PPG Industries Inc

Second Quarter 2020 Prepared Commentary and Earnings Conference Call

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CORPORATE PARTICIPANTS

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Prepared Commentary (published 7/16/2020)

These prepared remarks should be read in conjunction with the PPG's earnings press release and presentation that were posted on PPG's website (investor.ppg.com) on July 16. In addition, these detailed remarks supplement the commentary that the company will make on its earnings call on July 17.

Second Quarter Financial Highlights

PPG second quarter net sales were approximately $3.0 billion, down about 25% versus the prior year. Net sales in constant currencies were down by nearly 22% versus the prior year. Second quarter results reflect a wide-ranging deterioration in global demand due to the COVID-19 pandemic. Industrial demand improved in late May and June as many economies across the world were re-opened, particularly in Asia and Europe. Economic activity in the quarter was the strongest in China.

Reported earnings per diluted share from continuing operations was $0.42, compared to $1.13 in the second quarter of 2019. Adjusted earnings per diluted share was $0.99, compared to $1.85 in the second quarter 2019. Year-over-year earnings were impacted by the pandemic, which caused significant demand degradation in several end-use markets. Partially offsetting this impact were higher selling prices of nearly 2%, savings from previously announced cost-savings programs and interim cost-mitigation actions, which delivered about $170 million of savings in the second quarter. The cost-savings programs resulted in an incremental $20 million of savings in the quarter, which are permanent reductions to the company's cost structure. Operating earnings in China were sharply higher year-over-year in the second quarter as the company realized strong leverage on the increased sales volumes. Finally, unfavorable foreign currency translation impacted net sales by about $135 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 second quarter. The segment earnings impact from the unfavorable foreign currency translation was nearly $20 million.

The lower sales volumes drove roughly a 25% decrement to aggregate segment operating margins, including the unfavorable impact of some additional pandemic-related costs in the second quarter. The company has significantly reduced its breakeven point in the past few years, which helped drive higher operating earnings in the second quarter compared to the last recession in 2008/2009. For example, in the 2009 recession, the industrial coatings reporting segment had negative earnings during the first two quarters of the downturn. In the second quarter, the Industrial Coatings segment delivered positive earnings despite sales volumes being down 38% versus the prior year. Third quarter margin decrements are expected to be slightly worse to those of the second quarter as certain cost will be added back to properly service customers restarting and ramping up their operations.

During the second quarter, the company approved a new restructuring program with significant and broad actions to further reduce its global cost structure. The actions stem from the COVID-19 pandemic and related pace of recovery in a few end-use markets, along with further opportunities to optimize supply chain and functional costs. When completed, the company expects the planned actions will deliver $160 to $170 million in annual pre-tax cost savings, with approximately $25 to $35 million of savings projected in 2020. The remainder of the annual cost savings is anticipated to be substantially realized by year-end 2021, on a run rate basis. It is expected that all current restructuring programs will deliver $60 to $70 million of additional savings in the second half of 2020.

The second quarter reported and adjusted effective tax rates were both about 23% and 25% respectively, compared to the reported and adjusted 24% rate in the second quarter of 2019. The adjusted rate tax for the second quarter was higher than the first quarter due to country earnings mix.

PPG Second Quarter Net Sales

PPG second quarter net sales of about $3.0 billion were down about 25% compared to the prior year.

In aggregate, company sales volumes were lower versus the prior year in April by approximately 35%. The company experienced continued improvement throughout the month of May, with aggregate monthly sales volumes down less than 30% versus 2019, including the unfavorable impact from 2 fewer ship days year-over-year. Further sequential improvement of sales volumes continued in June. Sales volumes were down about 9% in June, or 12% adjusted for the two extra shipping days which primarily benefited the global architectural business. The total ship days for the quarter were equal to the prior year. These results include higher year-over-year sales volumes in China and sequential monthly net sales improvement in both the U.S. and Europe reflecting the reopening of economic activity.

Aggregate selling prices increased by nearly 2% year-over-year, with stronger contributions from the Performance Coatings reportable segment. The recent acquisitions of Dexmet, Texstars, ICR, and Alpha increased net sales by about 1%, or about $25 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 3%, or approximately $135 million on net sales. For the third quarter, foreign currency translation is expected to be unfavorable to net sales and earnings year-over-year by $50 to $70 million and $10 to $12 million, respectively.

Second Quarter Sales Volumes

Aggregate year-over-year global net sales volumes were down 24% in the second quarter of 2020, stemming from the global COVID-19 pandemic.

In the U.S. and Canada region, sales volumes were down nearly 30%. Sales volumes for the packaging coatings business grew by a high-single-digit percentage for the second consecutive quarter. In the architectural coatings business, sales volumes fell by a low-single-digit percentage. Strong net sales growth in the do-it-yourself (DIY) channel was offset by lower aggregate organic sales in the company-owned store and independent dealer channels. Sales volumes in the aerospace coatings business were lower by about 30% as solid net sales for military applications were more than offset by soft net sales to the commercial segment which was impacted by lower demand for new planes and less after-market maintenance due to lower miles flown. Sales volumes in both automotive refinish coatings and automotive original equipment manufacturer (OEM) coatings were significantly lower. A sharp decrease in miles driven during the quarter and less congestion during peak driving hours negatively impacted demand for automotive refinish products. Collison claims in the U.S. were estimated to be down 35% in the second quarter. The automotive OEM coatings business was impacted by many customer shutdowns that started in March and continued well into May. Automotive OEM production activity made a strong sequential recovery in June, but was still down about 10% in June on a year-over-year basis. Aggregate demand in the region is expected to improve sequentially from the second quarter, but still remain down between 10% and 20% year-over-year in the third quarter due to the COVID-19 pandemic.

Sales volumes were lower by about 25% 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, aerospace, and general industrial coatings businesses experienced the steepest declines due to customer shutdowns in various countries and lower miles driven and flown during the quarter. Demand for the protective and marine coatings businesses was also lower during the second quarter driven by delayed projects due to the pandemic. In the EMEA architectural coatings business, net sales, excluding the impact of currency and acquisitions (organic sales), fell by a low-single-digit percentage compared to prior year due to Southern European countries and the U.K. mandating closures of architectural retail paint stores in April and part of May. Demand activity returned rapidly as stores were permitted to re-open, and sales in the month of June were higher on a year-over-year basis, including the benefit of two extra shipping days. Aggregate demand in the region is expected to be down by 7% to 15% year-over-year in the third quarter as economic activity is projected to improve sequentially.

Economic activity in the Asia-Pacific region was mixed during the second quarter mainly as a result of the COVID-19 pandemic and was lower by a high-single-digit percentage in aggregate. Sales in China continued to recover and were up a low-single-digit percentage on a year-over-year basis as demand for automotive OEM, automotive refinish and general industrial coatings significantly improved during the quarter. Automotive OEM production builds improved on a year-over-year basis driven by automotive retail sales in China which were higher than prior year in the months of April and May and for the entire second quarter. In addition, demand for PPG products in Australia improved during the second quarter driven by record sales of architectural products. Offsetting these results were significantly lower sales in India and Southeast Asia due to the growing impacts of the pandemic. In the third quarter, overall demand in the region is expected to be down by a low-mid-digit percentage as continued recovery in China is anticipated to be offset by lingering, soft economic activity in India and Southeast Asia due to the effects of the pandemic.

In Latin America, sales volumes were lower by nearly 25%, as economic activity was impacted by the COVID-19 pandemic during the second quarter. Sales volumes were relatively flat in the packaging coatings business. Organic sales decreased by a low-single-digit percentage in the Mexican PPG Comex architectural coatings business. For most of the quarter, a portion of the concessionaire network was mandated to close. As the quarter progressed and concessionaire locations were allowed to reopen, demand for architectural products quickly improved. Sales volumes in the automotive OEM, automotive refinish, and the general industrial coatings businesses were significantly lower as these end-use markets all experienced much softer demand conditions. Overall demand is expected to decline by about 10% to 15% in the third quarter compared to the third quarter 2019.

Looking ahead for the company in aggregate, we expect recovery in demand to continue; although the pace of recovery will vary across end-use markets and geographic regions. In the third quarter, we expect sales volumes will be unfavorable by 8% to 15% compared to the prior year, which includes continued favorable economic activity trends in China. The wide range is due to the uncertainty of the pace of recovery and potential for recurring negative impacts from the pandemic.

Performance Coatings

Second quarter net sales for the Performance Coatings segment were about $2.1 billion, down about 15% versus the prior year. Selling prices increased by nearly 3%. Segment sales volumes were down about 15%. Net sales were negatively impacted by unfavorable foreign currency

translation of about $85 million, or about 4%. Finally, acquisition-related sales, net of divestitures, added nearly 1% to sales growth.

Segment income was $362 million, down about $65 million compared to the second 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.

From a business unit perspective, year-over-year net sales of automotive refinish coatings were lower by nearly 35%. The lower sales were due to the pandemic causing a significant reduction of miles driven in the second quarter. In the U.S. and Europe, sales volumes strengthened modestly throughout the quarter on a sequential basis off low activity levels from March and April. While demand for gasoline has improved and miles driven have increased in the past few months, U.S. traffic levels remain generally depressed across the country, especially during peak hours. Of note is the U.S. Center for Disease Control recommendation that individuals limit use of public transportation to help limit the spread of COVID. In Europe, congestion has modestly improved as many people continue to work from home. While congestion levels in France are returning to normal, with a jump in morning peak-hour traffic in major cities, peak congestion levels at the end of June in the UK, Italy and Spain were still 40% - 60% below normal. Sales volumes in China are near 2019 levels and continue to show good recovery. Peak-hour congestion in some large Chinese cities is at or above 2019 average levels as commuters show a preference for driving in order to avoid public transport. Congestion levels in larger South American cities remain depressed. Miles driven are anticipated to improve sequentially in the third quarter, including the benefit from individual concerns over utilization of mass transit. However, they likely will continue to be below 2019 levels, and traffic density during peak driving hours will remain depressed due to continuing stay-at-home work practices. Autobody shop customers in the U.S. and Europe indicated they were at 70% to 80% of their normal capacity utilization in June, and customers indicated they were no longer holding excess inventory. Globally, the PPG automotive refinish coatings business continued to convert additional body shops to PPG products during the second quarter.

Aerospace coatings sales volumes decreased by about 30%, driven by a sharp decline in sales volumes of commercial OEM, general aviation and after-market products. Net sales benefited from solid demand for the company's military applications and acquisition-related sales from Dexmet and Texstars. Airplane manufacturers have announced significantly fewer planned deliveries for the remainder of 2020, and commercial after-market demand is being impacted by a significant reduction in miles flown. Currently, global commercial passenger traffic is estimated to be down about 85% compared to 2019 levels. In addition, many of the world's airlines operated with drastic capacity cuts (40% to 95%) during the quarter. While airlines have announced plans to modestly increase their flight schedules for the third quarter, they are expected to still be down 30% to 50% in the third 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 sales remaining near 2019 levels.

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 and the UK that occurred primarily in the months of April and May. As economies and retail outlets re-opened, demand rapidly returned resulting in higher sales volumes in the month of June than the prior-year month. During the quarter, sales of DIY products were elevated and will likely start to return closer

toward normal levels in the third quarter. Overall, third quarter organic sales are expected to be higher by a low-single-digit percentage.

Architectural coatings Americas and Asia-Pacific organic sales were down a low-single-digit percentage. Aggregate sales volumes were slightly down and selling prices improved by a low single-digit percentage in comparison to the prior-year quarter. Sales volumes in the national retail DIY channel in the U.S., Canada, and Australia were very strong throughout the quarter with each up more than 10% compared to the second quarter 2019. The Australian architectural business achieved record sales and earnings in the second quarter. The U.S. and Canada company-owned stores and independent dealer network improved each month during the quarter, but sales volumes were lower for the quarter due to lower professional or do-it-for-me (DIFM) demand, including lower professional residential repaint which represents about 40% of the overall market, also lower commercial maintenance and new build activity which represents another 30% of the overall market. Overall company-owned stores demand was aided by two extra shipping days in June and a favorable comparison to the prior-year quarter that was impacted by abnormally high levels of rainfall. Architectural sales in the U.S, and Canada were also aided by good sales for exterior paint and stain products, including PPG's leading Olympic® stain brand. In Mexico, PPG-Comex organic sales were lower by a low-single-digit percentage. PPG-Comex sales volumes progressively improved each month during the quarter and concessionaire sell-out was solid during the quarter. This year, about 20 new concessionaire locations have been opened through June. Looking ahead, excluding the impact of currency translation, aggregate net sales are expected to be comparable to the third quarter 2019 levels, including the impact of expected soft commercial maintenance demand in the U.S and continued elevated DIY sales, with the shift from DIFM likely to remain given high unemployment levels and COVID social distancing concerns.

Aggregate protective and marine coatings organic sales were lower by a mid-single-digit percentage compared to the prior year as higher selling prices partially offset lower sales volumes related to the pandemic and lower demand in the U.S. oil and gas end-use market. Sales volumes in China were higher than 2019 levels, and the business continues to win new projects in both the protective and marine segments. Sales volumes are expected to be down by a low-single-digit percentage in the third quarter as sales growth in China is expected to be more than offset by softer demand for protective coatings products for the oil and gas end-use market.

Looking ahead, aggregate net sales for the reporting segment are expected to be lower year-over-year by 8% to 14%, with sharper declines in the aerospace and refinish coatings businesses. All businesses continue to focus on strong cost management and mitigation actions. In addition, targeted selling price actions continue. Lastly, acquisitions are forecast to add about $20 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 $35 million and $7 million, respectively, based on recent exchange rates.

Industrial Coatings

Second quarter net sales for the Industrial Coatings segment were about $950 million, down about 40% year over year. Segment sales volumes were lower by 38%, impacted by widespread customer shutdowns in the first two months of the quarter related to the COVID-19 pandemic, which significantly impacted global automotive industry builds and lowered industrial production in most regions of the world. Selling prices increased modestly versus the second quarter 2019. Net sales were also impacted by unfavorable foreign currency translation of about $50 million, or about 3%.

Segment income of $34 million was down about $200 million, or about 85% year over year, including unfavorable foreign currency translation of $7 million, primarily related to the Chinese RMB and the euro. Segment income was mostly 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.

From a business unit perspective, sales volumes were significantly lower in the automotive OEM coatings business versus the prior year. Global industry builds decreased by about 50% year-over-year. The sharp industry decline was widespread across most major regions, with the exception of China where retail sales and production were higher on a year-over-year basis. Automotive production improved markedly on a sequential basis in June as automobile manufacturers re-opened their factories and began to ramp up activity. Global automotive industry demand is expected to further improve sequentially in the third quarter in most regions, including cancellation or shortening of traditional seasonal shutdowns in July and August, with recovery patterns continuing in China. Global automotive builds are expected to fall by about 5% to 15% in the third quarter compared to the prior year, with lower declines in the U.S. and China. Low dealer inventory levels may also lead to improved production in the U.S. in the third quarter. The Hemmelrath acquisition achieved its one-year anniversary in April.

General industrial coatings net sales fell by more than 30% in the second quarter. All major regions experienced sharp declines, except China where sales volumes for the second quarter were higher than the prior year. The lower activity was due to many customers shutting down or significantly reducing their production during the second quarter due to the COVID-19 pandemic. Industrial production demand was broadly weak across most key sub-segments, with the exception of electronic materials where demand increased year-over-year. Sales volumes began to recover in June and were higher sequentially from the month of May partly driven by customer inventory replenishment. It is anticipated that demand will continue to be positive in China but remain soft in other major regions of the world, which will result in lower year-over-year sales volume trends in the third quarter.

Packaging coatings organic sales increased by a low-single-digit percentage versus the prior year, as modestly higher selling prices and strong sales volume growth in the U.S. was partially offset by softer demand in Asia-Pacific and in some end-use segments in Europe. We expect aggregate demand will be higher by a low-single-digit percentage in the third quarter as solid underlying demand patterns in the canned food segment are partially offset by weakness in canned beverage packaging in certain countries.

Looking ahead for the segment in aggregate, while demand is expected to be sequentially better in the third quarter compared to the second quarter, it is expected to remain below prior-year levels. Aggregate net sales for the business segment are expected to be lower by about 10% to 15% and it is anticipated that current selling prices will be maintained. Based on current exchange rates, foreign currency translation is expected to have an unfavorable impact on segment sales and earnings of about $25 million and $5 million, respectively, for the third quarter. All businesses are focusing on strong cost management and cost mitigation actions along with prioritizing cash flow optimization.

Balance Sheet and Cash

PPG finished the second quarter with $2.3 billion of cash and short-term investments. Operating cash flow was nearly $500 million in the second quarter, comparable to the second quarter 2019 levels. Strong working capital management contributed, including good accounts receivable collections and sequentially lower inventory levels.

During the second quarter, 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 of $800 million that occurred in the first quarter. The company ended the second quarter with net debt of about $4 billion, which is $300 million lower than the end of the first quarter. The company's $2.2 billion revolving credit facility is currently undrawn.

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

- Capital expenditures were about $55 million in the quarter and the Company currently expects full year capital spending to exceed $300 million, an increase versus the prior company estimate due to the restart of certain capital projects in China and capital spending associated with the restructuring programs approved in the second quarter 2020. The Company continues to defer non-essential capital spending in response to lower industry demand conditions and will adjust capital spending as required.

- Dividends paid were $120 million in the second quarter. The company announced a 54 cent per share quarterly dividend on July 16, to be paid in the third quarter, which is a 6% increase from the prior quarterly dividend payment.

Due to increased borrowing and the drop in interest rates in certain countries where the company earns interest income, the interest expense for the third quarter is expected to be $32 to $36 million.

Forward-Looking Statement

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 Annual Report on Form 10-K and the first quarter 2020 quarterly report on Form 10-Q 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 July 16, 2020, and any distribution of this earnings brief after that date is not intended and will not be construed as updating or confirming such information. PPG undertakes no obligation to update any forward-looking statement, except as otherwise required by applicable law.

Presentation, July 17, 2020

Operator
Good morning, and welcome to the PPG Industries Second Quarter 2020 Earnings Conference Call. My name is Rocco, 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 star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, today's event is being recorded.

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

John Bruno
Thank you, Rocco, and good morning, everyone. Once again, this is John Bruno. We appreciate your continued interest in PPG and welcome you to our Second 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 Thursday, July 16th, 2020.We have posted detailed commentary and the Company presentation slides on the investor center of our website, ppg.com. The slides are also available on the webcast site for this call and provide additional support to the opening comments Michael will make shortly.

Following 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 the call may contain forward-looking statements, reflecting the company's current view of future events and their potential effect on PPG's operating and financial performance. These statements involve uncertainties and risks, which may cause actual results to differ.

The company is under no obligation to provide subsequent updates to these forward-looking statements. This presentation also contains certain non-GAAP financial measures. The company has provided, in the appendix of the presentation 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 McGarry
Thank you, John, and good morning, everyone. I'd like to welcome everyone to our Second Quarter 2020 Earnings Call. As John noted, we posted a detailed narrative on our website yesterday afternoon. And as a slight process improvement versus prior calls, I will make just a few opening comments on the quarter, and then we'll move into Q&A.

First, and most importantly, I hope that you and your loved ones are remaining safe and healthy. Throughout this challenging time, we remain encouraged and proud of all the PPG team members for protecting each other, meeting the dynamic needs of our customers, helping communities, and ensuring stability for all our stakeholders. We continue to remain optimistic about our business and continued growth prospects. I also want to comment briefly on the issue

of systemic racism and discrimination that has existed for far too long. As a society, we're at a pivotal moment in history, and clearly, enough is enough.

As a global company, we're focused on doing our part to help advocate for equality, justice and inclusive workplace that is free of discrimination. Our global leadership team has been holding open discussions with employees, looking at strengthening our diversity inclusion leadership efforts, reviewing our own policies and processes, and leveraging the PPG foundation to support non-profits for making a positive difference in these important areas. This is, and will remain, a priority area for me and the entire PPG leadership team.

Now, I'll move to discuss our financial results. Last evening, we reported second quarter 2020 financial results. For the second quarter, our net sales were $3 billion and our adjusted earnings per diluted share from continuing operations were $0.99 cents. These results, which were significantly impacted from the business, interrupted caused by the COVID pandemic, were better than we originally anticipated.

As we communicated in our financial update provided during the quarter, April and May volumes in aggregate were down more than 30% due to the pandemic. For the month of June, strong global architectural coatings demand continued, largely driven by do it yourself sales and was coupled with sequentially improving auto and general industrial demand, resulting in total company sales to be down by a low teen percentage.

I'm pleased to report that our global architectural business delivered a record quarter, driven by strong performance in many countries, highlighted by our Mexico team. During the second quarter, our recovery advanced furthest in China, where several businesses, including automotive OEMs, general industrial coatings and protective marine coatings all had higher year-over-year sales volumes. Year-over-year demand was lower in other major global regions, but our sequential monthly sales volumes improved in each region during the quarter. Given that we have a large China business, we began our pandemic response in late January, so we were able to implement quick, already tested, and decisive actions to help mitigate the lower sales activity and the virus spread outside of China.

As a result of these actions, we delivered about $170 million of interim cost savings within the second quarter. In addition to the interim cost savings actions, we achieved more than $20 million of cost savings from our restructuring programs, which are permanent reduction to our cost structure. This coupled with good selling price realization of nearly 2%, mostly from our distribution type businesses, helped us achieve double-digit margins in the second quarter, which is a significant improvement versus the depth of the prior recession in 2008 and 2009.

Our operating margin in the second quarter is a strong testimony of the structural cost savings we have delivered in the past few years and higher level of variable costs in our cost structure overall. Also in the quarter, our cash flow from operations totaled approximately $500 million, a level comparable to the prior year second quarter. This was supported by a rigorous management of our working capital, resulting in a $400 million reduction in our working capital compared to the same period last year.

Looking ahead, we expect economic activity to continue to recover, with differences across end-use markets and geographic regions. We expect our global architectural business to continue to be more resilient and deliver higher organic sales in the third quarter. Although we anticipate softness in the US commercial maintenance segment to linger, and do-it-yourself demand to remain strong, but somewhat less robust in the second quarter. We are pleased with the advancements with respect to our US architectural coatings delivery model, preferred

authorized dealer network, and our global digitalization initiatives and expect continued customer adoption lead to further growth opportunities in the future. We anticipate demand for our automotive OEM and general industrial products to continue their recovery in the third quarter.

Other businesses including automotive refinish and aerospace will take longer to recover until travel and miles driven return close to 2019 levels. Results. Excuse me. Due to the uncertainty over the economic climate resulting from the continuation of the COVID-19 pandemic, aggregates sales volumes are projected to be down 8% to 15% in the third quarter, with differences by business and regions. Decrements to margins in the third quarter, expected to be slightly worse than those experienced in the second quarter. This is related to removing some of the interim cost mitigation actions in the third quarter, as demand for our products progresses and ensure we properly service our customers as they continue to resume their operations.

Our liquidity position remains strong and has improved from the first quarter. We remain committed to our legacy of rewarding shareholders and have approved a 6% increase in our quarterly dividend, a reflection of the confidence we have over maintaining and growing our cash flow. We will also continue to be disciplined over our approach to capital allocation.

As the pandemic continues, our focus will remain on leveraging the PPG way, protecting our employees and providing excellent support for our customers with the essential products and services they need to resume and ramp up their operations. In addition, we will continue to support the communities where we do business. I'm very proud and pleased with how our global team as a one PPG team is managing through this prolonged and extremely challenging time. I firmly believe that we will emerge as a stronger company.

Thank you for your continued confidence in PPG. This concludes our prepared remarks. And now, Rocco, would you please open the line for questions.

Operator
Absolutely, sir. We will now begin the question-and-answer session. As a reminder, to ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, we ask that you pick up your handset before pressing the keys. To withdraw your question, please press star, then two.

And today's first question comes from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter
Thank you. Good morning. Michael, just on raw materials in Q3 and the back half of the year. What are your expectations as to how much of a tailwind they might be versus either the first half of the prior year?

Michael McGarry
Well, David, I would look at that in two ways. The first one is, we continue to see moderation on a year-over-year basis. But you have to be a little bit careful that on a sequential basis, things like copper and oil have started to move up. So I think that moderation, pace of moderation, will vary in the third quarter and fourth quarter. We're not exactly sure how the pandemic is going to continue to play out. But I would be looking at it on both a prior-year basis, as well as a sequential basis.

David Begleiter
Very good. And just on the DIY strength continuing into Q3, how much moderation do you expect? And how much do you think was, maybe, was pull forward into Q2 from these projects?

Michael McGarry
Well, I don't think there was really any pull forward. If you look at inventory on the shelfs, you know, I'd say that most of our big box customers would advocate that they would like to see more inventory on the shelf. So, I don't see a pull-forward from that standpoint. But I do think there is a limit on how many rooms that people will paint in their house.

So, I do think it will start to slow down over time. Now, obviously that's going to vary by how long there is a stay-at-home order by various states, but we are not expecting the third quarter to be quite as strong as the second quarter.

David Begleiter
Thank you.

John Bruno
Thanks David.

Operator
Our next question today comes from Bob Koort with Goldman Sachs. Please go ahead.

Robert Koort
Thank you very much. And really appreciate the granularity on the slide deck. That's really helpful. Michael, you mentioned that you felt that next quarter maybe aggregates would be down about the same rate as the June month. So, am I right to read that as an expectation of just, sort of, a steady state from the June exit velocity for the firm, or is there something else under the hood going on there?

Michael McGarry
No, I think that's a reasonable assumption. I think the question we have is, if you look at some of our big markets, so think about automotive, right? They have demand out there, but they are having people, problems, getting their plants up and running, and making sure everybody is safe. So, I think that's the challenge that we don't understand is, to what extent will they be able to keep their plants operating at the level they want because they have the demand. It's just now, it's just a matter of whether they can keep it going.

Robert Koort
And then you commented that you're able to pull some, I guess, period costs out during the second quarter, but on the industrial side in particular it seems, many of those have to go back in to start supporting or recovering those, in that customer base. How long do you expect that to last? And should we then see the flip side of that, which is a really healthy incremental margin improvement as those volumes come back?

Michael McGarry
Yeah. So, Bob, the way we are looking at it is, in the second quarter, we had a number of our plants down for a substantial period of time. Some of them down four to six weeks, right? And we did a really, really good job; our team did a fantastic job with our customers, coordinating what colors they wanted when they started up. And we tried to manage that such, that they took

the colors we had, the colors they wanted right before they shut down. And so, we were able to actually stay down longer than they were because of that coordination with the customers.

So, that we can't duplicate in the third quarter because, basically, all our plants are running again. But we have learned a lot of things through this pandemic. Our ability to drive productivity has improved. Our digital initiatives have continued. And so, I think a lot of that is a testament to the resilience of the PPG team.

Robert Koort
Great, thanks very much.

Operator
And our next question comes from Ghansham Panjabi with RW Baird. Please go ahead.

Ghansham Panjabi
Hey guys, good morning. Hope everybody is doing well. I guess, just as a follow-up to the last question, on the 8% to 15% volume decline you're forecasting for 3Q, does the downside extreme assume any incremental lockdowns in the U.S. or any other regions? You mentioned, for example, Michael, in your prepared comments that auto OEM should benefit sequentially from reduced seasonal shutdowns in 3Q. So, I would think that would be a positive variance. I'm just trying to understand what operating paradigm you are embedding on the downside extreme.

Vincent Morales
Hey Ghansham, this is Vince. This question, that's a fairly wide range. We just don't know the shape of the pandemic and some of the key regions. We're still seeing effects, obviously, in Latin America, South America, India, and U.S. So, the range that we put out and try to bracket, best case and worst case, with respect to how that pandemic will affect the quarter.

Ghansham Panjabi
Okay. And then in terms of the decremental margin variances for 3Q relative to the 2Q baseline, I think you said slightly worse, can you just give us some more color on that?

Vincent Morales
Yeah, again. I'll go here again. So, I think, one of the issues, if you look, we had a 40% decrement in Q1. The pandemic hit very quickly and abruptly; we weren't able to manage our costs accordingly. As Michael just mentioned, we were able to be very planful throughout the quarter in Q2, managing our, not only our operations, but our administrative group.

The operations are all started back up. Some of those costs are binary, they're either in or out. So, regardless of the volume, these kind of semi-variable costs, some of those were back in Q3. So, we're not going to be at the 25% or 26% decremental, but we're certainly not going to be at the 40% incremental we had in Q1. So, it will be somewhere in between. Hopefully closer to 25%.

Michael McGarry
And Ghansham, I would say that in the later quarters that will come. We're going to have better incremental margins. I mean, I think that's a given. As that volume returns, we're more efficient and we can see that helping us out.

Ghansham Panjabi
Terrific, thanks so much.

Operator
And our next question today comes from John Roberts with UBS. Please go ahead.

John Roberts
Thank you. China has recovered nicely for you. Is it now steady state as well? Or you're going to continue to grow from this second quarter level in China? And any progress to report on your new coatings for EVs?

Michael McGarry
So, John, we see continued improvement in China, but we're not seeing like a massive jump. You know, I think the GDP for our customers, are probably going to be in that 3% to 5%, kind of, range.

We are seeing continued improvement in the automotive demand. People are staying away from mass transit. So, there are more people driving. So, that's positive. We do see, virtually, every province has some kind of automotive stimulus package to support their own little automotive guys in that province. So, we do see that continuing.

Our industrial business continues to win share in China, so we expect that to continue. So, I'd say overall, we're still very positive on our China team, as well as our China business.

Vince Morales
And John, I do think, just to piggyback on the last question, you know, China, we haven't seen a full volume recovery. We've seen a nice volume recovery. But as we alluded to, our financial performance there, is above prior year due to the effect of those incrementals Michael was talking about.

Michael McGarry
And John, back to your last question, which is EV, we are getting orders on a various aspects of the EV battery. So, we're getting some obviously painting the exterior. We just recently won a new award for, I would say, the leading EV maker in China, where we're providing protective coatings inside the battery.

Obviously, that's to eliminate what they call thermal vents, which you and I call fires. So, we're very pleased with that. And we continue to see more trials under way with all the leading battery guys in China, and we think that's the market that's going to grow the fastest for EVs.

John Roberts
And then, I may have missed it, but I didn't see any additional reserve for bad debt. How are you feeling about general industrial, because big manufacturers, as you mentioned, are having some problems keeping their plants up. I would imagine it's even harder for the small manufacturers in the general industrial area.

Vince Morales
Yeah, John, just as a reminder to everybody, we took a $30 million bad debt reserve in the first quarter, anticipating some effects from the pandemic. And we were not anticipating to see a big customer problem in Q2. Most of our customers have enough liquidity, certainly to last a quarter or longer. That $30 million would be something that we would expect if it’s used at all to come through some time in the latter part of the year.

Our collections in Q2 were actually very strong. We've had, some regions, some of our best percent currents. We still have a $30 million reserve there. Again, we do expect that to be, we'll

vet that as we go through the balance of the year, but we would expect some impact in the latter part of the year.

John Roberts
Great. Thank you.

Operator
And our next question today comes from Michael Sison with Wells Fargo. Please go ahead.

Michael Sison
Hey, guys. Really nice quarter there. Can you maybe talk a little bit about the stores and how to do it for me channels, sort of, shaping up for 2Q? I know there was improvement throughout the quarter, where do you think you're at in July and how do you think that will play out for interior demand in the third quarter?

Michael McGarry
Well, there is clearly improvement every month in our stores business. And so, we're pleased to see that. The work that is really being done a lot of, is the exterior work right now. And now, we're starting to see consumers be a little bit more understanding and they're allowing inside work as well. So, I think the pace of recovery will continue.

The challenge, of course, in our architectural business in the US is the commercial side and the maintenance side. So, the buildings that were under way are going to get completed. And then, we think there's going to be a slowdown in new construction. And then, of course, for commercial maintenance, that's going to be the challenging part going forward.

Michael Sison
Got it. And then, as a follow-up, slide 9, you had a nice comparison regarding your margins now versus they were in the last downturn. When volumes return back to pre-COVID levels, which I understand it could take some time, where do you think the margins will end up, given cost savings and better pricing, down the road for each of the segments?

Vince Morales
Yeah. Mike, on a like-for-like basis, we're several hundred basis points better, be it Q1 '08, Q1 in '09 or Q2 '09. Again, that's a reflection of all of the structural cost savings we've actioned the past several years. So, if you flash forward, hopefully when the volumes come back, we would expect to hold that couple of hundred margin basis point improvement versus the last cycle.

Michael Sison
Great. Thank you.

Operator
Our next question today comes from John McNulty with BMO Capital Markets. Please go ahead.

John McNulty
Yeah. Thanks for taking my question, and congrats on the quarter. When we look at the cash that you generated in the quarter and the strength of the balance sheet, it's obviously, it's huge. I guess, can you speak to the opportunities to deploy that capital as you look throughout the rest of the year? Are you seeing any opportunities in terms of M&A, or are people a little gun shy trying to not, kind of, worried about selling at the bottom and that type of thing? How should we be thinking about that?

Michael McGarry
So, John, we have a number of books in-house and we're making progress on some of them. As always, the challenge is the bid and the ask gap now. The benefit is that with a June we had and a June that we expected, some of these companies had, that bid and the ask, should start to narrow.

So, we do expect to have some progress in this area this year. Obviously, I don't think we're going to close on any of them in 2020. But I do expect us to have progress, and I would say the pace of the inquiries has not changed. We had a strong order book, if you will, going into this, and we have good opportunities come out of this. So, I'm pleased with what I see.

John McNulty
Got it. No, that's helpful. And then, I guess, PPG runs a pretty lean ship in the first place. And then this quarter you announced a $160 million to $170 million big restructuring program. I guess, can you give us a little color as to where that's actually coming from and your comfort that you can hit that? I know you were speaking earlier to you're seeing a lot of new opportunities around digital and that type of thing. I guess, how is that playing into this as well?

Michael McGarry
Well, digital is clearly a significant one. So, we are moving much more to a click and collect and click and deliver model and that has provided nice tailwinds, and we expect that to accelerate. And if you think about the traditional trade painter, that was not their method of doing business prior to the pandemic. So, we anticipate that's going to continue.

Obviously, we have some opinions on, and you saw that in the second quarter results, aerospace is going to take a little bit longer to recover. And so, we took aggressive actions in our aerospace business. We're also getting more productive in our refinish business. So, those two businesses are there.

And of course, I would say, the last one is a service model that we have in automotive, and to a small extent in industrial. We've shifted much more to a pay model, and so we will either get paid for our technical service people out in the field or we will have less of them.

And right now, I'm pleased to report that our customers are really paying for them. This is a, if you notice for OEM, we were above market in all regions. And that's because they value the technical service that our people provide and allow them to start up, that's really important to them. And so, they have been willing to pay for that.

John McNulty
That's great. Thanks very much for the color.

Operator
And our next question today comes from PJ Juvekar with Citi. Please go ahead.

PJ Juvekar
Yes, hi, good morning, Michael, Vince. Michael, you seem to be more positive on the refinish market compared to a few months ago, with the trends in Europe improving, China now back to 2019 levels. And so, even if U.S. and Europe lagged by six months, relative to China, do you believe that 2021 should be a robust year for a refinish, or would you agree with that logic?

Michael McGarry Well, I don't know if that I would use the word robust. But I think two things I would point to in refinish. One, this second quarter has completely washed all the inventory out

of the chain. And so, you're not going to have to worry about how much inventory is in the chain. Our body shops ran them down, our jobbers ran them down. Everybody washed them out of the system.

So, going forward, you're going to see, hopefully, demand matching up with what we're selling. And I would tell you also, I was pleasantly surprised by the orders that we saw in June, despite congestion being I would say mediocre at best. There is still a lot of opportunities out there.

So, body shops are running at 70% to 80% right now in the U.S. and Europe. And so, that's actually a little bit better than I would have projected, given how little congestion there is out there on the streets.

PJ Juvekar
Okay, thank you. And then secondly, sort of a big picture question. PPG always had good insight into the economy. So, my question is, clearly the OEM auto OEM SAAR has come down, and there is a view that the auto recovery will be slower than the housing recovery. IHS doesn't see a peak in autos until 2023. So, what are your projections in terms of the trajectories in those two end markets?

Michael McGarry
Well actually, it's ironic as we had the same 2023 for getting back the $17 million. But that's not the way I am thinking about our automotive business. I'm thinking about our automotive business will have better volumes than that sooner, because of the growth in EV. So, I am thinking about this slightly differently, it's going to be builds and EV going forward, not just builds.

PJ Juvekar
And anything on housing? Thank you.

Michael McGarry
I think housing is actually going to be stronger than people anticipate. I think people are going to be willing to live outside the bigger cities. And so, I anticipate housing to get better, faster and sooner, and with interest rates at these kind of levels, there is really no reason why people can't qualify for mortgages.

So, the key will be how quickly can we get people back to work. Right now, you've got so many small businesses that I think are at permanent damage risk. That's the thing I worry most about is all these small business people that are out of, or will likely, be out of business.

PJ Juvekar
Great. Thank you.

Operator
And our next question today comes from Jeff Zekauskas with JP Morgan. Please go ahead.

Jeff Zekauskas
Thanks very much. Can you compare the trends in the Aerospace OEM market with the trends in the aerospace maintenance and repair market, exclusive of defense?

Michael McGarry
Yes. So, Jeff, as you know, the builds for Airbus and Boeing have come down appreciably, and we anticipate them to stay down for a while. So, last year they were building, let's call it 45 737's a month. Now, they're building, let's call it 20% of that, 30% of that. So, appreciably different.

Now, MRO though, is strictly dependent upon the number of times that plane goes up and comes down. And we peaked at about 64% of the flights, or planes being parked, and now we're about only 40% of the planes are parked. And so, MRO will start to get better, because it's, again, it doesn't matter if there is one person in the flight or a 100. And so, we anticipate that getting better.

So, we think a leading indicator if you want to try to estimate MRO, a leading indicator is the growth in flights, not passengers, so don't pay attention to the passengers, but pay attention to the flights.

Jeff Zekauskas
Okay. Thank you for that. And can you compare changes, currently in titanium dioxide prices, in different regions? That is, are the price patterns different in South America, Europe, and in the United States?

Michael McGarry
Yes. They're all four regions are different. So, you have lower prices in Asia. You have higher prices in Latin America due to currency. You have a slight moderation in Europe and a very little moderation in the U.S.

Jeff Zekauskas
Great. Thank you so much.

Operator
Our next question today comes from Chris Parkinson with Credit Suisse. Please go ahead.

Chris Parkinson
Great. Thank you. Throughout all this noises, there's been a reasonable amount of debate on market shares in architectural packaging, coil, and refinish, I guess, have been the kind of the primary four. Just given what you know now, just how do you assess your own market share movement? And then also, how would you assess your competitive positioning for the balance of this year. And then also outlook into 2021? Thank you.

Vincent Morales
Hey, Chris, it's Vince. Yeah, I think, I will take this out there. So, it's really hard to determine market shares. We'll certainly go through this quarter, next quarter, look at all of our results, our competitor's results. I think the biggest thing we see, obviously is, there's a share shift right now from do it for me to DIY, that helps our DIY business, hurts our trade business. Competitively that has different impacts.

In the other businesses you mentioned, there is really a lot of variables by region, for example in packaging. A lot of the package, or a lot of the can guys, in Asia had to shut down for COVID reasons. So, it's really hard to discern what you're asking until we are on a more steadier run rate basis. We're comfortable with what we're doing. We're comfortable in some of the strategic initiatives we laid out like digital, delivery, those things are coming into favor.

So, the work we put in the past couple of years around those are helping us. Some of our technical items, some of our technical things like Michael mentioned earlier, with respect to EVs are coming into favor. So, a lot of the long lead items we put in place, due to this pandemic are coming into favor, which is helpful for us.

Chris Parkinson
Got it. And just within architectural, could you just dive into this a little bit more? Can you just quickly comment, obviously, it may be difficult also to discern in this type of environment. But just, it seems like you still have a lot of momentum at Home Depot, with Timeless and Diamond. You've had, previously, you were talking about some newer initiatives that even at independents, and then even some stuff on online and digital.

So just, how should the market be thinking about your U.S. growth rate outlook versus peers, and just relative competitive positioning. Because, it seems like you're doing a lot in both resi and even non-resi. So do you have any comments on that?

Vince Morales
Well, yeah. It's hard without a lot of market information at this point. But our digital sales are up triple digits off of a very small base. We definitely see our, as Michael alluded to earlier, we definitely see our customer base more willing to move to a digital platform. We're certainly holding our own in the DIY market, but that whole market has been elevated. We move to this preferred authorized dealer network, really to be more optimal in our full delivery. Our dealers are up consistent, mostly consistent with the DIY market.

So again, we'd like to see more competitive information before we comment, but we feel we're holding our own in this market. We feel we're outperforming in Mexico, depending on, in Europe, depending on the country. Again the DIY market just outperforming, and we're well favored right now.

Michael McGarry
Chris, I wouldn't want you to miss my comment in my opening remarks, where we had a global architectural record performance.

Chris Parkinson
Great. Thank you very much.

John Bruno
Thanks, Chris.

Operator
And our next question today comes from Kevin McCarthy at Vertical Research Partners. Please go ahead.

Kevin McCarthy Yes, good morning. With regard to your architectural business, I was just wondering if you could elaborate on what you're seeing in Europe, in terms of trends by country, or least UK versus continent, and also by channel there?

Michael McGarry
So, Kevin, I'll start with France. As you know, that's our largest market. In France, April, we had a lot of challenges in April, because of the stores were shut down because of government mandates. And starting in May, they started to loosen up, and then by June, all the stores were open, and in July, we're doing quite well. So, France was just a steady upward trend.

The UK started really strong, April, May, kind of a little bit of a downturn in June as the respike in numbers came up. But in July, they're back to really, really good numbers. Poland is doing great, there's no doubt, we're taking share in Poland, and the rest of our Eastern European businesses is quite strong. The Benelux, we are definitely doing exceptionally well there. So, I've been pleased with our European performance.

Kevin McCarthy
Helpful.

Vincent Morales
Just from a channel perspective, Kevin, same phenomenon we're seeing here. DIY is very strong, both in the UK and on the continent. Trade is feeling the same effect that is in here.

Kevin McCarthy
Okay, thank you for that. And then second, if I look at your heat map on slide 6, it strikes me if I counted correctly, you've got 11 boxes that show above market growth and 0 that show below market. I think two quarters ago below market might have been a half dozen boxes or so. So, I appreciate it's got to be very difficult to gauge what the market is doing when conditions are so dislocated, but I guess my question would be, did you feel as though you've gained share in any of your businesses due to the pandemic, whether it's ability to operate or execution or otherwise? Or am I reading too much into that?

Michael McGarry
Well, I think, Vince tried to cover this previously. In these kind of times, it's always difficult to put your finger on exactly whether you're gaining share or losing share. But I do feel there is no question that we're gaining share in Australia. I mean that's an easy one to measure. I would say the UK is pretty easy to measure there. I always say those are the areas that we're most comfortable with.
Clearly, automotive is easy to measure, we know exactly what the bills were, and we know exactly where our sales are. So, that is a given. I think the rest of them can be quite tricky to figure that one out.

Vincent Morales
Yeah, I'll just add to one, we were comfortable with is, in certain regions, our protective business due to our technologies, again, has come into favor as customers are looking for functionality in these times. And, I think, also in some of our general industrial businesses where we're working with our customers to start up, we're typically one of the favorite coatings companies to help customers start up and have that secure launch process. But again, it is very difficult, Kevin, until we see a bigger array of results and, really, over a couple of quarters.

Kevin McCarthy
Fair enough. I appreciate the color.

Operator
Our next question today comes from Arun Viswanathan with RBC Capital Markets. Please go ahead.

Arun Viswanathan
Great. Thanks, good morning. Congrats on the results. I just wanted to ask about Q3. So, your pace of sales decline in June was 12%. The guidance for Q3 is 8% to 15%. So, at the midpoint, you're around 11.5% or so down in Q3. And so, that's not much better than June, I guess, in aggregate.

So, is that your assumption that there will be some considerable moderation in architectural as automotive comes back and that's what, kind of, drives a similar result in Q3 versus June? Or is there a possibility that, maybe, we could see some upside to that if architectural doesn't decline as much. How are you thinking about the offset between architectural and automotive in Q3?

Vincent Morales
Yeah, Arun, as we mentioned earlier, we have a wide range for Q3. It's really based on the uncertainty around the pandemic at some of our key regions. So, we were hopeful to be at the low end of that range, if you will. But we may be on the high end, 14%, 15% if pandemic continues to worsen in certain parts of the world. So, that's really what we're looking at. It's still very difficult to predict on a month-by, certainly, week-by-week but on a month-by-month basis. What our customers are going to do, what customers can actually run. We're seeing spot shutdowns from customers due to COVID; we're seeing spot shutdowns from customers due to parts issues. So, that's why there is a wide range there and expect some volatility throughout the quarter.

Arun Viswanathan
Okay. And then as a follow-up, just on the cash issue, going back to the, you have a very strong balance sheet here, over $2 billion of cash on the balance sheet, as well. You've stated in the past that you do not want to build cash, but it does appear that it may be difficult to consummate and close any deals this year, as you said earlier as well. So, just curious what your plans would be if you're not able to deploy that cash in M&A. Would you prefer to keep that as liquidity and reserve for now or would you be able to put it to work in capital return?

Vincent Morales
Yeah, Arun, certainly for the near term, we're carrying excess cash. Again, our sight lines are limited in terms of how this is going to affect us, but we're not health experts. We're hearing there may certainly be a flare up in some of the key countries in the fall. So, we're going to be conservative. As Michael alluded to, our acquisition pipeline is refilling, those are bolt-on in nature. We may be able to execute on some of those, whether we can close or not this year. I agree with Michael, will probably be difficult, given we're a month out before the end of the year. But we will certainly manage our acquisitions and our cash around that.

We do have the capability to pay down some debt. If the sky is clear here. We have our short-term facility that is free to prepay. So, all of those are variables. We really just need more visibility on the economy before we start to make some key decisions. We don't want to grow cash, as you mentioned. We will look for earnings accretion opportunities, whether it be acquisitions or other, but we just see more visibility before we start to pull triggers on some of those.

Arun Viswanathan
Okay, thanks.

Operator
And our next question today comes from Stephen Byrne with Bank of America Securities Inc. Please go ahead.

Stephen Byrne
Yes, thank you. You reported that some auto body shops switched over to PPG, refinish coatings, and I was just curious where you saw that and whether it's due to that new paint mixing product that you rolled out in Europe. What is the status of that rollout? Are you getting

traction from it? Have you considered expanding it into other regions? And is operating at a 70% rate help you in your process of trying to cause a body shop to flip over to you, because they may not be running flat out?

Michael McGarry
Yeah. So, Stephen, just to start, get talking about Moonwalk, we've had 250 installations put in, a 150 of which got put in in the second quarter, and 30 of them were new body shop wins. So, it is performing at a good level. Obviously, we've been a little bit challenged getting that out into the field because we have to send tech service people into the field with the equipment to make sure people are trained on running it. So, we anticipate that we will continue to roll that out. We will be looking at moving that into the U.S. as well.

Obviously, it's most important in the high-labor markets and the high markets where labor is hard to come by. And so, that would say that we're probably not going to roll that out in Asia as a likely place. But we have been picking up share in refinish, we track that quite closely. It's a net win basis because you win some, you lose some. But overall, we feel comfortable. The key with refinish though, will be getting the miles driven, back as well as congestion.

Stephen Byrne
Well, thank you for that. I had a follow-up for you on the trend of shifting from do it for me to do it yourself. Do you see that same trend in your own stores, where you're picking up more homeowners coming in or ordering online, to buy paint? And was just curious as to your view based on those relationships and discussions, do you think that some of that impact could be lasting; i.e., those homeowners continue to paint their rooms themselves rather than hiring a contractor post-pandemic?

Vince Morales
Yeah, Stephen, we said for multiple years the shift between DIY and do it for me is highly correlated to the unemployment rate. So, certainly last five years, as the unemployment rate has come down, you've seen more do it for me. You've seen obviously a spike in the unemployment rate during these times. You've seen a broad shift back, back the other way. And again, I would just look at that unemployment rate on a go-forward basis to determine how these channels will react.

It acted the same in 2008-2009, and it's recurring now. So, that's the key. We still think long-term, do it for me is going to continue to grow, but certainly for the foreseeable future with unemployment high, that do it yourself market will remain robust.

Stephen Byrne
Thank you.

Operator
And our next question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Andrews
Thank you. Just want to ask a clarifying question on the cost savings to make sure that we have our model right and we don't do any double counting. If I assume, you're volume constant on a go-forward basis, and you had $170 million of interim cost savings that came out in the quarter, and then you've got the new restructuring program, which is $160 million to $170 million in annual saving. Or, let me try it this way, the $170 million that came out on an interim basis is

presumably going to come back over time. And the $160 million to $170 million that's on the comp should offset that. Now, maybe it won't be one for one, but is that the right way to think about it, that those two things will ultimately offset each other?

John Bruno
Vincent, John Bruno. That's exactly right. The $170 million, we could call transitional or temporary. It will come back as volume comes back, and the restructuring savings are intended to be permanent.

Vincent Andrews
Okay. And then just one last follow-up on that. Are you done with the large scale restructuring cost for the year with the charge in the quarter or will there be some trickles out in the third quarter and fourth quarter?

Vince Morales
Well, it’s based on, there are certain costs that are related to restructuring, Vincent, that we cannot, based on GAAP accounting, take until they're incurred. So, there'll be some modest trickle-outs in Q3, Q4 and even Q1, again, based on the accounting guidelines, but they're very modest.

Vincent Andrews
Understood. Thanks very much guys.

John Bruno
Thank you.

Operator
Our next question comes from Sean Gilmartin with Barclays. Please go ahead.

Duffy Fischer
Can you guys hear me?

John Bruno
Yes.

Duffy Fischer
Vince, can you hear me, this is Duffy.

Vincent Morales
Hey Duffy, we can hear you.

Duffy Fischer
Okay, great. I just want to drill in a little deeper on the DIY versus trade split. So, in the two summer quarters, where this effect looks like it's going to be important, roughly, what is the normal DIY versus trade break out, just size of the two businesses over those quarters?

And then, what would be the influence in that shift, kind of on margins, as I'm assuming gross profit margins for DIY is higher than trade? And then, on the cash flow as well as I imagine there is less credit in DIY, than there would be in trade, and is that big enough to, kind of, skew the numbers or influence the numbers for the overall Company?

Vincent Morales
So, it's different by region, Duffy, first of all. But we will stick to the U.S. market for clarity. Typically, trades 55% to 60% on a gallons basis of the market, it's less. It's 50%-50% on a dollar basis. For PPG, we're close to that mix. We are seeing, obviously, double-digit growth in DIY. We've seen a decrement in our trade business. Part of that's due to the stores just being shut down in certain parts of the country.

Again, because of double-digit growth in DIY in Q2, that's been beneficial for that part of the business. But trade business is higher fixed cost. We have stores, we have leases. So, volume there, when it comes back, typically carries a nice incremental. We don't give out profitability by channel, so we're not going to go there. But again, as long as we're producing positive volumes in architectural business, and as Michael alluded to, we had very strong financial performance in all regions, certainly in the U.S., it's beneficial to us and our shareholders.

Duffy Fischer
Great. And then, Michael, question for you. I imagine you're getting ready for, kind of, you're meeting with your business leaders planning ahead the next year, this fall. When you look through the slate of your businesses, are there some of the businesses that you think are just structurally different over the next one to three years because of what happened, where they're going to have to meaningfully change their business plans? And if so, kind of, which ones would be the most obvious there?

Michael McGarry
Well, I think, Duffy, the one that is on a, what I think, a temporary lag is aerospace. I am fully convinced that whenever it's safe to get on a plane again, the planes will fill up. When I look at the number of cruise ship bookings for next year, it's radically up. People want to travel; people don't want to be locked in their homes.

So, probably don't have to wait for the vaccine, but a vaccine would certainly be a huge benefit. But we are aggressively managing our cost structure in aerospace. So, I think that's the one that will probably be a little bit longer. I think, refinish, we had an incrementally every month was better April versus May versus June. So, I'll be in a better position to answer that question by the end of the next quarter. But I would say that we'll probably be 90% of the way back at refinish in the back half of the year.

And then, it's a matter of what do we have to do to get that last bit back. But those are the only two that I think of. I mean, I see cars as a long-term getting back over time. And for us, we will be growing faster than the market because of our EV exposure. And industrial, similar kind of thing. So, I don't see any structural deficiencies, except aerospace in the short-term.

Vincent Morales
And Duffy, if I could add to that. As we alluded to earlier, we do see this digitization, especially in the architectural space. We see some paradigms being broken now that makes the entire supply chain more efficient. We see behavior, typically in a crisis, you see behavioral changes, which is where we're evidencing. People are just more willing to adopt to delivery, more willing to adopt digital.

Again, we've been talking about this for certainly more than six months, and we're seeing a structural modification of behavior in that channel, not only in the U.S., but we're seeing in Europe, we're seeing in Australia. So, I do think that will be something we're going to measure and monitor and try to continue to promote.

Duffy Fischer
Great. Thanks fellows.

Operator
And our next question today comes from Kevin Hocevar with Northcoast Research. Please go ahead.

Kevin Hocevar
Hey, good morning everybody. Michael, I think you mentioned earlier that on the DIY side, you thought your retailer customers would probably like to have more inventory. So, does that imply that manufacturing hasn't been able to keep up with the really strong demand? And does that also imply that we could see a restock coming at some point? And is that a regional comment or global?

Michael McGarry
Well, it's definitely regional. I would say, we're understocked in Australia, the UK, and a little bit in the U.S. At this point in the paint season, they never want to miss the paint sale, that's the key. And then they typically destock in the third and fourth quarters, especially after Labor Day.

So, I would tell you that this is a little bit different. How much inventory they are going to carry going into the fourth quarter is a total unknown at this point in time. And so, if I had a crystal ball, I'd tell you that there is a potential for some continued strength beyond what you see in the market, but I think that would be, probably, a little too much speculation.

Kevin Hocevar
Okay, great. And then pricing was up nicely for the quarter, 1.7% for the company and particularly out of the Performance Coatings segment, up 2.7%. So, just want to get your sense on how sustainable you think that that pricing is. I know in your slide deck, you said you expected pricing to be up about 2% year-over-year in performance coatings, in the third quarter. So, a little bit of the year-over-year fade, sequentially. I don't know if that's just comp related or any expectation that there is some type of price fade. But just curious with volumes doing what they're doing, particularly on the industrial side of the business, how sustainable you think pricing is at these types of levels?

Michael McGarry
Yeah. So, the reason that 2% is a comp year-over-year, the timing of when these increases come, vary. So, we feel very comfortable on the performance coatings side that pricing is there and it's sticking and will be there. On the industrial side, obviously, that's always a harder place. But right now, we're maintaining price. We're going to continue to maintain price from a PPG perspective. We'll be willing to walk away from business to make sure we get paid for the value we think we're going to deliver. Right now, I see customers much more focused on us helping them get up and running, and price hasn't been a discussion, a significant discussion, at this point in time.

Now, obviously that's going to change once they're up and running and fully operational and things like that. But by and large, what I tell people on the industrial side is, we can get all the price that we needed in the last up cycle, and so we should not be giving away any price just immediately when you see raw material start to moderate. So, I think there is a give and take here. And right now, I feel comfortable that we should continue to maintain price through the balance of the year.

Kevin Hocevar
Okay, great. Thank you very much.

Operator
Our next question today comes from Jim Sheehan with SunTrust. Please go ahead.

Jim Sheehan
Thanks, good morning. So, on the heat map, Brazil seems to stand out to me as the biggest anomaly, growing year-over-year and PPG, you're growing above the market. It seemed like Coronavirus issues worsened there. So, could you give some more color on what happened in Brazil?

Michael McGarry
Yeah. So, we're down in the Southern part of Brazil. There's three states down there that we're very strong in. So, we're not that strong in, think about Rio and Sao Paulo, that's not where our strength is. And where we are, the pandemic is not as robust as it is up in the major cities, plus we have a new leadership team down there in Brazil and they've done a really outstanding job of growing with our, not just our big box customers down there, but also on our trade side. So, it's been two factors.

Jim Sheehan
Great. And then maybe you could talk a little bit about your raw material inventories. I suspect that you've moved through a lot of the high-cost raw materials, but where are you in that process. It seems like with automotive builds ramping up, that you're going to eat through the higher cost raw materials in short orders. Is that right?

Vincent Morales
Yeah, Jim, if you just look at our volumes in the quarter. We came in, obviously, the quarter with seasonally high inventories. We worked through that more quickly in performance, given the volume trends there versus industrial, where we were down 30%, 40% in some businesses. We're eating into that industrial inventory now. And then we're also, to Michael's earlier point, we are a seasonal business, so we're going to be very mindful of what inventory we build or what raw materials we buy as we get further in the year here. We want to, obviously, manage our inventories down seasonally toward the end of the year.

Typically, we're ratcheting down our coatings manufacturing production beginning of this month and carrying through the summer and trying to, obviously, work our inventory down in Q4. So, very mindful of that, but I think your assumptions are accurate.

Jim Sheehan
Thank you.

Operator
Our next question comes from Laurence Alexander with Jefferies. Please go ahead.

Laurence Alexander
Good morning. A quick short-term one and a long-term question. On the short-term, with $130 million, the interim cost savings, that is on top, for Q3, that would be on top of the $30 million to $35 million highlighted in the slide deck? And then, do you expect that to come back in a linear fashion as volumes recover, or do you see it as a, sort of, a lumpier, kind of, way that will flow back into the income statement in 2021?

The longer-term question, as you look at your learnings on digitalization distribution, should we expect to chunk your investment cycle in the next two to three years in order to shift, to help PPG drive the shift in market behavior and leverage it? Or how should we think about the investment cycle on that front?

Vincent Morales
Laurence, this is Vince. I'll take the first one and Michael will take the second one here. So, yeah, we have $170 million of interim net, interim cost savings in the quarter. So, we've actually grossed higher, but we had lower manufacturing throughput that took away from some of that. That will come back in a more, as we alluded to earlier, I think that will come back in a more lumpy fashion in Q3, some of these costs are semi-variable as we start up plants. We do want to bring back certain cost pools in their entirety, so it would not be linear with volume. We're obviously working aggressively to manage those costs, not only in Q3, but on a go-forward basis.

So, it wouldn't be completely ratable with volume and it will be lumpier around how we're bringing our operations back.

Michael McGarry
And then, Laurence, on the digital question, there will be some lumpiness on the capital side, but it will vary by business. So, once we have a solution in place in architectural, we'll replicate that around the world without a lot of significant capital expenditure. But as we roll out some of the solutions that we have for automotive and industrial, those things will need to be replicated and will be a little chunkier. So, our capital spend this year is down but not in digital. In digital it's up.

Laurence Alexander
Wonderful. Thank you.

Operator
And our next question comes from Mike Harrison with Seaport Global Securities. Please go ahead.

Mike Harrison
Hi, good morning. Wanted to ask about the auto OEM business. The heat map is showing you guys were above market across all regions. I think you mentioned, that getting customers to pay for technical personnel and their plants was part of that, but can you talk a little bit more about what was driving that and maybe quantify how much of both market growth you saw in auto OEM?

Michael McGarry
Yeah. So, Mike, I would tell you that the number one thing the auto guys want is to get their plants up and running, and the paint shop is at the end of the line. So, if you end up with a car that's made, but you can't get it painted, that's really expensive for them. So, they wanted our people in the plant before they started up, to make sure that they were ready to go and then they wanted extra help in the plants to ensure a smooth start up, at which we've been able to do.

So, I would say the amount that we were above market varied anywhere from 2% to 10% depending upon the market, but that's not sustainable. We'll be, probably, above market in the next couple of quarters but then it will probably be ratably back to market performance. At the end of the day, the customers are very much interested in helping them grow their business, so

productivity is another thing that we're focused on. So, our tech service people are in the plants to help them drive productivity. And the more that we can do that, the more that they're willing to pay for those services.

Mike Harrison
Alright. And then in the refinish business, the European piece is showing as yellow and everything else is red. Can you maybe talk about what you were seeing regionally? And I guess I'm a little bit surprised that given the recovery in China, that Asia Pacific was still showing as red in that heat map. Can you talk about what's going on regionally in refinish?

Michael McGarry
So, in refinish, actually in China, if you think about the big cities, they are already back, I would say, at about 90% plus of congestion, not during the day but peak rush hour in the morning and in the evenings look just like they did pre-pandemic. What we're seeing is, that people are consolidating their trips and therefore, you don't see that those extra trips during the middle of the day. So, the roads are a little bit more open, and so that's the only negative in China.

In Europe, they did a much better job of handling the pandemic, than we've done in the U.S. And so, congestion is coming back a little bit quicker in Europe than it is in the U.S. So, we're actually quite pleased. And they've done a better job of managing their inventory as well. There's not as many large, super large, distributors in Europe like we have here in the U.S.

Mike Harrison
All right, thanks very much.

Vince Morales
Thanks, Mike.

Operator
And ladies and gentlemen, this concludes the question-and-answer session. I'd like to turn the conference back over to the management team for any final remarks.

Michael McGarry
Thank you, Rocco. I'd like to thank everyone for your time and interest in PPG. If you have any further questions, please contact our Investor Relations department. This concludes our second quarter earnings call.

Operator
Thank you, sir. This concludes today’s conference call. You may now disconnect your lines and have a wonderful day.