20-Oct-2020

# PPG Industries, Inc. (PPG)

## Q3 2020 Earnings Call





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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning. My name is Michelle, and I will be your conference operator today. At this time, I would like to welcome everyone to the PPG Industries' Third Quarter 2020 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. [Operator Instructions] Thank you.

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

## John Bruno

*Director-Investor Relations, PPG Industries, Inc.*

Thank you, Michelle, and good morning, everyone. Once again, this is John Bruno. We appreciate your continued interest in PPG and welcome you to our third 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 US equity markets closed on Monday, October 19, 2020. We have posted detailed commentary and accompanying presentation slides on the Investor Center of our website, ppg.com. The slides are also available on the website for this call and provide additional support to the brief 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 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 H. McGarry

*Chairman & Chief Executive Officer, PPG Industries, Inc.*

Thank you, John, and good morning, everyone. I'd like to welcome everyone to our third quarter 2020 earnings call. Most importantly, I hope you and your loved ones are remaining safe and healthy. Throughout the pandemics, we have focused on our purpose of protecting and beautifying the world. First and foremost, this is meant to protect our employees, our communities and our customers. This remains our highest priority.

Now let me provide some comments to supplement the detailed third quarter 2020 financial results we released last evening. For the third quarter, our net sales were about $3.7 billion and our adjusted earnings per diluted share from continuing operations were a record $1.93.


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Our strong operating results were led by improved sales volumes when compared sequentially versus our second quarter results. The global architectural coatings business performed exceptionally well, led by double-digit organic growth in our European business.

In addition, our global positioning and advanced product technologies drove significant improvement in quarter-over-quarter sales volumes in our automotive OEM and industrial coatings businesses.

We coupled these sales volumes improvements with strong cost management and delivered segment margins that were about 300 basis points higher than the prior year third quarter, or more than 18% in aggregate. This clearly demonstrates the strong operating leverage we have on incremental volumes and a tribute to the structural cost savings we have achieved in the past few years. The higher margins were achieved with about 30% of our businesses still facing significant demand headwinds, most notably, the automotive refinish and aerospace coatings businesses.

During the third quarter, our sales recovery continued to robustly advance in China, where volumes were a low-teen percentage compared to the prior year third quarter. This was driven by above market performance in several of our businesses, including automotive OEM, general industrial coatings, automotive refinish and protective coatings.

While year-over-year demand was still lower in other major global regions, it was vastly improved compared to the second quarter of 2020. Specifically on our cost management, we delivered about $90 million of interim cost savings and a little more than $35 million of structural cost savings. We are working diligently to ensure that a portion of the interim cost savings will be made permanent. We're going through our annual profit plan process, and we'll have more details on the additional catalysts in January when we report our full year 2020 results.

Our teams have also done an excellent job managing working capital and cash uses during the pandemic. Through September 30, we have reduced our working capital as a percent of sales by about 150 basis points on a year-over-year comparison. Coupled with the strong operating results of our third quarter, we generated more than $800 million of operating cash flow, higher than what we achieved in the third quarter of 2019.

Looking ahead, we expect economic activities to continue to recover, with differences across end-use markets and geographic regions. For the company, aggregate sales volumes are project to be down a low to mid-single-digit percentage in the fourth quarter, with differences by business and region. We do anticipate normal seasonal trends sequentially versus the third quarter, which doesn't result in lower absolute sales for several of our businesses that have been delivering some of the highest growth.

We expect our aggregate global architectural business to remain more resilient and once again deliver higher year-over-year organic sales in the fourth quarter. Although we anticipate continued softness in the US commercial maintenance segment and for the do-it-yourself demand to begin to moderate somewhat from the elevated levels. We're continuing to invest in our digital capabilities and expect more activities to be digitalized in the coming quarters.

The most recent demand increases experienced in the global automotive OEM and general industrial coatings businesses are expected to continue, including the impact from very low customer facing product inventory levels in its end-use markets. We continue to manage through heightened level of uncertainty, with the ongoing pandemic still impacting several of our key end-use markets and other geopolitical matters. The more challenged sectors, including automotive refinish and aerospace coatings, will provide further margin expansion opportunities once demand begins to improve.


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We project adjusted earnings per diluted share to be about 10% higher than the adjusted earnings per diluted share realized in the fourth quarter 2019, excluding the lower effective tax rate we expect in this fourth quarter's projected results. Our liquidity position remains strong. And we are evaluating earnings accretive cash deployment alternatives, most notably, bolt-on acquisitions.

Our teams around the world have been providing essential products and services that our customers rely on for their businesses. As we continue to manage through the pandemic, we remain committed to partnering with our customers to create mutual value.

Finally, I want to thank our global team. As one PPG, we are effectively managing through this prolonged and extremely challenging time and clearly winning in several of our key end-use markets. Our third quarter results are a further testimony to my confidence that we will emerge as an even stronger company.

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

# QUESTION AND ANSWER SECTION

**Operator**: Yes. [Operator Instructions] Your first question comes from Bob Koort from Goldman Sachs. Your line is open.

**Tom Glinski**
*Analyst, Goldman Sachs & Co. LLC*

Q

Good morning. This is Tom Glinski on for Bob. So first question, just how would you frame the low end of your 4Q 2020 EPS range? Does this bake in another round of lockdowns? And then how do you get to the top end of your range? Thank you.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I would tell you that our – we are not assuming any significant lockdowns. We're watching it closely. Clearly, the one area that is most important to us would be France, as our architectural business there is number one and it's one of our larger businesses in Europe. But I would tell you that right now, we have a pretty balanced view of that.

**Tom Glinski**
*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Thank you. And then just as a follow-up, how are you thinking about the price in raws formula going into next year? I know you're calling for a sequential increase in raw material costs. But how long do you expect raws to remain moderated on a year-over-year basis?

And then, secondly, on the price side. On the second quarter 2019 call, you called out that you hadn't yet caught up on the most recent round of raw material inflation from 2016 to 2018. So could this help buffer your pricing power, especially on the industrial side, going into next year? Thank you.


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**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, we've had multiple quarters of 2-plus-percent price increases. We anticipate continuing to be successful in raising price in our performance coatings side. We expect price to be relatively flat in our industrial side. Although with all the new products that we're rolling out, they will come with improved margins. So I think you'll need to be paying attention to that.

Raw materials sequentially will be modestly higher. You have to look a little bit at oil. You have to look a little bit at propylene. You have the force majeures that have come through the hurricanes. So we're paying attention to all that. Right now, we're anticipating just moderate – very slight moderate sequential inflation in raw materials.

**Tom Glinski**
*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thank you.

**Operator**: And your next question will come from John McNulty, BMO. Your line is open.

**John P. McNulty**
*Analyst, BMO Capital Markets Corp.*

Q

Yeah. Thanks for taking my question. Congratulations. So I guess, can you give us a little bit of color around the temporary cost cuts versus the restructuring ones? And in particular, how to think about the cadence of each one flowing through 4Q and into 2021?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, John, I would tell you, some of the temporary cost cuts that we're going to make permanent are – think about travel and expense. We're learning how to deal with that on a regular basis. So that's internal and external costs. Think about digital experiences. So we're trying to convert more things digitally, so that over time, will continue to drive more structural cost savings. When you think about the restructuring cost savings, those are more people related as we get more productivity initiatives completed and we've closed a few plants. That will turn into permanent cost savings as well. So, I feel good about the pace that we're doing. I think we're meeting or exceeding our internal targets in that respect, John.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

And John, I think we gave out in our guidance, $30 million to $35 million of structural or restructuring-related cost improvements in Q4. So that sizes that element for you.

**John P. McNulty**
*Analyst, BMO Capital Markets Corp.*

Q

Got it. That's helpful. And then I guess just as a follow-up question. So your cash flows are coming in pretty solidly. And normally, as you get kind of into the back half of the year, at least historically, if the M&A hasn't really caught on, we tend to see more buybacks, and we didn't really see that this time around. So I guess I'm curious, is that a reflection of just what you see as a chunkier kind of M&A pipeline at this point and maybe if you can give a little bit of color as to the types of things that you might be looking at?


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**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. John, we're obviously not going to get into what we're looking at. But, we have a very active pipeline. You probably saw somebody make an announcement in Europe. That's a sign of things loosening up. I anticipate there'll be further announcements in the fourth quarter, and obviously, more in the first quarter, second quarter. So, we're anticipating that the pipeline because of its activity that we're going to continue to look for that being our number one priority just like it always has been.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

[ph] Hi (00:13:27) John, one comment, I think is important. Given our global breadth, our participation in all the end markets, we typically have at least similar, if not more synergies than most of our competitors as we look at these deals. So, going forward with the pipeline Michael talked about, the robust pipeline, hopefully, we can participate assuming these are at the right price for our shareholders.

**John P. McNulty**
*Analyst, BMO Capital Markets Corp.*

Q

Got it. Thanks very much for the color guys.

**Operator**: And your next question will come from Ghansham Panjabi from Baird. Your line is open.

**Ghansham Panjabi**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Hey, guys. Good morning.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Good morning.

**Ghansham Panjabi**
*Analyst, Robert W. Baird & Co., Inc.*

Q

So Michael, on the 30% of the portfolio that you referenced that includes commercial aerospace, auto refinish, et cetera, how did the volumes sort of shake out in 3Q in aggregate for that 30%? How do you see that rebound building off of 3Q levels going forward? And then on the other 70%, should we anticipate moderation in volumes for any sub-segments as we cycle into 2021?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I think we gave pretty clear guidance that aerospace is down 35%, and I anticipate a similar kind of number in 4Q. But what's happening in aerospace right now is they are destocking as fast as they can. So, assuming they get to a new level at, say, the end of the year, what you should have is a double catalyst going forward, not only as improving demand, but also restocking back to more appropriate levels.

So what I see right now from talking to a number of people is COVID fatigue, right? So, people – I anticipate people are going to be traveling at the holidays. And so in the back half of the quarter, we're going to start to see


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our MRO activities start to pick up. Now they may not buy anything in the fourth quarter, but I anticipate that they'll relook at their inventory levels and they'll relook at how they're thinking about that in first half of next year.

So, I'm not as pessimistic as some of the folks are out there on aerospace. You get a vaccine. I think there's a pent-up demand. We had the highest PSA flow-through of people last week. And I anticipate a gradual recovery until there is a vaccine.

Now refinish, I think what you saw, our China business is doing very well, better than prior. So, people are back in the office and people are working. We saw the same thing in Europe. As people start to return to the office, congestion levels start to get back. Right now, they're blooming again with COVID. So we anticipate and we have factored into our guidance, a slight amount of moderation in our refinish volumes. But then, as we get a better handle on this, we anticipate refinish volumes will continue. Plus, we have a very good line industrial coatings business within refinish. We have our SEM acquisition in there. So, we're benefiting by our good mix within refinish. So I anticipate a gradual recovery of that all of 2021.

**Ghansham Panjabi**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. And then a second question. At the onset of the pandemic, you were very focused along with others on maximizing free cash flow. And I think you made the comment that you were going to work through finished good inventory, et cetera. Can you just update us more broadly in terms of that dynamic, where you are on your inventory levels at PPG specifically? And then, as you rebuild inventory, is that part of the reason that you've seen this sort of ferocious operating leverage in 3Q? Just kind of trying to get a sense as to how sustainable that is? Thanks.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Yeah. Ghansham, actually, our inventory is down year-over-year. It's one of our reasons for strong operating cash flow. It's actually working against us on the cost side. We're not running our factories as hard as our demand – our current demand would indicate. We hope to hold that inventory discipline through certainly the balance of this year and into next year. So we're not intending to rebuild our inventories.

If you look more broadly inventories, most of our coated products through our customers all the way to the consumer are very lean. Inventories in the automotive – auto OEM business are very lean. Appliances very lean; electronics very lean. As Michael alluded to, we think in aerospace, it's getting leaned out. So, we do feel there is an opportunity if we do see a spike in – or some spike in demand for not only the demand to improve, but also inventory levels to have that second catalyst.

**Ghansham Panjabi**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Thanks so much, Vince.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Thank you.

**Operator**: The next question comes from John Roberts from UBS. Your line is open.


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**John Roberts**
*Analyst, UBS Securities LLC*

Q

Thank you and nice bounce back in earnings. The Wall Street Journal had a story this morning on the need for more fire protection in lithium-ion battery powered cars. It was disappointing that it didn't mention PPG coatings. But is it a problem that car companies might not want to discuss fire protection including your coatings, since that just highlights the risk that it's something that car buyers don't want to think about?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, John, the way I think about this is, every car company that are making electric batteries are coming at it in a slightly different fashion. And every company has a different solution. The good news is, in a lot of these batteries, we are part of passive fire protection system that helps them eliminate that. So I would tell you, the opportunities going forward are going to just be really good. I think I shared with you in a prior call and so for the broader group.

China is trying to come out with a standard. So far, PPG is the only one that has passed that standard, which is to allow the vehicle occupant five minutes to exit the vehicle in the event of a fire. So I'm feeling very good about that. We have great technology. We've already solved this problem in other companies, so we feel confident we can solve it again.

Clearly, we'd love to see a government mandated fire safety hazard standard, if you will. And we think we can certainly participate in that. But we have so many opportunities in batteries right now, in electric vehicles, that we're super excited about it. Every – hardly a week goes by that we don't have a win in that space somewhere, whether it's in Europe, US or Asia. And we're really – I think we're doing an excellent job there.

**John Roberts**
*Analyst, UBS Securities LLC*

Q

And then Moonwalk seems to be getting some good traction. Do the economics to PPG change with Moonwalk adoption? Or is it just a share gain?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, it's both, right? So we have a subscription model out there on Moonwalk. So we're going to – think about Software-as-a-Service. So we're going to be collecting revenue on Moonwalk, as you go.

We've – I would say, about 25% of all Moonwalks that have been installed, have been share gained. And the only thing that's holding us back is making them. We're making these things in Southern Europe. And that's where it was hardest hit by the pandemic. We're getting over that right now, but there's a lot more opportunities.

The people that have them, we have nearly 500 of them installed in Europe, are exceptionally pleased with the performance and the ability to drive better productivity in their body shops. And that's what this is all about; it's improving the productivity, as well as allowing their painters to spend more time painting. So those are the two big wins. And our team has done an excellent job highlighting both benefits.

**John Roberts**
*Analyst, UBS Securities LLC*

Q

Great. Thank you.


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**Operator**: The next question comes from Frank Mitsch from Fermium Research. Your line is open.

**Frank J. Mitsch**
*Analyst, Fermium Research LLC*

Q

Good morning, gentlemen. Nice job on a quarter, I guess things are going better in Pittsburgh in more ways than one.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Thanks, Frank.

**Frank J. Mitsch**
*Analyst, Fermium Research LLC*

Q

Michael, if I could follow-up on that Moonwalk. Given the fact that you are gaining share, I just thought it was interesting in the color heat map that you provide that European auto refinish, your volumes year-over-year were a little bit lower than they were in the second quarter.

And you indicated that you were only growing at market. I would have thought that that would start showing up, that you would be growing faster than market. When can we anticipate that we will be flipping that heat map indicator to above market?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, Frank, as you know, on a quarter-to-quarter basis, it's really hard to justify a market gain. And so we tend to be conservative in that area. Maybe we should be a little bit more aggressive [ph] trumpeting (00:22:22) our wins. But I would tell you, from what we've seen, we're doing very well there. I do see our results as being very good. Now obviously, I'll have a better feel for that after all the company's report in the next 10 days. And I'll be able to give you a little bit more – a better feeling for that.

But I feel very comfortable that we're doing better than average in Europe. And especially from a profitability standpoint, our team has done an excellent job. Our ICR acquisition over there, we could have clearly ticked that as above market through the acquisition, but that's not how we do that.

But that's allowed us to get mid-tier and some value opportunities. We've expanded that out of Southern Europe, also to Eastern Europe. And we feel very confident that we're going to continue to grow share in refinish in Europe.

**Frank J. Mitsch**
*Analyst, Fermium Research LLC*

Q

All right. That's very helpful. And I guess the kind of the biggest eye opener that I saw in the quarter was the industrial coatings margins. Can you talk about the sustainability of that? How much of it may have been driven by these – by the $90 million of temporary cost savings? So just give us a flavor for where you see that heading down the line?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A


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Well, the biggest thing about the industrial segment margins was really the recovery of the volume and our productivity in our paint plants. The productivity has been outstanding. The team has done an excellent job. When things were super light in the second quarter, they got a lot of people to get to think about, how can we do different tasks more efficiently? And so they've been able to drive that productivity throughout the paint plant, and that's been the number one thing.

So any further recovery in automotive is just going to lead to more enhanced profit to the bottom line. So I would tell you, that part is where I'm feeling most comfortable going forward and it's all being driven by our Lean Six Sigma initiatives.

**Frank J. Mitsch**
*Analyst, Fermium Research LLC*

Q

Thank you so much.

**Operator**: Your next question comes from Michael Sison from Wells Fargo. Your line is open.

**Michael Sison**
*Analyst, Wells Fargo Securities LLC*

Q

Hey, guys. Nice quarter. Lucky win on Sunday. But just a quick question on...

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

So we just barely covered the spread, Mike.

**Michael Sison**
*Analyst, Wells Fargo Securities LLC*

Q

Barely, but a nice one. But in terms of your sales trends, it looks like September looked flattish, and you're guiding for down in the fourth quarter. Is October trending down? And just curious why the sales trend couldn't have been a little bit better given September looks pretty decent.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I would tell you, Mike, we were minus 5% for the quarter and we guided minus 5% to low single-digits. So I don't regard that as trending negatively. I regard that as trending positively. But when I look at our October results to-date, and obviously, we don't have a profit number, all we have is a volume number. We're well within our guidance. So I feel confident that we're going to be at or above where we are in the guidance. So I am not concerned about that and I would not characterize it as the way you did.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Mike, a couple of anomalies with August, September. Labor Day fell early last year. So for the architectural businesses, we actually had some Labor Day paints billing to August in the 2019 year. Most of that was in September in 2020. Hurricane Laura in the southeast part of the US hit late in August.

There was certainly some conservatism around inventory build and some inability to get to some projects. And we did have a strong European holiday season that we saw some snap back in September. So I'd call those


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anomalies month-to-month, but it all worked out in the quarter. So the quarter, we think, was a more representative number for 2020.

**Michael Sison**
*Analyst, Wells Fargo Securities LLC*

Q

Great. And then if you think about your EPS growth in the third quarter double-digits, fourth quarter looks like double-digits again. How do you think EPS growth looks when your volumes actually turn positive? Should it be stronger, or just some of the interim cost come back? And just kind of get a feel for how earnings growth should be when volumes look turn up?

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Yeah. We're still guiding to negative volumes in Q4. We haven't given 2021 guidance, a little too early to do that, Mike. I think Michael's last comment was, we are still expecting very strong incrementals for the foreseeable future on any volume growth. We're holding costs in check. Our operations are running very well. And again, we expect price in raws to be neutralized at a minimum. So again, we're still expecting very good incrementally. We can't tell the volume trajectory in the first part of next year. It's just too early.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. Mike, the other thing I would add to that is, don't forget, two of our best businesses, refinish and aerospace, are the ones that are going to be the tailwind, no pun intended, the tailwinds going forward. When their volumes recover, that will be very positive for our margins.

**Michael Sison**
*Analyst, Wells Fargo Securities LLC*

Q

Great. Thank you.

**Operator**: Your next question comes from Chris Parkinson from Credit Suisse. Your line is open.

**Christopher Parkinson**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great. Thank you very much. So can you just break down your current thoughts heading into 2021 on the US and EMEA architectural businesses? I mean there are a lot of trends that we're monitoring, resi versus commercial, and to your exterior paint, stain, sealant, trade versus DIY. Just what are the biggest trends in the context of reverse urbanization that European is monitoring? Thank you.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I would tell you that in Europe, you're not going to have the reverse urbanization that you have here in the US, right? They don't build this 1 million – 1.4 million houses in Europe like they do here. But I would tell you, they tend to maintain their homes in a better shape than the US does. So if they're in the pandemic, they have been – when the stores have been opened, they have been very aggressive in maintaining their properties.

And I think we're anticipating that that trend for the next few quarters is going to continue. This has been a market – Europe that has been slight to minus volume on – for the last several years. So this uptick does not surprise us


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in the least. The big concern in the US, of course, is the new construction for buildings. Once these buildings are completed, there doesn't appear to be a lot in the pipeline for new ones coming up. So that's a bigger issue for us.

**Christopher Parkinson**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you. And you've done a solid job at minimum holding price in industrial, and then you're up low-single-digits in performance, which I think is overall [ph] doesn't (00:29:47) surprise. But just given volumes in most of the industrial end markets, they're still a bit sluggish, albeit recovering. How should we think about your ability to raise price in the current environment? And we see some positive moves in mix in terms of like EVs. But are there any other new product launches we should be considering to drive uplift? Thank you.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, obviously, mobility will come with some attractive margins going forward. Any time we launch a new product, we're always trying to capture some of the – share 50-50 or so with the customers on the value creation. So that will be an opportunity going forward. Overall, right now, our customers are most focused on ensuring their plants are running. And so our tech service teams are in high-demand. So if you look at automotive, we outperformed the market in three of the four regions.

And the reason for that is our tech service people are so highly valued, they wanted to make sure they captured – our tech service people to help them start up, and now to keep them running. And because run uptime is so highly critical, we have a number of projects that our customers have asked us to look at where they're trying to drive more productivity in their paint shops. So I would tell you, right now, their primary focus is on uptime and new products, and that's where they're going, going forward.

**Christopher Parkinson**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

We do expect positive price in Q4 for the company in aggregate, certainly positive price in 2021 for the company in aggregate. Both segments are exploring targeted pricing as we get to negotiations toward the 2021 calendar year. So again, these opportunities to price, be it service, be it technology based, permeate both of our operating segments.

**Christopher Parkinson**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

That's very helpful. Thank you very much.

**Operator**: The next question comes from Kevin McCarthy from Vertical Research. Your line is open.

**Kevin W. McCarthy**
*Analyst, Vertical Research Partners LLC*

Q

Good morning. I wanted to come back to the auto refinish business. My question relates to some of the differences in trends by region. In the US, I think you indicated collision claims were down 20% or so. And EMEA,


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I think you said your sales were down mid-single-digits. Just wondering if you could kind of talk through that disparity. Is it wider than you would have expected three months or six months ago? And how do you think those trends progress over the next few quarters?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*
A

Kevin, I would tell you that the trend lines are pretty consistent with what we expected. Think about the US, work-from-home, a lot of people have big homes and it's easy for people to work-from-home. In Europe, the homes are much smaller. I would say people were claustrophobic; they wanted to get back to the office. And so they moved back to the office at the first opportunity they could.

Here in the US, there tends to be more conservatism. I mean it's somewhat amazing. There's 100 million people going to work every single day in the US, but there's not a lot of people going downtown to various cities to go to work because they're able to work-from-home. And so gasoline sales were only down like 5% or 6%. So people are out there driving, but we don't have that congestion that we normally have at rush hour.

So you get a vaccine and that will be a catalyst for more people getting back into the office. Clearly, some companies have people back in the office. Other companies don't. It's really pretty disparate how people are approaching this. But you've got higher speeds in the US. So totals are up 2%. So right now, what we see is a lot of traffic in the suburbs and not as much traffic downtown areas. But I know our refinish team has done a really good job of driving share gain, and that's what we're focused on right now.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*
A

Kevin, the one other thing we're seeing in Europe is there's less utilization of public transportation. That's been historically more utilized in Europe versus here. So there is still a fear factor of folks getting on public transportation. So the driving trend there, even if there's not as many people going to work as they were in the past, but more people are driving as opposed to taking public transport. We're seeing the same effect in China as well. And again, our China refinish volumes were up, we think, largely due to that effect.

**Kevin W. McCarthy**
*Analyst, Vertical Research Partners LLC*
Q

That's helpful color. And then second, for Vince, want to ask about your tax rate. With regard to the 18% to 21% range in the fourth quarter, I think you mentioned some discrete items in the prepared remarks. My question is, is there any component that is perhaps more sustainable? Just thinking about how you might expect the rate to trend into 2021?

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*
A

So there are a couple of items we're looking at for Q4 that we hope to achieve through tax planning. Kevin, I wouldn't call it structural at this point. We're certainly interested to see what happens here with the US elections to determine what our tax rate will be next year. So we'll give some more guidance in January. But the items that we referred to for Q4 were tax planning, and we hope to achieve those in the quarter and not carry forward items.

**Kevin W. McCarthy**
*Analyst, Vertical Research Partners LLC*
Q

Okay. Thank you very much.


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**Operator**: Thanks. Your next question will come from David Begleiter from Deutsche Bank. Your line is open.

### David I. Begleiter
*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you. Good morning. Michael, just on your heat map, US architectural, you highlighted that trade was below market. I know you had some weather issues in that segment. I mean anything else you can highlight as to why you were below market in that business in September – in the September quarter?

### Michael H. McGarry
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. I would say, David, that our two biggest markets are Texas and Florida. And given the hurricanes, we underperformed, because we couldn't keep our stores open or we had limited ability to do that. And of course, we're a little bit over-indexed on maintenance. Think about the hospitality industry, things like that. So that hurts us a little bit when you consider where we are.

In res repaint, we're under-indexed on res repaint. And res repaint, obviously, doing better, people are much more comfortable. We're doing very well in exterior. We're over-indexed in exterior. So we're winning there. We did outperform. We don't break USCA up into US and Canada. We did outperform in Canada. So we gained share in Canada. And we gained share in some minor markets like Puerto Rico, but I would say, overall, net-net, we felt like we were slightly below market.

### David I. Begleiter
*Analyst, Deutsche Bank Securities, Inc.*

Q

And just going back to these temporary interim cost savings, Michael, should we think about those as a headwind to 2021 earnings, should we think about a bridge between 2020 and 2021? Or how should we be thinking about those as temporary cost savings year-over-year?

### Vincent J. Morales
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Hey, David, this is Vince. Again, we're not adding those costs back unless we see at least ratable volume. So I wouldn't assume those are a headwind going into 2021.

### John Bruno
*Director-Investor Relations, PPG Industries, Inc.*

A

And Dave, this is John. Just to add on that. We had $80 million less of those temporary cost savings in Q3 versus Q2, and our margins were significantly higher. So I think we'll be able to manage it effectively.

### David I. Begleiter
*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you.

**Operator**: Your next question will come from PJ Juvekar from Citi. Your line is open.

### PJ Juvekar
*Analyst, Citigroup Global Markets, Inc.*

Q


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Yes. Good morning.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Hi, PJ.

**PJ Juvekar**
*Analyst, Citigroup Global Markets, Inc.*

Q

Michael, do you expect the DIY business will slow down as the weather turns cooler? Or is it – there is still pent-up demand from the lost business in the summer months? And can you also talk about the interior versus exterior paint trends?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. So clearly, exterior, interior is the easy one. You can't paint in bad weather. You can't paint when it's really cold. So at some point, that is going to slow down. But we have not seen through the first, whatever it is today, 20 days of October, any change in the demand pattern. So interior's picking up. People are more comfortable with having contractors in their home. DIY remains solid and steady. And that's across the board.

So I look at that number in China, I look at it in Australia, I look at it in Europe. And of course, you saw our numbers in Mexico. Our Mexican team is clearly winning share. We were up mid-single-digits in an economy that's down minus 8% or 9%. So – in Latin America, we're doing Central America, Brazil.

So I would tell you, overall, I don't see any change yet. We are anticipating that it will slow down at some point. We don't think it's sustainable at this rate forever. But right now, our fourth quarter, we're anticipating a continuation of what we see so far.

**PJ Juvekar**
*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you. And a question for Vince. Vince, can you take a minute and talk about your digital strategy? And what does it mean? Is it mostly customer facing platforms? Or is it digitization of entire PPG, including HR, MROs, supply chains? Can you just – where are you exactly investing and what kind of platforms?

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Yeah, PJ, I would tell you the most exciting platform for us is our customer facing platforms. What we're really trying to take the customer experience to fulfillment and digitize that process. We've talked many times with investors about – we're not starting in the middle of the supply chain. We're starting with the customer decision. That's where we think there is the biggest pain point.

We've seen in other retail industries those end-to-end digital platforms starting with the customer, most effective over a longer period of time, and as opposed to trying to optimize somewhere in the middle of the supply chain. So that's where our biggest investments are.

We're able to – again, because of our global breadth, we're able to take this investment, and not only use it in the US, Canada, but Europe, Australia, Latin America, South America, Mexico. So we're able to get a bigger – we hope, a bigger breadth of business activity on digital simply due to our geographic spread.


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**PJ Juvekar**
*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you.

**Operator**: Your next question comes from Laurent Favre. Your line is open.

**Laurent Favre**
*Analyst, Exane BNP Paribas*

Q

Yes. Good morning, and thanks for taking the question. The first one is on the EV side. I think in the slide pack, you released last month, you talked about a value uplift of 2x to 4x for EV. I was just wondering if you could perhaps tell us your line of sight on this for the next couple of years on new product launches. Is the $100-plus value uplift actually foreseeable for those new product launches? Or is it an aspiration for the longer term?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. I'll let Michael answer the question, Laurent. But just a base load for everybody on the call, so we did provide a little bit of a foretelling of what we see coming from a coatings perspective in the EV, electric vehicle market. We do believe at some point in time, there'll be 2 to 4 times the coatings content on a traditional EV versus a gas combustion engine. And so that's the background that we want to make sure anybody has. And the timing of that, Michael, was the question.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. So Laurent we are clearly seeing wins on, like I mentioned earlier, on a weekly basis. China has said that 25% of their cars by 2025 will be EV. You've seen Europe make an aspirational target of the same 25%. And then, of course, you saw California's announcement.

So, everybody is working feverishly in this space. I would tell you, we have initiatives with every single company out there. We're the number one guy in automotive OEM. We're also very strong on automotive parts. We're very strong in protective and marine. So, we are the people that can bring all this together. And we're selling gap fillers right now, so we're on that.

We have a number of electric battery trials going on as well, adhesives and sealant. So, we have a very broad product offering. And as people try to come forward with solutions, our team has come forward with a solutions base approach that minimizes the number of people they have to deal with. And I think that's also exciting to the car companies because they're being inundated with all these new ideas, and what they want is to be able to get to market faster, and our teams help them get to market faster.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

In terms of adoption, Laurent, China has a target to get to supply so much percent of their new fleet by 2025. Europe, as you're probably fully aware. Different targets by country. We're seeing an uptick this year in EV sales. So really, the adoption by the consumer is what's going to drive the additional sales in the EV market side by PPG.


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**Laurent Favre**
*Analyst, Exane BNP Paribas*

Q

Thank you. And maybe as a follow-up for Vince. On the last call, with Q2, you talked about how some of the temporary savings were binary, and they were either in or out. I was wondering if – in the number you disclosed last night, now all those binary costs are back in, so to speak?

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Okay. And we're bringing those in by region, by business as volume comes back. And so, for those costs that are binary of that nature. They've come back in Q3. To John's point earlier, they've come back when we have volumes come back. So still very margin accretive even though we brought back some of those costs from Q2 to Q3.

**Laurent Favre**
*Analyst, Exane BNP Paribas*

Q

Sure. Thank you.

**Operator**: And your next question will come from Jim Sheehan from Truist Securities.

**James Sheehan**
*Analyst, Truist Securities*

Q

Good morning. Thank you. You raised the CapEx guidance for 2020 due to some additional projects being initiated. Can you talk about what types of coating end markets these projects are focused on?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. I'll take that one, Jim. When you think about what we slowed down in the second quarter, it was mostly in our industrial space, so automotive and industrial coatings. That is no longer the case, obviously, with the automotive guys back, we're ramping all those costs back up. More importantly, what I'll tell you, we did not slowdown – is we did not slowdown any investments in China. We did not slowdown any investments in electric vehicles. And we did not slow down any investments in our packaging business that we knew would be doing exceptionally well. So from that standpoint, we feel very comfortable that our run rate coming out of the fourth quarter – third and fourth quarter will be very similar to what we had last year.

**James Sheehan**
*Analyst, Truist Securities*

Q

Great. And in auto OEM, you talked about outperforming auto builds and your technical service teams. Is that a feature really of the rapid ramp up that's happening in 2020? Or do you see that as sustainable into 2021 and also, if you could relate that to your pricing discussions. If you're critical to the customer, do you expect to get more pricing leverage as we get into next year?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I think the way to think about that, Jim is that when we have discussions on price, there are a lot less aggressive on asking for things if they need us in the paint shop. And right now, they need us, and one is in the


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paint shop. So that makes it a much more forward-facing discussion instead of a – what's the raw material environment. And so they're looking for value creation as well. And they're looking for productivity and they're looking for new product ideas. And so when you can have those kind of discussions, that's way more productive than, what I would call, how do you split the pie.

**James Sheehan**
*Analyst, Truist Securities*

Q

Thank you.

**Operator**: And your next question will come from Jeff Zekauskas from JPMorgan. Your line is open.

**Jeffrey J. Zekauskas**
*Analyst, JPMorgan Securities LLC*

Q

Thanks very much. If there were a large infrastructure bill passed next year, would that make an appreciable difference to PPG's domestic volumes?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I do think there will be an infrastructure bill passed from our standpoint, I think it will come either shortly after the election or Jan 1 – early January. It will be a positive for us. But you have to remember, those things take a while. They use the term shovel-ready, but nothing is really shovel-ready, because of the environmental due diligence they have to do on some of these projects. So it will be a net positive for us. But I would tell you, it might not be noticeable in the first few months that after the bill was passed.

**Jeffrey J. Zekauskas**
*Analyst, JPMorgan Securities LLC*

Q

Okay. And can you describe how much your incentive compensation is likely to change this year versus 2019? And of the $90 million in interim spending cuts, how does that split between SG&A and cost of goods sold?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

I'll let Vince take the back half.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Sure. Yeah. If you look, Jeff, the biggest change in our incentive comp really is around our TSR, total shareholder return, our stock price. It's going to be up probably high-single-digit millions, really reflective of the higher stock price this year than last year. In terms of the $90 million split, two-thirds of that would be in our SG&A bucket and one-third would be in cost of goods sold. Those are round numbers, of course.

**Jeffrey J. Zekauskas**
*Analyst, JPMorgan Securities LLC*

Q

Okay. Good. Thank you so much.


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**Operator**: And your next question will come from Arun Viswanathan from RBC Capital Markets. Your line is open.

### Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Q

Great. Thanks. Good morning. Thanks for taking my question. I guess I was just curious on the margins. Usually, you have anywhere from 100 to 250 basis point sequential decline in margins Q3 to Q4. This year, it looks like your guidance implies something maybe in the 200 to 300 basis point sequential deterioration in margins. Obviously, Q3 was very strong, aided by probably continued robust production and a lot of the cost actions you described.

Could you just, I guess, frame your thought on margins in Q4? Do you think that you've kind of now maybe entered a structurally higher level of margins that we should see that persists kind of through the next couple of years? And again, it seems to me that maybe the typical deterioration is too much this time, and maybe there's a chance that margins would be better in Q4. Maybe what are some of the headwinds that you're seeing on that side?

### Vincent J. Morales
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Yeah. I think a couple of – there's a lot of moving pieces, obviously, this year from quarter-to-quarter. So looking back at historical trends, provide some guidance, but I wouldn't say it provides viable to how we look at things. What we're seeing in the industrial segment, Q3 to Q4 is much less seasonality. The automakers are not going to – we don't think automakers are going to go down as much around the holidays as they did in Q4 prior year.

On the other side of the coin, one of our best, as Michael alluded to in his opening comments, some of our best performing businesses of a higher level seasonality. So in aggregate for the company, they're going to be more impactful. So, the architectural businesses are performing well. They typically would have seasonality in Q4. We think they're going to have traditional seasonality. So again, in aggregate for the company, that has unfavorable impact on the quarter-to-quarter comments you're talking about. So just a lot of moving pieces, I don't think there's anything abnormal in those, Arun.

### Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Q

Okay. Thanks, Vince. And then I guess just on the portfolio in general, you do have relatively low leverage. I know that there's still a lot of uncertainty out there. But – and I imagine that the pipeline, is it mainly still more tilted towards bolt-ons? And what is it going to take maybe to get a larger opportunity on the M&A side? Do you see any of those kind of coming to fruition in the next little while?

### Michael H. McGarry
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, the bigger ones, it takes a meeting of the minds to make that happen. So I would say, you can't predict those. So I would just say sit tight. So the vast majority of the things we're looking at in the portfolio are bolt-ons. But there's some pretty meaningful bolt-ons out there.

The pandemic, again, has illustrated to people, this is twice in the past 12 years that there's been a meaningful downturn in the economy. And people are looking at, okay, what's the best way for them to manage their private wealth. And maybe owning a coatings company where their ability to flex is not as robust as ours is.


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So if you think about how quickly this is 2 times in a row, we've had record earnings in second quarter coming out of the downturn in the economy. And a lot of these private companies are not able to do that. So I would tell you, they're looking at that as an opportunity maybe to put some of the earnings from selling their business into their pocket and diversifying.

**Arun Viswanathan**
*Analyst, RBC Capital Markets LLC*

Q

Okay. Thanks.

**Operator**: Your next question comes from Vincent Andrews from Morgan Stanley. Your line is open.

**Vincent Stephen Andrews**
*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. And good morning everyone, just wanted to follow-up on OEM auto. On the last – on the second quarter call, Michael, you mentioned that some of the outgrowth coming from the tech service, you expected that to normalize in future quarters.

And just from sort of the – the some of the conversation. On this call, it sounds like maybe you're thinking that's going to be a little bit stickier. And I'm just wondering, is that the case? And are you finding ways to make that market share growth to be a little bit more structural?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I do think it is going to continue to grow. We have turned our tech service teams into a business. And so we're charging for tech service, where, in many cases, we used to give it away for free. And people in the beginning were kind of like Missouri, the Show Me State.

But during the start-ups, they could see the value creation that our tech service teams who allowed them to get up faster, run more consistently and think about the – right now, a lot of these folks are running weekends and things like that. So they're having some unusual period of times where controlling the environment in the paint shop, when it's running more frequently is hypercritical. And I would tell you, right now, they've been willing to pay for those services. And we're pleased to provide them. So I think there is going to be more stickiness on that going forward.

**Vincent Stephen Andrews**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay, great. As a follow-up, I just want to ask on the architectural side of the equation, maybe more into the retailers rather than your own stores. Clearly, the do-it-yourself trends can't stay at this pace forever. But I'm just wondering, if things decelerate, it seems like customer inventory levels are probably not that high.

So do we still need to have a pretty big build up into the next spring season in order just to manage sort of a regular season? I'm just trying to bridge sort of the downturn in takeaway versus what you have to actually ship in to the customer?


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**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

I would say, clearly, inventory levels at our customers are below what our customers would normally have. But I'm not going to try to predict how they're going to think about inventories in Q1. So I'll just tell you that inventories are low and we'll wait to see how they decide to manage them next year.

**Vincent Stephen Andrews**
*Analyst, Morgan Stanley & Co. LLC*

Q

All right. Thank you very much.

**Operator**: Your next question will come from Duffy Fischer from Barclays. Your line is open.

**Duffy Fischer**
*Analyst, Barclays Capital, Inc.*

Q

Yeah. Good morning. Just after you release last night, I was talking with our aerospace guy. And he thought your volumes were much stronger than what he was going to see from the average input provider into aerospace. He was thinking things would be down kind of 50%, 55%. So can you comment on, are your – the business you're in, is it doing better than the average input supplier into aerospace? Or is there a chance that maybe customers are building a little bit of inventory of your product, and we'll see a double dip there where that will come in a little bit closer to what peers are doing later down the line?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah, Duffy, I don't see a double dip. I see – I know very specific customers that have clearly taken inventories down. And we are on a number of winning platforms. So as those winning platforms continue to roll-out, that helps our volumes. But overall, I would tell you, we're anticipating being down 35% in the next quarter as well in aerospace.

And then from that point on, I think it's going to start to trend up. So we have a good mix in our business. Obviously, military is helping. Military has been a space where not only are we strong there, but our business with the F-35 is getting bigger and bigger every year because we're winning more content on that plane. So it's not just the build rate for the F-35, it's also the additional content that we're winning. So I think that's really important for people to understand.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

And Duffy, if you look at our mix of business, we're about 30% military, 70% conventional aerospace.

**Duffy Fischer**
*Analyst, Barclays Capital, Inc.*

Q

Okay. And then I'll take another cut at it just because it's been the biggest incoming question. I've gotten since you guys put out your pre-announce and people have kind of backed into margins. But if you look at Q3, last 10 years, your margins kind of bounced around between 16% and 19%. So this quarter was several 100 basis points higher than the average of that period. Clearly, 150 basis points higher than the best third quarter you've ever had.


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When we get out a couple of years from now and turn around and look at this quarter, is this going to be an anomaly as far as the margin goes? Or do you think this really kind of resets the bar and this higher margin level is something more structural?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*
A

Duffy, the way I would answer that is we launched something called The PPG Way two years ago. And one of the tenets of The PPG Way is that we do better today than yesterday, every day. So you're not going to look back at this anomaly in two years because our team is fully committed to The PPG Way, and that's doing better today than yesterday. So that's going to carry forward.

**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*
A

Yeah. I would just add, Duffy, that if you look at Q3 and Michael alluded to this earlier, some of our most technical businesses, aerospace and refinish were – remain in a recession. So hopefully, two years from now, those businesses have recovered, not fully recovered, and those should help the metrics you're talking about.

**Duffy Fischer**
*Analyst, Barclays Capital, Inc.*
Q

Terrific. Thank you, guys.

**Operator**: The next question will come from Stephen Byrne from Bank of America Securities. Your line is open.

**Stephen Byrne**
*Analyst, Bank of America Merrill Lynch*
Q

Yes. Thank you. So SG&A was down sharply, but so was R&D. So presumably, a lot of those are lower costs or part of this interim costs reduction bucket other than less travel, what are the big buckets that are in this interim cost savings that enabled those two cost line items to be down so much? And do you need to bring them back up when volumes recover in order to drive sustainable growth? Or could they stay down?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*
A

So Stephen, I'll take the question. When you think about R&D, the first thing you have to remember is part of that cost is currency. And so we haven't been helped with the currency from that regard. Second, what we – we have our run rate on R&D in the third quarter is back to normal. We had some – in the second quarter, we did some things like four-day work weeks and we had the salary – temporary salary reductions, so all those are gone.

So right now, the spend in our R&D is at the same level as what we had last year. So – but we are continuing to optimize our lab footprint. So we have less labs, so that drives permanent cost savings. We also are using digital to drive more productivity. So that's a permanent cost savings. So I would tell you that the spending on big projects is the same level, but the efficiency is better.

**Stephen Byrne**
*Analyst, Bank of America Merrill Lynch*
Q

And on the $170 million restructuring program, how would you allocate that between COGS, SG&A and R&D? And how long do you think it will take to roll that through?


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**Vincent J. Morales**
*Chief Financial Officer & Senior Vice President, PPG Industries, Inc.*

A

Again, I don't have those numbers in front of me, Steve, but most of those were not – most of those were optimization of our workforce – our SG&A workforce. We did have some facility and supply chain optimization in there, but the vast majority of that was not supply chain or manufacturing.

**John Bruno**
*Director-Investor Relations, PPG Industries, Inc.*

A

Yeah. Steve, circa 85% or 90% is SG&A.

**Stephen Byrne**
*Analyst, Bank of America Merrill Lynch*

Q

Thank you.

**Operator**: Your next question comes from Kevin Hocevar from Northcoast Research. Your line is open.

**Kevin Hocevar**
*Analyst, Northcoast Research Partners LLC*

Q

Hey. Good morning, everybody. Maybe one other stab at some of the interim cost savings. So it sounds like those coming back are going to be volume dependent or at least some portion of them coming back will be volume dependent. And with the fourth quarter, it looks like volumes are expected to be down low to mid-single digits, which is a little bit better, similar to slightly better than what you saw in the third quarter. So is it fair to say that $90-ish-million will still be what's saved in the fourth quarter? Is that what's baked into guidance? Just kind of curious what you have baked into the guidance for the interim savings in the fourth quarter.

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yes, Kevin. If you look, sequentially Q2 to Q3, we think we brought back cost ratably with volume. We do some volume – if you look at Q3 and Q4, we hope volumes on the low – on the higher end, I guess, that range. So we'll manage our costs back accordingly. But I think $90 million is probably too large of a number, but we're not providing that. We did embed that in our guidance what we thought we could retain in Q4 and heading into next year.

**Kevin Hocevar**
*Analyst, Northcoast Research Partners LLC*

Q

Sure. And you talked about mix being a headwind with aerospace and refinish being below the company average in terms of volumes. How much is that holding back margin? So if you were to normalize that and have those businesses performing more in line with the company average, I guess how much room is there for margins to improve as those businesses recover?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

We don't give margins by business. But as we alluded to earlier, those are some of our most technical based coatings businesses, and those typically – customers can see the value in those businesses.


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**Kevin Hocevar**
*Analyst, Northcoast Research Partners LLC*

Q

Great. Thank you.

**Operator**: And your next question will come from Mike Harrison from Seaport Global. Your line is open.

**Michael J. Harrison**
*Analyst, Seaport Global Securities LLC*

Q

Hi, good morning. Was wondering if you can talk a little bit about the protective and marine business, what you're hearing from customers there. You mentioned some project delays in Europe and the United States. Are those significant and lasting kind of through the fourth quarter? Can you maybe talk about when you see the protective and marine business getting back to growth?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, let me first start talking about it from the marine side. Marine build continue to be on the very low-end of the spectrum. So new ship builds are down 55%. On the positive side, our mix, we're very advantaged here. We're much stronger in China than we are in Korea. And so our protective business and marine business is actually, I think, doing better than the industry from that regard. Clearly, you saw a lot of infrastructure projects that were delayed because of COVID. They have to figure out how to have a COVID safe working environment when they're working on these infrastructure projects. So we think they have been delayed, but we think they're coming back now. Of course, now you're getting into the winter, so a lot of those projects are going to be put on hold again.

But I would say, oil and gas is weak, nothing significant change there. But we're launching some new products. We launched some new polyurea product for the food business. So we think that's going to be a nice win for us. And overall, the economy will get better, and so I'm anticipating that our wins in the refinery side will start to blossom into the maintenance side of that as well. And Asia is a big place for us.

**Michael J. Harrison**
*Analyst, Seaport Global Securities LLC*

Q

All right. And then speaking of Asia, the packaging business, APAC shows up as growing below market, how big is that piece of business, Asia packaging? And what's driving the weakness there?

**Michael H. McGarry**
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Well, I would say it's not a huge piece of the company. What's driving it is they transition from what I would call older generation to a newer generation. We focused on the newer generation of – in what they call easy open ends as well as two piece cans. And so from that standpoint, we're focused highly on the next-generation of cans. And so right now, as that transition hasn't moved as fast as it has in the US and Europe, we are losing a little bit of share. I don't regard that to be a permanent. I think we will get that share back, especially because there are a number of global products, think about Toona and other things that are made in Asia that are exported. So as those global standards take hold in Asia, then we'll get our share back.

**Michael J. Harrison**
*Analyst, Seaport Global Securities LLC*

Q


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All right. Thanks very much.

**Operator**: [Operator Instructions] Your next question from Laurence Alexander from Jefferies. Your line is open.

### Laurence Alexander
*Analyst, Jefferies LLC*

Q

Good morning. So just to follow-up on that. In the North America architectural trade and the Asia packaging, as you think about the 2021 growth rates, will PPG be back to growing in line with the market or will the share loss continue?

### Michael H. McGarry
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

I would definitely say for packaging in Asia will be back to market because those technologies will roll-out. And in the US, I see no reason why we wouldn't be growing that market in 2021.

### Laurence Alexander
*Analyst, Jefferies LLC*

Q

Okay. Great. So 2021 should really be at market or above market year across the board?

### Michael H. McGarry
*Chairman & Chief Executive Officer, PPG Industries, Inc.*

A

Yeah. I mean, right now, we haven't done our 2021 planning process, but our initial assumption going into that will be at market.

### Laurence Alexander
*Analyst, Jefferies LLC*

Q

Okay. Thank you.

**Operator**: We have no further questions in queue. I turn the call back over to Mr. Bruno for closing remarks.

### John Bruno
*Director-Investor Relations, PPG Industries, Inc.*

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

**Operator**: Thank you, everyone. This will conclude today's conference call. You may now disconnect.


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