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PPG Industries, Inc. (PPG)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Amy, and I will be your conference operator today. At this time, I would like to welcome everyone to the PPG Industries' Fourth Quarter and Full Year 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, Amy, and good morning, everyone. Once again, this is John Bruno, Director of Investor Relations. We appreciate your continued interest in PPG and welcome you to our fourth quarter and full year 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 Thursday, January 21, 2021. 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 webcast site 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 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 H. McGarry

Chairman & Chief Executive Officer, PPG Industries, Inc.

Thank you, John; and good morning, everyone. I'd like to welcome everyone to our fourth quarter 2020 earnings call. Most importantly, I hope you and your loved ones are remaining safe and healthy.

Now, let me provide some comments to supplement the detailed financial results we released last evening. For the fourth quarter, our net sales were about $3.8 billion and our adjusted earnings per diluted share from continuing operations were $1.59. Driven by strong year-over-year sales growth in our Industrial Coatings reporting segment, we delivered record adjusted earnings per diluted share for a second consecutive quarter, increasing by more than 20% from prior year.

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In addition, our global architectural coatings businesses continue to perform exceptionally well, eclipsing prior fourth quarter sales and earnings records in most countries. We also deliver the second consecutive quarter of double-digit organic growth for our European architectural business. Our global architectural sales were also supported by ongoing advancement of our digital capabilities.

In 2020, our global digital sales in the architectural business were up by more than 60%, and we will continue to invest in prioritizing these digital initiatives. We couple these organic growth improvements with strong cost management and deliver PPG aggregate segment margins that were about 160 basis points higher than the prior year fourth quarter. The higher margins were achieved with about 30% of our businesses continued to face significant demand headwinds, most notably the automotive refinish, and aerospace coatings businesses, as the pandemic continues to impact areas of travel and mobility.

During the fourth quarter, sales in our China automotive OEM and general industrial businesses well outpaced industry demand with both businesses growing nearly 20% on a year-over-year basis. In auto OEM, we were significantly above industry production rates. Our strong footprint, advantaged technology and service capabilities continued to service well in China, where economic growth is the most robust.

In addition, sales in our European and Latin American regions returned to year-over-year growth during the quarter. And in the US region, while still lower than the prior year due to the aerospace coatings business, overall sales improved throughout the quarter. We delivered more cost savings during the quarter with about $40 million of interim cost savings. And we also delivered an additional $40 million, a structural cost savings. Our interim cost savings were lower than the $90 million we've achieved in the third quarter, as we incurred certain costs to support the sales improvement in several of our end-use markets.

We will maintain about $25 million of these interim cost savings in the first quarter and expect to make at least $80 million of permanent cost savings for the full year 2021. Our team's done an excellent job managing working capital and cash uses in 2020, which allowed us to achieve a record $2.1 billion of operating cash flow for the year. Our businesses reduced operating working capital as a percent of sales by about 100 basis points (sic) [180 basis points] in 2020. This outstanding performance was one key factor in allowing us to fund the Ennis-Flint acquisition entirely with cash on hand during the month of December. In addition to completing the Ennis-Flint acquisition, we recently announced some other strategic acquisitions. Each of these companies brings incremental benefits to PPG that will lead to further shareholder value creation.

Looking ahead to the first quarter, there are a few challenges including more restrictive shutdowns in certain countries and supply chain issues in certain end-use markets that will likely cause some short-term coatings demand disruptions. We're also experiencing elevation in costs, particularly raw materials and logistics costs. While these issues create some uncertainties in the first quarter, we continue to be optimistic about the first half of 2021, as underlying coatings demand and economic activity in several of our end-use markets is expected to remain robust including the automotive OEM, general industrial, packaging and architectural businesses.

We also remain confident of achieving further selling price increases in the first quarter in the Performance Coatings reporting segment, and have started to pursue selling price increases in the Industrial Coatings reporting segment which will be realized as the year progresses. For the company, aggregate sales volumes are projected to be flat to up a low-single digit percentage in the first quarter, with differences by business and region.

As we progress through the 2021, we anticipate multiple catalysts that will help drive further sales and earnings growth including an eventual restock benefit, as low inventory levels remain in several of our end-use markets. Second, we are well positioned to benefit from the ultimate recovery in the automotive refinish and aerospace

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coatings end-use markets, as congestion and air travel increases with our world-class product and customer service capabilities.

In addition, our acquisitions will start to provide accretive benefit as the year progresses. These incremental benefits will supplement the organic growth that we anticipate in our other core businesses, as we continue to support our customers with excellent services and technology advantaged products. For the quarter, we project adjusted earnings per diluted share to increase by more than 20% on a year-over-year basis, continuing our strong earnings momentum.

Our near-term cash deployment priority will be to complete the acquisitions we have announced, which we anticipate to be funded by a combination of cash on hand and debt by the end of the second quarter. We then intend to primarily use our free cash flow generation to pay down debt from these acquisitions and reposition our balance sheet for future industry consolidation.

As it relates to our recently announced acquisition agreements, let me make a few comments about Tikkurila. From a strategic perspective, this remains an extremely complementary business to PPG. We don't expect any significant antitrust issues, and are confident that we'll be able to keep the entire business intact. And equally important, we will not need to disrupt PPG's legacy businesses for our customers in the region.

Keeping the Tikkurila team together as one unit is not only the best stakeholder outcome, but we'll ensure a fast start on synergy capture. From a strict acquisition integration execution perspective, we believe that our offer is compelling for all stakeholders and it has the benefit of the due diligence we've already conducted. We conducted the due diligence efficiently and worked closely and cooperatively with Tikkurila to resolve to the satisfaction of both parties; some commercial issues that arose and the due diligence process.

We believe that these commercial issues, in addition to the regulatory landscape, place PPG in the most favorable situation to acquire Tikkurila from a business continuity and project return perspective. Additionally, we are expecting substantial cost synergies supplemented by incremental sales synergies, which we were able to fully vet in the due diligence analysis. This includes the fact that our holistic European operations are well established and stable, and would result in very little disruption from this transaction.

We also have a very well established regional shared service center in Eastern Europe that has been in existence for many years and has integrated many of our prior acquisitions, which will enable us to more seamlessly and more quickly integrate an acquisition of this size. Finally, we will continue to analyze this with our traditional thoughtfulness and historical discipline. On a post synergy basis, this remains an excellent value creation opportunity for our shareholders.

Lastly, as we hear from our customers and investors consistently, there is zero doubt that our sustainability initiatives are far ahead of any coatings company, as PPG technology is enabling the conversion from the internal combustion engine to electric autonomous vehicles in addition to our many other initiatives. Due to where this transaction is from our process perspective, that is, we're currently in an open tender offer period and Tikkurila's board has received a non-binding competing bid, we will not be able to answer any questions on this matter during the call.

In closing, I want to thank and recognize our global PPG team. Our company's true character has been showcased during these times of adversity. I'm proud to how the PPG team has responded with great resiliency and continuing to serve our customers, our community and one another, and it has truly lived the PPG way. Our fourth quarter and full year 2020 results are a true testament of our company's capabilities and allow us to enter

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2021 as an even stronger company. Thank you for your continued confidence in PPG. This concludes our prepared remarks.

And now, Amy, would you please open the line for questions?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Your first question comes from the line of Michael Sison with Wells Fargo. Michael, your line is open.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Nice quarter. I guess, maybe let's talk about the acquisitions in total, you've had a really good run here in terms of finding opportunities. What's sort of the synergy run rate if all of them come together over the next six months?

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

A

Yeah. Mike, this is Vince. Good morning. Hope you're doing well. We'll give some more information on these acquisitions as they close, similar to what we did with Ennis-Flint. We got to get them through closing. We have to – we'll give you some annualized as well as specific 2021 numbers. All of them have a different seasonality profile. So again, it would be hard to give you a specific number as it relates to 2021.

As I think it's well-chronicled, most coatings acquisitions have kind of mid-single digit synergies as a starting target. Some have more, some have less depending upon their overlap – geographic overlap, product overlap. So again, as we close them, be rest assured that we'll provide more detail individually per acquisition.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it. And then, maybe shifting to architectural coatings, can you maybe talk about some of the backlogs that your pro painters are seeing and how big those are relative to what you've seen in the past? And maybe the potential momentum there and whether orange and brown is kind of the hot color that people are asking for these days.

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

A

Well, I'm not going to go into the orange and brown, Mike, but what I will tell you is we sub-segment our business here in the US in the maintenance, commercial, residential, DIY, et cetera. And if you look at that momentum by each of those segments, every one of them was significantly more positive in 4Q than 3Q. And each one of them are anticipating being more positive in 1Q versus 4Q. So from that standpoint, we're excited. Obviously, permitting for new homes construction is not going quite as fast as they wanted, challenges on the multifamily side as well. So most of our large painters are feeling very comfortable coming into 2021.

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And then when we flip over into Europe, without a doubt we're still having very strong – you saw we had double-digit growth in the fourth quarter. Through the first 21 days of January, it's a continuation of that trend as well. And then when you flip down into Mexico, we had an exceptionally strong quarter. The economy in Mexico, GDP is minus 7% to 8% and yet we performed at plus 10%. And we see that same momentum carrying into January. The sell-out from our concessionaires is strong. Their liquidity is very good. And so, I'm very positive about what we're seeing in our global architectural business.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of Ghansham Panjabi with Baird. Ghansham, your line is open.

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

Q

Thank you. Good morning, everybody. I guess, Michael, going back to your comments on pricing in industrial, you referenced some pricing initiatives there to offset higher costs. Looking at the slide deck, you're still expecting kind of stable selling prices for the Industrial Coatings segment. So just curious as to, is there a lag associated with that? Is that what you're referencing? How should we think about that build as the year progresses? Thanks.

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

A

Ghansham, as you know, historically there's always a three- to six-month lag in pricing and raw materials, because we can't raise price until our customers can see it. And it's, as you know, more challenging on the industrial side than the performance side. And so, raw materials were higher, and especially when you think about China, that's a much more spot kind of a purchasing environment over there because that's their tradition. So, we have already announced price increases in Europe. We've started to announce price increases in other regions in the world. We are well ahead of 2017.

If you remember, in 2017 some of our peers were distracted because of either acquisitions or fears, and so we are well ahead of that. And so, I'm very comfortable that you're going to continue to see positive price. We've had 15 quarters in a row of positive price. You're going to see the 16th quarter of positive price for the company in Q1. And so, I'm not worried about the low-single digit inflation that we're anticipating.

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

Q

Got it. And then in terms of the supply chain constraints you referenced, can you just give us more color on that dynamic? Which businesses, in particular, do you see being impacted, the timeline to normalize? I know the world is choppy at this point but just curious on your thoughts. Thanks so much.

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

A

Yeah. The two biggest businesses, Ghansham, that are impacted right now are automotive and industrial. We finished with backlogs in those businesses by the end of December. We're still running backlogs in those businesses. Demand is very strong, but it is very choppy.

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A number of our customers are having significant issues with labor because of the COVID pandemic. In fact, we got an emergency call a couple of days ago from one of our large automotive customers that their whole paint shop was shut down because of COVID and could we bring our people in to run it in the interim. So we, of course, supported them all on that.

There is the semiconductor issue that's out there in the automotive space. They all want to run. Many of our customers ran over Christmas, which was quite unusual. So, demand is there. And inventories in many of these spaces are quite low, whether you're thinking about appliances or coil or automotive. There's low inventories. So, we feel very comfortable. But unfortunately, we can't predict with labor when people are going to be having full labor contingent to be able to run their plants.

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

Q

Okay. Thank you very much. Stay well.

Operator: Your next question comes from the line of Frank Mitsch with Fermium Research. Frank, your line is open.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Yes. Good morning and congratulations on the Penguin helmets. That's pretty cool. Looking forward to seeing the game one of these days. Hopefully, in person. We'll see. I wanted to follow-up on the Performance Coatings margins. I got a bunch of questions regarding the very large sequential decline that you saw from the third quarter to the fourth quarter. Typically, you do see a decline with your businesses in the fourth quarter, but this seemed to be a bit abnormal. I was wondering if you could take a moment or two and talk through the details there.

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

A

Yeah. Frank, this is Vince. It really relates to the weightings of the businesses that are in there. The two most impacted businesses, as Michael referenced in the opening comments that we're seeing from a volume perspective are aerospace and refinish. Those are typically our most stable businesses throughout the year, quarter-to-quarter. Their demand trends don't significantly change by quarter.

The other businesses in Performance Coatings such as architecture are very seasonal. So, we were down 30% in aerospace in Q3 and a similar amount in Q4; same with refinish. Their weighting in traditional Q4 is much higher. So, in 2019 it would have been much higher, 2018 would have been much higher as a percent of the total segment. So even though we had good architectural demand in sales in Q4, the fact that that weighting of aerospace and refinish is heavier in Q4 had a bigger impact on the Q4 margins.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. Got you. Thank you. And I understand you cannot talk about Tikkurila. But if for whatever reason that transaction doesn't occur, can you talk about your M&A pipeline? Obviously, you've been very active in the recent past. Should investors expect that there might be other sort of transactions or would share buybacks come back into the fore?

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

Well, Frank, as I think you've heard me say this in the fourth quarter back in October; I would say the same thing now, it's January. I'll be exceptionally disappointed if we buy back any shares in 2021. Our acquisition pipeline remains robust and remains active, and we continue to work in this area. And so, I'm feeling confident that we will have further announcements in the back half of the year.

Frank J. Mitsch
Analyst, Fermium Research LLC
Q

Very helpful. Thanks so much.

Operator: Your next question comes from the line of Bob Koort with Goldman Sachs. Bob, your line is open.

Robert Koort
Analyst, Goldman Sachs & Co. LLC
Q

Thank you very much. Good morning. Michael, I think you characterized maybe the industry is more prepared for raw material responses and price hikes. Wondering if you could tell me what difference it makes, if any, to the demand environment relative to maybe 2017 which is quite weaker? Is that going to make it quicker, easier? Maybe some sense there.

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

Yeah. Well, I think it certainly make it easier. I don't know about quicker. The benefit we have right now in these industrial businesses is that, customers are backlogged. They're asking for product. They're calling on a daily basis, wondering where their orders are in the queue. So, that's one thing.

The second thing is, they're so desperate for technical health. The last thing they're going to be doing is asking for any price downs. And so, they fully recognize that this is a different environment. And so, our salespeople are never happy when we are pushing out there, telling they got to go get price. But in this case, they have a lot more ammunition to go get price. And I feel comfortable that the industry sees the same thing that we're seeing.

Robert Koort
Analyst, Goldman Sachs & Co. LLC
Q

And can I ask you, on the refinish market we get occasional questions from our investors wondering about the secular threat of driver assistance versus the growing car park and introducing new drivers that might bang up vehicles. How do you see that playing out over the next several years?

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

Well, Bob, I would first start with the fact that the car park continues to grow. It grows marginally in the US and Europe, but it grows in Eastern Europe. It grows in China. I mean, think about 25 million new cars every year in China and the slow scrappage rate right now in China. Same thing in Southeast Asia and India. So, the car park is continuing to grow. And as you know, any kind of autonomous, a lot of these safety features, they're mostly in the developed countries. Those things are too expensive to put on cars in a lot of these other countries. So, we don't have to worry about that as much.

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The other thing I would tell you is that, in the fourth quarter every time we saw the economy loosen up and the work-from-home restrictions loosen, we saw, especially in Europe, congestion come up rather quickly because, as you know, the houses are much smaller in Europe and people – it's much more difficult to work from home there.

So, congestion rebounded very quickly. Our refinish in the fourth quarter was minus – let's call it, minus 10-ish, but claims were down minus 20. So we've made some significant improvements in that business because of the pandemic. And so, I think your clients should feel comfortable that we have this well in hand.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much.

Operator: Your next question comes from the line of P.J. Juvekar with Citi. P.J., your line is open.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes, hi. Good morning.

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

A

Good morning, P.J.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Michael, what was behind the strength in architectural coatings, especially in Europe where I think organic sales were up in low-teens? Is that driven by DIY? And does DIY face tougher comps in 2021, starting in second quarter?

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

A

Well, there is certainly some significant DIY improvement in Europe, but there is also a significant return to our professional network as well. And we have a very strong position, as you know, in Europe, number one, in a lot of countries. And so, we've benefited from that strength.

And the improvement in DIY, I think, is sustainable. There's a whole lot of new DIY-ers that weren't there two and three and five years ago. So I think this is a start of something that's good. And the comps do get tougher, but I would say the comps in Europe do not get tougher until the third and fourth quarter. So the second quarter, as you know, had very significant lockdowns in Europe. And so, Q1, Q2 will still have very positive numbers going into the back half of the year.

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

A

And P.J., for Europe, specifically, the professional painters, as Michael alluded to, doesn't have as much commercial exposure as they do in the US. So, they are working on residential and some repaying activities.

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We're seeing the same in the US, but there is a commercial downdraft that weakens the comparables Europe versus the US.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

That's very helpful. And then secondly, Ennis-Flint; that seems like an interesting acquisition in traffic paints. I think, Michael, you said that autonomous cars made good road markings. And as a result, traffic paint could be a growth industry. Ennis-Flint has, I think, revenues of $600 million. How fast can these sales grow – your traffic solutions business can grow going forward? Thank you.

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

A

Yeah. Thanks for asking the question, P.J. I'll let Michael answer the growth question. But again, let's frame Ennis-Flint out. I think $600 million in the annual sales is a good target. It is a very seasonal business, as you can imagine. It's predominantly US-Canada. So, we do serve parts of the US that have certainly a winter effect. So, we typically see the majority of profitability in Q2 and Q3, given the seasonal nature of the business.

And Michael, maybe you can...

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

A

Yeah. P.J., what I would tell you is, the two secular trends that we're paying close attention to is: one, the – some of the states are looking to make the stripes wider, so from four-inch stripes to six-inch stripes. And the other thing they're doing is they're reducing the distance between the stripes. So, that's one.

Plus, the other thing that's interesting is that they have a number of pre-formed products and thermoplastic products as well. And I think, with our network we're going to be able to help them get better distribution of that product. So, we're excited about this. But I would anticipate this is not going to be a straight-up kind of growth, it's going to be a continuation of a continuous growth [indiscernible] (00:28:21).

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Laurent Favre with Exane. Laurent, your line is open.

Laurent Favre
Analyst, Exane BNP Paribas

Q

Yes. Good morning. I've got another question on Ennis, on the international expansion. I was just wondering if you could frame for us what you have in line. Are we talking about significant cost increase to try and become a, I guess, material competitor outside of the US and Canada?

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

A

Well, it definitely will not be a material cost increase. As you may have heard, making traffic paint is not as sophisticated as making our industrial paints. And as you know, in Mexico and Europe we have a number of

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plants. So, it will not be a cost issue. It will be a focus and distribution issue, making sure we get ourselves aligned with the winners in the contracting space that consistently win government bids and municipality bids and things like that. So, that's where our focus will be.

So, Mexico will be a start because of our strong base with our PPG-Comex team. And then we'll look at it on country-by-country basis in Europe and do it in a very methodical and disciplined manner.

Laurent Favre
Analyst, Exane BNP Paribas

Q

Thank you. And then, Michael, I think in the slides you talked about ESG benefits for all four acquisitions. Could you give us a few examples?

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

A

Yeah. I'm happy to, and John can chime in as well. So if you think about the first one, Ennis-Flint, this is going to help the autonomous driving, help the mobility. So as I mentioned in my opening remarks, PPG is far ahead of everybody in this space. So, that would be the first one.

The second one would be VersaFlex. I would tell you that with VersaFlex, the polyurea technology, if you think about flooring systems, food plants, what you want to do is ensure the cleanest environment that you can and reduce the potential for illnesses in those environments, and that's another ESG benefit.

Wörwag; I would say the number one thing with Wörwag is they have some really nifty technology in the area of automotive parts, water-based. And so, as you know, we've been trying to push the industry to move much faster away from solvent to water. That's one. Plus, we anticipate, with a full suite of products we'll get more people switching to powder which, as you know, has 100% transfer efficiency.

And then, I think our remarks on Tikkurila are quite clear, not only will we bring our technology to that space to continue to drive more bio-based, more sustainable raw materials, but also will be more water-based solutions, especially when I think about what they have in Russia and other Eastern European countries.

Laurent Favre
Analyst, Exane BNP Paribas

Q

Thank you.

Operator: Your next question comes from the line of David Begleiter with Deutsche Bank. David, your line is open.

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

Q

Thank you. Michael, just on the Q1 guidance. Typically, Q1 is about 15% above Q4. I think this year guidance was down about 6% to 9%. What are the key drivers for that divergence from historical patterns?

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

A

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Yeah. David, this is Vince. Hope you're doing well. I think the typical seasonality due to the pandemic is very hard to match prior years. We had a strong push from – activity from Q3 into Q4. As Michael alluded to, architectural had higher seasonal sales in Q4 than we would traditionally see. In Q1, we do see some concern about availability of customer production lines, so we do feel some of the activity will flip from Q1 into Q2.

Just to give you a point of reference, David, you typically see about 1 million car drop-off in global auto production from Q4 to Q1. We're expecting 2 million cars globally, excluding Japan; 2 million cars globally drop off from Q4 to Q1. And that same type of pattern exists in some industrial businesses. So, I think it's difficult from a seasonality perspective to compare historically due to [ph] the shifting (00:33:09) around associated with the pandemic.

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

Q

Got it. And the kind of same question, just looking at Performance Coatings volumes [ph] they (00:33:18) do have an easy comp, it was down 6% last year. I think you're still guiding it to be down year-over-year. Why would it not be at least flat or even up year-over-year in Performance Coatings volumes?

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

A

Yeah. The first quarter last year didn't had virtually no impact from aerospace in terms of volume decline, and refinish was fairly strong until the tail end of March. Those two businesses, as Michael said in the opening commentary, are heavily impacted in Q4, and we expect consistent patterns in Q1. So those two businesses are big businesses in that Performance segment, David.

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

Q

Thank you. Very helpful.

Operator: Your next question comes from the line of Jeff Zekauskas with JPMorgan. Jeff, your line is open.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. You're not providing financial guidance for 2021, but surely there must be internal targets for management compensation. Can you give us an idea of what performance objectives there are for the company and what targets you have in order for people to reach those goals?

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

A

Yeah. Jeff, this is Vince again. We have the traditional targets established that we would in any given year, for management compensation and also sales person compensation. Obviously, 2020 was very fluid. 2021, we think will be very fluid. Similar to every other company, our comp committee, our board will look at fluidness and react accordingly based on their judgment. But we do certainly have internal targets established today for 2021.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Propylene settled up $0.12 a pound yesterday. Was that something that was included in your vision of raw materials or raw material inflation for this year, or was it larger or smaller than your expectation?

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

You said propylene, right?

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Yes, I did. Propylene.

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

Yeah. Yeah. So, obviously we don't buy propylene itself. We buy propylene derivatives.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Right.

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

And the way the propylene derivatives work, it's also driven by supply-demand of the underlying derivative plus the raw material input. So, that would not hit us right away. So, that would be the first comment. The second comment is we have anticipated raw material inflation into 2021. So, we were readjusting a lot of our formula and buying strategies in 2020 to anticipate higher increases and try to position ourselves to minimize the impact of those kind of fluctuations.

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

Jeff, I'll add that we are seeing this low-single digit inflation coming into the year. Some of our suppliers are dealing with some of the same issues that our customers are, which we feel some of that's transitory, they're having workforce restraint due to the pandemic. So we think as the year progresses, some of these limiting items will fall by the wayside. We know there's good supply out there in most of these markets. And as Michael just alluded to, the supply-demand characteristics of our supplier base at some point will be the predominant factor of pricing.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

So you don't think you're going to be squeezed this year? Is that the conclusion that we should draw?

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

We think low-single digit inflation is our forecast for Q1 and likely Q2.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you so much.

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Operator: Your next question comes from the line of Chris Parkinson with Credit Suisse. Chris, your line is open.

Christopher Parkinson
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you very much. You did a solid job managing costs throughout the pandemic, but it's 2021, they're just – even on this mid Q&A, there just appears to be this balancing act between improving volumes, your ongoing cost programs, price cost and even mix on an inter-segment basis.

Can you just discuss your own thought processes on the margin framework, not only in 2021, but into kind of 2022 and how investors should be weighing each of these variables? Is it basically just control the controllable on your cost programs and price, or are there any other things you could do to continue your progression? Thank you.

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

A

Yes. Chris, this is Michael. I would tell you that The PPG Way is we do better today than yesterday, every day. And that's how we're managing our – that's historically been a continuous improvement mentality that we have for the company. And so, that's why we said in the first quarter we would still have cost initiatives even though volumes continuing to go up. We're holding our teams accountable, continue to drive productivity. We know that there's going to be continued cost savings from a, let's call it, travel. That will be one.

How we manage internally, technical services that we're providing to some of our customers, we're going to be providing that electronically. We have more digital initiatives. So I think there's – when I think about long term, I think it's going to be less expensive for us to make paint long term than it is today. And we have more productivity initiatives underway.

Christopher Parkinson
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. And then, you mentioned a few times in your prepared remarks just the potential for a robust restock which could be a solid tailwind in 2021. Can you just quickly comment on what you're currently hearing from your various customer channels, and perhaps also comment on just expected timing? Thank you very much.

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

A

Yeah. The two biggest ones that'll have to restock, first one is refinish. So, they're all running with an exceptionally low inventory. They don't want to get caught with work from home and extended work from home period, where they can't move products. So, that's the first one.

But more importantly, aerospace, we see our orders dropping. I mean, I won't get into the various sub-segments, how much we break it down into sub-segments, but I had one in the fourth quarter that we only got 6% of our normal orders in the fourth quarter. Now, clearly the industry is running much higher than that, so they continue to destock at a significant rate. That's going to have to build up.

So, we're thinking about how do we ensure that we're ready for that restock that will be coming in aerospace, and that will be significant. And I'm thinking that people are going to start doing that probably the – starting in the back half of Q2 and then it will start to accelerate.

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You probably saw the announcement from Airbus today that they are increasing the bill rate for the A320. That's the first sign; and there will be other signs I think you should anticipate. As because obviously we're talking to our customers, so we have information that they haven't made public, but that's the first one.

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

Yeah, Chris. And if you go over to the industrial segment, we know that car inventories in the US are at very low levels relative to historic terms. Many of our industrial customers are running hand to mouth with backlogs to their customers. And if you look at our balance sheet as a microcosm, our inventory levels are very low and we do have certain stock-outs just because we can't get product in certain places. Again, all pandemic related.

So, we do expect there to be a restock across a variety of industries as we progress through 2021. Architecture is another example. Most of our customers had a very strong year last year in 2020, as did we. But again, it depleted inventory that would traditionally be on the shelf.

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

And maybe to put that in perspective, Chris, we ran our stain plant in December. I can never remember in my history of us running a stain plant in December.

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

Great color as always. Thank you very much.

Operator: Your next question comes from the line of John Roberts with UBS. John, your line is open.

John Roberts
Analyst, UBS Securities LLC
Q

Thank you. China began shutting down in February of last year. So, you start to see some benefit here in the first quarter and then your comps get pretty easy as we go into the second and third. If I look at the two-year comp instead and I look back to first quarter of 2019, it looks like you're relatively flat in the first quarter versus two years ago, even with the acquisitions. Is that kind of the right way to think about that we're still on a two-year basis? China is going to be okay on a two-year basis, but a lot of markets are still down. That's there. And so, you're going to – maybe in the first half, you're going to be kind of flattish on a two-year basis.

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

Are you talking China only, John, or are you talking total PPG?

John Roberts
Analyst, UBS Securities LLC
Q

No, total PPG. So total PPG, first quarter...

[indiscernible] (00:42:24)

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

A

For total PPG on a two-year comp basis, sales volumes will be down low- to mid-single digits still with the guide we gave. Now, there's other positives such as acquisition, currency is favorable. As Michael alluded to, we have 15 straight quarters of pricing, but the sales volumes on a two-year stacked basis will be down low- to mid-single digits.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. And then you talked about propylene. Maybe a little bit more granularity on the overall raw material inflation, ethylene derivatives like VAM, urethane, TiO2, they're all different value chains that they're – and many of them are not propylene linked?

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

A

Yeah. I mean, we break down our procurement into about 10 different categories. And in 4Q, I would say that the vast majority of them were slightly negative or flat. When we look at 1Q, we're going to see probably half of them have marginally higher so inflation. But we're not seeing some significant step-up that we're not prepared for. So sequentially, isocyanates are up, epoxies are up, packaging is up. Of course, solvents are all up.

But we're not nervous about this, I guess, is what I'm trying to tell you because we anticipated this going into the year, and we tried to have our procurement strategy in a manner that we'd be able to take advantage of what we had in 2020 and try to carry that forward into 2021.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Next question comes from the line of Vincent Andrews with Morgan Stanley. Vincent, your line is open.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, and good morning, everyone. If I could just ask on the auto production and maybe some other customer areas where there could be some issues in the first quarter. Vince, I think I heard you say that on the auto side, you'll see some autos get shifted into 2Q. Are you anticipating that the shortfall in 1Q would be made up entirely in 2Q? Or would it be spread further out into the balance of the year? And is it something that can be fully made up in the calendar year?

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

A

Vincent, this is Michael. I'd say, the biggest unknown in that is, what are the auto guys deciding to do with their own dealers? As you know, dealer inventory is very low. Dealers are happy right now, because you come into an auto facility and you don't have a lot of choice, and you have to buy what's on the lot. They're making money on new cars, which is historically something they don't do.

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So I think the great unknown is, do the car companies starting back half of 2Q and 3Q? Do they try to rebuild inventories back to the old levels on the dealer lots? Or do they keep doing what they're doing now? So, I think that's a big unknown. So we're anticipating catching up, but there's still more latency there if they decided to go back to the old inventory levels they used to have.

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

The one constant, Vincent, is there is demand out there. There's very strong demand in the US, good demand in Europe. The China numbers, I think, come out today and car sales are up over 20% for January year-to-date. So we know there's good end market demand out there for automotive.

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

Thank you. That's very helpful. And just maybe on China aerospace. You noted that it's back to – I guess, flights are back to 90%. So when you look at – if we take that business as sort of the case study of how the rest of the world aerospace might come back, are you seeing anything different in customer behavior as the aerospace recovers in China? Are they buying more? Are they buying less? Pushing anything out, pulling anything forward? And anything that's interesting that might help us sort of frame how the US and Europe and so forth will come back.

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

Yeah. Vincent, what I would tell you, the first thing to remember is there are two-stage recoveries. So, domestic flights are up 90%, but international flights are down 85%. So they're not flying outside of China and they're really limiting anybody flying in. So that's the biggest challenge right now.

So I'd say, the number one factor to look for in the recovery is the vaccine distribution and people opening up their borders. So I'd pay real close attention to those. Right now, their demand on domestic side, they are buying product and they're happy. And their inventory levels are, I would call, normal.

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

Yeah. Vincent, if you just expand out some of the other metrics we watch, we do see online inquiries for airline travel. Online inquiries for airline travel are up significantly versus a very depressed level in Q3. Q4, they were up. They continue to trend upwards. We did see around the holiday periods, both in the US and Europe, a sizeable step change in travel. Whether that was wise or not, it is debatable. But we do know there's demand out there for folks who want to travel, and we are welcoming obviously the positive impact from a vaccination.

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

Thanks very much, guys.

Operator: Your next question comes from the line of Arun Viswanathan with RBC Capital Markets. Arun, your line is open.

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Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Hey, thanks. Good morning. I guess, I just wanted to get to the margin question again. In industrial, obviously you've had some nice progress here even in a challenging market. Do you feel like you're fully caught up from prior inflation as well? And do you expect further percent margin growth as we go through 2021 and you realize some of these price increases that you've put up there. And maybe you can also comment on performance as it relates to your percent margin trajectory? Thanks.

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

A

I would say that, my answer to that is always we have never caught up. We always have a higher expectation in that area. And so, we have more work to do. The good news is, demand is strong, and people can see raw materials are coming up. So, we should be able to get ahead of the curve on this one.

As far as performance, as you know, we've already announced price increases in architectural. We've announced price increases in refinish. And we have advantaged technologies in aerospace, so that whenever demand comes back it'll be a positive for us. So, I think we're feeling pretty good in this area.

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

A

Yeah. Arun, let me just add. I think as you've heard us talk throughout all of 2020, due to our discretionary cost management and due to our structural cost improvements that we've made the past several years, we expected very strong leverage on any volume improvement. I think that you witnessed that in Q4 in the industrial segment. Volumes are up mid-single digits, and you saw the impact it had on the bottom line. So as the pandemic volume recovery occurs throughout we hope the balance of 2021, you should expect very strong leverage in both segments.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. That's helpful. And then maybe you can just provide either kind of a returns profile for the acquisitions in general. Is that kind of like a mid-teens ROIC and maybe that's why you don't necessarily think share buyback would be of the same ROIC? Or what's kind of the calculus into not necessarily pursuing share buyback and pursuing M&A a little bit more aggressively?

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

A

If you look – and I think we put something out a couple of years ago with regards to our acquisition record and the returns around that. I think we had a dozen or so recent examples. I think it was May of 2019, we put that out 2018. What you'll find is the return on capital for not only PPG, but the coatings industry and the IRR for these transactions is typically well in excess of our cost of capital and certainly in excess of a share repurchase, and it's really driven by the fact that these are typically very highly synergistic transactions.

A lot of those synergies come with no cash out the door on behalf of the buyer. So you get a very good return and these are typically low-risk because we're typically not acquiring a lot of assets. As you're well aware, Arun, the coatings industry is asset-light. So, we're typically acquiring very few assets with a lot of synergy potential. And we at PPG have been very good at extracting those synergies very early.

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And we've done 50 or 60 acquisitions in the past 10 years and those acquisition timelines are typically less than 24 months where we're able to extract all of those synergies, again with very few cash out the door. So those dynamics typically lend themselves to a higher return profile in our space, in the coatings space, for acquisitions versus our share repo.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

Operator: Your next question comes from the line of Kevin McCarthy with Vertical Research Group. Kevin, your line is open.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning, everyone. My question relates to architectural DIY coatings. How would you compare your outlook for 2021 in the US versus Europe? Maybe you can talk through what you're hearing from some of your channel partners, in general, things like inventory levels, seasonal effects, and whether or not you can grow the business directionally versus more challenging comparisons this coming year?

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

A

Well, Kevin, I would say that DIY in the US will continue to grow. What I'm most excited about is the fact that we have a new generation of DIY-ers that we didn't have. We always kind of bemoan that in the past because people our age seem to let their kids get by without painting every summer. So, now they're out there painting their own homes as they work from home. So, that's a positive. The housing stock will continue to grow, that will be a positive.

So, I think that's all important trends that you should be paying attention to in Europe. I think we went through a long period of time when there wasn't as much repair and remodel inside homes that historically has happened in the US, that now that people were at home and looking at those same four walls all the time has manifested itself into some very significant numbers. So, I think this is going to last longer than a lot of people think. Obviously, we'll wait and see. But I know Q1, Q2 will all be positive comps. And let's wait and see how we trend in the Q3, Q4. But I think long term, these are positive trends for the DIY industry.

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

A

Kevin, I'll add one positive trend in the US. The de-urbanization that's taking place, moving from smaller square footage into a single-family home typically favors residential paint, re-paint; and typically favors a more robust painting cycle with more velocity.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay, that's helpful. And then, wanted to ask about auto OEM. Michael, in your prepared remarks I think you pointed out you're growing significantly above industry production rates and your heat map shows above-average

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in Asia and EMEA. Can you elaborate on what is driving that and how much is related to, say, share shifts versus some of the dislocations you mentioned around semis, labor and low inventory levels?

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

Well, the first one that we have is better technology. So, we're winning – so if you look at our new wins year-over-year, our net new wins, that has been a very positive number for us. The second one has been, because of the pandemic, now the value of our tech service team is being paid out in spades. I mean, people are just saying, wow, this is really important. I need you guys in here. And so, we're getting that discretionary piece of business.

And the third one is we're in very, very early stages, but we're starting to see the mobility wins start to pick up. And that's, long term, where I think we're going to divorce ourselves [ph] from the (00:55:50) build rate is because we're going to continue to win in this space.

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

Just one other I'll add as well, Kevin. If you look at some of our acquisitions in the past couple of years, we did the Hemmelrath acquisition. We've got Wörwag acquisition pending. We've solidified many of these customer relationships on ancillary products as well. So, that's been our strategy to expand our technical breadth with customers, the value-add to those customers. And as Michael mentioned, that's coming through in spades, especially in times like this where they need velocity through their plants.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Perfect. Thanks very much.

Operator: Your next question comes from the line of Mike Harrison with Seaport Global Securities. Mike, your line is open.

Michael J. Harrison
Analyst, Seaport Global Securities LLC
Q

Hi. Good morning. Wanted to ask about the M&A activity. If you've got four deals brewing and it sounds like you have some additional deals maybe in the pipeline for the rest of the year, at what point do you start to get a little bit concerned about your ability to integrate several acquisitions at once? How do you think about that?

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

So Mike, let me just tell you that about two or three years ago we had six going at once, and it was not even a blip on the radar. We have done 50 acquisitions in the last 10 years. We have so many people in PPG that clamor to be the integration director. It's a highly prized job in the company. We have a well-worn playbook, dog-eared pages left and right, and this is something we do.

And if you think about what we have going on right now with these acquisitions, you know PMC is VersaFlex. You got Tikkurila will be in architectural. You have Wörwag, which will be in automotive. I mean, so they're in different businesses. So, I'm not worried about – Ennis-Flint's a completely new business. So, for us this is not a challenge yet. So, I'm very comfortable in this space.

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

Mike, that is a great question. It's something we know at some point could be a governor of what we do. But given the diversity of these acquisitions, we're not at all challenged at this point with bandwidth.

Michael J. Harrison
Analyst, Seaport Global Securities LLC
Q

All right. And then on the auto OEM side, you've referred a couple of times the semiconductor shortage issue. And I don't think that you've specifically given some details or some thoughts on whether you think that's going to be a significant headwind or whether it's a lot of headline risk right now rather than really impacting production rates. Can you give some thoughts on that, please?

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

Yeah. Mike, I think this issue is well-known in the industry, not only in automotive, but several industrial markets, anything that requires a chip like refrigerators, washing machines, and it's intermittent now. There's production lines that are up and down based on availability. It's too hard for us being passive to that supply base to understand the depths or when it may resolve itself. We know it's extremely tight.

We do see customers taking down lines one or two or three days, just because they don't have availability. There's reportedly more supply coming or more ability to supply come. But we don't know how prolonged this will be. It's still in the single digits in terms of its impact. On most of these markets, single-digit percentages. That can grow or shrink, but at this point it's a developing story.

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

But Mike, what I would add to that is, if they're missing chips on Thursday, Friday, and they get them on Saturday. They're running Saturday, Sunday. They're making up any day that they can. So, they're running hand to mouth is basically what it is.

Michael J. Harrison
Analyst, Seaport Global Securities LLC
Q

All right. That's helpful color. Thanks.

Operator: Your next question comes from the line of Jaideep Pandya with Onfield Research. Jaideep, your line is open.

Jaideep Pandya
Analyst, Onfield Research
Q

Thanks. First question is on the acquisitions topic. I guess, you guys have been doing a lot of acquisitions in the last few years. Now, this company from Europe apparently also wants to stop buybacks and do some acquisitions or they're planning to at least.

So, do you feel that in the next sort of coming quarters and year, as more coatings companies are looking for inorganic growth, multiple of – the average multiple in the industry is going to sort of peak up and, therefore,

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return profile on the acquisition pipeline may actually go down? Or do you think this is on a case-by-case basis and, therefore, it doesn't concern you?

And then the second question really is around your Performance Coatings business. From my point of view, it was a phenomenal year, 2020, given aero and refinish was down that you guys almost ended year flat. So just curious, has structural profitability in DIY Europe, US and Mexico improved, and you can keep it there? Or was it a bit inflated because of these interim cost savings that you had, and therefore, I shouldn't get carried away? Thanks.

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

All right. Well, let me first start with the – I think you might have exceeded our two-question limit. The returns in acquisitions are really unique to that acquisition and who you compete with is really unique in that space as well. So, there's no right or wrong answer.

The general theme is that, for – the higher the risk, the higher the return need to be. And the more unknowns, the higher the returns need to be to cover that. So, I would say it just varies considerably, and there's no right or wrong answer except we know that discipline is always the right answer.

From a performance standpoint, I do think we have lower structural costs going forward. And I do think, like Vince mentioned earlier, the ability to this additional volume when it comes in really leverages itself to a nice return on the bottom line. And I think that's going to continue.

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

Yeah. And I think...

Jaideep Pandya
Analyst, Onfield Research
Q

Thanks a lot.

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

...Jaideep, as we talked over the years, the coatings model is a variable cost model. So even though volumes are down, we are able to ratchet down a variety of cost factors that's been proven once again in 2020, especially in Q2 and Q3. So we could ratchet down variable cost. And then we've maintained some of that, as Michael alluded to in the opening comments, carrying into 2021 that we hope to make permanent.

Jaideep Pandya
Analyst, Onfield Research
Q

Great. Thanks a lot and good luck on Tikkurila.

Operator: Gentlemen, your final question comes from the line of Daniel Rizzo with Jefferies. Daniel, your line is open.

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Daniel Rizzo
Analyst, Jefferies LLC

Q

Hi, guys, I'm for Laurence. Just a couple of quick ones then. You mentioned all the M&A opportunities. I was just wondering if there's an upper limit on the leverage you're willing to go to, to make these acquisitions.

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

A

Yeah. I think our history has been well chronicled here as well, Dan. Look, we want to be a strong investment-grade company. There are times where we lever up to do a transaction or a set of transactions. Our intention would be, as Michael said in the opening comment, to immediately ratchet that back down to poise ourselves for the next acquisition. Given the different sizes and natures of these deals, it's hard to pinpoint a specific number. But again, strong investment grade is where we like to live.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then quickly, you mentioned that some of your customers were running over Christmas, which is obviously unusual. I was wondering if that's possible you might see the same thing in China for the Chinese New Year, where just – I mean, for which trends might continue and then not so the did pause you usually see around this time of the year in that region?

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

A

We'll let John Bruno answer that because he spent four years in China. So John, what's your view?

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

A

Dan, I fully expect them to take their holidays.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. Thank you very much.

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

A

You're welcome.

Operator: There are no further questions at this time. Mr. Bruno, I turn the call back over to you.

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

Thank you, Amy. I'd like to thank everyone for their time and interest in PPG. If you have any further questions, please contact our IR department. This concludes our fourth quarter earnings call. Have a good day.

Operator: This concludes today's conference call. You may now disconnect.

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