PPG Industries Fourth Quarter and Full-Year 2019 Earnings Conference Call

Thursday, January 16, 2020, 2:00 PM Eastern

CORPORATE PARTICIPANTS

Michael McGarry - *Chairman and Chief Executive Officer*

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

John Bruno - *Director, Investor Relations*

PRESENTATION

Operator

Good afternoon, and welcome to the PPG Industries Fourth Quarter and Full-Year 2019 Earnings Conference Call. My name is Chad, and I'll be your conference specialist today. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key follow by zero.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. 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, Chad, and good afternoon, everyone. We appreciate your continued interest in PPG and welcome you to our fourth 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, January 16, 2020. I will remind everyone that we have posted detailed commentary and 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 and for the full year and a brief financial update from Vince, 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 slides, which are available on our website, reconciliation to these GAAP--non-GAAP financial measures to the most directly comparable GAAP 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 us on our call. Today, we reported fourth quarter and full-year 2019 results. Before we review the results, let me just make a few additional comments.

We are very pleased with our financial performance for the quarter and the full year as we delivered strong year-over-year results in the face of weakening global manufacturing activity. We delivered record fourth quarter and full-year adjusted EPS, and our full-year results were in the middle of the financial guidance we gave last January, despite a softer global economy.

Additionally, we continue to execute on our long-term strategic and cash deployment initiatives focused on shareholder value creation. These initiatives included the completion of several acquisitions which expanded our technology reach and customer intimacy and our legacy of rewarding our shareholders, including the 48th year of annual per-share dividend increases.

We continue to invest about 3 percent of sales in research and development and progressed the commercialization of new products and technologies, allowing us to deliver above-market

growth in several of our businesses. We will continue to communicate our progress on these initiatives and any new key products for 2020.

More tactically, we begin 2020 continuing to benefit our aggressive and decisive operational management, including achievement of our self-help commitments from our cost-saving programs as we delivered about $85 million for the full year, higher than the previously committed target.

In addition, we delivered record cash from operations in 2019 of about $2.1 billion, including further reductions in working capital. Our strong 2019 performance was possible due to our broad business portfolio, supplying both the OEM and after-market, along with individual consumers and individual industrial customers in all major regions. I also want to thank the dedicated PPG team that remains focused on delivering value-added services and technologies for these customers all around the world.

And let me summarize the financial details we released earlier today. For the fourth quarter, our net sales were nearly $3.7 billion of about 1 percent in constant currencies. Our adjusted earnings per diluted share from continuing operations were $1.31, which represents a 14 percent increase versus last year's fourth quarter. This is our second consecutive quarter of adjusted earnings per share growth of more than 10 percent, with EPS up 14 percent this quarter and 15 percent in the prior quarter.

For the quarter, our segment margins improved about 160 basis points versus last year and are up 120 basis points for the full year, despite broad contraction in the global manufacturing activity that worsened as the year progressed.
As one data point, actual global industry automotive bills in 2019 were about 10 percent lower than projected at the beginning of 2019. Our segment results benefited from continued selling price realization and strong cost management.

Last, we continued our unwavering support of our customers all over the world and continue to advance our sustainability initiatives. I am very proud that PPG earned the EcoVadis gold rating for corporate social responsibility progress. Our team will continue to prioritize these programs and will provide a full update when we issue our 2020 sustainability report in the spring.

Now, let me ask Vince to provide some additional color on our fourth quarter and full-year results as the guidance we communicated earlier today.

Vince Morales
Thank you, Michael. Again, just in review of the fourth quarter results, our net sales, as Michael mentioned, were about $3.7 billion, up about 1 percent year-over-year. That consisted of sales volumes which were down 3 percent, reflecting the weakened global industrial production environment that Michael mentioned.

This includes a global automotive OEM production in many of our general industrial end-use markets, which declined in the quarter, and they were most pronounced--the declines were most pronounced in the U.S. and European regions. Our aggregate selling prices were up nearly 2 percent, marking the seventh consecutive quarter with selling prices of about 2 percent. We have announced additional selling price increases in several of our businesses heading into 2020, and we will continue to work without customers to ensure we are receiving fair value for the products and services we supply.

Summarizing some business trends for the fourth quarter in our performance coatings reporting segment, aerospace coatings continue to deliver very strong volume growth, outpacing industry performance in both the U.S. and Asia regions. This caps off what has been a truly excellent year for this business, which well outperformed strong industry gains. This reflected increased customer demand for our specific technologies.

Automotive refinish organic sales were higher, with solid growth in the U.S., offset partially by weaker volumes in Europe where customers continued to closely manage inventory levels. Our SEM acquisition has delivered strong financial performance in its first year, and we are now commercializing various key SEM products in certain international markets, providing us with further growth opportunities.

The soft trading conditions in Europe impacted our architectural coatings EMA business as we experienced lower sales volumes, partially offset by higher selling prices. Despite this very challenging economic environment in Europe during this past year, the business was able to grow organic sales for the full year. In Latin America, our PPG Comex business increased organic sales, aided by improved selling prices. Sales volumes improved sequentially versus the prior quarter but remained generally soft year-over-year as consumer demand reflected overall lower Mexican economic activity.

For the year, PPG Comex delivered another strong financial performance, growing both sales and earnings in this reduced economic climate. We also added 160 new stores in 2019, bringing our regional total to about 4,800 concessionary locations. Organic sales volumes in Architectural Coatings U.S. and Canada increased modestly, with positive sales in most channels during the quarter, including our U.S. same-store sales. This is traditionally a slower quarter seasonally.

Led by continued strong growth in the Asia region, our protective and marine coating business delivered above-industry sales volume growth of a mid-single-digit percentage during the quarter. We expect sales to remain at elevated levels in the first quarter, although growth rates will be moderated, given the strong prior-year comparisons.

In our industrial coating segment, overall sales volumes were down about 6 percent in the quarter, reflecting the weak industrial demand. In China, automotive sales fell in December, marking 18 consecutive monthly declines. And in Europe, manufacturing activity contracted for the 11th consecutive month.

We have implemented aggressive cost actions in reflection of this lower demand. And despite the lower volumes year-over-year, our segment earnings were higher for the quarter and for the full year. As we look at individual business units, PPG's automotive OEM sales volumes were lower by a mid-single-digit percentage, consistent with the industry rate. Our automotive OEM business continued to realize higher selling prices in the quarter and for the year.

Weak global industrial production activity impacted most of our general industrial coatings business sub-segments. And our packaging coating sales volumes decreased as higher beverage can demand was more than offset by continued weakness in food can demand. From an overall PPG perspective, our fourth quarter adjusted earnings per share was $1.31. Our adjusted affected tax rate was about 24 percent for the quarter, similar to our adjusted tax rate for the year.

Our results were supported by broad increases in selling prices, improved manufacturing, performance and cost, and excellent progress on cost savings programs as we delivered more than $20 million against these cost-savings programs during the quarter, slightly ahead of our targets.

The acquisitions we made over the past 12 months also contributed positively to earnings in the quarter. We recently added the acquisition of Texstars, a manufacturer of high-performance transparencies and wing tip lenses for aerospace and defense vehicles. We also recently announced the acquisition of ICR, a manufacturer of automotive refinished products.

Now, I'll quickly comment on our full-year results from continuing operations. Our full-year sales were $15.1 billion. Our full-year 2019 adjusted earnings per share were $6.22, which was up 5 percent versus 2018. Excluding foreign currency translation, our adjusted earnings per share were up about 8 percent, firmly within the 2019 earnings guidance we provided last January.

Most of the growth in earnings was driven by our strong operating discipline that generated higher segment operating margins each quarter this year. Specifically, our industrial coating segment achieved 5 percent earnings growth, despite sales being off $175 million for the year. Additionally, each of our major regions improved operating margins.

As Michael mentioned, we continue to focus on cash deployment in 2019 and are pleased to announce we've completed various acquisitions over the past 12 months. These acquisitions have had aggregate annualized revenue of about $500 million, of which $100 million is in Asia Pacific. We realized just over $300 million of acquisition sales in 2019 and expect the remainder to occur in 2020. In addition to acquisitions, we repurchased $325 million of PPG stock during the year, of which $150 million was completed in the fourth quarter.

Before I turn it over to Michael, I'm going to review some of our 2020 financial guidance. Let me briefly cover some of our current economic expectations regionally. We anticipate overall positive economic growth to continue in the U.S. and Canada at levels generally similar to 2019. This is being aided by accommodative interest rates that remain supportive of the construction markets and also stability in the regional auto market.

In Latin America, we anticipate modestly improved economic expansion in Mexico versus a lackluster 2019. And in South America, we also expect modest economic improvement. Automotive builds [sp] in China are expected to fall more than 10 percent in the first quarter, and industrial production demand conditions in India are forecasted to be challenging earlier in 2020.

However, we do anticipate growth improving overall in Asia as the year progresses. And demand trends in the region in the latter half of the first quarter following Chinese New Year will be an important measurement of the region's prospects. Economic growth in Europe is expected to remain subdued overall and vary by country. We expect the potential for greater volatility in automotive fields throughout the year, due to the onset of new emissions standards as the year progresses.

We have included in today's presentation materials, available on our website, a summary of specific financial assumptions. These are included on Slide 11 and 12. As we included in our earnings press release issued earlier today, we expect full-year 2020 sales growth in local currencies of 1 to 3 percent. This includes the acquisitions I discussed earlier. We also expect full year 2020 EPS growth of 4 to 9 percent, excluding the impact of foreign currency translation.

We fully acknowledge the earnings guidance range is wide. This is primarily due to the current high level of uncertainty as the year begins. Embedded in our guidance are the following key elements. We expect continued soft industrial demand in Europe and the U.S. in the early portion of the year. Automotive production globally is expected to remain challenging, including a weak Q1 China production forecast, which were revised further down as early as this week.

Additionally, we don't have visibility on overall China demand trends this early in the year, with forecasting increasingly difficult, given the early Chinese New Year, which is about a week away. Our guidance also includes updated first half 2020 aerospace OEM production forecasts, which have tilted lower. Additionally, despite the lethargic economic backdrop, our raw material costs have remained stubbornly high relative to overall supply and demand and reflecting recent crude oil volatility.

Also included in our guidance are any favorable impacts from the recently approved U.S. China Trade Agreement, the pending USMCA Trade Agreement, or the benefit of reduced uncertainty regarding Brexit. It is simply too early for us to assess what impact, if any, these noteworthy regional items will have. Also, given all the self-help actions of the past 18 months, any increase in volume PPG realizes we expect to translate into strong earnings contributions, giving [sp] our strong operating leverage.

In addition to the--to general items I just mentioned, following our PPG's specific assumptions, first as a carryover impact from acquisitions that we completed during 2019 and the full-year impact of the recently announced ICR acquisition, we expect about $170 million in sales from these acquisitions in year 2020.

These acquisitions will typically deliver at or below segment margins as we work to fully integrate their operations into PPG. We are forecasting continued general inflation, including higher wages, medical, and logistics costs. We are closely monitoring the cost environment for our raw materials with the recent spikes in crude oil prices. We are working with our customers for targeted additional selling prices in 2020.

As referenced earlier, we are still completing our 2018 and 2019 restructuring programs. We anticipate these programs will deliver an incremental $75 million in combined savings in 2020. We expect our annual corporate cost to increase, including general inflation, and we expect the increase to--as general inflation and higher management incentive comp as we accrue at targeted bonus levels.

Next, we anticipate the company's 2020 tax rate on ongoing earnings from continuing operations to be 22 to 24 percent. The comparable rate for 2019 was 24 percent. As the year progresses, we will work to tighten the tax rate base as current information--including geographic earnings forecasts.

We also provided EPS guidance specific to the first quarter. This guidance was $1.32 to $1.42, and this does include a modest unfavorable impact from foreign currency translation. This also includes a modest impact from a large aerospace customer's announced production curtailment. We continue to manage our capital expenditures based on the current economic climate and it's budgeted for spending to be between 2.5 to 3 percent of sales, consistent with our 2019 range.

As I mentioned, the summary of these and other financial assumptions are contained in the presentation materials for today's call. And now, I'll turn the call back over to Michael for some final comments.

Michael McGarry
Thank you, Vince. As we look at the current year, while there continues to be geopolitical concerns and some lingering uncertainty over trade activity, we are optimistic that the global economy will grow in 2020. However, given the heightened uncertainty, we will continue to aggressively manage all elements within our control, and we continue to target EPS and cash flow growth, supported by achieving aggregate segment margins that we maintained prior to this recent inflationary cycle, which--we believe this is achievable in the back half of 2020. We're expecting that better visibility on demand trend by the end of the first quarter, and we will adjust our guidance, as necessary.

Strategically, we will continue to pursue organic and inorganic growth opportunities. We have a strong track record of creating shareholder value with acquisitions, and we intend to remain active but methodical. We have an excellent balance sheet, and we will remain consistent with what we said in 2019, that we don't intend to let excess cash grow in our balance sheet, but we will remain disciplined in deploying this resource

Finally, while our guidance has reflected uncertainty of when the industrial demands will improve, I am confident in our 2019 result--solidified, that PPG remains well positioned strategically and financially to deliver increased value to our shareholders and worldwide customers, supported by our outstanding team, differentiated industry expertise, broad footprint, and product innovation engine.

In conclusion, I want to recognize our employees around the world for their outstanding contributions. We have a strong, engaged, and dedicated global team. Every day our employees are focused on delivering results the PPG way by partnering with customers to create mutual value. They make it happen and work harder to do better today that yesterday every day.

This concluded our prepare remarks. Once again, we appreciate your interest in PPG. And now, Chad, would you please open the line for questions.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster

The first question will be from Christopher Parkinson with Credit Suisse. Please go ahead.

Christopher Parkinson
Thank you. Just real quick on the price costs. Can you comment on your--just any broad expectations for the resin basket and anything on TiO2 and on the former, any puts and takes regarding Chinese supply, including winter operates. Any changes in your views on environmental and safety and trends in the New Year—just anything you could add to your exhortation would be greatly appreciated. Thank you.

Michael McGarry
Okay, Christopher, I'll try to get all those questions. Let's start with TiO2. I don't expect this to be a topic we'll talk about this year. Obviously, there is one supplier out there that is cutting rates. The rest of the guys are out there supplying. At this point in the cycle, you'd expect to see lower prices. It has been still kind of hanging flat. But, I think the underlying fundamentals of supply and demand would echo reduction in that over time. But, I would just say that that should be a non-event this year.

I would say that propylene and ethylene, the things that go into resins, continue to be well supplied. I would--I would tell you that I'm cautiously optimistic that there will be some moderation, but it's a little bit too early to tell. The crude oil prices are, as you know, under a lot of fluctuation--volatility--right now with the world. So, it's hard to pin that number down right now.

China is moderating production rates, and it varies by province. And so, it's not always easy to predict when they will have a blue-sky day, but they do--periodically do ask for people to moderate their production in order to help facilitate the environment over there.

Christopher Parkinson
Great. And just a quick follow-up on aero. Just given the customer production disruption noise in the growth rate, can you just break down just commercial--any private exposure--versus military, in particular and then also just anything to add on recent acquisition performance and services? Thank you.

Michael McGarry
So, we have a very broad aerospace business. We're into the transparencies, adhesives, and sealants and coatings--and now with the acquisition of Dexmet lightning protection. So, we don't have any one customer that dominates our sales, but the recent customer announcement is impactful, you'll see our aerospace growth still being very positive and still being better in the industry but not quite at the high single digits that it was earlier in the year. But, I would tell you that we're really pleased with our aerospace business. They had a record year, and I anticipate them having another record year in 2020.

Christopher Parkinson
Thank you.

Operator
The next question will come from Bob Koort with--I'm sorry, it's Ghansham Panjabi with Robert W. Baird. Please go ahead.

Ghansham Panjabi
Yeah, thank you. Hi, everyone. I guess first off, the comment that industrial activity in China began to stabilize in your fourth quarter--can you just give us more context on that? What specific end markets stabilized, and do you think the stability reflected any pull forward from the timing of the Chinese New Year in 2020?

Michael McGarry
So, I would say it was pretty broad. We saw some benefits in the appliances. Of course, there was less negative in automotive. It's potentially a possibility that there was a pull forward for Chinese New Year, given it is much earlier this year. It is really too early to tell that. Right now,

we did see November was better than October, and December was better than November. So, that's a good question to come back to us in March after we return from the Chinese New Year and have a little more visibility into it.

Ghansham Panjabi
And then, Michael, your comments on margins for 2020 approaching levels prior to the current--the recent inflation cycle--I guess in context of the uncertainty still--and obviously demand in 4Q and our early quarter expectations for 1Q anyway--what gives you confidence in being able to approach those levels as the year unfolds with this current macroeconomic backdrop? Thanks.

Michael McGarry
Well, in this past quarter, our volumes were down 3 percent, and our margins improved by more than 150 basis points, so if you start to put any volume on the bottom line, you should expect to see the industrial segment margins significantly improve. So, you've already seen us close the gap on the performance coating side, and I think you should expect to see us continue to close that gap on the industrial segment side.

Vincent Morales
Yeah, this is Vince. Two other elements there--one, we are doing targeted pricing across the portfolio in the regions. And in addition, as I mentioned in my opening comments, we do have additional cost savings projected for 2020 that we're comfortable we will realize.

Ghansham Panjabi
Yeah, thanks so much, Michael and Vince.

Vincent Morales
Thank you.

Michael McGarry
Thanks.

Operator
The next question will be from Robert Koort with Goldman Sachs. Please go ahead.

Robert Koort
Thank you. I was wondering--you guys talked about 6 percent volume erosion in industrial in the fourth quarter. Is there any element of that that can be de-stocking, or is there any hope that maybe as you go through 2020, you get a little re-stocking? Or is that not really an element of your product lines?

Vincent Morales
Yep. Yeah, Bob, we do know, similar to PPG, that people were working down their inventory levels as we ended the year--really a reflection of the tepid environment out there. We do believe our customers are holding low end stock of their products. So, if there is a pickup or a recovery, we do feel there will be at least a modest inventory rebuild. But, those would be the two elements that we're aware of.

Robert Koort
And, Vince, you guys gave some specific quantitative guidance for next year, which is--or this year, which is helpful. I guess when I triangulate what you talked about acquisitions and then the carry through of the price efforts you made in 2019, it suggests no real volume growth. I

think, Michael, you asserted that you've got confidence that the economy will grow. So, can you help me understand that disconnect?

Michael McGarry
I think the big disconnect right now Bob, is two segments that are important for us are automotive. So, you just saw the downgrade on where they are anticipating China being down more than 10 percent. You have Europe that is going through the transmission--or the emission change on the engines, so that's a big uncertainty.

Right now, it's too early to call heavy duty equipment. I think the recent signatures in Washington yesterday will help the farmers, but I don't think they will immediately start buying equipment. But, I do think that will come over time. And then, you certainly have aerospace. There is a significant demand for new planes. They are not being met right now. So, hopefully over time, they will be back on track. And we do know that the military side of aerospace is going to continue to be pretty strong.

Robert Koort
Got it. Thanks for the help.

Vincent Morales
Thanks, Bob.

Michael McGarry
Thanks, Bob.

Operator
The next question comes from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter
Thank you. Michael, looking at the M&A pipeline, does the fact that you bought back shares in Q4 signal any change in the M&A pipeline or your expectations in that area?

Michael McGarry
David, no change. We have a very strong pipeline of acquisitions we're looking at. But, we also generate a lot of cash. We know that we always generate a lot of cash in the fourth quarter. We've committed that we're not going to let that cash sit on the balance sheet, so we took some of that cash off the sidelines and bought back stock. We can continue to do both. Right now, as you know, we still prefer acquisitions. But, it just seemed like a prudent thing to do, given the amount of cash that we knew was coming in in the fourth quarter.

David Begleiter
Very good. And just on packaging coatings, in Slide 5 you highlighted it was below market in all four regions in Q4. Did you lose share in that business in Q4?

Michael McGarry
I would say marginally. It's more of a matter of the mix. We are much bigger in what I would call food and MAT, which is monobloc, aerosols, and tubes, so think about deodorants and various other oddball-sized cans. So, we're bigger in that segment than beverage. We did have positive growth in beverage, but beverage is growing at a much faster rate than the other segments, so it was more of a mix. But, that's the facts.

David Begleiter
Thank you very much.

Operator
The next question will be from Matthew Skowronski with UBS. Please go ahead.

Michael Skowronski
Thanks for taking the question. In your 2020 guidance, what would be the major businesses expected to be most up? And what would be the most down? If you could break that down between the performance and industrial, that would be appreciated.

Michael McGarry
So, the most up, obviously, would be aerospace and PMC. Those businesses will have another fantastic year in 2020. Probably one that will be a little more challenge would be automotive and then industrial.

Vincent Morales
And if I could add, we do expect Comex to be up as well in 2020.

Michael Skowronski
Thank you.

Operator
And our next question will come from Michael Sison with Wells Fargo.

Michael Sison
Hey, guys. You had good earnings growth in the fourth quarter, and it sounds like the sales levels or sales sort of weakness will persist in the first quarter. But, just curious--is there anything going on in the first quarter that your earnings growth would be better, given--it sounds like the sales levels will be about the same, fourth quarter and the first.

Vincent Morales
Yeah. Mike, part of the difference is such comparisons. As you know, we had strong pricing throughout 2019 on a year-over-year basis. We're still going to get some pricing in Q1, but not the same year-over-year level as we did in the fourth quarter or all prior quarters in 2019.

Q4 is for Comex their largest quarter typically seasonally. We're not going to see that same effect in Q1. We talked about aerospace already. We had strong volumes in Q4 in aerospace. We know that's going to be tempered. In Asia--Q4 is the automotive market peak in China. Even though volumes are down, overall production is up sequentially Q3 to Q4. That drops back down because we don't have as much fixed cost coverage in Q1. So, if you're trying to compare the quarters, I would pull forward those big elements.

Michael Sison
Got it. And then, you should have good leverage to better demand, obviously, but is there a way to think about if the trade deal is a positive, and then going forward, what the upside or where we would see maybe stronger results in PPG if things get better this year?

Vincent Morales
I'll start and let Michael finish. I think broadly we'll see it in our global industrial segment. That's the one that we think has been most impacted by the delays in the agreements. But again, as I

mentioned just a few minutes ago, we think inventory levels for our customers in those segments are very low, so you could see a production pickup in a halo of inventory build.

Michael McGarry
Yeah. And the other thing I'd say is that incrementally, not just Europe where we say 40 percent of any incremental dollar drops the bottom line, but we're seeing that same kind of incremental benefit in the U.S. and Latin America now. So that's another positive. So, I would say if we see any pick up 30 cents on the dollar is going to be falling to the bottom line.

Michael Sison
Great. Thank you.

Operator
The next question will be from PJ Juvekar with Citi. Please go ahead.

PJ Juvekar
Yes, hi. Good afternoon.

Vincent Morales
Hey, PJ.

PJ Juvekar
I'm a little confused about the China automotive comment. You mentioned that auto production was up in 4Q year-over-year but should be down 10 percent in 1Q. So, can you just spell that out and talk about things like, what are the dealer inventories in China? Or what are pricing discounts in autos in China? Thank you.

Michael McGarry
Yeah, PJ, I think if we mentioned auto production was up in Q4, that was a mistake on our behalf. I think we intended to say auto production was down but not as much as it was in prior quarters. So, it was still down in Q4. We expect it to be down again, low double digits, in Q1. We do feel inventories generally are in check in China. So, they have been matching inventory with lower sales. So if sales do pick up, that should be a straight translation through to production.

PJ Juvekar
Thank you. And just secondly, as interest rates moved down last year, do you see a pickup in housing activity this year, and particularly your architectural business? And in your experience in terms of past cycles, when rates go down, how long before you begin to see some positive impact on your business? Thank you.

Michael McGarry
Yeah, PJ, I would say that right now, rates are down, but they have been down for a while, and we're expecting another 2 to 3 percent kind of growth year for Architectural U.S. I don't expect to see anything significant. Our trade customers have a significant backlog. I still expect the trade to better than DIY. The do-it-for-me trend is going to continue.

PJ Juvekar
Great. Thank you.

Operator
And the next question will be from Frank Mitsch with Fermium Research. Please go ahead.

Frank Mitsch
Thank you, and good afternoon. Michael, I appreciate the--the comments regarding the active pipeline on M&A and the fact that you didn't want to let cash build up on the balance sheet, which is why you re-entered into the buyback markets. The prior few years, certainly you had been doing more on the buyback front. This past year, 2019, you did double on the--on the M&A front.

Is your expectation as we look at 2020 that PPG will be kind of in that same order of magnitude where M&A will be double what buybacks are? Or how should we think about the interplay between those two uses of cash?

Michael McGarry
Well, Frank, I think if you looked back at the last three or four years, we have consistently done about four or five acquisitions a year. I would be disappointed if we don't do four or five this year. We have already announced ICR. We have a very active acquisition review committee in the company. It is a matter of timing. We are working generally with private owners that can be temperamental sometimes to get to the finish line. But, I'm still optimistic that we'll do more acquisitions in 2020 than we'll do share buybacks.

Vincent Morales
Yeah, Frank, and that's really--if you look at our history, we have done a variety of acquisitions. We have delivered really good returns on those, which is why it remains a priority for us. We typically are able to capture synergies and easily cover our cost of capital. But, if those acquisitions don't materialize, as Michael mentioned, we fully intend not to let cash grow in the balance sheet.

Frank Mitsch
That's a very fair point. The Whitford deal was a very good deal in hindsight as well. And just turning back to the interplay between price and raws and the fact that you got a cost cut program that you are continuing to execute on, you were able to deliver better margins through each quarter in 2019 with some acceleration at the end of the year. How shall we think about the progression on improvement in margins in 2020?

Vincent Morales
Yeah, the first part of the year, we're going to continue to be volume challenged as we denoted earlier. That will certainly affect our ability to grow margins in our industrial segment. We do expect performance to continue to perform well on a relative basis, Frank.

Frank Mitsch
Thank you.

Operator
And our next question will come from Kevin Hocevar with Northcoast Research. Please go ahead.

Kevin Hocevar
Hey. Good afternoon everybody--wanted to dig into the guidance a little bit, so sales growth of 1 to 3 percent. I think that 1 percent of that is acquisitions, so kind of flat as far as 2 percent volume price--and again which I think most is price. So, I wonder if you could dig into whatever pricing is baked into that. How much would you say is based on carry forward pricing from 2019? I know you have some other actions out there now. So, how much is from those, and how much is from any future price increases you might do throughout the year?

Vincent Morales
Yeah, Kevin, I'll remind you that we gathered most of our price gains in 2019 at the beginning of 2019, the first quarter, both in industrial and performance. So, all price gains in 2020 will be primarily based on actions that we're executing from the beginning of this year, so very little carry over pricing in every business. And we do have, again, in the back half of the year some volume growth layered into the guidance.

Kevin Hocevar
Got you. And can you comment to--sticking with pricing--how the competitive response has been to the pricing actions you have out there--if competitors followed suit, or are you flying solo on any of those actions?

Michael McGarry
Well, the answer to that question really varies by sub-segment. So, I would tell you in the performance coating side, there's more support than maybe there is in the industrial segment.

Kevin Hocevar
Got you. Thank you very much.

Operator
The next question will be from Arun Viswanathan with RBC Capital Markets. Please go ahead.

Arun, perhaps your line is muted on your end? All right.

Arun Viswanathan
Sorry about that.

Operator
There we go. Thank you.

Arun Viswanathan
Good afternoon. Sorry about that. Yeah, so just curious--a couple years ago, there was a chance to--or a statement that you would be focusing on low-single-digit volume growth and cost reductions at the same time when Michael took over. Now I know volume growth has been disappointing, just given the macro backdrop. But, maybe you can just catch us up on the cost reduction side. What do you see in the future, I guess, as far as cadence, and what can we kind of model through estimates for cost reductions from here? Thanks.

Michael McGarry
Well, we achieved $85 million in lower costs in 2019. And I think John mentioned that we were going to do $80 million* in 2020. And I would say that we're always looking to be better year-over-year. There's no additional program we're out there thinking about right now. But, we do want to be in a continuous improvement mode. So, you should expect us to continue to push our costs lower, especially in such a weak demand environment.

Arun Viswanathan
Great. Thanks. And then, just on that weak demand environment, could you characterize kind of the price discussions with your customers. I'm just curious if there's been any kind of pushback, just given that raw materials are likely potentially a little bit deflationary in Q4 and then maybe even the next couple quarters. How are you planning those conversations with the customers? Thanks.

Michael McGarry
Yeah, our customers are very sophisticated generally. They look at it over a cycle not over a single point in time. And they can tell by looking at our margins that we've not returned yet to our margins that we had in 2016. So, they also know we have continued inflation and wages and logistics, things like that, so that's also something that we factor in. So, the discussions are constructive.

Arun Viswanathan
And just lastly, just talking about the M&A pipeline, could you discuss maybe some of the verticals that you are looking at. You had done Eurocoat in the past and some areas ancillary to core coatings. Is that still an area of interest for you, maybe in adhesives or anything like that? Or where are your areas of focus—geographical? Thanks.

Michael McGarry
Well, we always say that we're looking at all acquisitions in our space. So, we are big in adhesives and sealants, but we won't do a commodity one in that space. We only do specialty ones. If you look at aerospace, we do want to continue to grow our presence in that segment. And then the traditional core coating segments we're going to continue to look in. So--we're not going to go out and create some new third leg, though, so we'll stick to the businesses that we know.

Arun Viswanathan
Thanks.

Operator
The next question will come from Don Carson with Susquehanna Financial. Please go ahead.

Don Carson
Just a couple questions on U.S. Architectural. Michael, you had another quarter of growth in your dealer network, which certainly reverses a long trend of declines. Is this your new strategy, helping out with your premier dealer network? Or is it just because you had some easy comps? And then, on your company stores, do you think you can get further price increases in 2020?

*During PPG's Q4 and Full-Year 2019 earnings call on January 16, 2020, PPG Chairman and CEO Michael McGarry indicated the company is targeting $80 million in savings in 2020. The correct figure is $75 million."

Michael McGarry
Well, we will take the latter one first. We did announce an increase in our company-owned stores, and we do anticipate being successful in that. In regards to the dealers, we are making a significant push for our premier authorized dealer network. And it's way too early to talk about success in that vein, but we do think the program makes a lot of sense where we work jointly together with our dealers to better service our customer. So, I'm glad to see the growth in the dealer network, and we'll continue to push for it.

Don Carson
Thank you.

Operator
Our next question is from Jeff Zekauskas with JP Morgan. Please go ahead.

Jeff Zekauskas
Thanks very much. I think your consolidated prices were up 2.6 percent in the third quarter and 2 percent in the fourth quarter. So, is it fair to say that maybe they will be up 1.4 or 1.5 in the first quarter? Is that the progression?

Vincent Morales. A little more precision than we typically guide to. Again, I would say 2019 was on the heels of very modest pricing in 2018. We did have very strong pricing, if you recall, in the first quarter of 2019. So, the comparable is much more difficult. But, I wouldn't give specific guidance. We do expect a positive number, but, again, nothing specific.

Jeff Zekauskas
And your tax rate expectation for the year is between 22 and 24, but I think for the first quarter, it is between 22 and 23? Does that mean that your--does that mean that your base case is 22 to 23, or is there something unusual about the first quarter tax rate?

Vincent Morales
We are expecting a true up of one of our major geographies in the first quarter, which is why we signaled that to be lower. That's an ongoing number, but it's a true up of a discreet item that will occur during the quarter.

Jeff Zekauskas
Great. Thank you so much.

Vincent Morales
Thank you.

Operator
The next question is from Vincent Andrews of Morgan Stanley. Please go ahead.

Vincent Andrews
Thanks so much. Vince, on the cash flow conversion this year, you did a nice job in generating more cash. Shall we expect further improvement in cash flow conversion off of EBITDA in 2020?

Vincent Morales
Yeah, you must be listening to our internal management meetings. We target every year a half to a full turn on our working capital. We have been improving that for the last several years, but

we still have more room to go, specifically on inventories. We do have a very good receivable conversion rate, but there's still more room there. So, our intention is to lower our working capital--full-year working capital--another half turn to full turn in 2020.

Vincent Andrews
And if I could just quickly, on the refinish inventory levels in the EU, are we at the point where you kind of left that issue, and we shouldn't see it as much in 2020? Or is there another quarter or so left for that?

Michael McGarry
That's always hard to tell because it's two step distribution, Vincent, and we don't always have a perfect line of sight into that. So I would hope the answer is yes, but I have no real positive knowledge of that.

Vincent Andrews
Thank you very much--appreciate it.

Vincent Morales
Thank you.

Operator
The next question comes from John McNulty with BMO Capital Markets.

John McNulty
Yeah, thanks for taking my question. So, when we look back at 2019, oil prices were down $10 a barrel, 14 percent, 15 percent, and yet, to your comments earlier, the raws remain sticky. I guess--is crude the right barometer for us to be looking at, going forward, in terms of how your raw material is moving? If so, then when should we start to see any relief because it still looks like, other than the pricing that you've been able to put through, you really haven't seen anything on the actual raw material relief side.

Michael McGarry
Well, crude does impact a large chunk of our basket, but it doesn't impact things like TiO2. It probably doesn't always impact things like packaging. And so, there are some other things like, let's call it, pigments that doesn't impact it. So, there are some other facets of our raw material basket that are not impacted by crude. But, it is the larger driver.

Vincent Morales
But, just like what Michael said earlier, we feel our supply and demand is well supplied, and it has just been stubborn in terms of passing down the food chain here.

John McNulty
Fair enough. And then, Vince, just a housekeeping question. It looks like your interest expense guide for 2020 is up to 10 to as much as 25 percent. I guess, what is driving that?

Vincent Morales
Yeah, a couple things--one, we did have good cash in the back half of this year, so we were able to retire some debt in the fourth quarter. We will typically be borrowing money in the first quarter as we build inventory for the season. So, there's nothing significant about that other than interest rates in some of our key regions like Lat Am are coming down, where we had interest income in the prior years.

John McNulty
Got it. Okay, thanks very much.

Operator
The next question is from Sean Gilmartin with Barclays.

Duffy Fischer
Hey, this is Duffy on for Sean. Can you walk through what your market--so 2019 Architectural, what do you think the markets grew in Europe, North American, and Mexico?

Michael McGarry
The U.S. we think it grew between 2 and 3 percent. In Europe, we think it declined in the 1 percent kind of range. And in Mexico, the volume was probably down 1 percent net organic growth positive because of price increases. And the same thing in Europe--we had price increases that offset the negative volume. So net, I would say, marginally positive from an organic growth side in both markets.

Duffy Fischer
And then, can you help size the issue in aerospace? So, if the slowdown continues all this year, how should we think about the size of that impacting your business? And then, when does the maximum pain happen? I mean, obviously there is probably a lead lag as you go through, and it's slowly kind of working its way through. When does the brunt of that issue start impacting your P&L?

Michael McGarry
So, Duffy, maybe--I'll tell you what it's not. Some people said it's 1 percent. That's not even remotely close. So, if you want to factor up and down off a half a percent, somewhere in that area code--but it is a really complicated question because, as you know, we supply transparencies, sealants, and adhesives, as well as coatings, and some of those things we're a tier 1 supplier, some of them we're a tier 2 supplier. And some of the suppliers were running faster than the customer's stated line rate, and some were maxing it.

So, we're trying to figure out what the inventory in the chain is, and then it will be even more complicated by the fact that the airlines are going to be running their planes a little harder, so that will lead to some additional MRO opportunities for us. But then, they have to find the time to do the MRO. So, it's not a straightforward answer, and so that's why we've given a larger range than normal for our guidance.

Duffy Fischer
Great. Thank you, guys.

Operator
The next question is from Kevin McCarthy with Vertical Research Partners.

Kevin McCarthy
Good afternoon. Michael, I recognize the ink is still drying on the Phase 1 trade deal, but I'd be curious to hear your initial thoughts as to what effect it might have in loosening up some of the supply chains where you had encountered a fair amount of friction over the past year or two. Any thoughts on end-use markets, product lines that could benefit?

Michael McGarry
Well, the one that I am optimistic on is Mexico. I think the government is going to start to turn loose of some money. They wanted to know what environment they were dealing with. Now, they have a little more certainty. So, I anticipate the government spending more money. That's going to be a positive for us, for our PPG Comex business. And then obviously, we're looking forward to the farmers having more money in their pockets as a positive, but I think that's a longer pipe.

Kevin McCarthy
And then, Vince, for 2020, do you have a strong feeling today as to whether the capital budget could be up, flat, or down? And maybe you can talk about some of the swing factors or chunkier projects that you are considering for this year.

Vincent Morales
Yeah. First of all, for 2019. Our cap spending matched almost exactly our 2018 number. We did start some larger projects in 2019. And given the economy, we kept those projects running, but we pealed back off of some smaller projects. We're still expecting, Kevin, for 2020, 2.5 to 3 percent of sales as our CapEx bogie. We're going to obviously toggle that based on the economic environment.

Kevin McCarthy
So, it sounds pretty similar, then. Thank you very much.

Operator
The next question comes from Steve Byrne with Bank of America Merrill Lynch.

Stephen Byrne
Hi. You have these online apps. They are meant to help homeowners and property managers identify contractors and mostly to buy paint from you. How much traction are you getting with this initiative? How are you raising an awareness level on these apps? And is it effective at driving volume to your dealerships' relationships, even in areas where you don't have stores?

Michael McGarry
Yeah. So, Steve, I would say this is still in its infancy. Digitization of the retail and trade paint network, I would say, is slow going, not for a lack of effort. But traditionally, I would say these are small business people, a little bit slow to change. But, they all recognize the need to do that. And so, we're working with them on trying to help them understand how the can improve their own businesses by moving to more digital apps. But, I would say it's still in the first couple of innings.

Stephen Byrne
All right. And maybe this one is also in the first couple of innings. You have this retail--refinish, pardon me--mixing technology that you acquired in Europe. Can you provide an update on how that's rolling out, whether you can bring that across the pond, and whether you could drive market share gains with that?

Michael McGarry
Yeah. So, Steve that was something we developed ourselves. It's trademarked Moonwalk. It's an automated mixing system for the refinish market that allows the painter basically to scan the

paint off the car, stick the chip basically into a machine, and then it premixes the paint, so that way the painter can be way more productive. We've already sold 100 of these machines in Europe. The interest level is very high. We've gotten a tremendous amount of recognition.

Obviously, we're starting with our own paint shops first. And then, we'll be pushing it out into a competitive environment, so that we can start to gain share. We do have people outside of Europe that are also asking about it because of the significant press we've received. But, I would say right now we're focused on Europe, and then we'll look at how we can expand that over time.

Stephen Byrne
Thank you.

Operator
The next question will come from Jim Sheehan with SunTrust.

James Sheehan
Thank you. On the emission standards in Europe that you referenced, how would you compare the disruption this year to what happened in the last go-round for Euro 6? Is there a single date in which that occurs, or is it going to be phased in?

Michael McGarry
I'd say it's way too early to call. There's so much challenge in Europe with the emissions that we'll just sit back and wait, so no real insight.

James Sheehan
And then on your pricing versus raw materials, I think maybe your general industrial business is the business that's furthest behind in terms of inflation. Is that correct? And if so, when would you expect that business to fully catch up to raw materials if there's no macro acceleration?

Michael McGarry
Well, we said it would be in the back half of the year. We obviously need a little volume to help drive that, but I would tell you that we've made significant progress in all three of those businesses, whether it's packaging, industrial, or automotive. They have all made significant improvement so far.

Vincent Morales
And that's--Jim, in addition, that's really where we're focusing a lot of our self-help activities as well that's helping us march back to those prior margin levels.

James Sheehan
Thank you very much.

Michael McGarry
Jim, just for your information, the forecast for Europe is minus 2 percent on cars, so that's the external forecast on how the emission packages will impact it.

James Sheehan
Much obliged.

Operator
The next question will come from Kevin Estok with Jefferies. Please go ahead.

Dan Rizzo
This is Dan Rizzo. Actually, I'm from Lawrence. Could you just tell me, could you hit the lower end of your guidance if there is no volume re-acceleration in the second half of the year?

Vincent Morales
Yeah, we have a guidance range for a reason. We do--if we don't see any pickup in activity basis our internal expectations, we will be more discerning on costs. So, I would certainly expect us to hit our guidance either through our own self-help or though economic activity.

Dan Rizzo
Thank you very much.

Michael McGarry
Thanks, Dan.

Operator
And the next question will come from Mike Harrison with Seaport Global Securities.

Michael Harrison
Hi. Good afternoon--wanted to ask you about SG&A costs. It looks like they were up more than 100 basis points year-over-year as a percentage of sales. Can you walk us through some of the dynamics on the SG&A front? Is there a reason that we're not seeing better fall through from restructuring actions at the SG&A line? Was there a change in incentive comp? Or what's going on there?

Vincent Morales
Two main items, Mike. One, as we brought these acquisitions in, they are typically coming in at a much higher SG&A base load, and we'll work that down over time. That's part of our synergy capture that we do. The second is we did have higher--a higher stock price this year, which resulted in a higher TSR from a management incentive perspective. Those were the two main factors.

Michael Harrison
All right. Thanks. And then, my other question is on the architectural market in China. You noted that as an area of strength and said you are growing above market. Can you talk about what you're doing in China to drive growth while some of your other competitors struggle to gain traction in that market?

Vincent Morales
I'll start. I'll let Michael finish. I think what we referred to, Mike, in China was our protective and marine market, not necessarily architectural. We do see--even though China is down in terms of industrial activity, we do see a tremendous amount of infrastructure underway there. We're participating in that. We think we're winning more than our fair share of the business. Marine is also up slightly in China. So, those were the two items I think we earmarked, not necessarily architectural. Michael, do you want to add?

Michael McGarry
Yeah, the only thing I would add is our marine business is winning in the shipyards that are winning business in China. And China is winning more business in Korea, and we're better positioned in China than we are in Korea. So, we're in the places that are growing.

Michael Harrison
Yeah, I guess I'm looking at Slide 5 and the--.

John Bruno
Yeah. Mike--I'm sorry, Mike, this is John. Yeah, I see what you are looking at. So just as a reminder to everybody, we do have an architectural business in China. It's a small business. And it's in part of China. It's a regional business within China. And it has performed well. So, I just would remind people that it is on a smaller side.

Michael McGarry
It's regional. It's mostly in the Shanghai and Southern China piece, so that's where it's--benefiting from.

Michael Harrison
All right. Thanks very much.

John Bruno
Thanks, Mike.

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

Michael McGarry
I would like to thank everyone for their time and interest in PPG. And if you have any further questions, please contact me. This concludes our fourth quarter earnings call.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.