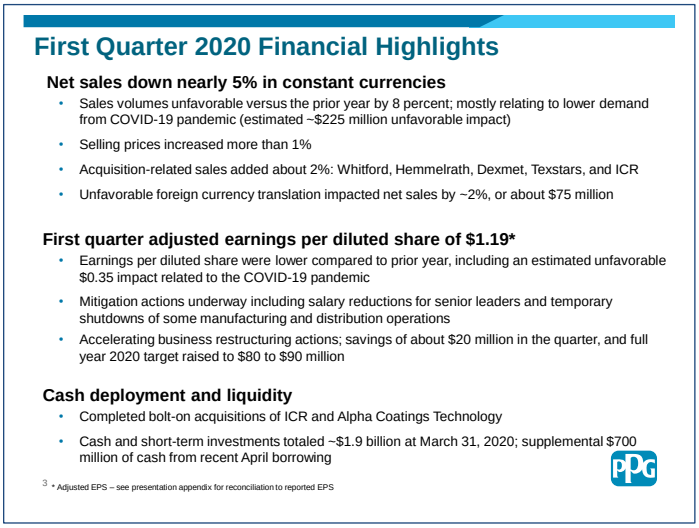
PPG First Quarter 2020 Financial Results

Earnings Brief – April 27, 2020



First Quarter Financial Highlights

PPG first quarter net sales were approximately $3.4 billion, down about 7% versus the prior year. Net sales in constant currencies were down by nearly 5% versus the prior year. First quarter results reflect a sudden and wide-ranging deterioration in global demand due to the COVID-19 pandemic beginning with the impacts of the economic shutdown in China during February and continuing across the world during the month of March. Net sales and earnings per diluted share were unfavorably impacted by the effects of the pandemic by approximately $225 million and $0.35, respectively, as estimated by the company. For the reportable business segments, the impact was more significant in the Industrial Coatings segment as the company's sales in China are weighted more to the business units in that segment.

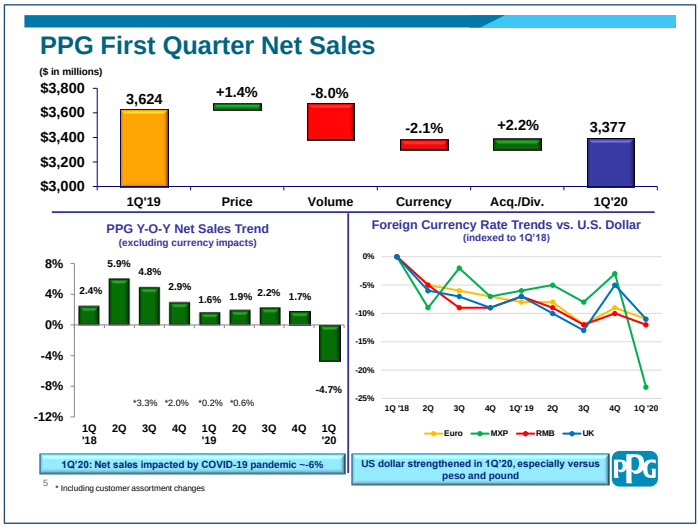
Through early March, the company's businesses, with the exception of those in China, were mostly performing at or above the financial targets set at the outset of the year. In the last two weeks of March, however, many of the larger original equipment manufacturer (OEM) customers were forced to shut down; a number of architectural paint stores in certain countries were mandated to close; and miles driven and flown throughout the world fell sharply as many countries imposed stay-at-home mandates.

Broad steps were taken rapidly to adapt to the current business climate, including decisive cost actions and an increased focus on cash generation and liquidity. These include announced salary reductions for senior leaders, shutdowns of some manufacturing and distribution operations, temporary employee furloughs at the most severely demand-impacted businesses, reduced spending across all businesses and functions, and deferred capital expenditures. In addition, execution of previously announced restructuring programs continued, with about $20 million of savings achieved in the first quarter. More detailed sales comparisons for the company and each reporting segment are included on subsequent presentation slides.

Reported earnings per diluted share was $1.02, compared to $1.31 in the first quarter of 2019. Adjusted earnings per diluted share was $1.19, compared to $1.38 in the first quarter 2019. Year-over-year earnings were impacted by the pandemic, which caused significant demand degradation in several end-use markets. The aggregate unfavorable impact to first quarter 2020 earnings per diluted share from the pandemic is estimated at approximately $0.35. Partially offsetting this impact were higher selling prices, savings from previously announced cost-savings programs and other cost-mitigation actions, and incremental earnings from recent acquisitions. Unfavorable foreign currency translation impacted net sales by about $75 million, resulting from strengthening of the U.S. dollar compared to the Mexican peso, euro, British pound, Chinese RMB, and several other currencies in the first quarter. The segment earnings impact from the unfavorable foreign currency translation was $12 million.

The first quarter reported and adjusted effective tax rates were both about 22%, which is lower than the 24% rate in the first quarter of 2019, primarily attributable to the recognition of favorable discrete tax items.

In the first quarter the company finalized the bolt-on acquisitions of Industrial Chimica Reggiana S.p.A (ICR), an Italian manufacturer of automotive refinish products, including putties, primers, basecoats and clear coats under the SPRINT® brand, and Alpha Coatings Technologies, a manufacturer of powder coatings for light industrial applications and heat sensitive substrates.

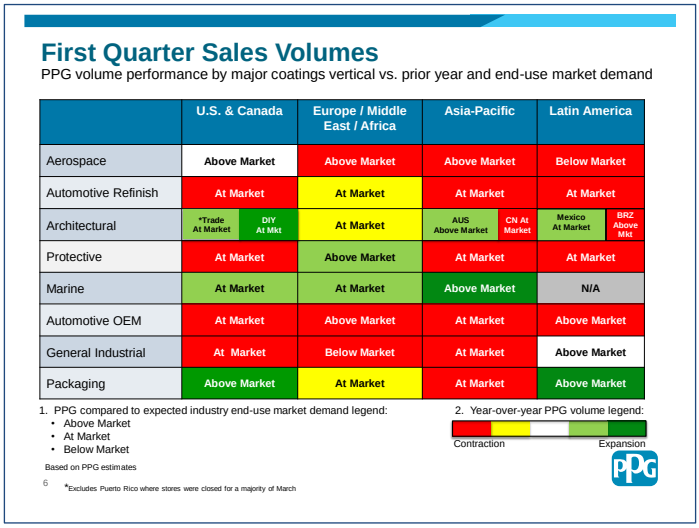


PPG First Quarter Net Sales

PPG first quarter net sales of about $3.4 billion were down about 7% compared to the prior year.

Aggregate selling prices increased by more than 1% year-over-year, with stronger contributions from the Performance Coatings reporting segment. The recent acquisitions of Whitford, Hemmelrath, Dexmet, Texstars, ICR, and Alpha increased net sales by about 2%, or about $80 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 more than 2%, or approximately $75 million on net sales. One of the largest impacts was from the Mexican peso, which declined about 20% versus the U.S. dollar in the first quarter compared to the prior year. For the second quarter, it is expected that foreign currency translation will be unfavorable to net sales and earnings year-over-year by $140 million to $150 million and $20 million to $25 million, respectively.

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



First Quarter Sales Volumes

Aggregate global sales volumes were down 8% in the first quarter of 2020. Sales volumes were negatively impacted by an estimated $225 million, or about 6%, as a result of the COVID-19 pandemic.

In the U.S. and Canada region, sales volumes were down by a mid-single-digit percentage, including the unfavorable impact from the pandemic. Sales volumes for the packaging coatings business grew by a high-single-digit percentage. In addition, the architectural coatings businesses had positive volume growth during the quarter led by strong net sales growth in the do-it-yourself (DIY) channel. Sales volumes in the aerospace coatings business were slightly lower, as mid-single-digit percentage sales volume growth through February was offset by customer shutdowns that occurred in March. Sales volumes in both automotive refinish and automotive OEM coatings were significantly lower. A sharp decrease in miles driven during the quarter and a mild winter both negatively impacted demand for automotive refinish products. The automotive OEM coatings business was impacted by many customer shutdowns that started in March and have continued into the second quarter. Aggregated sales volumes in the region are expected to be down 30% to 40% year-over-year in the second quarter due to the COVID-19 pandemic.

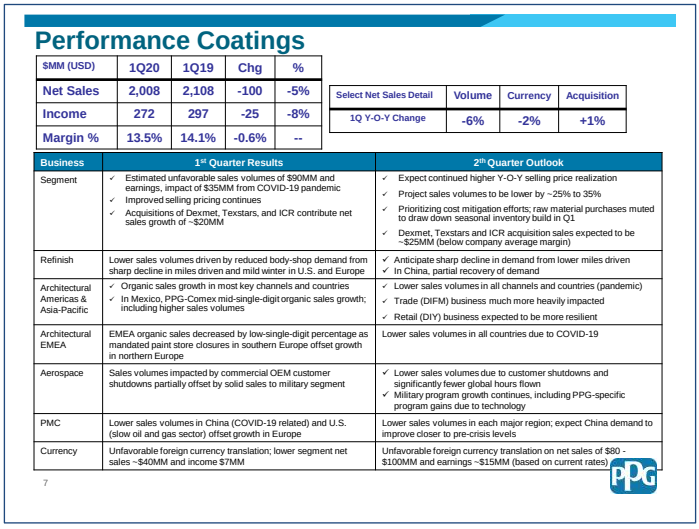
Sales volumes were lower by a high-single-digit percentage in the Europe, Middle East, and Africa (EMEA) region compared to the previous year, driven by lower demand in most end-use markets due to

the pandemic. The automotive OEM, automotive refinish and industrial coatings businesses experienced the steepest declines due to customer shutdowns in various countries. Both the protective and marine coatings businesses had modest sales volume growth in the first quarter, reflecting that a portion of these businesses are late-cycle in nature. Through the middle of March, net sales, excluding the impact of currency and acquisitions (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 mandated closures of architectural retail paint stores. Aggregated sales volumes in the region are expected to be down by 30% to 40% year-over-year in the second quarter as economic activity is projected to remain weak due to measures taken by most countries in the region to manage the pandemic.

Overall demand in the Asia-Pacific region was soft during the first quarter mainly as a result of the impact of the COVID-19 pandemic in China, which significantly reduced economic activity starting in the month of February. As the quarter progressed, other countries in the region were impacted, most notably Australia, South Korea, and India. In aggregate, sales volumes were lower in the region by about 20% year-over-year in the first quarter, with sales volumes in China down approximately 30%. Economic activity began to recover in China during March but was still down about 20% compared to March 2019, reflecting a modest economic start-up at the beginning of the month which strengthened through the end of March. The automotive OEM coatings and automotive refinish coatings businesses were the most impacted as customer shutdowns and stay-at-home orders resulted in lower customer demand. PPG's operations in China returned to their full capabilities in mid-March and are positioned to meet the expected ramp-up of demand over the next few months. A few end-use markets in China are nearing their pre-crisis demand levels, including protective and marine coatings and certain general industrial end-use markets. In addition, China automotive builds are projected to be comparable in the second quarter versus the prior-year quarter. Overall demand in the region is expected to be down by about 10% in the second quarter largely due to lower economic activity in Australia, South Korea and southeast Asia due to the effects of the pandemic.

In Latin America, sales volumes were modestly lower, down a low-single-digit percentage, as the COVID-19 pandemic had less impact on this region during the first quarter comparatively. Sales volumes grew by a mid-single-digit percentage in the packaging coatings business and organic sales grew by a mid-single-digit percentage in the Mexican PPG Comex architectural coatings business. In addition, the general industrial coatings business had flat sales growth in the quarter. The remaining businesses experienced softer demand conditions. The pandemic began to have greater impacts on the region in early April. Overall demand is expected to decline by about 30% in the second quarter compared to the second quarter 2019, as the region is incorporating similar health provisions that are in place in other parts of the world.

Looking ahead for the company in aggregate, we expect the COVID-19 pandemic to significantly impact demand patterns in the second quarter resulting in unfavorable sales volumes of 30% to 35% compared to the prior year, assuming that demand modestly improves in June. Overall demand in China is anticipated to improve year-over-year in the second quarter.



Performance Coatings

$MM (USD)	1Q20	1Q19	Chg	%
Net Sales	2,008	2,108	-100	-5%
Income	272	297	-25	-8%
Margin %	13.5%	14.1%	-0.6%	--

Select Net Sales Detail	Volume	Currency	Acquisition
1Q Y-O-Y Change	-6%	-2%	+1%

Business	1st Quarter Results	2th Quarter Outlook
Segment	✓ Estimated unfavorable sales volumes of $90MM and earnings, impact of $35MM from COVID-19 pandemic ✓ Improved selling pricing continues ✓ Acquisitions of Dexmet, Texstars, and ICR contribute net sales growth of ~$20MM	✓ Expect continued higher Y-O-Y selling price realization ✓ Project sales volumes to be lower by ~25% to 35% ✓ Prioritizing cost mitigation efforts; raw material purchases muted to draw down seasonal inventory build in Q1 ✓ Dexmet, Texstars and ICR acquisition sales expected to be ~$25MM (below company average margin)
Refinish	Lower sales volumes driven by reduced body-shop demand from sharp decline in miles driven and mild winter in U.S. and Europe	✓ Anticipate sharp decline in demand from lower miles driven ✓ In China, partial recovery of demand
Architectural Americas & Asia-Pacific	✓ Organic sales growth in most key channels and countries ✓ In Mexico, PPG-Comex mid-single-digit organic sales growth; including higher sales volumes	✓ Lower sales volumes in all channels and countries (pandemic) ✓ Trade (DIFM) business much more heavily impacted ✓ Retail (DIY) business expected to be more resilient
Architectural EMEA	EMEA organic sales decreased by low-single-digit percentage as mandated paint store closures in southern Europe offset growth in northern Europe	Lower sales volumes in all countries due to COVID-19
Aerospace	Sales volumes impacted by commercial OEM customer shutdowns partially offset by solid sales to military segment	✓ Lower sales volumes due to customer shutdowns and significantly fewer global hours flown ✓ Military program growth continues, including PPG-specific program gains due to technology
PMC	Lower sales volumes in China (COVID-19 related) and U.S. (slow oil and gas sector) offset growth in Europe	Lower sales volumes in each major region; expect China demand to improve closer to pre-crisis levels
Currency	Unfavorable foreign currency translation; lower segment net sales ~$40MM and income $7MM	Unfavorable foreign currency translation on net sales of $80 - $100MM and earnings ~$15MM (based on current rates)

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Performance Coatings

First quarter net sales for the Performance Coatings segment were about $2 billion, down nearly 5% versus the prior year. Selling prices increased by more than 2%. Segment sales volumes were down 6%. Net sales were

negatively impacted by unfavorable foreign currency translation of more than $40 million, or 2%, and by $90 million, or about 5%, related to the COVID-19 pandemic. Finally, acquisition-related sales, net of divestitures, added about 1% to sales growth.

Segment income was $272 million, down $25 million compared to the first quarter 2019. Earnings were unfavorably impacted by lower sales volumes, general inflation, and unfavorable foreign currency translation, which was partially offset by higher selling prices, cost-mitigation actions, and restructuring savings. The unfavorable segment earnings impact of the pandemic is estimated to be $35 million.

From a business unit perspective, year-over-year net sales of automotive refinish coatings were lower by a low-teen-percentage. Sales volumes were impacted by lower sales in most regions due to the pandemic, which resulted in a significant reduction in miles driven. In addition, a mild winter in North America and Europe also resulted in lower collision claim activity. It is estimated that collision claim activity in the U.S. was down by about 8% in the first quarter compared to the prior year period and that many body shops were running at less than 50% of capacity in March and April. Sales volumes in China are recovering with body shops reopening and operating at around 70% capacity by mid-April. Due to the significant impact of lower miles driven, sales volumes are expected to be down significantly compared to the second quarter 2019, reflecting the lower body shop activity and customers aggressively managing inventory levels. Globally, the PPG automotive refinish coatings business continues to convert additional body shops to PPG products, and the integration of the ICR acquisition is underway.

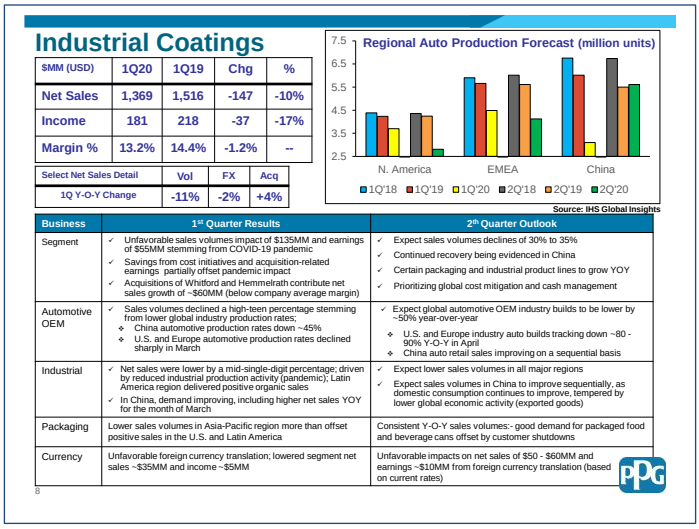
Aerospace coatings net sales increased a low-single-digit percentage, driven by acquisition-related sales from Dexmet and Texstars. Sales volumes were trending higher on a year-over-year basis through February, including the unfavorable impact from the shut-down in China. In March, customer shutdowns reduced demand for aerospace products in the U.S. and Europe. Global commercial traffic in the final week of March was estimated to be down about 60% compared to 2019 levels. In addition, many of the world's airlines have announced drastic capacity cuts (50%-90%) in the wake of the crisis. In addition, global passenger traffic is expected to decline by 70% to 75% in the second quarter, which will likely reduce demand for PPG aerospace products in the commercial aftermarket. Sales to the military segment, representing about 30% of PPG's aerospace coatings net sales have not been impacted by the pandemic, with year-over-year growth continuing.

Year-over-year organic sales decreased by a low-single-digit percentage in architectural coatings EMEA. Solid selling price increases and volume growth in northern Europe were more than offset by a sharp decline in demand in southern Europe that occurred in March when several countries mandated the closure of architectural retail paint stores. Certain countries in northern and eastern Europe have allowed paint stores to remain open; however, overall demand has declined. Overall, second quarter net sales are expected to decline significantly year-over-year, as mandatory shutdowns continued and expanded in the region.

Architectural coatings Americas and Asia-Pacific organic sales were up a low-single-digit. Aggregated sales volumes were relatively flat and selling prices were up by a low single-digit percentage in comparison to the prior-year quarter. The U.S. and Canada company-owned stores network modestly grew same-store sales as pandemic impacts were limited in the quarter with most states permitting retail activity to continue. This excludes Puerto Rico which mandated stores to fully close during March. Company-owned store sales were also impacted by lower demand for certain products that serve the oil and gas sector. Sales volumes in the national retail DIY channel, which is expected to be less impacted by the pandemic, grew by a mid-single-digit percentage compared to the first quarter 2019, with growth rates much higher in March. In Mexico, PPG Comex grew organic sales by a mid-single-digit percentage and about 25 new concessionaire locations opened in the first quarter. Looking ahead, aggregate net sales are expected to be lower year-over-year in the second quarter, including the impact of partial retail closures in Mexico.

Aggregate protective and marine coatings organic sales were slightly lower compared to the prior year as higher selling prices partially offset modest sales volume declines related to the pandemic and lower demand in the U.S. oil and gas end-use market. The initial impact of the COVID-19 outbreak led to production delays at shipyards in China due to labor and equipment shortages that coincided with Chinese New Year. These shortages subsided in March. Sales volumes in China are nearing pre-crisis levels in April, as the long-cycle protective coatings business has positively impacted sales volume trends. However, 2020 marine new build order volumes have been impacted by the ongoing pandemic and, as a result, are projected to decline 23% for the full-year. This, coupled with soft demand for protective coatings for the oil and gas market, are expected to result in sales volumes declines year-over-year in the second quarter.

Looking ahead, industry demand levels are expected to be significantly lower especially in the automotive refinish, aerospace, and certain architectural coatings end-use markets. Aggregate net sales for the reporting segment are expected to be lower year-over-year by 25% to 35%, with sharper declines in all major regions except Asia where China is expected to return to pre-crisis levels. All businesses are focusing on strong cost management and mitigation actions, along with prioritizing cash flow optimization to temper the impact of the lower volumes. In addition, targeted selling price actions continue. Lastly, acquisitions are forecast to add about $25 million of net sales primarily from Dexmet, Texstars, and ICR, and foreign currency translation is expected to have an unfavorable impact on segment sales and earnings of about $90 million and $15 million, respectively, based on recent exchange rates.



Industrial Coatings

First quarter net sales for the Industrial Coatings segment were about $1.4 billion, down nearly 10% year over year. Segment sales volumes were lower by about 11%, impacted by widespread customer shutdowns related to the COVID-19 pandemic, which significantly impacted global automotive industry builds and lowered industrial production activity throughout the world, resulting in an estimated unfavorable impact of $135 million on net sales or about 9%. The pandemic impact on PPG was more significant in the Industrial Coatings segment as company sales in China are more weighted to this segment. Selling prices increased modestly versus the first quarter 2019. Net sales were also impacted by unfavorable foreign currency translation of about $35 million, or about 2%.

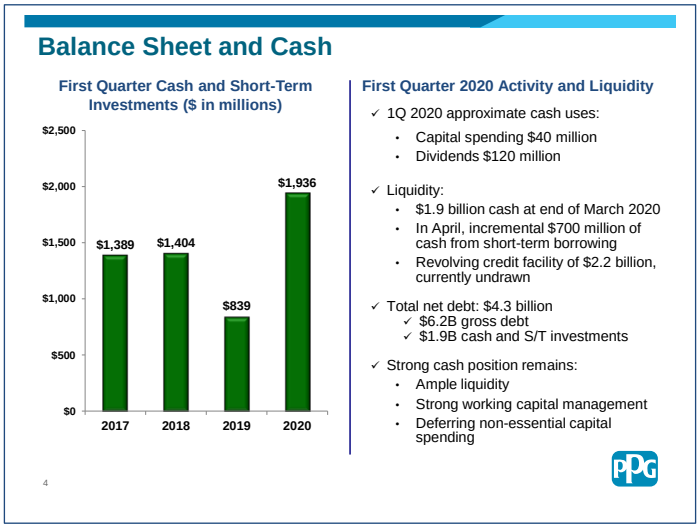
Segment income of $181 million was down $37 million, or about 17% year over year, including unfavorable foreign currency translation of about $5 million, primarily related to the Chinese RMB and the euro. Segment income was also impacted by lower sales volumes due to customer shutdowns related to the pandemic, partially offset by cost-mitigation actions, restructuring cost savings, and modestly higher selling prices. The unfavorable segment earnings impact of the pandemic is estimated to be $55 million.

From a business unit perspective, sales volumes were down a high-teen percentage in the automotive OEM business versus the prior year, which was slightly better than the overall global industry automotive build rate that was down about 20%. The sharp industry decline was widespread across most major regions, and most pronounced in the Asia Pacific region, where automotive build rates fell by about 45% in the first quarter versus the prior year. Partially offsetting the lower overall sales volumes were acquisition sales related to Hemmelrath. Global automotive industry demand is expected to soften further in the second quarter in most regions, with recovery patterns continuing in China. Automotive builds in the U.S. and Canada and European regions are expected to fall by about 50% to 60% in the second quarter, compared to the prior year, while weekly retail sales in China have trended sequentially higher over the past eight weeks. The Hemmelrath acquisition achieved its one-year anniversary in mid-April.

General industrial coatings net sales fell by a mid-single-digit percentage in the first quarter. While organic sales in Latin America were up a low-single-digit percentage, all other major regions had lower sales volumes due to customer shutdowns from the COVID-19 pandemic. Industrial production demand was broadly weak across most key sub-segments, with the exception of electronic materials where demand was relatively flat year-over-year. Higher selling prices and acquisition-related sales, primarily from Whitford, partially offset the lower sales volumes. The Whitford acquisition achieved its one-year anniversary in March delivering financial results above initial expectations. Demand activity is improving in China but is still trending below prior-year levels. In early April about 25% of customers in Europe and the U.S. had temporarily closed their operations. Year-over-year sales volume trends are anticipated to be lower in the second quarter.

Packaging coatings organic sales decreased by a low-single-digit percentage versus the prior year, as modestly higher selling prices were offset by lower sales volumes, mainly in China due to COVID-19-related customer shutdowns. Sales volumes increased in both the U.S. and Canada and Latin America regions during the quarter and were higher in Europe for the month of March. We expect aggregate demand will be relatively flat in the second quarter as solid underlying demand patterns are expected to be offset by customer shutdowns.

Looking ahead for the segment in aggregate, industry demand levels are expected to be significantly lower especially in the automotive OEM coatings and the industrial coatings businesses in the second quarter. Aggregate net sales for the business segment are expected to be lower by about 30% to 35%. In 2009, during the great recession, the Industrial Coatings' segment margins fell by more than 90% in the first two quarters and then were higher than the prior year in the third quarter of 2009. Based on current exchange rates, foreign currency translation is expected to have an unfavorable impact on segment sales and earnings of about $50 million and $10 million, respectively, for the second quarter. In China, customer demand is expected to continue to recover and return to year-over-year growth in the second half of 2020. All businesses are focusing on strong cost management and mitigation actions along with prioritizing cash flow optimization.



Balance Sheet and Cash

PPG ended 2019 with approximately $1.3 billion of cash and short-term investments. During the first quarter the company borrowed $800 million from its revolving credit facility, reflecting an abundance of caution and anticipating uncertainty in the debt capital markets, including commercial paper. The company ended March with about $1.9 billion in cash and short-term investments. Subsequently, in 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 remaining proceeds supplementing cash. The company's $2.2 billion revolving credit facility is currently undrawn. These strategic actions help to bolster the company's liquidity.

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

- Capital expenditures were about $40 million in the quarter. The company has deferred non-essential capital spending and currently expects full year capital spending to be $200 to $250 million. The company will monitor economic activity and adjust capital spending as required.

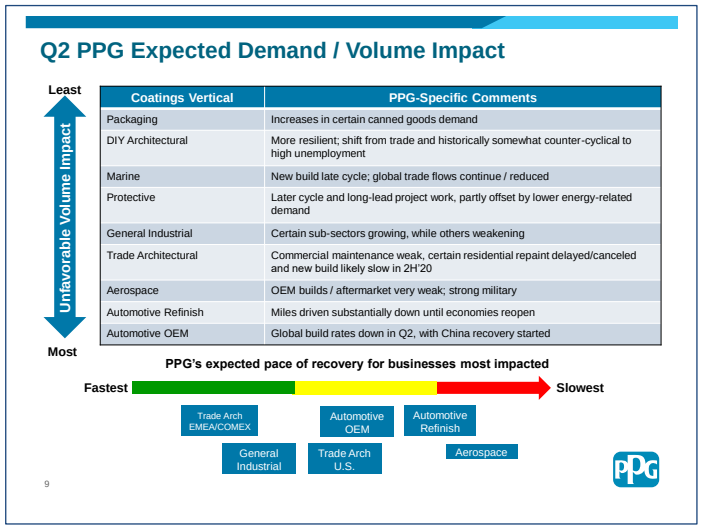
- Dividends paid were $120 million in the first quarter. PPG has paid annual dividends for 121 consecutive years, including 48 consecutive years of increased annual payouts. The company announced a 51 cent per share dividend on April 16, to be paid in the second quarter.

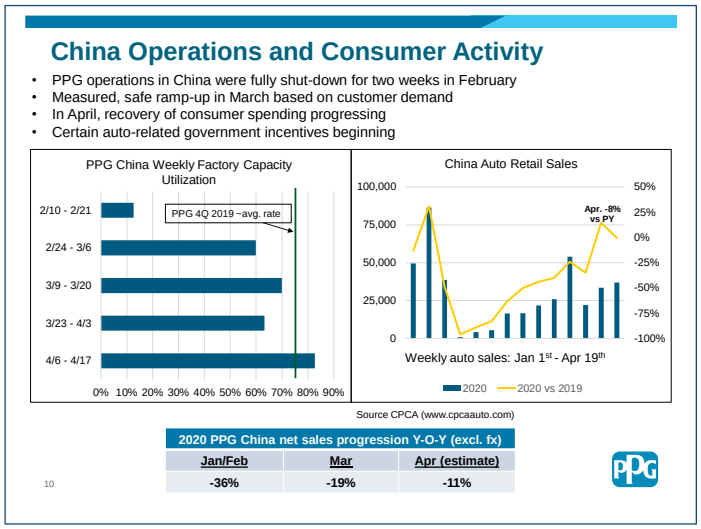
- The ICR and Alpha Coating Technologies bolt-on acquisitions closed during the first quarter.

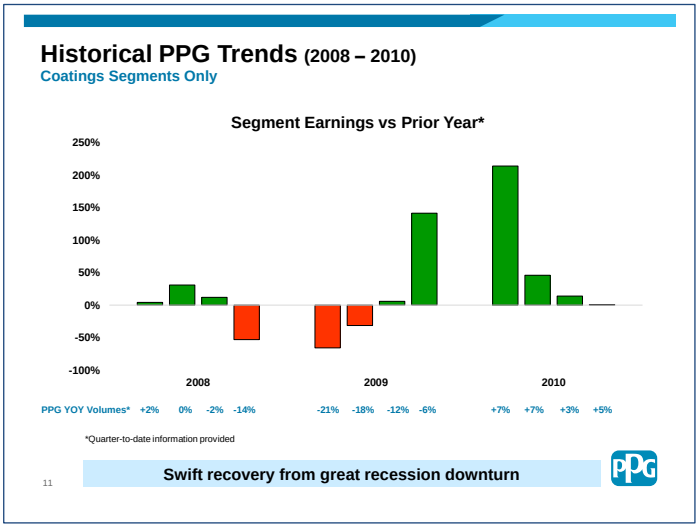
- In the first quarter, the company recorded estimated future credit losses for trade receivables of $30 million pre-tax, or $0.10 per-diluted-share, related to the potential financial impacts of the COVID-19 pandemic. These amounts were estimated based on a regional business perspective, including certain forward-looking information and other considerations. As new information becomes available, PPG will appropriately monitor this reserve.

- PPG's gross debt balance at quarter-end totaled $6.2 billion, with net debt of $4.3 billion.

- Due to the higher borrowing levels and the drop in interest rates in countries where the company earns interest income, the net interest expense for the second quarter is expected to be higher at $35 to $40 million.







Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.

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Adjusted EPS Reconciliation

$ in millions, except EPS

	Total PPG	
	Net Income	EPS[a]
First Quarter 2020		
Net Income Attributable to PPG as Reported	$ 243	$ 1.02
Increase in allowance for doubtful accounts related to COVID-19	23	0.10
Business restructuring-related costs, net[b]	10	0.04
Environmental remediation charges	6	0.03
Adjusted Net Income Attributable to PPG	$ 282	$ 1.19
First Quarter 2019		
Net Income Attributable to PPG as Reported	$ 312	$ 1.31
Environmental remediation charge	8	0.03
Acquisition-related costs	5	0.02
Business restructuring-related costs, net[b]	2	0.01
Litigation matters	3	0.01
Adjusted Net Income Attributable to PPG	$ 330	$ 1.38

(a) Earnings per diluted share is calculated based on unrounded numbers. Figures in the table may not recalculate due to rounding.

(b) For the three months ended March 31, 2020 and 2019, included in business restructuring-related costs, net are business restructuring charges, accelerated depreciation of certain assets and other related costs, offset by releases related to previously approved programs.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the company. This presentation contains forward-looking statements that reflect the company's current views with respect to future events and financial performance. You can identify forward-looking statements by the fact that they do not relate strictly to current or historic facts. Forward-looking statements are identified by the use of the words "aim," "believe," "expect," "anticipate," "intend," "estimate," "project," "outlook," "forecast" and other expressions that indicate future events and trends. Any forward-looking statement speaks only as of the date on which such statement is made, and the company undertakes no obligation to update any forward looking statement, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also, note the following cautionary statements:

Many factors could cause actual results to differ materially from the company's forward-looking statements. Such factors include expected effects on our business of the COVID-19 pandemic, 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 restructuring initiatives, 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 April 27, 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.