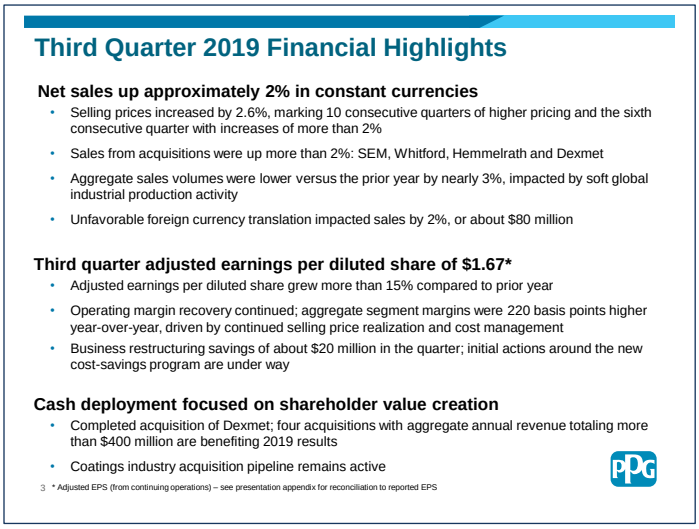
PPG Industries, Inc. Third Quarter 2019 Financial Results

Earnings Brief – October 17, 2019



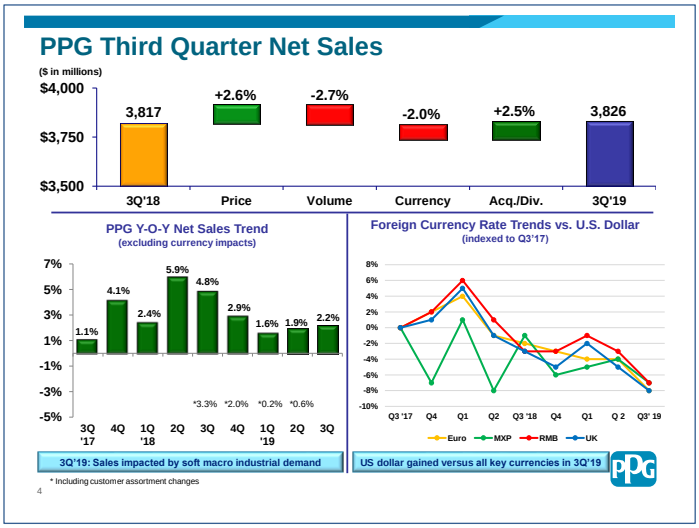
Third Quarter Financial Highlights

PPG third quarter net sales from continuing operations were approximately $3.8 billion, comparable with the prior year. Net sales in local currencies were higher by about 2% versus the prior year, aided by improved selling prices of 2.6%. More detailed sales comparisons for the company and each reporting segment are included on subsequent presentation slides.

Reported earnings per diluted share from continuing operations were $1.54. Adjusted earnings per diluted share from continuing operations were $1.67, approximately 15% higher than the third quarter 2018. Year-over-year earnings improved despite soft global industrial production and unfavorable foreign currency translation. Positively impacting earnings results were higher selling prices, cost savings of nearly $20 million from previously announced cost savings programs, and incremental earnings from recent acquisitions. Unfavorable foreign currency translation totaled about $10 million and resulted from strengthening of the U.S. dollar compared to the euro, Chinese RMB, British pound, Mexican peso, and a number of emerging region currencies in the third quarter. The impact of unfavorable foreign currency translation on adjusted earnings per diluted share was 4 cents.

The third quarter adjusted effective tax rate was about 23%, which is higher than the third quarter of 2018 of 21% rate due to more favorable discrete tax items in the prior-year quarter, including impacts from the implementation of the 2018 U.S. tax reform.

Earnings-accretive cash deployment continued in the third quarter with the completed acquisition of Dexmet, a manufacturer of specialty materials for surfaces in aerospace, automotive and industrial applications.



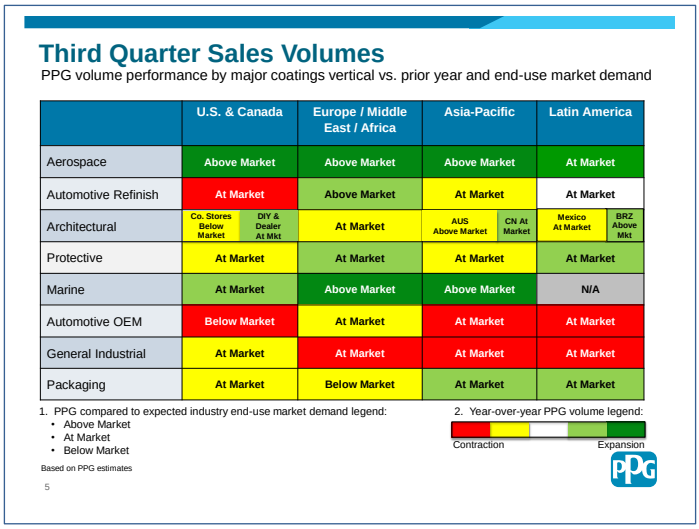
PPG Third Quarter Net Sales

PPG third quarter net sales of about $3.8 billion were comparable to the prior year, including unfavorable foreign currency translation of approximately $80 million, or about 2%.

Aggregate selling prices increased by 2.6% year-over-year, with solid contributions from both reportable business segments. This marked the tenth consecutive quarter of price increases and the sixth straight quarter of price increases of more than 2%, resulting in continued operating margin recovery momentum. Additional selling price initiatives are expected to continue, albeit at a more moderate magnitude. The acquisitions of

SEM, Whitford, Hemmelrath, and Dexmet increased sales by more than 2%, or about $95 million. The U.S. dollar was stronger, resulting in an unfavorable foreign currency translation impact of about 2 percent, or approximately $80 million on net sales. For the fourth quarter, a similar unfavorable foreign currency translation impact on net sales 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.



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

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Third Quarter Net Sales Volume

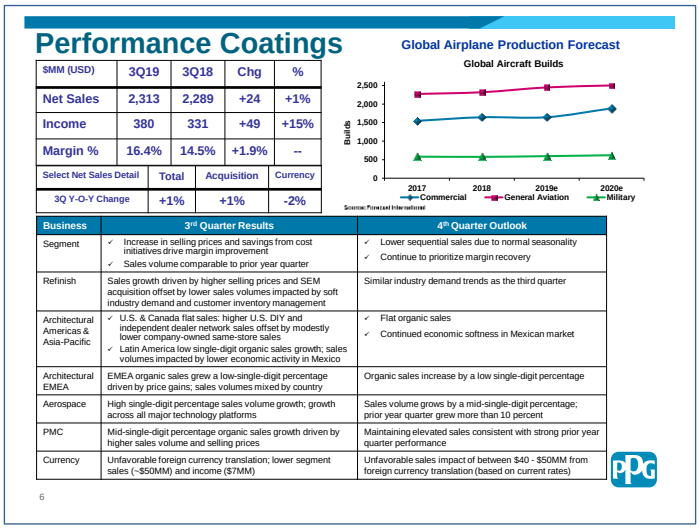
Aggregate global sales volumes were down nearly 3% in the third quarter 2019. Sales volumes were relatively flat in the performance coatings reporting segment and lower by about 6% in the industrial coatings reporting segment.

In the U.S. and Canada region, sales volumes were down by a low-single-digit percentage. Aerospace coatings had strong, above-market sales volume performance. In addition, sales volumes for U.S. and Canada architectural coatings national retail do-it-for-yourself (DIY) and independent dealer channels and for marine coatings were positive. Softer sales volumes in all other businesses more than offset these gains.

Sales volumes were lower by a low-single-digit percent in the Europe, Middle East, and Africa (EMEA) region compared to the prior year, driven by sharply lower industrial production compared to the same period last year. Solid sales volume growth in the aerospace, automotive refinish, and protective and marine coatings businesses was offset by more prominent sales volumes declines in the automotive OEM and general industrial coatings businesses. Sales volumes in the packaging coatings business were modestly lower as a result of lower industry demand. Sales volumes were modestly lower in architectural EMEA coatings, with results mixed by country.

Industrial production remained soft in the Asia-Pacific region during the third quarter, which led to sales volumes declining by a mid-single-digit percentage year-over-year. Strong sales volumes in the aerospace and marine coatings businesses were offset by sharp declines in automotive OEM and general industrial coatings businesses. Automotive OEM production rates declined as expected at the outset of the quarter. Government stimulus measures that were announced in China during the quarter did not benefit production rates in the third quarter, but may aid in subsequent quarters. Weakness in the general industrial coatings business was spread across most key sub-segments with the wood and general finishes end-use markets experiencing the greatest impact. Packaging coatings sales volumes were flat as a result of the weaker demand for canned food packaging. Total net sales, excluding the impact of currency and acquisitions (organic sales), in China were positive in the third quarter compared to the prior year as higher selling prices offset modestly lower aggregate sales volumes. Net sales in India were flat compared with prior year, including the unfavorable impact of lower industrial production, while net sales in Korea were sharply lower due to unexpected customer shutdowns in the automotive OEM business and soft industrial production activity overall. The Whitford and Hemmelrath acquisitions continued to be successfully integrated in the region.

In Latin America, sales volumes were lower by a mid-single-digit percent versus the prior year driven by soft economic demand in Mexico and Central America. Sales volumes were higher in several South American countries and were particularly strong in Brazil. Overall organic sales in the Latin-American region were flat compared to prior year as selling price increases offset lower sales volumes. For the fourth quarter, demand in the region is expected to remain soft.



Performance Coatings

$MM (USD)	3Q19	3Q18	Chg	%
Net Sales	2,313	2,289	+24	+1%
Income	380	331	+49	+15%
Margin %	16.4%	14.5%	+1.9%	--

Select Net Sales Detail	Total	Acquisition	Currency
3Q Y-O-Y Change	+1%	+1%	-2%

Global Airplane Production Forecast

Global Aircraft Builds

Source: Forecast International

Business	3rd Quarter Results	4th Quarter Outlook
Segment	✓ Increase in selling prices and savings from cost initiatives drive margin improvement ✓ Sales volume comparable to prior year quarter	✓ Lower sequential sales due to normal seasonality ✓ Continue to prioritize margin recovery
Refinish	Sales growth driven by higher selling prices and SEM acquisition offset by lower sales volumes impacted by soft industry demand and customer inventory management	Similar industry demand trends as the third quarter
Architectural Americas & Asia-Pacific	✓ U.S. & Canada flat sales: higher U.S. DIY and independent dealer network sales offset by modestly lower company-owned same-store sales ✓ Latin America low single-digit organic sales growth; sales volumes impacted by lower economic activity in Mexico	✓ Flat organic sales ✓ Continued economic softness in Mexican market
Architectural EMEA	EMEA organic sales grew a low-single-digit percentage driven by price gains; sales volumes mixed by country	Organic sales increase by a low single-digit percentage
Aerospace	High single-digit percentage sales volume growth; growth across all major technology platforms	Sales volume grows by a mid-single-digit percentage; prior year quarter grew more than 10 percent
PMC	Mid-single-digit percentage organic sales growth driven by higher sales volume and selling prices	Maintaining elevated sales consistent with strong prior year quarter performance
Currency	Unfavorable foreign currency translation; lower segment sales (~$50MM) and income ($7MM)	Unfavorable sales impact of between $40 - $50MM from foreign currency translation (based on current rates)

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Performance Coatings

Third quarter net sales for the Performance Coatings segment were about $2.3 billion, up 1% versus the prior year. Selling prices increased by about 3% and sales volumes were relatively flat. Sales volumes grew in both Europe and Asia. Segment sales were impacted by unfavorable foreign currency translation of about $50 million, or about 2%.

Segment income was $380 million, up by $49 million or about 15% versus the third quarter 2018. Earnings were favorably impacted by higher selling prices, cost savings, and acquisition-related income partially offset by the impact of unfavorable foreign currency translation that totaled $7 million.

From a business unit perspective, automotive refinish coatings organic sales volumes were higher by a low-single-digit percentage as higher selling prices offset lower sales volumes, which were impacted by lower collision claim activity and customer focus on inventory management. Specifically in the U.S., collision claims have dropped more than 1% in 2019 compared to last year, also impacting demand for automotive refinish products. Also impacting sales volumes was PPG's continuing effort to deliver product solutions to body shops that enable more application efficiency. Sales volumes are expected to be flat year-over-year in the fourth quarter compared to the prior year. The SEM acquisition continues to perform well and is meeting company targets.

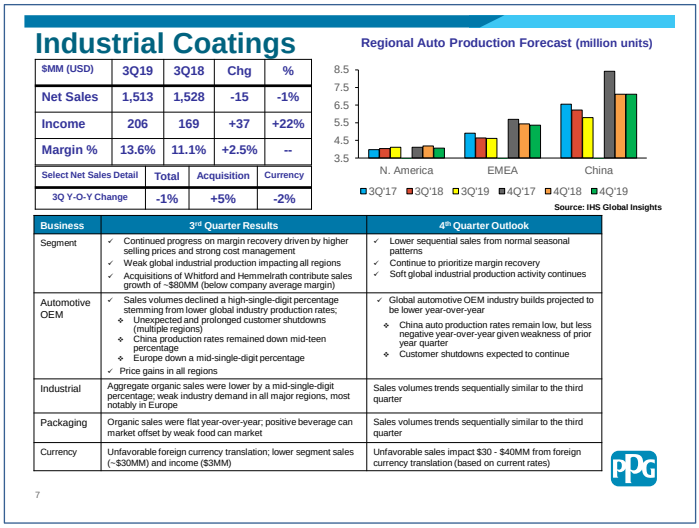
Aerospace coatings sales volumes grew by a high-single-digit percentage and are up about 10% for the first nine months of the year. Sales growth was driven by positive industry demand and PPG's commercialization of technologically-advantaged products. Going forward, solid sales growth is expected to continue in the fourth quarter, albeit at more modest levels than those achieved in the last few quarters due to comparison to strong prior period growth rates. The Dexmet acquisition is expected to add slightly less than $10 million of sales in the fourth quarter.

Organic sales growth continued for the architectural coatings EMEA business, driven by higher selling prices. Sales volumes were slightly down and mixed by country. Sales volume growth was solid in France and certain Eastern European countries, including Romania, and modestly weaker in some other countries. Overall, fourth quarter net sales are expected to be lower sequentially due to normal seasonal patterns and one less shipping day versus the prior year quarter. Industry demand trends in the U.K. continue to be closely monitored as the level of uncertainty surrounding the "BREXIT" process remains elevated.

Architectural coatings Americas and Asia-Pacific organic sales increased modestly in total and in all major sub-regions, with all sub-regions contributing solid price increases partly offset by lower sales volumes. In the U.S. and Canada, sales volumes grew modestly for both the national retail DIY and independent dealer channels. The U.S. and Canada company-owned stores network same-store sales were lower, including the impact to difficult comparison as the prior year quarter growth rate was a high-single-digit percent. The PPG-Comex business opened a net of 25 new concessionaire locations in the third quarter and has opened a net of nearly 100 locations year-to-date.

Aggregate protective and marine coatings organic sales volumes increased by a mid-single-digit percentage aided by sales volume growth in Asia and Europe and solid price gains in each region. Sales activity is expected to remain consistent in the fourth quarter, with a more modest year-over-year sales volume growth rate when compared to strong sales gains in the prior year.

Looking ahead, industry demand levels are expected to be similar to those experienced in the third quarter with more moderate year-over-year growth for aerospace and protective and marine coatings due to strong prior year growth rates. Overall segment sales are anticipated to be lower sequentially due to normal seasonality. Acquisitions are forecast to add about $20 million of sales primarily from SEM and Dexmet. Based on current exchange rates, foreign currency translation is expected to have an unfavorable impact on segment sales of about $40 million.



$MM (USD)	3Q19	3Q18	Chg	%
Net Sales	1,513	1,528	-15	-1%
Income	206	169	+37	+22%
Margin %	13.6%	11.1%	+2.5%	--

Select Net Sales Detail	Total	Acquisition	Currency
3Q Y-O-Y Change	-1%	+5%	-2%

Business	3rd Quarter Results	4th Quarter Outlook
Segment	✓ Continued progress on margin recovery driven by higher selling prices and strong cost management ✓ Weak global industrial production impacting all regions ✓ Acquisitions of Whitford and Hemmelrath contribute sales growth of ~$80MM (below company average margin)	✓ Lower sequential sales from normal seasonal patterns ✓ Continue to prioritize margin recovery ✓ Soft global industrial production activity continues
Automotive OEM	✓ Sales volumes declined a high-single-digit percentage stemming from lower global industry production rates; ❖ Unexpected and prolonged customer shutdowns (multiple regions) ❖ China production rates remained down mid-teen percentage ❖ Europe down a mid-single-digit percentage ✓ Price gains in all regions	✓ Global automotive OEM industry builds projected to be lower year-over-year ❖ China auto production rates remain low, but less negative year-over-year given weakness of prior year quarter ❖ Customer shutdowns expected to continue
Industrial	Aggregate organic sales were lower by a mid-single-digit percentage; weak industry demand in all major regions, most notably in Europe	Sales volumes trends sequentially similar to the third quarter
Packaging	Organic sales were flat year-over-year; positive beverage can market offset by weak food can market	Sales volumes trends sequentially similar to the third quarter
Currency	Unfavorable foreign currency translation; lower segment sales (~$30MM) and income ($3MM)	Unfavorable sales impact $30 - $40MM from foreign currency translation (based on current rates)

Industrial Coatings

Third quarter net sales for the Industrial Coatings segment were $1.5 billion, down about $15 million or roughly 1% year over year. Segment sales volumes were lower by nearly 6%, impacted by broad weakening of industrial production which affected most of the company's general industrial end-use markets. Selling prices increased versus the third quarter of 2018, up about 2% compared to prior year. Results were also impacted by unfavorable foreign currency translation of about $30 million, or roughly 2%.

Segment income of about $205 million was up approximately $40 million, or about 22% year-over-year, including unfavorable foreign currency translation of $3 million, primarily related to the Chinese RMB and the euro. Segment income benefited from improving selling prices, acquisition-related income and cost savings, which was partly offset by the impact of lower net sales volumes.

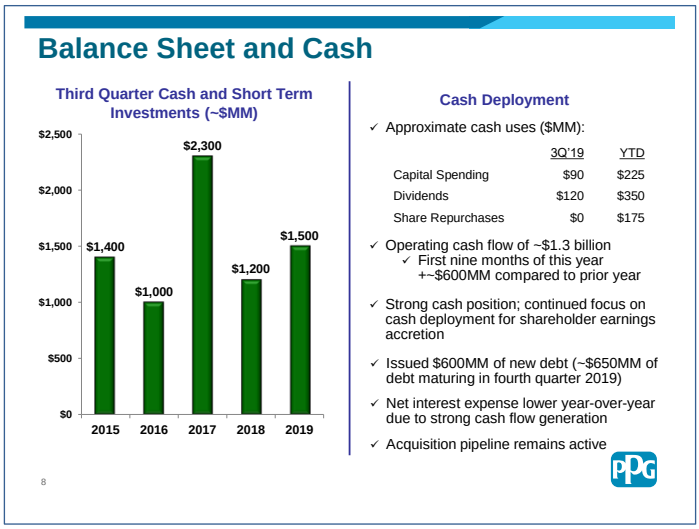
From a business unit perspective, net sales volumes were down a high-single-digit percentage in the automotive OEM business versus the prior year, which was comparable with the overall global industry auto build rate. PPG's sales volume was lower than the industry in the U.S. and Canada region, mostly due to customer mix and unexpected customer shutdowns. Sales volumes in the EMEA region were down by a mid-single-digit percent as automotive retail sales were relatively stagnant and exports continued to decline including the effect of uncertainty over trade agreements. Asia-Pacific sales volumes were down a low-teen percent in the third quarter compared to prior year as softness continued in China and both India and Korea experienced a large reduction in auto production during the quarter. Partially offsetting the lower overall sales volumes were higher selling prices in all major regions. Global automotive industry demand is expected to remain soft in the fourth quarter in most regions, with year-over-year comparison expected to be less negative due to easing of year-over-year comparisons. There remains a risk of prolonged automotive customer shutdowns.

General industrial coatings organic sales volumes were down a mid-single-digit percentage in the third quarter. Lower industrial manufacturing in all major regions broadly impacted demand in most sub-segments including the wood, general finishes, appliances and transportation end-use markets. Selling prices continued to increase during the quarter. Year-over-year sales volume trends are anticipated to be similar in the fourth quarter due to the expected continuation of weak industrial production, along with seasonal and traditional customer inventory management at year-end.

Packaging coatings organic sales were flat versus the prior year. Sales to the beverage can industry were solid but offset by softer industry demand for canned food. Sales volumes continued to increase in Latin America due to higher customer adoption in the region. In the Asia-Pacific region, sales volumes were better than recent quarters and overall modestly positive compared to the prior year. Sales volumes in the fourth quarter are anticipated to be similar to those of the third quarter.

Looking ahead, we expect that global industrial demand will remain subdued through the fourth quarter, with inconsistencies by region. Sales are anticipated to be lower versus the third quarter due to normal

seasonality. Year-over-year sales volume trends are expected to remain similar in the fourth quarter with easing versus prior year comparisons especially in the automotive OEM coatings business. The company will continue to prioritize operating margin recovery. In addition, acquisition-related sales are forecast to add about $75 million of sales growth from Whitford and Hemmelrath. Based on current exchange rates, foreign currency translation is expected to have a modest unfavorable impact on segment sales of about $30 million.



Balance Sheet and Cash

PPG ended the third quarter with about $1.5 billion in cash and short-term investments.

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

- Capital expenditures were about $90 million in the quarter. Historically, the company has higher capital spending in the second half of the year. We anticipate capital spending of up to 3% of sales in 2019.

- Dividends paid were about $120 million in the third quarter. PPG increased its quarterly dividend by 6% in the third quarter of 2019 and has paid annual dividends for 119 consecutive years, including 47 consecutive years of increased annual payouts.

- Operating cash flow generated year to date through September 2019 is up about $600 million compared to the same period in the prior year.

- The Dexmet acquisition closed on August 14.

Forward-Looking Statements

This presentation contains forward-looking statements that reflect the company's current views with respect to future events and financial performance. You can identify forward-looking statements by the fact that they do not relate strictly to current or historic facts. Forward-looking statements are identified by the use of the words "aim," "believe," "expect," "anticipate," "intend," "estimate," "project," "outlook," "forecast" and other expressions that indicate future events and trends. Any forward-looking statement speaks only as of the date on which such statement is made, and the company undertakes no obligation to update any forward looking statement, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also, note the following cautionary statements:

Many factors could cause actual results to differ materially from the company's forward-looking statements. Such factors include 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 cost savings programs, 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 effectiveness of our internal control over financial reporting, the unpredictability of existing and possible future litigation, including asbestos litigation, and governmental investigations. 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 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 of this information speaks only as of October 17, 2019, and any distribution of this earnings brief 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.