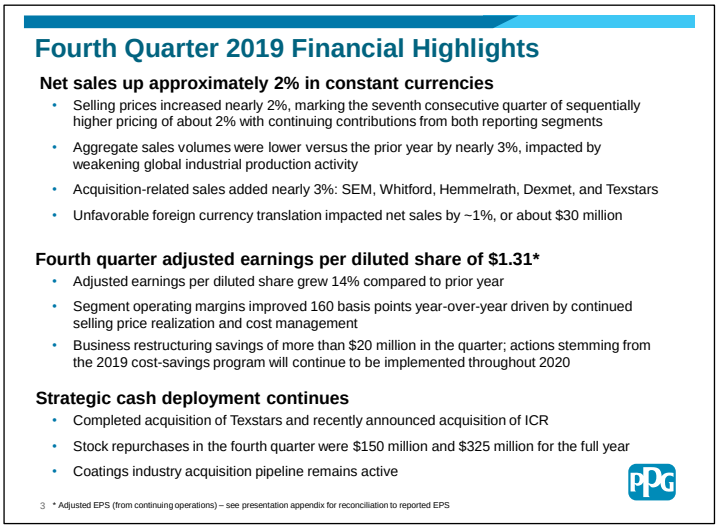
PPG Industries, Inc. Fourth Quarter 2019 Financial Results

Earnings Brief – January 16, 2020



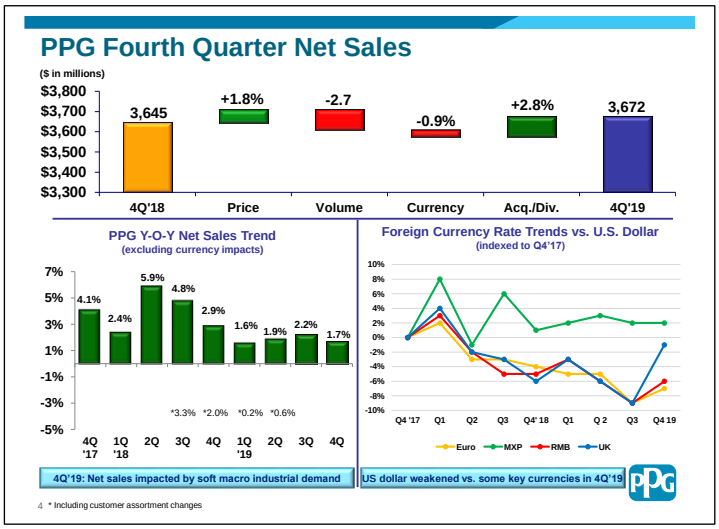
Fourth Quarter Financial Highlights

PPG fourth quarter net sales from continuing operations were nearly $3.7 billion, up about 1% compared with the previous year. Net sales in constant currencies were up approximately 2% versus the prior year, aided by improved selling prices of almost 2%. 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 was $1.23. Adjusted earnings per diluted share from continuing operations was $1.31, 14% higher than the fourth quarter 2018. Year-over-year earnings improved despite softening global industrial production and unfavorable foreign currency translation. Positively impacting earnings comparisons were higher selling prices, savings of slightly more than $20 million from previously announced cost savings programs, and incremental earnings from recent acquisitions. Unfavorable foreign currency translation impacted net sales by about $30 million, resulting from strengthening of the U.S. dollar compared to the euro and Chinese RMB, and some other currencies in the fourth quarter. The segment earnings impact from the unfavorable foreign currency translation was approximately $3 million.

The fourth quarter adjusted effective tax rate was about 24%, which is lower than the 26% rate in the fourth quarter of 2018, due to the geographic mix of earnings compared to the prior-year quarter.

Earnings-accretive cash deployment continued in the fourth quarter with the finalization of the Texstars acquisition, a manufacturer of high-performance transparencies, wingtip lenses and plastic components for aerospace and defense vehicles and a leader in advanced transparent coatings. In addition, PPG recently announced that it will acquire Industria Chimica Reggiana (ICR) S.p.A an Italian manufacturer of automotive refinish products, including putties, primers, basecoats and clear coats under the SPRINT® brand.



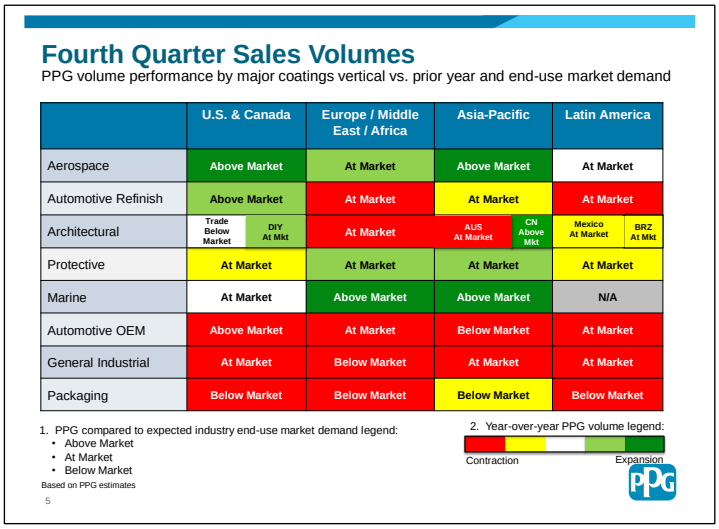
PPG Fourth Quarter Net Sales

PPG fourth quarter net sales of nearly $3.7 billion were up about 1% compared to the prior year.

Aggregate selling prices increased nearly 2% year-over-year, with solid contributions continuing from both reportable business segments. This marked the eleventh consecutive quarter of increased prices, resulting in continued momentum in operating margin recovery. Efforts are continuing to secure additional, targeted selling price to help offset cost inflation, including general inflation.

The acquisitions of SEM, Whitford, Hemmelrath, Dexmet, and Texstars increased net sales by nearly 3%, or about $100 million, in the quarter. Overall, the U.S. dollar was stronger compared to the company's basket of currencies resulting in an unfavorable foreign currency translation impact of about 1%, or approximately $30 million on net sales. For the first quarter, it is anticipated that foreign currency translation impacts will be modest, based on current exchange rates.

Additional details on the sales volume results by region and business unit are included later in the presentation materials.



Fourth 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	At Market	Above Market	At Market
Automotive Refinish	Above Market	At Market	At Market	At Market
Architectural	Trade Below Market / DIY At Mkt	At Market	AUS At Market / CN Above Mkt	Mexico At Market / BRZ At Mkt
Protective	At Market	At Market	At Market	At Market
Marine	At Market	Above Market	Above Market	N/A
Automotive OEM	Above Market	At Market	Below Market	At Market
General Industrial	At Market	Below Market	At Market	At Market
Packaging	Below Market	Below Market	Below Market	Below Market

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

Based on PPG estimates

2. Year-over-year PPG volume legend:

Contraction — Expansion

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Fourth Quarter Sales Volume

Aggregate global sales volumes were down nearly 3% in the fourth quarter 2019. Sales volumes were relatively flat in Performance Coatings and lower by 6% in Industrial Coatings.

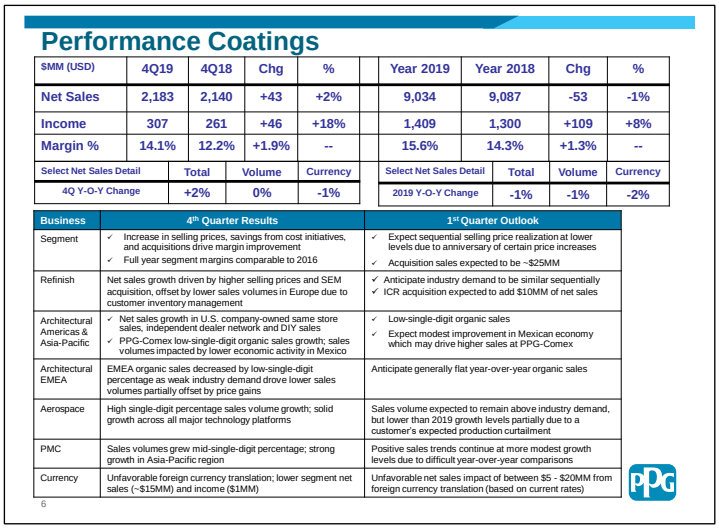
In the U.S. and Canada region, sales volumes were flat compared to prior year. Aerospace coatings had above-market sales volume performance. Automotive refinish coatings and specialty coatings and materials had a low-single-digit percentage sales volume growth for the quarter. In the U.S. architectural coatings company-owned same store sales, independent dealer network, and the do-it-for-yourself (DIY) channels each grew net sales modestly. The automotive original equipment manufacturer (OEM) coatings, general industrial coatings, and packaging coatings businesses each had lower sales volumes when compared to last year, impacted by softening industry demand.

Sales volumes were lower by a mid-single-digit percentage in the Europe, Middle East, and Africa (EMEA) region compared to the previous year, driven by lower industry manufacturing activity and longer than normal customer production shut-downs in the automotive OEM coatings business. Manufacturing activity has contracted in the region for 11 consecutive months. The general industrial coatings business was impacted by lower demand for coil, general finishes, and other end-use products. The protective and marine coatings business had strong net sales growth during the quarter and the aerospace coatings business grew net sales by a low-single-digit percentage. For the region, despite the lower demand, full-year operating margins and absolute earnings improved compared to 2018.

Industrial production remained soft in the Asia-Pacific region during the fourth quarter, which resulted in overall sales volumes decreasing by a low-single-digit percentage year-over-year. Although year-over-year volume results improved sequentially versus the third quarter, as industrial activity in China began to stabilize during the quarter. The Performance Coatings segment had low-single-digit sales volume growth led by strong sales volumes in the aerospace coatings and marine coatings. Sales volumes in the Industrial Coatings segment were lower by a mid-single-digit percentage year-over-year. Automotive OEM production rates in China grew in the seasonally higher fourth quarter versus last year. Aggregate automotive builds in the Asia-Pacific region declined steeply year-over-year in South Asia, including India. General industrial demand activity in China stabilized, while other parts of the region experienced steep declines. Packaging coatings sales volumes were softer due to lower demand of canned food products. Overall net sales in constant currencies grew in China for the third consecutive quarter, while net sales were lower in India and Korea. The Whitford and Hemmelrath acquisitions continued to be successfully integrated in the region. For the region, full year regional operating margins and absolute earnings improved compared to 2018.

In Latin America, sales volumes were lower by a mid-single-digit percentage versus the prior year driven by soft economic demand. The weakness was widespread, impacting Mexico, South and Central

America. Looking ahead, the recent U.S., Canada, and Mexico trade agreement may be a catalyst for better economic growth in 2020.



Performance Coatings

$MM (USD)	4Q19	4Q18	Chg	%	Year 2019	Year 2018	Chg	%
Net Sales	2,183	2,140	+43	+2%	9,034	9,087	-53	-1%
Income	307	261	+46	+18%	1,409	1,300	+109	+8%
Margin %	14.1%	12.2%	+1.9%	--	15.6%	14.3%	+1.3%	--

Select Net Sales Detail	Total	Volume	Currency
4Q Y-O-Y Change	+2%	0%	-1%

Select Net Sales Detail	Total	Volume	Currency
2019 Y-O-Y Change	-1%	-1%	-2%

Business	4th Quarter Results	1st Quarter Outlook
Segment	✓ Increase in selling prices, savings from cost initiatives, and acquisitions drive margin improvement ✓ Full year segment margins comparable to 2016	✓ Expect sequential selling price realization at lower levels due to anniversary of certain price increases ✓ Acquisition sales expected to be ~$25MM
Refinish	Net sales growth driven by higher selling prices and SEM acquisition, offset by lower sales volumes in Europe due to customer inventory management	✓ Anticipate industry demand to be similar sequentially ✓ ICR acquisition expected to add $10MM of net sales
Architectural Americas & Asia-Pacific	✓ Net sales growth in U.S. company-owned same store sales, independent dealer network and DIY sales ✓ PPG-Comex low-single-digit organic sales growth; sales volumes impacted by lower economic activity in Mexico	✓ Low-single-digit organic sales ✓ Expect modest improvement in Mexican economy which may drive higher sales at PPG-Comex
Architectural EMEA	EMEA organic sales decreased by low-single-digit percentage as weak industry demand drove lower sales volumes partially offset by price gains	Anticipate generally flat year-over-year organic sales
Aerospace	High single-digit percentage sales volume growth; solid growth across all major technology platforms	Sales volume expected to remain above industry demand, but lower than 2019 growth levels partially due to a customer's expected production curtailment
PMC	Sales volumes grew mid-single-digit percentage; strong growth in Asia-Pacific region	Positive sales trends continue at more modest growth levels due to difficult year-over-year comparisons
Currency	Unfavorable foreign currency translation; lower segment net sales (~$15MM) and income ($1MM)	Unfavorable net sales impact of between $5 - $20MM from foreign currency translation (based on current rates)

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Performance Coatings

Fourth quarter net sales for the Performance Coatings segment were nearly $2.2 billion, up 2% versus the prior year. Selling prices increased by 2% and sales volumes were flat. Sales volumes grew in the Asia-Pacific and U.S. and Canada regions. Segment net sales were impacted by unfavorable foreign currency translation of about $15 million, or less than 1%.

Segment income was $307 million, up $46 million, or about 18% versus the fourth quarter 2018. Earnings were favorably impacted by higher selling prices, cost savings, and acquisition-related income, partially offset by general cost inflation.

From a business unit perspective, net sales, excluding the impact of currency and acquisitions (organic sales) for automotive refinish coatings 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 inventory management in most developed countries during the quarter. Specifically in the U.S., collision claims dropped about 1% in 2019 compared to 2018. Also impacting sales volumes was PPG's continuing effort to deliver higher-value product solutions to body shops that enable more application efficiency. The SEM acquisition achieved its one-year anniversary in December delivering financial results above initial expectations, including initial expansion of some key products outside the United States. Organic sales in the automotive refinish coatings business are expected to be slightly lower in the first quarter compared to the prior year consistent with recent demand trends.

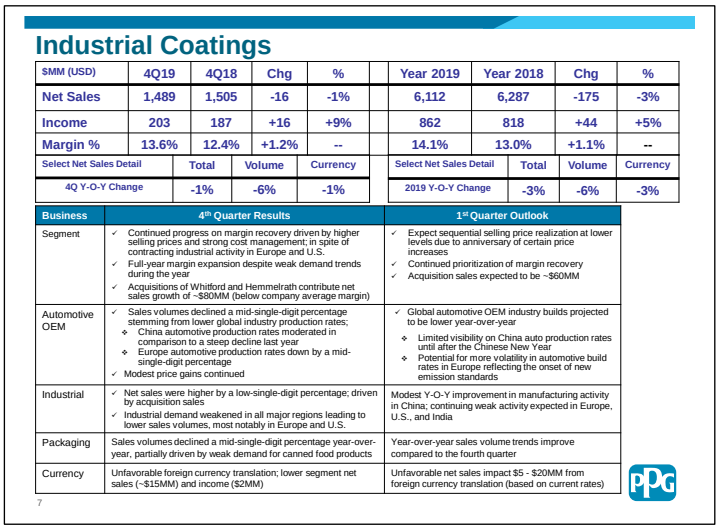
Aerospace coatings sales volumes grew by a high-single-digit percentage and were up nearly 10% for the full year. Sales growth was driven by positive industry demand and continued adoption of PPG's technologically-advantaged products. Going forward, solid sales growth is expected to continue in the first quarter, albeit at more modest levels than those achieved in the last few quarters due to the comparison to strong prior period growth rates and lower production rates by a customer. The Dexmet and Texstars acquisitions are expected to add a combined total of about $15 million of net sales in the first quarter.

Organic sales were down a low-single-digit percentage for the architectural coatings - EMEA business, as higher selling prices partially offset lower sales volumes, which were mixed by country. The biggest impact to net sales came from lower demand in the retail channel which was notable in several countries. Sales in Eastern Europe fared better with good growth in Romania continuing. Overall, first quarter net sales are expected to be slightly lower compared to the prior year due to the strong sales performance in the first quarter of 2019. Sales in the U.K were slightly negative during the quarter as angst over BREXIT impacted customer demand.

Architectural coatings - Americas and Asia-Pacific organic sales were relatively flat in total, in a seasonally lower quarter. In the U.S. company-owned same store sales grew modestly, and net sales grew modestly in the national retail DIY and independent dealer channels. The PPG-Comex business grew organic sales by a low-single-digit percentage, including the opening of a net of 64 concessionaire locations in the fourth quarter, and a net of 160 new locations in 2019. We are anticipating that concessionaires will open an additional 150 to 170 locations in 2020. The business in Australia experienced lower sales, including the impact of the recent wildfires.

Aggregate protective and marine coatings 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 were lower in the U.S. impacted by contracting activity in the oil and gas end-use market. Global sales are expected to continue to grow in the first quarter, with a more modest year-over-year growth rate when compared to strong gains in the prior year.

Looking ahead, industry demand levels are expected to be similar to those experienced in the fourth quarter. Acquisitions are forecast to add about $25 million of net sales primarily from Dexmet, Texstars, and ICR. We expect the ICR acquisition to close during the first quarter, pending required regulatory approvals. Based on current exchange rates, foreign currency translation is not expected to have a material impact on segment sales or earnings.



Industrial Coatings

$MM (USD)	4Q19	4Q18	Chg	%	Year 2019	Year 2018	Chg	%
Net Sales	1,489	1,505	-16	-1%	6,112	6,287	-175	-3%
Income	203	187	+16	+9%	862	818	+44	+5%
Margin %	13.6%	12.4%	+1.2%	--	14.1%	13.0%	+1.1%	--

Select Net Sales Detail	Total	Volume	Currency
4Q Y-O-Y Change	-1%	-6%	-1%

Select Net Sales Detail	Total	Volume	Currency
2019 Y-O-Y Change	-3%	-6%	-3%

Business	4th Quarter Results	1st Quarter Outlook
Segment	✓ Continued progress on margin recovery driven by higher selling prices and strong cost management; in spite of contracting industrial activity in Europe and U.S. ✓ Full-year margin expansion despite weak demand trends during the year ✓ Acquisitions of Whitford and Hemmelrath contribute net sales growth of ~$80MM (below company average margin)	✓ Expect sequential selling price realization at lower levels due to anniversary of certain price increases ✓ Continued prioritization of margin recovery ✓ Acquisition sales expected to be ~$60MM
Automotive OEM	✓ Sales volumes declined a mid-single-digit percentage stemming from lower global industry production rates; ❖ China automotive production rates moderated in comparison to a steep decline last year ❖ Europe automotive production rates down by a mid-single-digit percentage ✓ Modest price gains continued	✓ Global automotive OEM industry builds projected to be lower year-over-year ❖ Limited visibility on China auto production rates until after the Chinese New Year ❖ Potential for more volatility in automotive build rates in Europe reflecting the onset of new emission standards
Industrial	✓ Net sales were higher by a low-single-digit percentage; driven by acquisition sales ✓ Industrial demand weakened in all major regions leading to lower sales volumes, most notably in Europe and U.S.	Modest Y-O-Y improvement in manufacturing activity in China; continuing weak activity expected in Europe, U.S., and India
Packaging	Sales volumes declined a mid-single-digit percentage year-over-year, partially driven by weak demand for canned food products	Year-over-year sales volume trends improve compared to the fourth quarter
Currency	Unfavorable foreign currency translation; lower segment net sales (~$15MM) and income ($2MM)	Unfavorable net sales impact $5 - $20MM from foreign currency translation (based on current rates)

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Industrial Coatings

Fourth quarter net sales for the Industrial Coatings segment were about $1.5 billion, down about $15 million or 1% year over year. Segment sales volumes were lower by about 6%, impacted by weak global manufacturing activity which affected most of the company's general industrial end-use markets. Selling prices increased versus the fourth quarter of 2018, up more than 1% compared to prior year. Net sales were also impacted by unfavorable foreign currency translation of about $15 million, or roughly 1%.

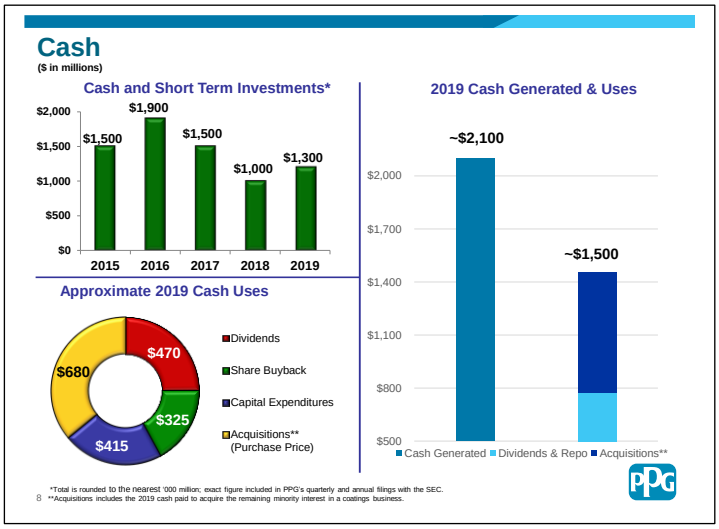
Segment income of $203 million was up $16 million, or about 9% year-over-year, including unfavorable foreign currency translation of $2 million, primarily related to the Chinese RMB and the euro. Segment income benefited from higher selling prices, acquisition-related income and cost savings, which was partly offset by the impact of lower sales volumes and general cost inflation.

From a business unit perspective, sales volumes were down a mid-single-digit percentage in the automotive OEM coatings business versus the prior year, which was comparable with the overall global industry auto build rate. PPG's sales volumes were above the automotive industry build rate in the U.S. and Canada region, mostly due to customer mix. Sales volumes in the EMEA region were down by a mid-single-digit percentage and in-line with industry builds. Automotive production build rates are expected to be volatile in 2020 due to the onset of new emission standards in Europe. Asia-Pacific sales volumes were down a mid-single-digit percentage in the fourth quarter compared to prior year, with weakness in China moderating and steep declines continuing in South Asia. Selling prices were higher compared to the prior year. Global automotive industry demand is expected to remain soft in the first quarter in most regions. Automotive builds in China are expected to fall by about 10% in the first quarter compared to the prior year.

General industrial coatings net sales increased by a low-single-digit percentage in the fourth quarter. Acquisition-related sales and higher selling prices offset lower sales volumes in the fourth quarter. Global PMIs remained low in all major regions reflecting weak industrial demand in most of the end-use markets that PPG supplies. Year-over-year sales volume trends are anticipated to be similar in the first quarter due to the expected continuation of weak industrial production, with some modest improvement in China.

Packaging coatings sales volumes were lower versus the prior year by a mid-single-digit percentage. Sales growth to the beverage can industry was offset by softer industry demand for packaged canned food and personal care products. Sales volumes in the first quarter are anticipated to be down by a lower percentage than the fourth quarter.

Looking ahead, we expect that global industrial demand trends will remain subdued through the first quarter, with inconsistencies by region. The company will continue to prioritize operating margin recovery, focusing on executing its cost savings program and implementing contingency actions where necessary. Acquisition-related sales are forecast to add about $60 million stemming from Whitford and Hemmelrath. Based on current exchange rates, foreign currency translation is not expected to have a material impact on segment sales or earnings.



Balance Sheet and Cash

PPG ended the fourth quarter with about $1.3 billion in cash and short-term investments. Operating cash flow exceeded $2 billion in 2019, up about $600 million compared to 2018.

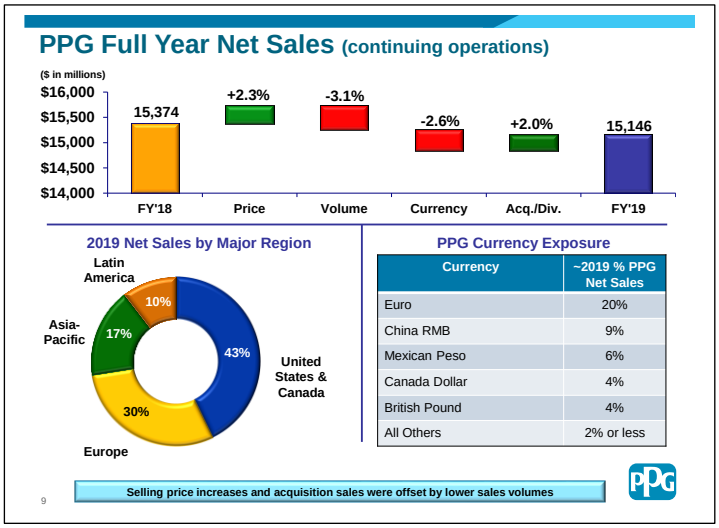
Approximate 2019 uses of cash were as follows:

- Capital expenditures were about $190 million in the quarter and approximately $415 million for the full-year, or about 2.5% of sales. For the full-year 2020, we anticipate capital spending to remain in the range of 2.5% - 3.0% of sales.

- Dividends paid were about $120 million in the fourth quarter and about $470 million for the full year. PPG increased its quarterly dividend by 6% in the third quarter of 2019 and has paid annual dividends for 120 consecutive years, including 48 consecutive years of increased annual per share payouts.

- Cash spending for acquisitions completed in 2019 was nearly $700 million inclusive of the purchase of a non-controlling interest. This included the acquisitions of Whitford, Hemmelrath, Dexmet, and Texstars. The announced acquisition of ICR is expected to be completed in early 2020.

- PPG stock repurchases totaled $150 million in the fourth quarter and $325 million for the year. The company has about $1.5 billion remaining under its current share repurchase authorization as of the year-end.



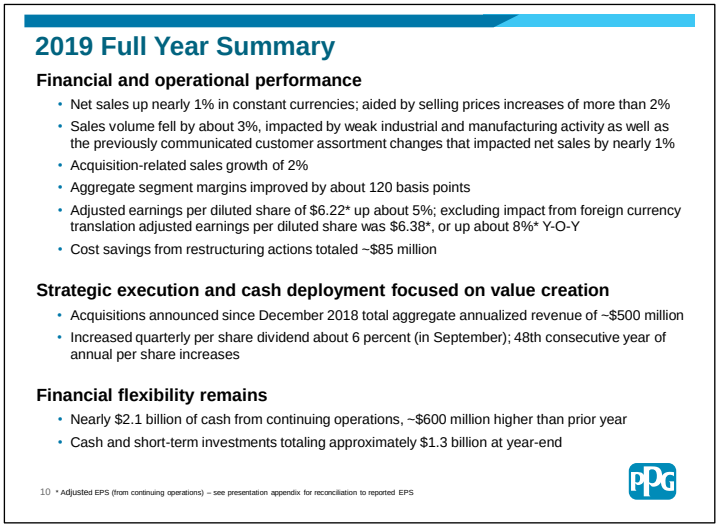
PPG Full-Year Net Sales

PPG's full-year net sales totaled approximately $15.1 billion, down 1.5% compared to the prior year. Net sales in constant currencies were up nearly 1% versus the prior year, aided by improved selling prices of more than 2%. Acquisition-related sales benefited net sales by 2% with the largest contribution coming from the Whitford and Hemmelrath acquisitions.

Net sales in constant currencies were higher year-over-year in each major region. From a business unit perspective, aerospace, protective and marine, and specialty coatings and materials provided the largest contributions to the overall sales volume gains.

Foreign currency translation was a significant headwind most of the year and impacted full year net sales by about 3%. The company's largest foreign currency translation exposures remained the same as the previous year.

The company's 2019 regional sales mix was largely consistent with prior-year results. Net sales in the U.S. and Canada were about 43%, with net sales in the U.S. representing slightly less than 40% of the total company revenues.



2019 Full-Year Earnings Summary

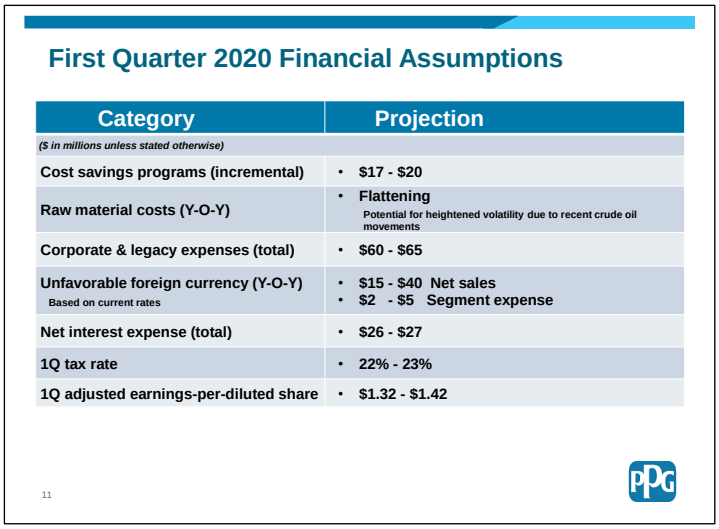
In summary for the full year, the company generated adjusted earnings per diluted share from continuing operations of $6.22, up about 5% versus the prior year. Excluding the impact of foreign currency translation, adjusted earnings per diluted share were $6.38, which is an increase of about 8% from the prior year and firmly within the earnings guidance provided in January 2019.

The company continued to perform well operationally, including achieving about $85 million in cost savings from the previously communicated restructuring cost programs. In addition, working capital as a percent of sales was 20 basis points lower than the prior year.

The effective tax rate from continuing operations was about 24% for 2019, versus about 21% for 2018, and the adjusted effective tax rate from continuing operations was about 24% for 2019, versus about 22% for 2018. The effective tax rate was higher in 2019 due to higher favorable discrete tax items in the prior year.

Strategically, business portfolio optimization continued, including the announcement of six acquisitions since December 2018, which will further broaden the company's geographical footprint and technology reach.

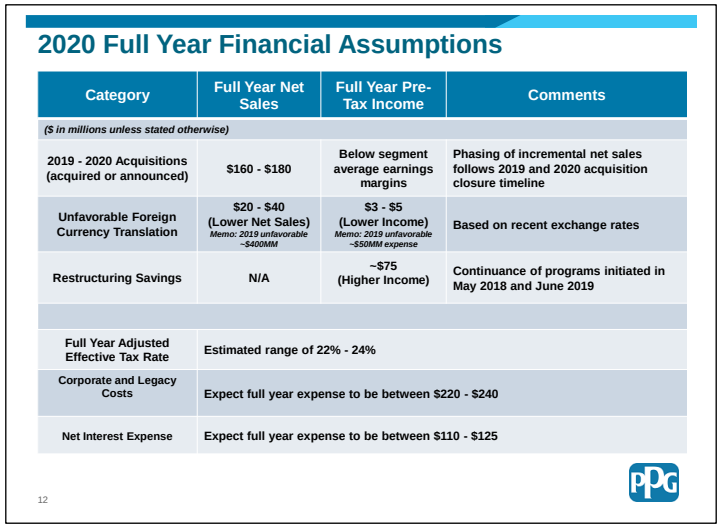
The company generated nearly $2.1 billion of cash flow from operations in 2019, an all-time record for any year. The company continues to have excellent financial flexibility with cash and short-term investments of about $1.3 billion at year-end.



2020 Financial Assumptions

For 2020, the company is providing the following financial assumptions based on information currently known that will affect 2020 financial results:

- Acquisitions announced in 2019 and January 2020 are expected to add incremental 2020 net sales of approximately $160 to $180 million, including the flow-through impact from acquisitions made in 2019 until their respective acquisition anniversary date. The acquisitions will contribute at or below their respective segment margins as they are being fully integrated during 2020.



2020 Full Year Financial Assumptions

Category	Full Year Net Sales	Full Year Pre-Tax Income	Comments
($ in millions unless stated otherwise)			
2019 - 2020 Acquisitions (acquired or announced)	$160 - $180	Below segment average earnings margins	Phasing of incremental net sales follows 2019 and 2020 acquisition closure timeline
Unfavorable Foreign Currency Translation	$20 - $40 (Lower Net Sales) *Memo: 2019 unfavorable ~$400MM*	$3 - $5 (Lower Income) *Memo: 2019 unfavorable ~$50MM expense*	Based on recent exchange rates
Restructuring Savings	N/A	~$75 (Higher Income)	Continuance of programs initiated in May 2018 and June 2019
Full Year Adjusted Effective Tax Rate	Estimated range of 22% - 24%		
Corporate and Legacy Costs	Expect full year expense to be between $220 - $240		
Net Interest Expense	Expect full year expense to be between $110 - $125		

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- Throughout 2019, a variety of major foreign currencies continued to weaken versus the U.S. dollar. As a result, based on recent exchange rates, the company expects that year-over-year foreign currency translation will unfavorably net impact sales by $20 -to- $40 million, and pre-tax income by about $3 -to- $5 million. The company generally purchases raw materials, incurs manufacturing costs and sells finished products in the same currency, so it does not typically incur significant foreign currency-related transaction impacts.

- The company has two active business-restructuring programs in place targeting about $200 million in total run-rate annual savings once fully implemented. Execution against these programs is expected to result in about $75 million of cost savings in 2020, which is in addition to the approximately $85 million achieved in 2019.

- The company's 2020 adjusted effective tax rate on income from continuing operations is expected to be in the range of 22% to 24%. The comparable rate for 2019 was about 24%. We are continuing to evaluate recent updates to the 2017 Tax Cuts and Jobs Act legislation which may impact the full year tax rate. Other factors may affect the 2020 adjusted effective tax rate throughout the year, including changes to various tax regulations in the U.S. and abroad.

Forward-Looking Statements

This earnings brief 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 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 January 16, 2020, 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.