our goal remains to reduce working capital as a percent of sales compared to 2018 levels.

We completed the Dexmet acquisition early in the third quarter. I continue to be pleased with the early performance of all four recently completed acquisitions, including Hemmelrath, SEM, and Whitford, which collectively will add about $400 million in annualized revenue.

Acquisitions remain one of our preferred cash deployment options, given the value that these have created for our shareholders over the year, and currently our pipeline continues to remain solid. In addition to acquisitions, we progressed our key capital expenditures during the third quarter, and we still expect total spending to be up to 3 percent of sales in 2019.

In the third quarter, we increased our dividend to $0.51 per share, or roughly a 6 percent increase. We have paid uninterrupted annual dividends since 1899, and we are pleased to

continue to prioritize our dividend increases. We ended the third quarter, with more than $1.5 billion in cash in short term investments--which continues to provide us with significant financial flexibility.

Finally, I'd like to recognize and thank our employees around the world for their continued commitment to serve our customers. Every day our dedicated employees are focused on driving the PPG way in delivering value to all our stakeholders and shareholders.

This concludes our prepared remarks. Once again, we appreciate your interest in PPG. And now, Carrie, would you please open the line for questions.

QUESTION AND ANSWER

Operator
Sure. We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your touch-tone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2". At this time we will pause momentarily to assemble our roster.

The first question will come from Ghansham Panjabi with Robert W. Baird.

Ghansham Panjabi
Hey, guys. Good afternoon.

Michael McGarry
Hi, Ghansham.

Ghansham Panjabi
Hi, how are you? I guess first off, you've obviously given us really good detail on how to think about volumes for the fourth quarter. I understand it's early. But, what is your initial view as it relates to the volume outlook for 2020 at this point as it relates to your major end market? And on your margin recovery comment by 2020, Michael, are you referring to the run rate at the end of the year or margins on an absolute basis? Thanks.

Michael McGarry
Yes. I do expect margins to continue to improve. As you can see, our margins in our performance coating segment are essentially back to peak, and we think there is still more upside there, so we're going to continue to work hard on that.

We also have made, as you saw, significant--more than a 200-basis point improvement--in the industrial segment, and we still have more runway to go there. As we said, we had positive price coming in the fourth quarter, and I would expect that we would continue to push price as we move forward, as we still have an environment where we have inflation--and think about salaries, warehouses, freight and distribution, things like that.

Vincent Morales
--Yeah. And Ghansham, on your question with respect to 2020, it's a little early to answer that question, but what we can say confidently is a lot of our customers are carrying very low inventory levels. Typically, they achieve their inventory levels at the end of the year, not by the end of Q3, as they have done this year. So heading into 2020, we do think there could be some inventory upsides. It's too early to make a call on the economy and the other geopolitical

issues, but a couple of our key industries--we know auto--we feel a little better about auto next year, specifically in Asia, the biggest market. And a couple other markets in general industry were down this year, and we're hopeful that they'll have at least a modest rebound next year, not counting the inventory rebuild.

Ghansham Panjabi
And just as a follow-up to that, Vince, for the industrial segment specifically, how shall we think about operating leverage for that segment as volumes start to recover? I mean, obviously you're adjusting the cost footprint. And I assume some of the cost will reverse as demand picks up. I just wanted to get your sense as to operating leverage during the initial phase of improvement. Thanks.

Michael McGarry
Yeah, Ghansham, this is Michael. That's going to be a strong positive force. When you think about the past quarter, earnings in that industrial segment were up despite volumes being down, and we anticipate to continue to drive costs out. And so, you should expect to see a nice operating leverage should volumes come back. And right now, we certainly plan on -- our outlook for 2020 would include some modest recovery.

Ghansham Panjabi
Thanks so much.

Vincent Morales
Thank you.

Operator
The next question will come from Christopher Parkinson with Credit Suisse.

Christopher Parkinson
Great. Thank you. Regarding your volume outlook, can you kindly walk us through the key end-market verticals for which you believe PPG is poised to benefit from, let's say, secular themes, regulatory changes under new products. Non-BPA and the move to aluminum cans will be one, I guess, in packaging, low-cure products and EV battery protective in auto. Just--if there are a few others, just generally based on what's inside of your control, what are the key verticals for which we could expect you to out-perform, and why? Thank you.

Michael McGarry
So, Christopher, you've covered automotive pretty well, so I'll pass on that one. We have in the industrial business--as part of the industrial segment--that one I would point to like high-edge powder as one of them. And if you think about moving into packaging itself, the sustainability of the can is number one, so you can see the shift away from plastic. That's going to be a long-term secular win for us.

Housing is continuing to -- we've got low interest rates around the world, so I think the housing has continued to be a nice little market for us. Aerospace is clearly going to be a continued winner for us. We're going to outgrow the industry there with the launches that we have had, whether it's new transparencies or new coatings.

And then, we talked about in our press release Moonwalk for refinish. This is a new technology that allows people in Europe to be able to mix refinished paints more precisely, allows the

technician to spend more time painting the car as opposed to mixing paint, drives higher productivity in the paint shop. So, I think net-net, we're in pretty good shape long-term wise.

Christopher Parkinson
And just in regards to your margin outlook, can you simply outline in order which variables will be the most material to achieving and surpassing prior peak margins, just between price, input cost deflation, mix, acquisition integrations, and just broader volume improvement - just any key thoughts on how the street should be thinking about that as we head into 2020. Thank you.

Vincent Morales
Hey, Chris, I'll start. Michael could certainly add to what I say. But, we're still sitting on a significant amount of inflation that's multiyear inflation. We have seen very little of that unwind to this point. We alluded in our call about the economy, the weakness in industrial activity. So, we're still working to get priced offset this accumulated inflation. But, there is a significant amount of inflation. We would not expect with the supply/demand environment where it is in our supplier base.

We still have self-help. We announced a self-help program in May. We still have a variety of actions due against that program. We're expecting significant savings from that program that will be primarily in next year.

And then, the last one is we don't know the volume outlook, so the things within our control, we're managing. But, as Michael just mentioned on the prior question, if we do get any volume, especially in some of our industrial businesses, we should have a significant amount of leverage.
So, those would be the way I prioritize them.

Michael McGarry
And, Chris, the one thing I would add is that with a couple of the acquisitions we've made, they are below company average. They are fairly decent-sized ones. I'm excited because I get a monthly report on the integration as well as the performance. And we are seeing month-over-month improvement. In fact, when I looked at the Hemmelrath numbers for the month of September, it was the best month they have had ever. And obviously they are benefiting from some of our abilities to integrate them. But, I see even more positives coming. They have relationships with customers that are slightly different customers than we have from a standpoint of mix. And so, we're able to take the best of both worlds, their great relationships and our great technology, and put the two together. And we've already won a substantial number of new program wins since we bought Hemmelrath.

Christopher Parkinson
That's great color. Thank you.

Operator
The next question will come from Bob Koort of Goldman Sachs.

Robert Koort
Thanks very much. Good afternoon. Michael, you guys gave some commentary about your U.S. architectural business. I guess it seems like going on a few years now, there's put-and-takes and maybe not complete uniform consistency by channel. Can you talk a little bit about the DIY market? It sounds like maybe that's starting to percolate a little bit. Certainly, we're seeing some of these housing stocks rally dramatically. Are there some signs that maybe we're

going to get lift off in DIY? And then, in your store base, I guess I would have thought maybe some of those contractors that were hiding from the rainy weather in the June quarter would have come back out in the September quarter. So, is there anything idiosyncratic to your store base, either regionally or end-market wise, that would have precluded you from having a little better volume there?

Michael McGarry
Yeah. So, Bob, let me first start with the DIY. So, we're gaining share in the DIY segment. Our customers are doing pretty well. And inside our customers, we have continued to launch new products, and that has been a real positive. So, if you think about the PPG Timeless at Home Depot as well as the Olympic Stain at Home Depot. Both those guys are growing above company average, so we're really pleased with that.

I think the one thing that doesn't really come through when you think about our company store average is if you remember in some of the prior calls, we kind of talked about doing a little bit of everything in that segment. So, some of it is delivery, some of it is the stores, and some of it is what we call our premier authorized dealer network, or where we're trying to make it simple for the customer to say, "I can pick up in a dealer location, or I can pick up in a PPG store location."

And obviously we have, let's call it, a little bit less than 900 stores between the U.S. and Canada. Well, if you include that plus the nearly 5,000 dealers that we have, that gives our customers a lot more opportunities to pick up paint. And so, if you look at our dealers, if you notice in our commentary and our press release, we said dealers were a positive. And historically, as you know, this has been a long-term secular minus one kind of trend line as dealers age out and move on.

But, with this new strategy, we are picking up additional business through the dealers. We added 50 new dealer locations in the third quarter. We're up to about a 140 locations in the third quarter, a total of 427 new locations where they can pick up paint, and we expect that to continue to accelerate. As other dealers see this work, they're going to want to jump on that bandwagon as well. So, I think that's a little bit of nuance that maybe doesn't come out in the overall numbers.

Robert Koort
Can I ask you on the balance sheet, you have been accruing cash nicely through the year and haven't been doing any share repurchase. Would that be a reflection of the acquisition activity, or is there some other reason you wouldn't have put more of that capital back to use through repurchase?

Vincent Morales
Yeah, Bob, as Michael pointed out in the opening remarks, we have had a very good cash generation year-to-date. We have got about $1.5 billion on the balance sheet. We do have some term debt coming due in Q4, some of that cash will be applied to the term debt coming due. But besides that, we do have a strong balance sheet, and we're still looking at a variety of acquisitions. The acquisition pipeline is still rich.

We are not immune to do doing share repo. We haven't done any to date basis the acquisition pipeline, but if the acquisition pipeline lessens or we think there's a need to do share repo for different reasons, we'll do so.

Robert Koort
Got it. Thanks, guys.

Vincent Morales
Thank you.

Operator
The next question will come from Michael Sison of Wells Fargo.

Michael Sison
Hi guys, nice quarter. A question on--just quickly on the stores. You said you were a little bit less than 900. Can you maybe walk us through what your strategy is there, going forward? Are you looking to continue to expand the stores? Or is kind of this dealer network really the area where you can have combined growth for your business there? But, just kind of curious where you think the store strategy and growth potential is, going forward.

Michael McGarry
Yeah. So, Michael, what I would tell you is our strategy hasn't changed. We're going to add stores where it makes sense in those markets that are growing, so think the Southeast and the Southwest. We're not going to be adding stores in the Northeast or in the West or the Upper Midwest. Those aren't focus areas for us for stores. What they are is focus areas for us for this premier authorized dealer network because we think there's plenty enough between our stores and our dealers to adequately service our customers.

So, we're going to continue to do that. I compare and contrast that to Mexico, where we've added nearly 100 stores year-to-date, and we're going to finish the year at nearly 200 new stores. Same thing where we've added stores in the U.K. We've added stores in Australia. So, we're going to take what we call a micro-market strategy. We're going to look at each of the different markets and make the best decision for our shareholders in that regard.

Michael Sison
Right. And then just a quick follow-up, when you think about volume growth whenever--I mean, whether it comes next year or sooner than later--what do you think your leverage is going to be, meaning if you grow your sales 1 percent, does that leverage a 2 percent EPS growth, 3 percent EPS growth, and just kind of want to feel for the upside potential as we all hope that demand picks up at some point.

Vincent Morales
Yeah, Mike, this is Vince. In the past, we've said pretty regularly that our leverage on a normal increase in sales is somewhere in the mid-20 percent range. And in Europe, it's higher because of the latent opportunity we have there. So, we said in Europe, it's in the mid-30 percent range.

I'd actually say that, if you look at the costs we've taken out globally, we're inching up to 30 percent on average for the globe in terms of a leverage factor. Now, it's obviously going to be based on which business, etc. But on average, I think we're closer to 30 percent now than the 25 percent we were previously.

Michael Sison
Great. Thank you.

Vincent Morales
Thank you.

Michael McGarry
Thanks, Mike.

Operator
The next question will come from Frank Mitsch of Fermium Research.

Frank Mitsch
Hey, good morning, guys. Good afternoon, guys. Looking at the refinish business, following the second quarter, there was an expectation that the volumes would improve in the third quarter, given the easy year-ago comp because of inventory--these stock that occurred. And that didn't come to be. Volumes were down in 3Q, and you called out inventory management--as well lower collision claim activity.

Is there any reason for us to anticipate that we're going to see a rebound in this business? Obviously, you highlighted Moonwalk, so maybe from a technology perspective, but just from an overall macro perspective with new safety features in the cars, etc., how should we be thinking about automotive refinish down the line?

Michael McGarry
Frank, this is Michael. I think this is still a great business, so I don't want anybody to walk away thinking anything differently. I mean, certainly claims were down 1.2 percent and a little bit more than that in Europe. But, we had a couple of large customers, CEO changes, who came in and take even a more aggressive approach on inventory.

We've continued to have net body shop wins in all regions of the world, so that is a positive. When you look at our integration of SEM that is primarily a U.S. based business. We've launched those products in Canada. The first set of products went to Australia in September, so we'll start to see some sales there.

We're doing better in sundries. But, I think overall, the one message I want to leave you with--our earnings and refinish will be up year-over-year at the end of the year. So, we're able to price effectively in this business. And this remains a great business for us.

Frank Mitsch
All right, very helpful; thank you for that. And just in general, as I look at the third quarter, you hit the high end of the guidance that you put out following the second quarter, and it's clear that the macros were mostly running against you during the quarter, particularly in European activity, in autos, etc. So, I'm just curious, what on the other side really went right for you in order to again hit the high end?

Vincent Morales
Frank, this is Vince. I'll let Michael again add here, but we are pacing ahead of our cost targets. So we did have additional cost benefit in Q3 that we thought may come in Q4, but we got after it a little bit earlier. That's one item that was helpful to us. And, Michael, I don't know if you want to--.

Michael McGarry
--Yeah, the other one I would tell you -- the automotive team. We've been challenging the automotive team to get ahead of this volume decline, and they really have worked exceptionally hard to do that in the second and third quarter. And I think what we saw in the back half of the third quarter was that accelerating. So, I think that would be the other one I would point to.

Frank Mitsch
Very interesting. So, the automotive side -- and I presume you're talking about the OEM side--.

Michael McGarry
--Yeah--.

Frank Mitsch
--Was able to outpace kind of your initial expectations, even though builds were down, you have faced strikes, etc. That's very interesting that that would be the area that you would point out to.

Michael McGarry
Yes, the automotive team has done a good job this year -- OEM.

Frank Mitsch
Thank you--thank you so much.

Vincent Morales
Thanks, Frank.

Operator
The next question will come from David Begleiter of Deutsche Bank.

David Begleiter
Thank you. Michael, were raws up year-over-year in Q3, and what are you thinking about for Q4 on raws?

Michael McGarry
Well, of course, we think about our costs as more than raws, David. So, in the third quarter, they were moderating. We had a couple up, we had some down, but net-net they were moderating. As I tried to point out in my opening comments, we still have freight and distribution. If you think about dangerous good warehouse costs, especially in Asia, they have significantly increased. And so, that's why we continue to invest in our business, we continue to invest in our people, so that's obviously a cost on the rising side. But net-net, I would say raw materials were moderating.

David Begleiter
Perfect. And just on the impact of the GM strike in Q3 and Q4, do you have an estimate on that impact?

Michael McGarry
Well, we're not going to talk about any individual customers. What I would tell you is that we have a very diverse customer mix in automotive. And so, no one particular customer is going to have a significant impact on our overall business. And our team -- when it was announced -- immediately took aggressive cost action to ensure that the impact was minor. So, I think overall, like I said, to Frank's question, the automotive team did a good job.

David Begleiter
Thank you very much.

Operator
The next question will come from P.J. Juvekar of Citi.

Eric Petrie
Hi. Good morning. This is Eric Petrie on for P.J.

Michael McGarry
Eric.

Eric Petrie
So, electronics vehicles represents a market opportunity for you. How much coatings could you sell into EVs compared to other light vehicles?

Michael McGarry
Well, Eric, what we have always said is that the EV vehicles can be anywhere from two to three times more coatings on them than a standard vehicle. Right now--I don't have the latest number in my figure, but I think it's 0.7 percent of all cars are electric vehicles. So, it's still a very small number. And what's interesting is that everybody does that differently. So, one guy might do their batteries might need protective coatings, another guy might just need industrial coatings, another guy might use all three. Some are using powder, some are using liquid. Some use third party, some do it in-house.

Right now, unlike when you look at a traditional car, you can use kind of broad guidelines. Right now, this is still in its infancy, and there's still a lot of unknowns about how this is going to shake out. But clearly, what we see in every case is more paint on an EV vehicle than on a traditional vehicle.

Eric Petrie
Thank you. For my follow-up, in packaging, can you discuss the market opportunity to continue gaining share in non-BPA coatings? And then, as the industry shifts from plastic bottles to cans, is this a tailwind for the business?

Michael McGarry
Well certainly the plastics to cans will be a tailwind. It's too early in that process to know what that curve will look like, but it's certainly a long-term positive. Our BPA-NI, as we significantly outpaced the market in 2016, 2017, and 2018. We have been slightly less than the market in 2019. We expect to be back on that track of at or above market in 2020. We have some new technology that is coming out. Right now, probably, I would say food has been let's call it 70 percent converted beverages, less than 50 percent. And it varies considerably by region with Europe much farther ahead and Asia much further behind. But, there's still more work to be done there.

Vincent Morales
And Eric, just back on your first question. I mean, the statistics we have seen--these aren't our statistics--but 1 percent drop in plastic bottles--it converts to aluminum cans--is a 6 percent increase in cans. We are seeing also efforts in the industry to replace single-use serving cups as well. So, I think the industry--the overall packaging, aluminum packaging industry--does have some positive traits for it as we head into next year.

Eric Petrie
Helpful--thank you.

Vincent Morales
Thanks, Eric.

Operator
The next question will come from Kevin McCarthy of VRP.

Kevin McCarthy
Yes, good afternoon. I think you have been very clear that your contribution margins are higher regionally in Europe relative to the U.S., for example. I was wondering if you would be willing to comment on which product lines are your highest and your lowest contribution margins in a given region.

Vincent Morales
Not something we typically comment on, Kevin.

Kevin McCarthy
Okay. Secondly, I had a small question on the financial side. Your slide 9 indicates net interest expense of $27 million to $28 million. And I believe the 3Q number was $23 million. And so, I'm wondering why your net interest would increase $4 million or $5 million sequentially when your leverage seems to be down roughly $450 million. Does that have to do with capital structure or deployment plans?

Vincent Morales
Well, a couple things on that, Kevin. First of all, we are paying off some term debt, but that term debt has very low interest associated with it. And one of them was close to a zero percent interest, so even though we're paying debt off, it doesn't have an effect on lowering the interest cost.

We have been carrying extra cash and earnings and money on that cash in Q3 that will go away in Q4 as we pay down that term debt. And we do have, as is traditional in our business, seasonally a much higher cap-ex spending. In the fourth quarter, we typically spend 30 to 40 percent of our capital between October 1 and the end of the year. So, we'll have additional capital outlays versus what we did earlier in the year, so those would be the biggest factors.

Kevin McCarthy
Thank you very much.

Vincent Morales
Thank you.

Operator
The next question will come from John Roberts of UBS.

John Roberts
Thank you. Michael, there have been some press reports that PPG has been working as part of a joint bid for Axalta. Could we assume any trust issues for both auto OEM and refinish would be really high, so that your interest is primarily in the industrial non-auto?

Michael McGarry
Well, John, first of all, we're always flattered when people associate ourselves in the rumor market, but as you can imagine we're not in a position to comment about another public company. We are going to continue to drive the consolidation in this coatings space. And as we mentioned earlier, our pipeline remains active. But as far as any particular company it would be inappropriate for us to comment.

John Roberts
Then, maybe based on the IHS auto build outlook for the fourth quarter, could you, just based on their assumptions, can you give us maybe a range for your auto OEM coatings volumes in the fourth quarter by region and what it would roll up to an aggregate.

John Bruno
So, John, we're going to benefit from some easing of comps as we look at prior year, so I would look at IHS. There's a revision that just came out this week. And we would be looking at our performance being somewhere in line with those build forecasts.

John Roberts
Thank you.

Michael McGarry
Yeah John, the only other thing I would add is that, from a very, very small, minor green shoot area, we did see builds start to pick up in the last two weeks of September in China. But, we'll wait and see whether this is a trend line. Some of the local Chinese guys were behind the curve on meeting the emissions standards. So, maybe they are just catching up, but we'll continue to keep an eye on it.

John Roberts
Very good. Thank you.

Operator
The next question will come from Don Carson of Susquehanna

Don Carson
Yes, first a question on the sustainability of the price increase as, Michael, you mentioned that probably price increases will moderate in the fourth quarter. But, you've had six quarters now of over 2 percent. How much longer do you think you can sustain that and particularly as you get push-back from customers in the industrial sector?

Michael McGarry
Well, first of all Don we have not had any push-back yet from customers. I mean, you get your normal push-back but at the end of the day, they know full well that we have had more inflation than what we've recovered. They can read the financial statements just as well as you can. So, they know we're behind.

They also know that we're, if you look at some of our regions, we're below the curve line, if you will, on volume. And some of that is because we've said we're going to need to continue to get price, and we're going to take price. And if they want to move volume away, that's perfectly acceptable to us.

And so right now, we know we're going to get price in the fourth quarter. I'm pretty optimistic we'll still have a positive price number in Q1, and we're going to continue to push because at the end of the day, we should be asking for value commensurate with the value that we create for our customers. And so, we're going to continue to ask for it.

Don Carson
Then a follow-up on U.S. architectural. How do you see the industry growing, given some fairly good housing data, both maintenance and new homes? And now that you've got the customer mix issues behind you, do you think PPG can grow in line with the market or greater than the overall market?

Michael McGarry
Well, for the industry next year, we have budgeted between 2 and 3 percent growth. We think that's a realistic number. Our architectural team is on the optimistic side, but I think this is a point where we have to show --it's kind of like the show-me state - let's see what happens. And I think our goal would be to start with continuing to meet the industry numbers. And we'll see how well the team does.

Don Carson
Thank you.

Vince Morales
Thanks, Don.

Operator
The next question will come from Arun Viswanathan of RBC Capital Markets.

Arun Viswanathan
Good morning, guys--or good afternoon. Just a question here, a little bit higher level and looking into 2020, if I could just ask this a different way. Yeah, you guys had referenced kind of a 2 percent-plus price now for a little while. Volumes have been kind of flat to down. Next year, if I think about some of your end markets, aerospace faces some pretty tough comps. Architectural could be up slightly on your comments here.

Automotive--it doesn't really appear that it's getting better, although you cited maybe slightly better than your expectations. So, when I put all that together, it sounds like next year volumes could be also flat to down slightly, and then I don't know if you're necessarily going to have the price--so just kind of trying to understand how you are thinking about sales growth from here. It would appear that next year would likely be lower than this year, just given the lack of pricing actions. Thanks.

Michael McGarry
Well, Arun, I think it might be a little bit early to call that. When I think about some of the innovations that we have out there, I think if you think about the low temperature cure, that's still an opportunity for us. For aerospace, we have a number of customers who are qualifying e-coat for airlines. So, that's still an opportunity for growth.

We still have more share to gain back in Europe because we have been leading the price charge over there on that. So, I'm not where you are right now. It's a little early to say that. So, I will say that we should be more on the positive side.

Vincent Morales
Yeah, Arun, I would just reiterate what I said earlier. We think most of our customers in many channels are carrying very low inventory levels. So with any modest economic recovery, we think there's going to be a dual effect, the recovery itself plus some kind of inventory replenishment level. So, again it's too early to make that call, but as we talk to our customers, they are very low in terms of their inventory on the balance sheet.

Arun Viswanathan
That's helpful. And then is a follow-up. It looks like you've taken some very swift action on the cost front. Those are coming through nicely. Your price cost is heading in the right direction. I guess I'm just curious -- and then you have the new product pipeline -- what else could you do from a standpoint of you've completed four deals? Are you also open to something a little bit more transformative? The strategic review kind of unveiled that breaking the company up isn't really advantageous. But, is there anything larger or more strategic that you could pursue to shift the focus a little bit forward, I guess?

Michael McGarry
Well, Arun, I would tell you that nothing is off the table. We're always going to be looking to do what is in the best interest of our shareholders. We're going to be disciplined, though. We're not going to be doing anything that doesn't create value. We still have more opportunities. When I think about the EV market, that is still a wonderful opportunity for us, and we're obviously anxious for it to play out, sooner rather than later. We can't control that. There is still a challenge where the EV cars cost significantly more than a traditional car. And they have to figure out a way to get those costs more in line so they can sell more cars.

Arun Viswanathan
OK, thanks a lot.

Vincent Morales
Thank you.

Operator
The next question will come from John McNulty of BMO Capital Markets.

John McNulty
Yeah, thanks for taking my question. Just going back to the architectural stores business that you have, last quarter you had expected for this quarter, at least in the guidance you had indicated you were looking for low-single-digit demand growth. And I guess, given some of the pent-up demand around the wet season, we would have thought it would be even better than that.

I guess, relative to those expectations, what changed or what was off? Is it just that it went more and more quickly to the independent dealers, or is there something else in the mix that we should be thinking about?

Michael McGarry
Well John, first of all, I'm not sure where that -- your inference came from. We grew third quarter of 2018 at high-single-digits. And jumping over that comp was going to be a challenge. And given the way we structured the stores and the dealers, we thought it would be a challenge. So, overall I would tell you that we're pleased with the rollout of this premier authorized dealer network. So, Vince, I don't know if you will say anything.

Vincent Morales
No, I am going to say the same thing but maybe a different way is -- we look at the stores in our dealer network. We're kind of merging that into a singular channel. We are trying to optimize what we do on a micro-market basis, as Michael mentioned earlier, so we're not overlapping as much. And whether the sale goes to a dealer or to our store is inconsequential to us. So, we have to look at these combined. And if you look at the dealer results this quarter and year-to-date, they're up nicely. And it's a lower cost to serve for us. So, I think we're -- it's probably more semantic than anything.

John McNulty
Got it, got it. No, that's helpful. And then, on the unexpected customer shutdowns, is this something that you typically recapture as the volumes come back on? I mean, do you see your customers essentially try to run harder to catch back up, or is it something where, "Look, the business -- it has come and gone," and it is kind of something we kind of have to just get past?

Michael McGarry
No, I would suspect that if you take the case of our friends up in Detroit, they are going to be short of trucks, so they are going to be trying to catch up that volume. Now, on the car side, they are probably not as worried about that. But, net-net, I think they will be trying to optimize their inventories, and it may be different at one plant versus another on how hard they are going to ramp up. But, some of that volume will come back, but definitely not all of it.

Vincent Morales
Yeah, we've seen customers' curtailments on both sides of the quarter. We saw -- July shutdowns are normally traditional annual time periods to do shutdowns. Some of those were extended. We saw obviously different shutdowns in September. But again, if you look at the inventories as a microcosm in the automotive OEM business, the inventory levels are very low in almost every region relative to historical levels. And so again, I think that's another good news story at some point. They are running below -- well below historical inventory levels.

John McNulty
Great. Thanks very much for the color.

Operator
The next question will come from Jeff Zekauskas of JP Morgan.

Jeff Zekauskas
Thanks very much. Earlier in the call, Michael, you talked about raw materials moderating. Were they down about 2 percent in the quarter? And can you comment on raw materials in the United States and that propylene is, I don't know, $0.38 a pound, and last year at this time it was $0.58 a pound, so maybe it's down 35 percent. So, is there much more raw material depreciation in the United States than there is in other regions?

Vincent Morales
Let me take the total question, Jeff, and Michael--.

Jeff Zekauskas
--Sure.

Vincent Morales
In total, our cost buckets were not down 2 percent -- anywhere near that. We did, as Michael mentioned, have a variety of other costs that are elevated -- are still elevating. We aggregate that. And we had very modest moderation of raw material costs in the quarter in year-over-year. And again that's after several years of accumulation of inflation.

Michael McGarry
And, Jeff, I note--you sound like one of our customers with selectively picking up propylene in North America, but you forgot to mention ethylene in North America is at $0.27 and this time last year was at $0.20. So, and I always tell people we don't buy ethylene, we don't buy propylene, we buy the derivatives, so the supply and demand of the derivatives is also important. So, where you might have propylene down 15 percent, you have ethylene up 30 percent, so there are some put-and-takes.

Jeff Zekauskas
Well, contract ethylene was $0.33, but--so secondly, when you contemplate your acquisition strategy, do you have a bolt-on strategy, or is it something larger than a bolt-on for the next year?

Michael McGarry
Well, I think as we've always mentioned, we're active and looking at the pipeline, and we're going to take the best use of our shareholders' money, and we're going to be disciplined in that approach. So, it could be either/or, but right now the opportunities are -- historically have been on the bolt-on's.

Jeff Zekauskas
Great. Thank you so much.

Vince Morales
Thanks, Jeff.

Operator
The next question will come from Duffy Fischer with Barclays.

Duffy Fischer
Yeah, good afternoon. You have mentioned a number of times kind of the cumulative impact of the inflation you have seen over the last couple years. How much price do you need from here, if you hold those costs constant, do you need to get back to par?

Vincent Morales
That's a great question, Duffy, because we still need more price, and that's what we tell our sales guys and ladies every day, that we're still not on a cumulative basis recovered. It's different obviously by region and by business. But, we still need -- we're not giving an exact number -- but it's more than we have today, and cumulatively our prices that we've given out past couple years were up just shy of mid-single digits, and we need to be just north of mid-single digits.

Duffy Fischer
All right. And then historically, when you have built cash, sometimes you have put parameters around that cash where you'll give us a time frame, where either via acquisitions or buybacks

you will consume that cash. Has that worked in your mind historically when you've done that? And if it has or hasn't, how would that impact what you might do going into 2020 with the cash you've built?

Vincent Morales
Well, again, I'll remind you that we have about $600 million or $650 million of the cash on the balance sheet today slated for term debt pay-down. And we did some term debt issuance in Q3. We liked the interest rates. And we're going to swap that out for payment in Q4. We'll look on a recurring basis -- on a monthly basis at a minimum -- at our cash and our cash uses, and potential cash uses, for the next couple quarters.

We'll do that again certainly through the fourth quarter. And if we want to give guidance on that, we'll do so in January. Right now, as Michael said, the acquisition pipeline is active, and we'd still like to keep some dry powder until some of the things vet out there. But, we're not immune to giving it or not immune to not giving it. It just depends on what we see going forward and what we feel shareholders want to hear from us.

Duffy Fischer
Great. Thank you, guys.

Operator
The next question comes from Laurence Alexander of Jefferies.

Dan Rizzo
Hi, guys. This is Dan Rizzo on for Laurence. How are you?

Michael McGarry
Hi, Dan.

Vincent Morales
Hi Dan.

Dan Rizzo
You mentioned before that Brexit is kind of propping up as a headwind. I was just wondering if what a no-deal Brexit means or what a deal would mean, or if it doesn't matter as long as there is like just a removal of the uncertainty.

Michael McGarry
Well, the best thing would be the removal of the uncertainty without having a border crisis. Right now, we're not able to predict that, as you can guess. We are prepared for either way. What we do see is -- our architectural business has hung in there pretty good, but then if you look at our little business up in Northern Ireland, there's way more consternation and churning up there than there might be in say, Southern Europe--or Southern England. So, I'd say it varies, but at this point in time, it's still a huge watch-out for us.

Dan Rizzo
Thanks for that. And then, my second question, you mentioned I think adding 50 new distributors this quarter. I was wondering if we should think about it as kind of a general run rate going forward - like 50 a quarter and 200 a year? Am I thinking about that right?

Vince Morales
Well, it's a new program this year, so we do have some earlier sign-ups. That's probably a good number we should probably look at for our Q4 call to try to give you guys some parameters. It's too early to make that call right now.

Dan Rizzo
All right. Thank you very much.

Operator
The next question will come from Vincent Andrews of Morgan Stanley.

Vincent Andrews
Thank you and good afternoon everyone -- just trying to think through the comments earlier about the potential for customers to rebuild inventory next year. And I guess what I'm trying to square in my head is that we've had as you say, six quarters of very solid 2 percent price increases going through. And yet the customer base seems to be running lower than average or normal levels of inventory despite the fact that it's very clear you're going to - continue to take pricing - so then some economic fly-ups.

What is it that is going to, or could, cause customers to rebuild inventory levels versus if they have been at low levels for a long period of time, and they are generating greater cash flow for that reason, why wouldn't they just stay where they are? So, what are the pros and cons on that?

Michael McGarry
Well, the first reason why they would rebuild is they have confidence that their end-use demand is going to pick up. So, think about the heavy duty equipment guys, right? They are wondering what the heck is going on in the farming business and whether or not they are going to be selling more combines. Right now, there's a lot of churn in that segment, so they're trying to figure that out.

If they had more clarity on what the future looked like, the farmers would be more willing to spend their money. If they had a better idea about the crops, they would have a better chance of spending it.

So, I think that would be one. The other one is consumer confidence in China. Right now, consumer confidence in China is down, PMI in China is down, and so if they thought that the trade churn was behind them, I think people in China would get behind that and start making major purchases. Right now, they have deferred on major purchases.

Vincent Andrews
Thanks very much. I'll leave it there since we're at the top of the hour.

Vincent Morales
Thanks, Vincent.

Operator
The next question will come from Stephen Byrne of Bank of America.

Stephen Byrne
Yes, thank you. You mentioned just a few moments ago about your volumes and OEM auto to be roughly in line with IHS expectations. It seems your third quarter volumes underperformed or were more challenged than the global auto build rate contracted. Is there something in there that you can attribute that to?

Michael McGarry
Well, part of it, Stephen, was in China. So, we have a pretty good split of the local Chinese OEMs, and these guys were behind on the emission changeovers. And so, they were suffering from that standpoint, so they underperformed significantly, the China as well as the Asian standard. So, that's probably the single biggest thing.

Stephen Byrne
And then, just a quick one on your architectural stores. If you have a loyal paint contractor to your own stores, if they were to shift to a dealer location, is that particular mix of paint that they're buying and the composition and the menu and all of that -- is that transferred to that dealer? And how is your margin on that gallon of paint that's shifted from your store to a dealer?

Michael McGarry
Yeah. So, think about it this way, without getting into the specifics. We're agnostic as to whether he picks up in the store or picks up at the dealer. The key is that he can pick up at his price at the location that is most conducive for him winning the business.

Stephen Byrne
Thank you.

Vincent Morales
Thanks, Steve.

Operator
The next question will come from Mike Harrison of Seaport Global Securities.

Michael Harrison
Hi. Good afternoon. Just wondering if I can maybe build on this idea of the premium dealer channel or dealer network. Can you help us understand exactly what is changing in the model and maybe if there are any costs associated with it and what stage you are in in this process?

Vincent Morales
Mike, I think we heard your question about trying to understand the differences in the business model. You were coming through pretty lightly. But, if I understood your question right -- we'll just give you one example. We have a city in the Midwest. We had 8 or 10 stores in that city. We sold those stores to the dealer in that area. We're selling through that dealer and we're no longer competing with them. It has lowered everybody's cost to serve. The paint contractor has the same opportunities they had before. So, again, what we're trying to do is optimize our distribution points to the customer. That's really the focus of this strategy. I hope that was your question.

Michael Harrison
Yeah, I guess the question I was really trying to get to is what stage are we at in that process of shifting to a different strategy with the dealers and other costs associated with it?

Michael McGarry
So, yeah, Mike we're in - I would say - a little bit more than a year. Early on it was a trial stage. We saw some real good positives with that. Now, we've accelerated it. There's no real additional cost. We need to make sure when they pick up in our dealer stores that they are getting the PPG price. So, there is some transfer of data that has to happen, but that's electronic, and so I would not regard this as any material cost and as Vince said earlier, typically it's a lower cost to serve channel to support our dealers.

Michael Harrison
All right. And then, the other question I had was within the industrial business, were there pockets within that business that were stronger or weaker? And just in terms of the trends across all four regions it looks like volumes were down during the quarter. Were the trends stable, or were the trends worsening in industrial?

Michael McGarry
Yeah. So, I would say the trends were somewhat moderately lower, and it really varied by region. So, Europe was a little bit lighter, Asia Pacific a little bit lighter, U.S. relatively the same, Latin America relatively the same.

The segments that out-performed were like extrusion, electronic materials, those kind of things that were on the upper end of the curve. Clearly, the ones that were weak were general finishes, wood, and parts or transportation equipment, the under the hood parts that typically show up in our industrial segment.

Vincent Morales
But based on our cautious outlook, Mike, again, I'd say industrial activity modestly weakened throughout the quarter.

Michael Harrison
All right. Thanks very much.

John Bruno
Thanks, Mike.

Operator
The next question will come from Dmitry Silverstein of Buckingham Research.

Dmitry Silverstein
Good morning. Thank you, or good afternoon, I should say. Thank you for squeezing me in. A couple of questions, kind of regional, I guess. Vince, you talked about sort of in your expectations for 2020 that you would expect China to recover a little bit from a macroeconomic perspective. I'm trying to understand besides the easy comps in automotive, what gives you the confidence that the Chinese economy and the Chinese consumer is going to come back in 2020.

Vince Morales
Well, we've been talking about this all year, Dmitry. The Chinese consumer is still accruing buying power. The unemployment rate there is no different than it was three or four years ago. They have moved to more of a saving economy. I think they are feeling -- they are apprehensive about the geopolitical environment. And our expectation and our hope is that gets

somewhat resolved or some of that breaks free because they have moved to more of a consumption model, and they have saved for I'd say well over nine months to a year now. And I think that they will be more comfortable spending next year. That's the biggest single item. If you look at the service economy there, it's doing well. So, again, I think there's still some good traits in that economy that would bode well for increased consumer spending.

Dmitry Silverstein
Got it. Thanks. And then to follow up on your comment on Comex about the growth there being on same-store basis, at least, in the low-single-digit range. It was a much faster business when you bought it. I think you grew it very nicely in the first few years of ownership. You talked about some kind of political headwinds and economics headwinds.

Looking at your tea leaves -- when can we, or when do you expect whatever the situation there that's going on to resolve itself, or is there something that's going to drag onto -- through 2020? In other words, is there a particular data point or an event that you're looking for, or is it just a matter of anniversary-ing whatever headwinds are being faced by that business?

Michael McGarry
So, Dmitry, I'd say there are two factors that we're watching closely. The first one is government spending. So, with the transition to the new government run by AMLO, as they call them, they are cautious, and they have not cranked out the government spending that we typically see. We think that will loosen up, so that should be up year-over-year.

And then the other one that we're watching cautiously is major projects. So, a lot of the folks that have the money were nervous when AMLO was elected. And so, they let their major projects wind down. They haven't restarted new major projects. But, what is interesting is that the President has the highest approval ratings ever. And so, I think over time, people are going to start to loosen up and start to go back to restarting major projects. So, those are the two factors that we're watching. The good news is our mix continues to improve significantly, and our earnings are going to be an all-time record for Mexico, and we're projecting another record year for them next year.

The business feels very good about themselves. We're moving into the major paint season, as you know. The holidays, Thanksgiving through Christmas in Mexico -- huge family time. And this is going to be a period of time when we see our highest volumes, in the fourth quarter.

Dmitry Silverstein
Got it. Okay, thanks for that granularity. I appreciate it.

Vincent Morales
Thanks Dmitry.

Operator
The next question will come from Garik Shmois of Longbow Research.

Garik Shmois
Thank you. Thanks for squeezing me in. I just wanted to follow up to some of the dealer network evolution there. Will that end up changing your end-market exposure in architectural, particularly in the U.S.? Does it make you more exposed to new construction versus repaint -- or not really?

Michael McGarry
No. No material change, Garik.

Garik Shmois
Thanks. And then just lastly, just on aerospace, you talked about in the outlook for the fourth quarter moderating growth. I think it's really just a function of a tough comp from a year ago. So, I just wanted to be clear on that and then just wondering if you could maybe provide an outlook into 2020, how you view aero, just because the comp will be tough throughout the balance of next year.

Michael McGarry
Yeah, we still expect -- clearly, the comps that we have put in place this year, high-single-digits and even in Q1, Q2, when we had low-double-digits, it's going to be tough to jump over. But when I look at the new technology we rolled out -- the new wins, you had, I'm still optimistic that they are going to have a very, very good year in aerospace.

Vincent Morales
Thanks, Garik.

Operator
The next question will come from Jim Sheehan of SunTrust Robinson Humphrey.

James Sheehan
Thank you. In packaging, you talked about some customers were trialing some things. You had some pack tests. Could you give some more detail on that? Were these food packages or beverage packages? And how did the tests turn out?

Michael McGarry
Well, it's mostly on the beverage side. As I had mentioned earlier Jim, the food guys are much, much further along in these conversions. So, on the beverage side, basically we don't get pack test results for quite some period of time. It depends upon the severity of it, whether they are moving them all around the world, sending them to hot spots like the Saudis and cold places like Norway, or how extensive the change is. So, we basically have pack tests going on all the time in this business. What I would tell you is that we have fared pretty well in these things, and as these tests come in, typically that then leads to new business.

James Sheehan
Got it. And then in European automotive OEM, I think that you had some difficult comps with last year due to some emissions changes, which had pulled forward demands. You would think that might lead to an easier comp in the fourth quarter, but it looks like the IHS numbers are still not that optimistic. Is there something else -- is the export demand trend from Europe offsetting the benefit you might get from the change in the WLTP implementations?

Vincent Morales
Yeah, Jim, I think you hit the nail right on the head. We do see fewer exports out of Europe to Asia. That's one of the drags year-over-year, no different than the Asian sales indigenous in the region. So, that's a factor. And obviously the industrial activity -- the lack of industrial activity in Europe, is another factor.

James Sheehan
Thank you very much.

John Bruno
Thanks, Jim.

Operator
And this concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

CONCLUSION

John Bruno
Thank you, Carrie. I'd like to thank everybody on the call today for your time and interest in PPG. If you have any further questions, please contact our Investor Relations Department. This concludes our third quarter earnings call.