PPG Industries, Inc.

First Quarter 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

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

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

John Bruno - *Director of Investor Relations*

PRESENTATION

Operator
Good morning and welcome to the PPG Industries First Quarter 2020 Earnings Conference Call. My name is Elyssa, and I will be your conference specialist today. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0". After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad. To withdraw your question, please press "*" then "2." Please note, this event is being recorded.

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

John Bruno
Thank you, and good morning, everyone. Once again, this is John Bruno. We appreciate your continued interest in PPG and welcome you to our First Quarter 2020 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 after U.S. equity markets closed on Monday, April 27, 2020. I will remind everyone that we have posted detailed commentary and accompanied 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 and Vince will make shortly.

Following management's perspective on the company's results for the quarter, we will move to a Q&A session. Both the prepared commentary and discussion during this call may contain forward-looking statements, reflecting the company's current view of future events and their potential effect on PPG's operating and financial performance. These statements involve uncertainties and risk which may cause actual results to differ. The company is under no obligation to provide subsequent updates to these forward-looking statements.

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

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

Michael H. McGarry
Thank you, John, and good morning, everyone. I'd like to welcome everyone to our first quarter 2020 earnings call. First, and most importantly, though, I hope you and your loved ones are safe and healthy. Never before have we experienced a crisis as broad as the COVID-19 pandemic. PPG operates in more than 70 countries around the world, and every community where we operate has been affected by this virus.

We have 12 factories in China, with one located in Wuhan, so our PPG people have been managing through this challenge since January, working around the clock to protect our people and our customers. Throughout this crisis, we frequently hear about PPG employees going the

extra mile at work and in their communities. I could not be more proud of our employees around the world who work tirelessly to keep each other safe and healthy throughout this unprecedented time.

At our locations that have remained operational, we have and will continue to employ stringent health and safety measures which are at a minimum in alignment with the local health and government guidelines. From a business perspective, we will not know the full impact of the pandemic on PPG for some time, but we are working with urgency and have taken proactive actions to limit the impact as much as possible to employees, customers, and shareholders, while also continuing to support the communities and support agencies in need.

Given the breadth of urgent community needs resulting from the COVID crisis, PPG has increased and accelerated our charitable contributions around the world. Last week, PPG and the PPG Foundation announced plans to contribute more than $1.5 million to organizations supporting the immediate community relief efforts and emerging recovery needs amid the pandemic.

We're also donating personal protective equipment, antibacterial coatings, and other resources where help is needed. Our contributions will touch eight major regions we serve. We believe that even as we respond to difficult market and business conditions, it is vital to remain an active partner in our communities and help our most vulnerable neighbors at this critical time.

Now, let me turn to our financial results. Last evening, we reported first quarter 2020 financial results. For the first quarter, our net sales were approximately $3.4 billion, and our adjusted earnings per diluted share from continuing operations were $1.19. These results include a significant impact from the business interruption caused by the COVID pandemic.

We estimate that our sales and earnings were--per diluted share--were unfavorably impacted from the effects of the pandemic by approximately $225 million and $0.35 respectively. For the first 10 weeks of the quarter, excluding our business in China, most of our businesses and major regions were performing at least at the financial expectations we set in January.

During the second half of March, we saw a rapid and wide-ranging deterioration in global demand. Many of our large OEM customers were forced to shut down. A number of architectural paint stores were mandated closed or materially altered the way they serviced customers. In miles driven and the number of commercial flights fell sharply with many countries and states imposing stay-at-home orders.

This materially impacted demand of our customers' products and services and in a matter of days led to a quick and steep decline in sales for our automotive OEM, automotive refinish, aerospace, and serve parts of our global architectural business.

These lower demand levels have continued well into April. We took immediate, decisive actions to help mitigate the lower sales activity, which included across-the-board salary reductions, with our senior leaders impacted the most, temporary shutdowns of various manufacturing and distribution operations, temporary employee furloughs, reduced spending across all businesses and functions--we also deferred many nonessential capital expenditures.

While many of these actions were difficult, they are necessary bases of breadth and uncertain duration of the crisis. Many of these mitigation actions were implemented during March so only

had a modest impact in the first quarter. We expect these mitigation actions to have more meaningful impact in the second quarter.

From a liquidity perspective, our record-level operation cash flow in 2019 and historical disciplined approach to capital allocation has our balance sheet properly positioned to weather the crisis. We will review more details on our forward-looking expectations in a few minutes. But, let me quickly summarize results for the first quarter.

In aggregate, our net sales and constant currency were down 5 percent compared to the prior year. Sales volumes were down 8 percent, with about 6 percent of that decline estimated to be associated with the pandemic. Our selling prices were 1.4 percent higher, with broader increases in our performance coatings reporting segments and more targeted activity in industrial coatings.

Last, net sales were negatively impacted by unfavorable currency translation of more than 2 percent, or about $75 million, as the U.S. dollar generally strengthened versus other emerging and major currencies. We expect unfavorable currency translation to continue into the second quarter and be in the range of $130 million to $150 million, based on recent exchange rates.

Looking at some of the business trends in the first quarter, in China, sales were down about 30 percent. Most of our end-use markets experienced significantly lower demand, including automotive OEM, where regional builds were down about 50 percent in the first quarter. Since early March in China, we have seen a measured recovery in demand patterns. Our factories in China have been running at 70 to 80 percent of capacity utilization for several weeks, moving closer to our 2019 levels and mirroring the needs of our customer's demand.

We've also learned a lot from the restart in China, which we'll be able to leverage and optimize as other countries are beginning to restart their economies over the coming weeks. In other parts of Asia, our business performed solidly in the first 10 weeks of the quarter until the pandemic spread, which impacted several countries, including Australia, India, and South Korea.

In aggregate, sales volumes in the Asia Pacific region were down 20 percent in the first quarter. In aggregate, the EMEA region's sales volumes declined by high single-digit percentage compared to the previous year, driven by a lower demand in most end-use markets through the pandemic. The automotive OEM, automotive refinish, and industrial coatings business experienced the steepest declines due to customer shutdowns.

Through mid-March, organic sales were slightly higher compared to prior year in the architectural EMEA coatings business but then fell sharply as many countries in Southern Europe, including France, mandated closures of retail paint stores. Our architectural business in Northern Europe performed solidly for the entire quarter, and our protective and marine coating business had modest sales volumes growth, reflecting that a portion of these businesses are late cycle in nature.

In the U.S. and Canada region, sales volumes were down amid-single-digit percentage, including the unfavorable impact from the pandemic. Sales volumes were strong in certain end-use markets, including our packaging and architectural DIY coatings businesses, which we believe both will be more resilient through this crisis. In the U.S., the automotive OEM and refinish businesses were most impacted by the pandemic in the first quarter, with the vast majority of unfavorable impact occurring in March.

Finally, in our Latin America region, sales volumes were modestly lower, down a single-digit percentage, as the pandemic had less impact on this region during the quarter. We saw positive sales volume growth in both packing coatings and Mexican PPG Comex businesses during the first quarter. During the quarter, about 25 new concessionaire stores opened in Mexico, bringing the total to approximately 4,800 stores, which, I would remind you, has a much higher variable cost structure.

From an earnings perspective, our first quarter adjusted earnings per diluted share of $1.19 is lower by $0.19 compared to the prior first quarter. As I said earlier, the estimated impact from COVID-19 reduced our adjusted EPS by $0.35. Despite our sales volumes being lower by 8 percent, our gross profit margin rose to 43.5 percent, or 70 basis points higher on a year-over-year basis.

This was supported by higher selling prices and continuous excellent progress on cost savings from our previously announced restructuring programs. Unfavorable foreign currency translation during the quarter lowered earnings by more than $10 million, which is impacted by a broad number of currencies devaluated against the dollar, including the Mexican peso that fell by about 20 percent in the quarter.

Now let me ask Vince to provide some commentary on our liquidity position and some thoughts on the second quarter.

Vincent J. Morales
Thank you, Michael. I also want to echo Michael's comments. I hope everybody is healthy and remaining safe.

With regards to our financials, first let me discuss our balance sheet. As we've discussed many times on these calls, we have a conservative approach to managing our balance sheet, which is especially important during these times. As a quick reconciliation, I'll remind everyone that we ended 2019 with approximately $1.3 billion of cash and short-term investments on hand.

We supplemented our beginning of the year cash balance with an $800 million mid-March borrowing from our revolving credit facility. This borrowing was completed out of an abundance of caution and our expectation of uncertainty in the debt capital markets. We subsequently ended March with an elevated cash and short-term investment balance of about $1.9 billion, including the $800 million revolver proceeds.

As we recently reported, in mid-April the company entered into a $1.5 billion, 364-day term loan and utilized a portion of the proceeds to fully repay the revolver borrowing with the remaining $700 million in proceeds further supplementing our quarter-end cash balance. The company's $2.2 billion revolving credit facility is currently un-drawn. These strategic actions provide ample liquidity to weather this crisis for an extended period of time.

Also during the first quarter, our commercial teams heightened their focus on cash. As a result, we lowered our working capital as a percent of sales by 120 basis points versus the first quarter of 2019. This includes strong quarter-end accounts receivable collections and a rapid response to lowering demand through the minimization of our seasonal inventory build.

With regards to receivables, we did increase our bad debt reserve during the first quarter, reflecting uncertainty regarding the breadth of the crisis and eventual customers' liquidity,

especially for many small customers globally. To date, through April--near the end of April, we haven't experienced any unusual bad debt trends, and we will monitor this reserve accordingly.

In the second quarter, we plan to continue to optimize our cash and overall liquidity with respect to working capital. We expect to draw down our finished goods inventory and are dramatically minimizing the purchases of raw materials based on our reduced manufacturing operating rates. This reflects the current lower coatings demand we are experiencing. With respect to cash uses, as Michael mentioned, first with capital spending--and we are deferring all nonessential capital spending and currently anticipate full-year CapEx in the range of $200 million to $250 million.

Second, we remain committed to rewarding our shareholders through dividend payments, and on April 16, our board approved a $0.51 per share dividend to be paid in the second quarter. Next, we will continue to look to optimize our short and long-term debt portfolio, basis the capital debt markets, and we've created flexibility to access these markets at the time of our choosing. Finally, given the low level of commercial visibility, we are currently prioritizing maintaining ample liquidity over acquisitions and share repurchases. We'll continue to monitor the external environment here.

Before I turn it back to Michael, I'll provide an update on what we are expecting commercially for the second quarter. If we look ahead, overall we are currently experiencing and continue to expect global economic activity to significantly detract in the second quarter. We then anticipate moderate demand improvement from this lower base level of demand as the year progresses and as economies begin the process of getting restarted.

We have provided in today's presentation materials our expected qualitative second quarter and pace of recovery expectations for each of our coatings businesses. These expectations are based on our past experience and what we are currently hearing from our customers relative to their potential to restart in our midterm order books.

Overall, we expect our aggregate coating volumes to decline 30 to 35 percent in the second quarter. We shut down continuing throughout April and a large portion in May--and measured start-up of activity later in the quarter. These estimates are obviously based on what we know today and will likely change as the quarter progresses. However, we wanted to provide as much real-time information as is reasonable to the investment community.

The highest rates of demand decline will be in the U.S. and Europe, followed by Latin America and partially offset by the early recovery underway in China. The detail on the presentation slide--we are expecting the packaging coatings, architectural DIY, protective and marine coatings businesses to be more resilient. Also, some sub-segments in the general industrial business are expected to be resilient or even possibly grow.

However, this will be more than offset by weak demand in other general industrial sub-segments, activity declines in trade or professional painting, and very weak demand in automotive refinish and automotive OEM. Aerospace new build and after-market sub-segments are also very weak, but partially offset by growth in military, which represents about 30 percent of PPG's aerospace business.

A few data points and anecdotes with regards to these assumptions. Global industry auto builds are expected to be down about 50 percent year-over-year in the second quarter. We do

expect global auto builds to begin to recover from this very depressed level much more quickly than other end markets and are evidencing this currently in China, but we still expect global auto builds to be done notably for the full year.

Both packaging coatings and architectural DIY have experienced a strong March--excuse me--and good April demand, matching similar trends that occurred in early 2008, 2009 Great Recession. With stay-at-home mandates currently in place in many countries, miles driven is expected to significantly fall year-over-year for the entire second quarter.

Many of our body shop customers in Europe and the U.S. have been operating at less than 50 percent of their capacity for the past four to six weeks. Architectural trade and professional painting is currently impacted by the regional economic slowdowns, and after an initial surge, as the regional quarantine mandates are lifted, demand is expected to remain somewhat subdued, following more of a W-shaped recovery.

About 30 percent of professional trade painting is for commercial or non-residential activity. Maintenance represents the majority of this activity, and we anticipate weak commercial maintenance with many of the larger key end-use markets, such as hotels and hospitality, retail, restaurants, office complexes, universities, and airports likely deferring painting. Start of new build commercial projects will continue, and we expect an air pocket of activity once these in-flight projects are completed, likely later this year or in early 2021.

With regards to residential painting, which is about 70 percent of overall demand, the largest portion is also repainting. And some portion of this will likely be deferred or canceled. This includes the effect of social distancing, along with end consumers repairing their individual balance sheets, which we also expect will have a knock-on effect and slow new-home construction after the current in-process construction is complete.

As I stated earlier, some of these lower trade business impacts will be offset by higher DIY, similar to what happened in 2009. Also, albeit still very small, we are seeing triple-digit percentage increases in digital use by consumers, and our strategic move to more of a delivery model for architectural painting is being validated as most of the industry are now touting this as a primary fulfillment option.

Finally, miles flown globally are down dramatically, and demand for aerospace products is heavily impacted, especially in the after-market. Also, some of our OEM customers are beginning to resume production, but delivery rates are expected to be lower than pre-crisis levels. And therefore, we expect an extended recovery timeline in our commercial aerospace OEM and after-market businesses.

In addition, we've included some details we were currently experiencing during the early stages of the China pandemic recovery in our presentation materials. Regionally, demand continues to improve in China and is expected to return to growth in the second half of 2020. Consistent with the timing from the Great Recession, year-over-year auto builds in China are expected to be comparable in the second quarter.

And retail auto sales have been increasing on a sequential basis now for a number of weeks and approaching levels close to 2019. Other end-use markets in China are in different stages of recovery, but all are directionally improving. Also, data shows that traffic congestion in China is nearing 2019 levels, which should aid demand for auto refinish.

Finally, we provided as further reference our aggregate coating segment earnings trajectory during the Great Recession. During the depths of that recession, which was the first quarter of 2009, our coatings earnings declined about 66 percent on a volume decline of just over 20 percent. The current shape of this pandemic-related economic crisis is broader, given the abrupt, near full-stop of certain economic activity, which is why we expect volumes to be down 30 to 35 percent in the second quarter of 2020.

As Michael mentioned, we're continuing to aggressively manage all elements of costs within our business, especially our variable and semi-variable costs. Approximately two-thirds of our cost structure is variable or semi-variable. Also, we continue to execute against our restructuring programs and expect about $20 million of incremental savings to be realized in the second quarter.

We have accelerated many of the actions in these programs and now expect to achieve higher savings for the full year of 2020 of about $80 million to $90 million. We continue to closely monitor the macroeconomic environment and will be fully prepared to implement further cost reduction actions if necessary. Our target is similar to the 2009 time period where we exited the Great Recession as a much stronger company. Finally, due to the heightened level of uncertainty and lack of midterm visibility, we have suspended all financial guidance previously provided.

Now, I'll turn it back over to Michael for some final thoughts.

Michael H. McGarry
Thank you, Vince. As we look ahead in the coming quarters, we'll be faced with an evolving and uncertain economic environment. It is too early to predict a full picture and impact of the coronavirus. In light of this uncertainty, though, we continue to carefully reduce and manage costs and focus on cash generation, identify additional ways to simplify and streamline the business processes, and work with our customers to meet their needs. As the environment begins to stabilize, we will have opportunities to create more value and fully leverage our scale for the benefit of our shareholders, customers, and employees.

I'm confident that our team will deliver by using our diverse global footprint and continue in our focus on cash, margin management, and earnings. While we will be prudent and defer some capital expenditures, we are continuing others that will help us support future organic growth. In addition, we remain committed to research and development investments and new technologies and digitization, which has proved to be effective with our customers as we exit this crisis.

Most importantly however, is that PPG people are committed to operating safely and providing the products and services that our customers count on. That is what inspires us, and we call it the PPG Way. We will continue to prioritize the safety and well-being of our employees and support the communities where we do business.

Finally, as I recently stated during our annual meeting, at the center of our company's purpose statement is a commitment to protect and beautify the world. Today, the word protect has taken on even greater significance to all of us. We are focused on protecting our people, our customers, and all of our stakeholders.

I'm confident that with the continued efforts of our people around the world, we will get through this unprecedented time together. Thank you for your continue confidence in PPG. This

concludes our prepared remarks. And now, Elyssa, would you please open the line for questions.

QUESTION-AND-ANSWER SESSION

Operator
We will now begin our question-and-answer session. To ask a question, you may press "*" then "1" on your touch-tone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then "2". The first question today comes from David Begleiter of Deutsche Bank. Please go ahead.

David Begleiter
Thank you. Good morning. Michael and Vince, how should we think about decremental margins, both in Q2 and in the back half of the year? They were quite in Q1. I suspect they'll be high in Q2 but perhaps lower in the back half of the year.

Vincent J. Morales
Good morning, David. How are you?

David Begleiter
Good, thank you.

Vincent J. Morales
This is Vince. I think one of the markers I'd look at is what we provided in the earnings information relative to Q1. We had about $90 million lower of segment earnings on $225 million lower sales for the segments, so the decremental margins there were a bit more than we're accustomed to. But, they reflected a somewhat nontraditional rapid decline in demand.

A couple points--we do have, as I mentioned, a high variable cost model in many of our businesses. As we look at Q2, though, just due to the nature of this crisis, we are effectively paying our employees for those who have been furloughed for their first two weeks, so it's going to temper somewhat our ability to react to the lower demand on a cost basis.

Also, given the staggered timeline of recovery by each of the regions, some of our businesses aren't able to as aggressively manage some of the cost because we need global support, as China is starting back up. With all that being said, I think we're hoping to do better than what we did in Q1 relative to the decrements, David, so we're targeting a better or an improved decremental in Q2 than we had in Q1.

David Begleiter
Very helpful. And, Michael, just in the back half of the year, if the case of recovery occurs as you expect, do you expect the 30 percent-plus volume decline in Q2 to be--could they be cut in half in Q3, perhaps down 10 to 15 percent year-over-year?

Michael H. McGarry
David, I think it's a little early to predict that. We see a lot of positive signs in China. Now, of course, China has a lot more ability to control their environment than we do here in the States. They have apps that allow people to say that they're good to go in the restaurants. Whether or not we develop anything like that here in the States will be open to further discussion. But, I

would tell you everything I see in China--miles driven are up, flights in China are more full every day, there's more intra-China flights--so I see a lot of positives, but I think it's just too early to predict that.

David Begleiter
Thank you very much.

Operator
The next question today comes from Ghansham Panjabi of R.W. Baird. Please go ahead.

Ghansham Panjabi
Yes, good morning. Thank you. And I hope everyone is doing well.

Michael H. McGarry
We are, indeed. Thank you, Ghansham.

Ghansham Panjabi
Good to hear. So I guess first off, on your outlook for 2Q, volume is down 30 to 35 percent. Michael, just give a sense as to how much of that decline is due to customers being flat-out just shut down for parts of the quarter. And related to that, how do you expect volumes to kind of play out by the month? I guess I'm asking because it looks like you're baking in some level of improvement in June.

Michael H. McGarry
Sure, and really if you think about it by the major segments, our OEM guys are down in Europe and the U.S., and they won't be restarting until May 18. And even when they do come up, they've told us that they're going to run at slower rates as they try to figure out how to maintain the social distancing. So, we factored that in.

The second one, of course, is our large OEM Airbus and Boeing customers. Boeing has taken an extended period of downtime. Airbus is back up and running. But, they're--each have cut their production rates, so that has an impact. And of course MRO for the airline business is still unknown, right, so we're going to wait and see. The good news is there are planes flying, even if they're flying empty. They will need MROs, so we'll be watching that carefully.

If you look at refinish, I've noticed--and if you look at the gasoline sales last week--gasoline sales have improved, so people are starting to drive more. What we'll be really looking for is congestion to improve, so get back to a normal rush hour in the morning, rush hour in the afternoon. That will be important to our business. So, I think those are the most important things. If you look at the rest of our customers, they're not really shut down. They're just having to moderate their production rates for the time being, so their ability to come back quicker will probably be likely.

Vincent J. Morales
And Ghansham, we are seeing staggered start-ups by region, different parts of our business. It's very public in the periodicals, so that we're making our best guess of what that's going to look like as we get further into the quarter here.

Ghansham Panjabi
And I guess for my second question, on Slide 11 you basically have the financial crisis playbook. And so, looking specifically at 4Q 2008 and the first quarter of 2009, it looks like EBIT

declined between three to four times greater volume decline. Obviously, the business portfolio has changed meaningfully since then. Can you just give us some insight on how the changes may--in the portfolio, may change the magnitude of these declines?

Vincent J. Morales
Yeah, what we included on Slide 11, Ghansham, is the coating segments only. So while we have different regional splits and the businesses are of different--a little bit different size than they were then. And this is the coatings business only. As you can see, volumes were down, again, as I mentioned in Mike's prepared remarks about 20 percent the first quarter of 2009. Segment earnings were off over 60 percent.

There hasn't been, what I'd say, a significant shift. We have lowered our break-even points in many of our businesses with the restructurings we've done in the past couple years. But, this crisis is broader than what we saw in 2009. The 2009 crisis was centered on housing and auto. This obviously affects some of our after-market businesses that were impacted but not to the degree they are. So, it's really hard to draw a complete comparison. But, the point I'd make is we did lower our break-evens in many of these businesses, so we're trying to manage around that.

Ghansham Panjabi
Thanks so much.

Operator
The next question today comes from Christopher Parkinson of Credit Suisse. Please go ahead.

Christopher Parkinson
Thank you. Hopefully, everybody is doing well. Just very quickly, on the raw material fronts, you discussed depleting inventory due to the weaker demand environment. Can you discuss roughly on your implied raw material savings and whether or not you'll actually see the benefit in 2Q or if this is more--this is going to be more of a second half and potentially in the 1Q 2021 story? Just any color on what you expect by raw basket would be incredibly helpful. Thank you.

Michael H. McGarry
Yeah. So, Christopher the lower raw materials will not have a material impact on Q2. We're going to be buying very few raw materials. We were coming into our busy point of the season, right, and the plants were gearing up for a regular paint season. So, inventories were moving up, as they always do at that period of time, so now, with lower demand rates, we have plenty of inventory.

So, the plants that will be starting up will be running at lower rates, and plus when you think about it from a LIFO and FIFO standpoint, a lot of those raw materials don't flow through for 50 or 60 days. So, there will be minimal impact in Q2. You should expect to see much more impact in Q3 in the back half of the year.

Christopher Parkinson
Thank you. And just a quick follow-up, just on packaging, it does appear you're trending fairly well in the U.S. and EMEA, but you're still experiencing, I'd say, a little bit of noise in Asia. And China is improving, one would assume, that's now Southeast Asia. Can you just quickly run through just globally food versus beverage and then just a highlight of what's going on in Asia on a go-forward basis, please? Thank you very much.

Michael H. McGarry
Yeah. So, beverage is continuing to be strong. You probably saw the bev can numbers in the U.S. They were up 8 percent in the first quarter. Food was up 3 percent. Beverage up--in Europe--is up low single digits; food is recovering. They had a bad year last year because of a weak harvest, so we expect them to be up low to mid-single digits as well. We are seeing recovery in China, so that's providing some good tailwinds.

So--and then the other thing that you probably don't put a lot of recognition in, but aerosols is a good segment for us. And so, with the aerosol cleaning products and things like that, that should also be positive. So, all the demand trends in packaging are moving up.

Christopher Parkinson
Thank you.

Vincent J. Morales
We are seeing in the second quarter that Thailand is a big food pack region, and we're seeing that down due to the virus.

Christopher Parkinson
Very helpful. Thank you.

Operator
The next question comes from Kevin McCarthy of VRP. Please go ahead.

Kevin McCarthy
Yes, good morning. I think you made a comment that two-thirds of your costs were either variable or semi-variable. Would you speak to the outliers in your portfolio in terms of businesses that would be materially above that level or materially below?

Vincent J. Morales
Yeah, Kevin. This is Vince. The businesses that have the highest variable cost structure--highest fixed cost structure--excuse me--are businesses where we have leases and employees like our architectural business, regardless of the demand, up or down, in a given day. It's hard to flux those businesses.

The businesses that are strictly OEM have a higher variable cost structure. We are able to reduce our folks at those facilities based on demand. We are able to ratchet down production. There's typically less distribution involved. It's usually straight from our factory to their factory. So, I've bucketed it into the categories of lower fixed costs, those OEM businesses, and our industrial segment.

Kevin McCarthy
That's helpful. And then on Slide 9 at the bottom, I think you provide a useful framework for the expected sequence of recovery in your various businesses. Can you speak to the OEM and refinish blocks there, so to speak? Why is it that you would expect OEM to recover quicker than refinish? Is that based on the credit crisis experience or what you're seeing here today?

Michael H. McGarry
Yeah. I think a lot of it has to do with the fact that the current aging of the fleet--it's almost 12 years. And we expect people to continue to buy new cars. We also see that happening right

now in China. So, if you think about China car sales, they've incrementally improved each of the last half a dozen weeks.

And actually last week they were almost flat with prior year. And so, our experience has been that people still need vehicles. There's a likely positive out of this--is that people are going to shun public transportation for some period of time, which means they're going to want to either buy a new car or they're going to want to continue to maintain the car they have. So, I think those are going to be positive for us coming out of this.

Kevin McCarthy
Great.

Vincent J. Morales
And one other consideration, Kevin, is because the refinish business is a distribution business, we do know there's inventory in the chain. People were expecting, as Michael alluded to earlier, a normal season. Typically, the distribution channels stock up ahead of spring. That stock-up did occur. But then, again, we had a rapid decline of demand. So, we do know we'll have to work through inventory in the entire channel as well.

Kevin McCarthy
That's helpful. Thank you both, and be well.

Vincent J. Morales
Thanks.

Michael H. McGarry
Thanks, Kevin.

Operator
The next question comes from John Roberts of UBS. Please go ahead.

John Roberts
Thanks. You guys all sound well, so that's good to hear. In the trade architectural paint or pro-applied, you indicated that completion of in-progress construction would provide some help here in the current quarter. Is it possible the September quarter will be very depressed as well because once that rolls off, it will offset the recovery and some of the maintenance painting that might come back?

Vincent J. Morales
Yeah, John. If you look at the normal commercial projects, they're typically 9 to 24 months, or even longer. So, we expect those to carry forward, for the most part, certainly through Q3. They haven't been stopped. They'll be restarted and carried through Q3, if not into 2021. On the residential side, the home building occurs in weeks instead of months. So, we do think after the current slate of homes that are in progress are constructed, we'll see a little bit of a void there. But that will be, again, after probably the summer at a minimum.

John Roberts
And do you expect trade paint to be sequentially up in the September quarter--I guess a different way to phrase it?

Vincent J. Morales
To Michael's comment earlier, the visibility is just not there for us to make those comments on that far out.

John Roberts
And then in the bad debt reserve, is that concentrated in any area? What kind of assumptions are you making there? Is it more dealers or auto body shops? Or what are you assuming in your bad debt?

Vincent J. Morales
Yeah, we went through the mix of customers we have globally. We did certainly look at it from a business and size of customer and their liquidity, so it's really a mix of all of our businesses and our expectations, algorithmically against their metrics.

John Roberts
Thank you.

Michael H. McGarry
Now I'll put out, John, in 2008 and 2009, we didn't see a significant uplift in bad debt in that crisis. We did take this reserve because this crisis affects--it's just broader and affects a lot of smaller customers differently than 2008, 2009.

John Roberts
Thank you.

Operator
The next question comes from Michael Sison of Wells Fargo. Please go ahead.

Michael Sison
Hey guys, glad you guys are all safe and sound. In terms of your stores, can you maybe talk about how many of your stores have shut down and maybe what percent and maybe just run through what they've changed in terms of their ability to do business during this social distancing, shutdown type of environment.

Michael H. McGarry
Yeah, so, Mike, you have to go by various regions around the world. So if you look in Italy, all our stores are closed, and they're doing delivery. In France, we had gone through a period of time, the last two weeks of March and I'd say the first two and a half weeks of April, where they were all closed.

But now, we've gotten permission to open up a few of them, and we have latent demand. As soon as we open a store, you can immediately see a pop in sales. So right now, we have about--I would say about 40 stores open in France. And when you move over into the U.K., they were mostly running all the way through near the end of March. And now, we've got probably about 40 percent of the stores are back open again. And again, you see a significant demand pull as soon as you can get a store open. So, that helps us.

We did not have to close any stores in Denmark. They had a record quarter. We had no store closures in the Benelux, so that was also a very solid performance. In the U.S. right now, we have about 250 stores closed. But, that is really more trying to not only comply with local regulations but also because we moved to a delivery model. It doesn't really matter whether the

store is open or closed, we've moved to deliveries. So, the painters just want to know you've got the product at the right place at the right time. So, we'll continue to manage in that kind of environment.

Michael Sison
Right. And a quick follow-up, I know you won't feel the raw material impact or low raw materials until the second half of the year, but can you maybe talk about directionally, given where oil is at, what you see in the basket as you head into the second half of the year? Is it going to be down double digits? Maybe talk about each of the paint buckets in terms of the direction.

Michael H. McGarry
Well I think right now, I think directionally, all we're going to say right now is it's down. It will depend upon July 1-type pricing because solvents are immediately passed through. We'll start to see some of the resins benefit. But at this point, I think it's given that it's going to be so little, and we'll have another chance to talk again at the end of the second quarter, I think I'd rather defer to when we have more visibility into that number.

Michael Sison
Got it. Thank you.

Operator
The next question is from Bob Koort of Goldman Sachs. Please go ahead.

Bob Koort
Thank you very much. I was wondering if you guys look back at architectural to the financial crisis, I guess it was at least for a period a shift towards DIY maybe gaining some share. It sounds like maybe you think that's going to happen again. And I guess, curious what kind of duration or impact you think that might have.

Michael H. McGarry
Well, we're seeing it right now, Bob, the DIY numbers across our business are up significantly, and people--they have free time on their hands--they want to get projects done, they're out there getting them done. We expect that to continue probably the whole summer. So, I would say there's no likelihood that's going to stop any time soon.

And I think this has been consistent with--when people--nobody wants to be unemployed, but when they're unemployed, that gives them free time. And that has been a positive force. Our DIY in Australia is up, our DIY in Europe is up, our DIY in Mexico is not much of a market, but it's positive. And certainly in the U.S., it's positive.

Bob Koort
And can I ask you on refinish, if we looked back to the last financial crisis, you mentioned density is improving but still not high enough on roads for collision rates. But, is there some level of drifting by consumers such that when the collision rates climb, they still don't actually get their car fixed because they're trying to save that money or pocket that insurance money? Is there going to be any delay in pickup there, or did you not see that in the last economic crisis?

Michael H. McGarry
We did see that in the last economic crisis, Bob. It's probably too early to tell yet right now--what that's going to look like. Nobody is getting in accidents right now. But, we'll be paying

close attention to that. It's easy to tell because when you're driving down the road, you'll be able to see one and two-panel accidents that aren't getting repaired, but we'll be paying a lot of attention to it.

Vincent J. Morales
I think the duration of the last crisis, Bob, was a contributor to that. People were unemployed for a long period of time. We're certainly hopeful--we don't know, but we're certainly hopeful the duration of this crisis is shorter.

Bob Koort
Yeah, makes sense. Thanks, guys.

Operator
The next question is from Frank Mitsch of Fermium Research. Please go ahead.

Frank Mitsch
Good morning, gentlemen, and kudos on your charity efforts. I appreciate the commentary on the raw materials and the outlook. I just wanted to see the other side of that calculation on your ability to raise pricing. You've done a really good job over the last couple years with price increases in each quarter, etc. It must be a very difficult environment right now. How shall we think about that side of the equation?

Michael H. McGarry
Frank, this is Michael. First of all, I hope you like your Jets draft.

Frank Mitsch
Loved it. Thank you. Loved it.

Michael H. McGarry
So, I would tell you, when I think about pricing, it's going to hold in there. The reason why is when I think about the production rates for most of our customers, they're going to be down. And so, they're not going to have a lot of leg to stand on in regards to the production rates. The second thing is raw materials started going up in fourth quarter 2016 all the way through the first quarter 2019.

And therefore we haven't quite captured back all that pricing. And so, I think from that standpoint, we're going to be in good shape. So, I do not anticipate pricing falling off. We still have some other price increases we're going to be doing later this year. So clearly, with the currencies being weak, we'll have opportunities in Latin America. We'll also have it in our refinish business later in the year. So, I think from that standpoint, pricing will continue to be a positive for us.

Frank Mitsch
Interesting--very interesting. And if I could, I've got a question about the allowance for doubtful accounts. Obviously, that's something that you don't typically do--this sort of magnitude. Are there specific industries that you're most concerned about in that regard? How do we think about that? And well, I guess it's too early to say if there's scope for additional charges in the second quarter, but just based on what you've done in the first quarter, what are the industries that you're most concerned about there?

Vincent J. Morales
Yeah, Frank, as we alluded to earlier, we're most concerned about small business who has less levers of liquidity. That goes across many of our regions. So, we took a more detailed approach with respect to trying to understand those small businesses and their capability to withstand a crisis like this.

Frank Mitsch
All right, so we can exclude auto OEM and aerospace, etc., and focus on some of the smaller customers?

Vincent J. Morales
Well, we took some reserve in every one of our businesses and every one of our regions. But, if you ask where we were heightened in terms of our concern, it's small businesses.

Frank Mitsch
Thank you.

Operator
Our next question is from P.J. Juvekar of Citi. Please go ahead.

P.J. Juvekar
Yeah, hi. Good morning. Some of the pending projects for this spring you said could be delayed into the fall. They may slip into next year or get canceled. And how do you think about those three buckets? Given that you've slowed down your utilization for your plants, what is the inventory level in the channel for the spring? Thank you.

Vincent J. Morales
P.J., it was a little hard hearing you there. I think you asked about deferral or cancellation of projects into the spring or fall. And again, we're getting information from our customers on a real-time basis. We do think as mandates--stay-at-home mandates are lifted--we'll see a surge of activity, projects that have been started are completed. There's certainly some pent-up demand, as Michael alluded to, we're seeing in Europe. There's stores open there.

But if you look at the reality, some of these hardest hit markets, especially on the commercial side, we expect to have a prolonged recovery and--in terms of the size of their business and also in terms of their balance sheet repair. So, those are the ones--the maintenance work and certainly any new commercial projects--are ones where we expect to be either delayed or postponed or canceled.

P.J. Juvekar
Thank you. And then, what about inventory levels? Have you sold paint into the channel for the spring? And did you have to slow down your plant as a result? And can you just update us on sort of inventory in the channel?

Michael H. McGarry
I would say P.J., the only one that had significant inventory build would have been refinish. They had anticipated a spring rebuild of the accidents that they had in the backlog, so now they're just working off the backlog. I would say that's the biggest one.

Vincent J. Morales
Yeah, and as we mentioned in our prepared remarks, our finished goods inventory was elevated, which it normally is at that point in the season, so we're working that down as we go through Q2 and into Q3 as well.

P.J. Juvekar
I just wanted to clarify something you said about raw materials. You said you will give more comments on second quarter, Michael. I mean, given that your volumes are down, does it take longer for raw materials to flow through? Is that what you meant, because you want to give guidance on second quarter? Thank you.

Michael H. McGarry
Yeah. We won't get a lot of benefit in Q2, but when we talk to you again in July after the second quarter earnings are released, we can get more clarity on how it will flow through in Q3. I mean, typically raw materials flow through in that 50 to 60-day time period. But, since we're going to be buying a lot less, we don't anticipate much benefit in Q2.

P.J. Juvekar
Great. Thank you.

Operator
The next question is from Jeff Zekauskas of JP Morgan. Please go ahead.

Jeff Zekauskas
Thanks very much. In the 2009 recession, you were really able to move your SG&A expenses down pretty rapidly, but you are a leaner company than you are now--or than you were then. So, in order of magnitude, is your goal to try to knock your SG&A costs down maybe 15 percent year-over-year for the next three quarters? Or do you have a different goal?

Vincent J. Morales
Yeah, Jeff. We're certainly looking today at all of our discretionary cost items. The one thing that we don't know is the duration of this crisis. As I mentioned, I think with the first question, we are seeing staggered start-ups. So, in 2008 and 2009 everything was down for an extended period of time, and we worked our costs accordingly.

Here, it's a little more dynamic. And we're certainly trying to manage our costs aggressively. As you mentioned, and we mentioned, our break-even points are lower. So, it's going to be a little more difficult until we understand the duration of the crisis.

Jeff Zekauskas
I guess for my follow-up, can you tell me what were the volumes like in your domestic store network in April?

Michael H. McGarry
Yeah, if you look at that segment right now, they're probably down 15 percent through the first 27 days. I would tell you that it's a different mix than what we typically see, so a lot of that also has to do with like residential re-paint. People are not able to get into homes to do that type of work.

You're seeing a lot less maintenance-type work because obviously the hotels aren't going to be spending any money. So, it's a little early to tell you whether or not all these trends are going to

continue, but I certainly think that the likelihood of lower maintenance, especially in anything in the hospitality segment, is going to continue to be significantly negatively impacted.

Jeff Zekauskas
Great. Thank you very much. Please stay safe.

Vincent J. Morales
You too, Jeff.

Michael H. McGarry
Thanks, Jeff.

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

Vincent Andrews
Thank you, and nice to hear everyone's voice this morning. If I could just ask you on two specific raw materials, TiO2 and propylene. TiO2 looks like it fell flat for the second quarter in most regions, despite obviously a very challenging (unintelligible) conditions, and propylene is holding up quite well, despite the decline in oil prices. Some suggest that's a function of slower refinery runs and therefore less refinery grade propylene.

So just any thoughts on whether you think those dynamics will break down over time as sort of the lower volume demand works their way into the S&D balance or if these are going to be a little stickier this time around.

Michael H. McGarry
Well, let's start with TiO2. We're convinced that this is a supply/demand-driven market. We're hearing a lot about costs on their side, about ore. Frankly, that's kind of a red herring. So, we are seeing lower TiO2 prices for Q2, not as much as it should be. But, we're still working the system there. Demand obviously in the second quarter is going to be down considerably on the paint side, which is their largest end-use market.

So, we'll be shifting suppliers around to make sure we get the lowest TiO2 price. From a propylene standpoint, it's not just propylene, it's the downstream derivative of the resins. And so on that side, that will be long as well, so we're anticipating that we'll continue to see some price relief in that area, although that won't be a significant purchase in the second quarter like it normally is.

Vincent Andrews
And as a follow-up, Vince, on working capital, impressive that you took 120 basis points of sales out so quickly, given the unprecedented nature of what took place late in the quarter. So, can you just level set us on sort of how we should expect that to progress through the balance of the year? Have you already fully implemented your plan, or is there more to come in the second quarter? Just how shall we be modeling that?

Vincent J. Morales
Again, the visibility here might slow, but our operations teams deserve a lot of credit. They reacted and are reacting exceptionally quickly to the environment. As Michael mentioned, we're measuring the start-up of our facilities around customer demand. It's just too early to predict on

what the draw-down will be of our finished goods. We have to see the demand patterns more fully in order to understand the working capital impacts. It's certainly a high focus for the company, as it is at every company.

Vincent Andrews
Thanks, guys.

Operator
The next question is from Kevin Hocevar of Northcoast Research. Please go ahead.

Kevin Hocevar
Hey, good morning, everybody. Glad to hear everybody is safe. On Slide 9, curious on how you expect a mix of product line performance to impact your margins here because on Slide 9, you show that aerospace and refinish are likely to be the slowest to recover, which I believe are two of your higher margin businesses. So, curious if you could comment on the mix impact to your margins.

Vincent J. Morales
Yeah, Kevin, if you look at the segments, obviously there are several businesses on this slide that we say--the higher volume impact that are--in our performance coating segment, which does have higher margins, so that is a negative mix impact, as you allude to. The businesses we expect to recover quicker have been in the industrial segment. That segment got hit hard in Q1. We do expect again some progression as we get to late Q2 and early Q3 in terms of the margins in that segment, but I think your analysis is accurate.

Kevin Hocevar
And then, curious on the corporate expense. It looks like you're guiding it 40 --what was it, 45 to 50 million in the second quarter, which looks like the first half is tracking up quite a bit versus the first half of last year. I think last year was 90, this year it's on track for 105 to 110. Why is that up that much? Is that where the bad debt expense is showing up--because I would think with incentive comp reversals and I think there's some stock-based comp in there that would drive that down. So just curious why that's running higher.

John Bruno
Hey, Kevin, this is John. So, I would remind everybody it's lower than what we guided to in January. The first quarter of last year was a lower historical first quarter, so this first quarter came in and more in line to where we are typically in a Q1, and I would say Q2 is forecast to be a little bit lower than a normal Q2. So, we do have some initiatives we're still funding. Digitalization, which Michael talked about in his opening remarks, is a new program that we're funding out of corporate. So, we have some examples like that that also impact it.

Kevin Hocevar
Great. Thank you very much.

Operator
The next question is from Arun Viswanathan of RBC Capital Markets. Please go ahead.

Arun Viswanathan
Good morning, and thanks for taking my question--happy to hear everyone is safe and sound for now. I guess I just wanted to ask about the 30 to 35 percent volume decline in Q2. Is there

a way you could potentially size your business maybe into three buckets, automotive, architectural, and industrial? And what's a typical lead time that you have in those areas, and maybe automotive you'd have to switch into refinishing OEM--but, what's a typical lead time?

And I'm just trying to gauge your confidence level in that 30 to 35 percent. Would you consider that kind of a conservative estimate, or could it end up being up better or worse than that? And then, again, maybe you can just to help us by vertical. Thanks.

Michael H. McGarry
Yeah, so that number is our current best estimate. If you think about automotive, we're in a just-in-time delivery business. Now, we do have some inventory on hand that we were going to be delivering in late March when they abruptly shut down. So we'll be asking our auto guys to take that inventory first. Automotive paint has an aging requirement to it, so we try to make sure that we give them the freshest stuff.

But otherwise, they're placing orders. I always tell people in automotive--they give us a 60-day outlook, which is probably 80 percent accurate, a 30-day outlook, which is 90 percent, and then a week or two before, it's 100 percent accurate. So right now, we're still sitting upwards of 21 days before they are starting up. So, they have given us a start-up number, we've factored that into the estimate that we gave you. We've looked at demand. And so, we anticipate that they will ramp up rates throughout the back half of the second quarter. So, that's how we factored that for automotive.

For refinish, we think the orders will be light, given the fact that there's no density, no congestion, no miles driven. And so, we're anticipating that we won't see significant inventory in the refinish side until the back half of the quarter. Obviously commercial transport, light industrial coatings, we're going to continue to see those.

And then, on the architectural side, those orders are placed the day before. So, they don't give you a lot of notice. You do know when the big projects are coming, so you're geared up for the big projects. But the day-to-day kind of stuff, they show up and tell you what they need, place their orders by noon, pick up 7 a.m. So, we expect that to continue, that order pattern. We don't expect to get a lot of visibility differently than we're getting now.

Arun Viswanathan
That's helpful. And then just on the margin front, when you look at the Q1 margins, they held up relatively well, all things considered. When you consider the cost actions that you're accelerating, how should we think about the decremental margins in Q2? Is there an opportunity for those to be slightly better than what you experienced from the COVID losses in Q1? Thanks.

Vincent J. Morales
Yeah, again, as we mentioned earlier, that's certainly our target. There are some things working against that, but we're certainly targeting to improve verse the $90 million segment earnings decline on the $225 million sales decline that we experienced in Q1.

Arun Viswanathan
Any way to potentially quantify that or help us figure out how to do that?

Vincent J. Morales
Again, the only thing I can tell you, Arun, as I said at the outset of the question-and-answer session, is there's things working for us and things working against us. We have more time to be plan-full, and have implemented discretionary cost controls that we didn't have at our benefit in March. But we, again, are being respectful of those folks being furloughed. And as I mentioned, there's a staged start-up going on, and we do have some costs that are global in nature that we need now in China and hopefully will need them in Europe in the next coming weeks.

Arun Viswanathan
Great. Thanks a lot. Good luck in the quarter.

Operator
The next question is from Duffy Fischer of Barclays. Please go ahead.

Duffy Fischer
Hey, good morning, fellows. A question just around a couple of your end markets and your customers there. You talked about maybe the potential on the debt side for those small contractors. But if you look at auto refinish, if you look at contractor, architectural, how do you judge the health of those customers of yours? Were they able to get some of the money from the government? Are you setting up funding plans for them? And if you use 2009 as an example, did you see significant consolidation and kind of customers going away in a reset of that model?

Michael H. McGarry
So from the architectural side, we are not funding our painters. We're certainly more than happy to work with them. Right now, there still is a fair amount of commercial--there is backlog out there that they're going to work out. The question is when does that backlog go away? They also have variable cost structures, so they hire painters during the busy season and then let them go as the season winds down. So, they have the opportunity to manage their cost structure from that regard. So, we'll be watching it.

We do think that this could lead to more MSO-type activities from the body shops. Clearly, that's a benefit for us if that happens and when that happens. So, we'll be watching out for that. But the small body shops--I would say they also have somewhat of a variable cost structure as well, but I would anticipate that they would be applying for the PPP money to support them in this regard.

Duffy Fischer
And then, if we could just focus on the Comex business in Mexico, with the fall in the peso--and they seem to be a little bit slower on the COVID response--how would you judge the health of the Mexican business? And then, what are the costs down there that are somewhat dollar based versus the cost structure that's peso-based down there?

Michael H. McGarry
So, from a raw materials standpoint, Duffy, about, I'll call it 60 percent of the raw materials are dollar-based, so hence--that's why we'll be able to pass through a price increase down there to offset that here in the near-term. When you think about the rest of the business, our concessionaire network is not owned by us. It's owned by our partners. And so, we don't have that big fixed-cost structure that's hanging over our heads down there.

What I can tell you right now is that the sellout in April was actually pretty good. We have about 1,200 stores that are operating what we call curtain down, so you can't physically walk in the store. But only 250 of those 1,200 are actually not delivering. So, the vast majority of them are still delivering products, so that is continuing to progress.

And I would tell you our overall Mexican team is somewhat cautious, though, because the current government is not as pro-business as the prior government, as so we think that the back half of the year will be a little bit more challenging. Construction projects that are underway will probably be completed, but there's not a whole lot of new, big stuff being started, and so that does give us a little pause for concern. So, we're going to be watching that very carefully.

Duffy Fischer
Great. Thank you, guys.

Operator
The next question is from Lawrence Alexander of Jefferies. Please go ahead.

Lawrence Alexander
Hi, there, two quick questions. Can you talk about incremental margins on the recovery, if you expect any significant difference between Europe and the U.S.? And secondly, with the success or the learnings that you've had from the shift to the delivery model, how shall we think about this longer term? Do those volumes switch back to the stores on the restart, or is the goal to grow that? And is the cost to the consumer similar or lower than purchasing through the stores?

Michael H. McGarry
Lawrence, I would say that the incremental margin on the way up in Europe and the U.S. will be somewhat similar. They should be on the higher end of the spectrum. So, that will be a positive. From the delivery aspect, as you know, we've been a proponent of the delivery model for some time now. We're working with our premier authorized dealer network. We had a good quarter from that standpoint in the first quarter. So, we think the delivery model will continue. And right now, once our customers get used to it, I think that trend line will continue.

Obviously, we've tried to convince the owners of the businesses that when their painters come in our stores, they're not painting, they're not getting paid, and so the more that we can keep them out on the job site, the better it is for the owners. And I think they're going to start to see that become more evident in their business. So, I think this is a long-term trend that's going to continue.

Lawrence Alexander
Thank you.

Operator
The next question is from Mike Harrison of Seaport Global Securities. Please go ahead.

Michael Harrison
Hi. Good morning. The increase in restructuring number, to me that implies a structural cut that isn't including areas like reduced travel and entertainment, furloughs, other discretionary cutbacks that you're kind of temporarily reducing. So, can you just verify that those temporary reductions are not included in that restructuring number? And how much could we be talking about in terms of SG&A savings from these furloughs and other temporary cutbacks?

Vincent J. Morales
Yeah, Mike, the restructuring savings we cited does not include these other discretionary costs. We haven't itemized or sized that level. Again, it's going to be part of the tempering we're going to try to do on the decremental margins that I alluded to several times.

John Bruno
Hey, Mike, this is John. This is the second time we've got an SG&A question, so I just want to remind folks that in the financial assumption slide, we did provide a range of 28 to 29 percent for SG&A for Q2, so we did want to give you some help in modeling. So, that might be a number you can take a look at.

Michael Harrison
All right. Thanks very much. And then, kind of a two-part question on aerospace. Number one, you had mentioned--I believe the after-market business, about half of your business is in aerospace. You mentioned that planes are flying empty, but a lot of them are still flying. So, how much lower is the after-market business versus normal? And then the second piece of the question is, does this down-turn fundamentally alter the long-term secular positive view that we have had on new commercial aircrafts?

Michael H. McGarry
So right now, just to be clear, Mike, 60 percent of the global fleet is parked. So, that is an unprecedented number from that standpoint. Your estimation of the after-market is relatively a good number, so you can continue with that kind of number. Right now, we are not thinking that this is a fundamental shift in the aerospace business. The global trends are going to continue, I think.

I think the fact that you're seeing all these people want to get up and get out of their houses reinforces that. We are seeing travel intra-China continuing to grow every week. So, we do not see a fundamental shift. Now, I do think the order book for the big OEMs will be materially lower because they're obviously going to try to figure out what their exact needs are.

And right now, they have no cash, so they will be looking to cancel some of that. So, you've seen a significant cancellation. If you look at the net new orders for Boeing, they were minus 307, if I remember right. Airbus did have some net new orders. So the backlog, I think, will come down, but I think overall this is still a good industry for us.

Michael Harrison
All right. Thanks very much.

Michael H. McGarry
Thanks, Mike.

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

CONCLUSION

John Bruno
Thank you. I'd like to thank everyone for their time and interest in PPG, and please remain safe and healthy. If you have any further questions, please contact our Investor Relations department. This concludes our first quarter earnings call.

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